Audit and Governance Committee
Meeting to be held on 26 September 2012

Electoral Division affected: All

Approval of the County Council's Statement of Accounts 2011/12
(Appendix 'A' refers)

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Executive Summary

The County Council has delegated the approval of the Council's Statement of Accounts to the Audit Committee. The 2011/12 accounts should be approved by the 30 September 2012.

This report summarises the process of preparation and the main points of the Statement of Accounts for 2011/12; the Statement itself is attached as Appendix A.

The regulations governing the process require that the Chair of the Committee that approves the accounts must sign and date them.

Recommendation

The Committee is requested to review and approve the County Council's Statement of Accounts for 2011/12 and the Chair is requested to sign the copy of the Statement tabled at the meeting.

Background and Advice

The County Council has delegated the approval of the Council's Statement of Accounts to this Committee.

The regulations governing the production of the annual accounts require that the 2011/12 accounts should be approved by the 30 September 2012.

This report summarises the process of preparation and the main points of the Statement of Accounts for 2011/12; the statement itself is attached as Appendix 'A'.

Preparation of the Statement

The Statement of Accounts has been prepared in accordance with the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and is known as the Code.

A number of accounting adjustments agreed with the external auditor (shown in the Auditor's Annual Governance report in a separate item on this agenda) are reflected within the statement.

Main Components of the Statement

The table immediately below sets out the main component parts of the Statement and their purpose. Following the table is a commentary on the key issues from the Statement.

ITEM	PAGE	BRIEF EXPLANATION
Introduction	3	Sets out the financial context in which the authority operates in the year, with a summary of the final end of year position and the outlook for the future. Also notes any changes and significant items in this year's accounts.
Auditor's Report	10	The district auditor's opinion on our accounts for 2011/12.
Statement of Responsibilities	15	Sets out the responsibilities of the County Council and the County Treasurer in relation to the production of the Statement of Accounts.
Annual Governance Statement	16	Sets out assurances on our governance arrangements and the way we manage our affairs.
Movement in Reserves Statement	22	Provides details of the movement in reserves held by the authority.
Comprehensive Income and Expenditure Statement	24	A summary of the revenue expenditure and income of the Council, analysed by service in accordance with the Code. This statement consolidates all gains and losses experienced by the authority during the financial year.
Balance Sheet	25	Our assets and liabilities at 1st April 2010, 31 March 2011, 31st March 2012, and

Key Issues

Status of the Statement of Accounts

Details of the Council's spending and income in 2011/12, and how it compared with the budget, was reported to the Cabinet on 5 July 2012. That same spending and income is reported here, in the Statement of Accounts, in a different format which complies with the Code.

The main differences between how the year end position is presented to Cabinet (i.e. the "management accounts") and the formal Statement considered here by this Committee include:

- The way services are set out in the Comprehensive Income and Expenditure Statement (page 24) follows the compulsory Service Reporting Code of Practice. However, the way services are shown in the management accounts reflect how they are actually organised in directorates within the Council;

- The overall report on the management accounts to the Cabinet includes the actual cost of employer's pension contributions. However, the Comprehensive Income and Expenditure Statement and Balance Sheet shown here in the statement of accounts include significant changes for the requirements of International Financial Reporting Standard 19 (IAS 19) on the treatment of pension costs. For example, the deficit (surplus) position on the Continuing Operations line shown in the Comprehensive Income and Expenditure Statement has the actual costs of employer's pension contributions removed, being replaced by notional costs calculated by the Actuary of the current costs of future retirement benefits which have been earned in the year. The effect of these notional costs are then reversed in the Movement in Reserves Statement against the County Fund, leaving the effect on the County Fund balance the same in both methods of presentation. Note 9 (page 57) sets out the details of these transactions. IAS 19 assumes that all pension liabilities will crystalise at the same moment in time. In reality this is highly unlikely and the Pension Fund has in place a plan to recover the overall fund deficit over 19 years, which represents a more realistic position.

Financial Statements

1. Movement in Reserves Statement (MIRS)

This statement shows the movement in the year on the different reserves held by the Council. They are analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing Council services, more details of which are shown in the Comprehensive Income and Expenditure Statement. Between 2010/11 and 2011/12 usable reserves have increased by £110.617 million.

The MIRS is a summary of the changes that have taken place in the bottom half of the Balance Sheet over the financial year, and is analysed by:

a) The increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.

b) The increase or decrease in the net worth of the authority as a result of movements in the fair value of our assets.

c) Movements between reserves to increase or reduce the resources available to the authority according to statutory provisions.

2. Comprehensive Income and Expenditure Statement (CIES)

The Comprehensive Income and Expenditure Statement (CIES) consolidates all the gains and losses experienced by an authority in the financial year. As authorities do not have any equity in their Balance Sheets, the total overall movement of gains and losses in the CIES should reconcile to the overall movement in net worth in the Balance Sheet.

The CIES is presented in two sections:

a) (Surplus) or Deficit on the Provision of Services – this is the increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.

b) Other Comprehensive Income and Expenditure – this shows other changes in net worth which have not been reflected in the (Surplus) or Deficit on the

Provision of Services. This includes items such as movements in the fair value of assets and actuarial gains or losses on pension assets and liabilities.

3. Balance Sheet

The Balance Sheet summarises the Council's financial position at 31st March each year. The top half contains the assets and liabilities that it owns, or has accrued with other parties. As local authorities do not have equity, the bottom half is made up of reserves that show the full breakdown of the authority's net worth and is analysed as follows:

a) Usable Reserves, which include the revenue and capital resources available to meet future expenditure (e.g. the County Fund Balance, earmarked revenue reserves and the Capital Receipts Reserve).

b) Unusable Reserves, which include accounting detail relating to gains and losses, timing differences and adjustments for the difference between proper accounting practices and the requirements of statutory arrangements for funding expenditure (e.g. Revaluation Reserve, Pension Reserve, Capital Adjustment Account, Financial Instrument Adjustment Account, Collection Fund Adjustment Account, Accumulated Absences Account and Available for Sale Financial Instruments Account). All unusable reserves are explained in disclosure note 54

3.1 Long term assets have increased by £183.871 million – the major changes are explained below:

a) Property Plant and Equipment has increased by £219.944 million, of which an increase of £245.883 million relates to the inclusion of Waste PFI on the balance sheet and a reduction of £97.988 million reflects the value of Academy schools being written out of the Council's balance sheet.

Other differences relate to positive and negative outcomes on the 2011/12 revaluation of assets, expenditure in year, depreciation charges, reclassification of items from work in progress to Property Plant and Equipment and items reclassified as items Held for Sale.

b) Long term investments have decreased by £40.409 million in line with the Council's treasury management strategy to rebalance its portfolio through a conversion to Short term investments in line with the maturity profile of 364 days and under.

3.2 Current assets have increased by £126.448 million, the most significant areas are shown below:

a) Cash and Cash equivalents have reduced by £23.460 million. This is mainly due to the treasury management strategy to reduce 'cash equivalents' and short term investments, and increase long term investments as explained above in section 3.1.b.

b) There has been a £9.216 million reduction in short term debtors, which relates in the main to a reduction in capital, and government grant debtors.

c) £159.181 million relates to an increase in short term investments, resulting for the most part from long term investments falling within 364 days of their maturity date and therefore being reclassified as short term investments.

3.3 Current liabilities have decreased by £15.951 million, the major changes are shown below:

a) Short term borrowing has increased by £3.203 million in line with the Council's treasury management strategy to reduce long term and increase short term borrowing, in order to take advantage of low short term interest rates.

b) Creditors have reduced by £2.646 million. The breakdown of the authority's creditors is shown in note 47.

c) Receipts in advance have reduced by £9.004 million due mainly to the release of significant amounts held for major development works within the year.

d) Short term provisions have decreased by £7.505 million mainly due to the planned release of funding from the early retirement provision.

3.4 Long term liabilities have increased by £419.643 million, the most significant changes are shown below:

a) The pension liability has increased by £174.284 million. Full details relating to the Council's pension liability can be seen in disclosure note 66.

b) Long term borrowing has increased by £246.243 million. Treasury management long term borrowing increased by £21.968m. PFI liabilities increased in year by £224.275m mainly due to a change in accounting standards requiring the recognition of the waste pfi liability and the offset of payments in year.

Our net worth in the Balance Sheet has decreased by £93.372 million from £1,122.854 million in 2010/11 to £1,029.483 million at 31 March 2012.

4. Cash Flow Statement

This statement reflects the total movement of cash and cash equivalents into and out of the organisation. The cash flow statement is shown at page 27 in the accounts.

Auditor’s Report

It is the external auditor's opinion that the accounting statements

- give a true and fair view of the state of Lancashire County Council's affairs as at 31 March 2012 and of its income and expenditure for the year then ended; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Full details of the Audit Commission's findings are contained within the 2011/12 Annual Governance Report which has been submitted to the Audit Committee as a separate item.

The Committee is requested to approve the Statement of Accounts and the Chair is requested to sign the tabled copy on page 27.

Consultations

Within the Accounts and Audit Regulations 2011 we are required to open the accounts for public inspection. This enables any member of the public to inspect the Accounts, ask questions and to request copies of related documents where appropriate. The period of inspection for the 2011-12 Accounts commenced on 2nd July and ended on 27th July 2012.

Implications:

This item has the following implications, as indicated:

Risk management

The County Council's accounts for 2011/12 must be approved by 30 September 2012.

The financial implications are set out in the report above and in the Statement of Accounts attached at Appendix A.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Ext
Final Accounts working papers	2011/12	Steve Freeman, County Treasurer's Tel : 01772 533114
Accounts and Audit Regulations	2011	

Reason for inclusion in Part II, if appropriate
N/A