

## **Audit Committee**

**30 July 2012**



## **Statement of Accounts for the year ended 31 March 2012**

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### **Don McLure, Corporate Director Resources**

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#### **Purpose of the Report**

- 1 To present to Members the Statement of Accounts for the year ended 31 March 2012 and raise any significant issues arising from the accounts.

#### **Background**

- 2 The 'Accounts and Audit Regulations 2011' introduced a two stage approval process for the Statement of Accounts; the first stage is in June each year. The Regulations require that the responsible financial officer, by no later than 30 June 2012, signs and certifies that the Statement of Accounts presents a true and fair view of the financial position of the County Council for the year to 31 March previous, subject to the views of the External Auditor. This stage was completed on 29 June 2012.
- 3 The second stage, as set out in the Regulations, requires that on or before the 30 September, approval needs to be given to the Statement of Accounts by resolution of a committee, which for Durham County Council is the Audit Committee. This approval will take into account the views of the External Auditor. This is done so that the Statement of Accounts can then be published.
- 4 The Statement of Accounts is currently subject to audit by the Audit Commission. The audit of the accounts is ongoing. On completion, the Auditor's report will be incorporated into the published version of the document.
- 5 The attached Statement of Accounts is currently available for inspection by the public in line with the Regulations and has been published on our website.

#### **Statement of Accounts**

- 6 The Statement of Accounts for the financial year 2011/12 is prepared in accordance with the 'Accounts and Audit Regulations 2003', as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and 2009, the 'Accounts and Audit (England) Regulations 2011 and the

'Code of Practice on Local Authority Accounting 2011/12' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

- 7 The Code is based on approved accounting standards. In England and Wales, the local authority Code constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. The County Council is therefore legally required to follow this Code of Practice. Explanatory notes are included in the document to assist in the interpretation of the accounts, which unfortunately are unavoidably technical and complex.
- 8 To help Members in reading and interpreting the contents, Appendix 2 to this report briefly explains the purpose of each section of the Statement.

### **Key information from the Statement of Accounts**

- 9 Page numbers used in this report refer to the page numbers on the Statement of Accounts document and not those on the full pack of reports.
- 10 There are six core statements that provide fundamental information on the financial activities and position of the County Council:
  - Movement in Reserves Statement (page 37)
  - Comprehensive Income and Expenditure Account (page 39)
  - Balance Sheet (page 40)
  - Cash Flow Statement (page 41)
  - Housing Revenue Account (page 110) and
  - Collection Fund (page 115).
- 11 The Statement of Accounts also includes the accounts for Durham County Council Pension Fund (page 121) for which the County Council is the Administering Authority.
- 12 The Statement of Accounts shows that the County Council's 'net worth' has fallen in 2011/12 by £299.6m to £571.8m. This is due, in the main, to an increase in pension scheme liabilities for its employees as calculated by the Pension Fund's Actuary under International Accounting Standard (IAS) 19. Although the benefits are not payable until the employees retire, the County Council has a commitment to make the payments which it must disclose at the time the employees earn their future entitlement.
- 13 The County Council has increased its usable reserves during 2011/12.
  - a) The general reserve has increased by £4.554m to £21.874m. This reserve is held to cushion the impact of uneven cash flows, unexpected events or emergencies.

- b) Earmarked Reserves have increased by £9.450m to £100.425m. Earmarked reserves are held for specific future purposes.
- 14 The implementation of housing finance reform at the end of the year abolished the housing subsidy system financed by central government and, consequently all housing debt has been reallocated nationally between housing authorities. The result of this reallocation is that the County Council made a capital payment to the Department of Communities and Local Government of £53m financed by loans from the Public Works Loan Board (PWLb). In 2011/12 this payment is charged to the Local Authority (HRA) within the Comprehensive Income and Expenditure Statement and reversed out of the HRA via the Movement in the Housing Revenue Account Statement.
- 15 Under the new self-financing arrangements, the County Council has prepared a 30 year HRA Business Plan which was approved by County Council on 22 February 2012. This shows that over a 30 year period, the additional debt allocated to the Council can be sustained within the Business Plan and is repaid towards the end of the period.
- 16 The Pension Fund accounts show that its net assets as at 31 March 2012 have increased by £95.04m to £1,888.63m. Although there was a withdrawal of £1.653m as a result of payments to pensioners exceeding the contributions received and there was a £96.7m return of the Pension Fund's investments.

### **Bank Accounts and Bank Reconciliations**

- 17 The number of bank accounts held by the County Council has continued to be rationalised. In January 2012 it was reported that 18 bank accounts of the 26 brought from the former district councils remained. The plan was to close 11 of these accounts by the end of March 2012. This has been achieved and only the 7 planned for closure in September 2012 remain.
- 18 All bank accounts have been reconciled to 31 March 2012 prior to the completion of the Statement of Accounts. This work is now subject to audit by the Audit Commission, as part of the Statement of Accounts audit. The Audit Commission will give an opinion on the work that has been done at the end of their audit.
- 19 In the current year, reconciliations have been completed as follows:
- a) County Fund Account – to 31 May 2012
  - b) Income Collection Account – to 30 April 2012 (work on-going on 31 May reconciliation)
  - c) Former district council accounts – to 30 June 2012

## **Interim Governance Report**

- 20 The findings of the Interim Governance Report and the Action plan were reported to Members on 31 May 2012. That report detailed findings arising from an interim audit. It is anticipated that some of the issues identified at that time will have been resolved, and outstanding issues will be included in the Auditor's report at the completion of the Statement of Accounts audit.
- 21 The final audit of the Statement of Accounts is now underway. At the end of this process, the Auditor will provide an Annual Governance Report detailing their comments and recommendation for improvements, based on the position at 31 March 2012.
- 22 An Action Plan will be presented to Members designed to address the Auditor's recommendations at the conclusion of the Audit.

## **Recommendation**

- 23 It is recommended that the Audit Committee:
- a. consider the attached Statement of Accounts for the County Council for the financial year ended 31 March 2012;
  - b. note the progress on the rationalisation of bank accounts and the current position on bank reconciliations; and
  - c. note the update on the Audit Commission's recommendations in the Annual Governance Report.

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**Contact: Don McLure Tel: 0191 383 3550**

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## **Appendix 1: Implications**

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### **Finance**

This report details the financial position of the County Council as at 31 March 2012.

### **Staffing -**

None

### **Risk -**

None

### **Equality and Diversity -**

None

### **Accommodation -**

None

### **Crime and Disorder -**

None

### **Human Rights -**

None

### **Consultation -**

None

### **Procurement -**

None

### **Disability -**

None

### **Legal Implications -**

None

## Appendix 2: Statement of Accounts - Summary and Explanation

| Item   | Pages     | Explanation of Purpose and Content  |
|--|-----------|---|
| Explanatory Foreword                                   | 3         | Summary of the most significant matters reported in the accounts, and the overall financial position of the County Council.   |
| Independent Auditor's Report to Durham County Council  | 31 - 36   | Once the Audit is completed the Auditor's report will be included.  |
| <b>Durham County Council Core Financial Statements</b> |           |   |
| Movement in Reserves Statement                         | 37 – 38   | This statement shows the movement in the year on the different reserves held by the County Council analysed into 'usable' reserves and other reserves   |
| Comprehensive Income and Expenditure Account (CIES)    | 39        | This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.   |
| Balance Sheet  | 40        | The Balance Sheet shows the value as at the Balance Sheet date (31 March 2012) of the assets and liabilities recognised by the County Council. The net assets of the authority (assets less liabilities) are matched by the reserves held by the County Council.  |
| Cash Flow Statement                                    | 41        | The Cash Flow Statement shows the changes in cash and cash equivalents of the County Council during the reporting period. The statement shows how the County Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.   |
| Notes to the Core Financial Statements                 | 42 - 109  | The notes are important in the presentation of a true and fair view. They aim to assist in understanding by presenting information about the basis of preparation of the core financial statements; by disclosing information required by the Code that is not presented elsewhere; and by providing information that is not provided elsewhere but is relevant to the understanding of the accounts and shows the policies and procedures adopted in compiling the Accounts.                           |
| <b>The Housing Revenue Account (HRA)</b>               | 110 - 114 | The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement. |

| <b>Item</b>  | <b>Pages</b> | <b>Explanation of Purpose and Content</b>  |
|--|--------------|--|
| <b>Collection Fund</b>   | 115 - 120    | The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities, such as the County Council, to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates. |
| <b>Durham County Council Pension Fund Accounts</b>                 | 121 – 147    | Shows the operation and membership of the Pension Fund, the expenditure and income during the year and its financial position at 31 March 2012. Following the Accounts are notes providing further information.  |
| <b>Statement of Responsibilities for the Statement of Accounts</b> | 148          | Sets out the responsibilities of the County Council and the Corporate Director Resources for the Statement of Accounts.  |
| <b>Annual Governance Statement</b>                                 | 149 - 157    | Gives assurance that appropriate mechanisms are in place for the maintenance of good governance across the activities of the County Council.   |
| <b>Glossary of Terms used in the Accounts</b>                      | 158 - 169    | To help the reader understand terminology used in the Statement of Accounts.   |