



AUDIT & PENSIONS COMMITTEE

22 SEPTEMBER 2011

London Borough of Hammersmith and Fulham
Statement of Accounts, including Pension
Fund for 2010/11

WARDS
All

Summary

This report gives a brief review of the Council's annual Statement of Accounts and the Council's Pension Fund Accounts for 2010/11. It also provides an overview of the issues arising from the audit of the accounts prior to the publication of the Audit Commission's formal opinion on those accounts. These issues are identified in the Audit Commission's Annual Governance Reports 2010/11, which are attached, with the revised Statement of Accounts which will follow.

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Recommendations

The Committee is asked to;

- 1 To note the content of the Auditor's Annual Governance Reports stating that the accounts will receive an unqualified opinion, are free from material error and that the Council has a adequate internal control environment.
- 2 To note the Council's response to the Annual Governance Reports,
- 3 To approve the management representation letter.
- 4 To approve the Statement of Accounts for 2010/11.

1 Introduction

1.1 In accordance with the Accounts and Audit Regulations, the Council's audited year end Statement of Accounts must be published before the end of September. The Audit Commission is required to report the findings from their audit in an Annual Governance Report to a properly constituted governance body of the Council before their opinion on the accounts is issued. The Audit and Pensions Committee fulfils this role for Hammersmith and Fulham.

1.2 The Audit Commission's Annual Governance Report (AGR) for Hammersmith and Fulham 2010/11 Audit is attached to this report (Appendix 1). It sets out the Audit Commission's findings from this year's audit relating to two main areas:

- Financial Statements
- Value for Money

1.3 This report gives a brief overview of the key points arising from the Statement of Accounts and summarises the issues included in the Annual Governance Report, and sets out the Council's response to the recommendations made therein. Attached as Appendix 3 is the revised Statement of Accounts for approval by the Audit and Pensions Committee.

1.4 The Audit Commission produce a separate Annual Governance Report for the Pension Fund (Appendix 2). This is discussed in paragraph 6 of this report.

2. Impact of International Financial Reporting Standards

2.1 2010/11 is the first year that the Statement of Accounts have had to be produced in accordance with International Financial Reporting Standards (IFRS). This huge transition has been completed without employing additional resources. This has resulted in changes both to the format of the accounts and to the treatment of items in the accounts. In terms of accounts format the primary changes are the replacement of the Income and Expenditure account with a Consolidated Income and Expenditure Statement (CIES) which now shows all the movement in the Council's net worth and the introduction of a Movement in Reserves Statement (MiRS) replacing the Statement of Movements. The MiRS gives a more comprehensive view of the movements and is supported by Note 7 to the accounts which gives further detail.

2.2 The changes in treatment impact on a number of categories of spending and income including the treatment of leases, grants and other contributions, the classification of fixed assets and staff leave entitlements. With respect to leases there is a more comprehensive analysis of all leasing and implied leasing (contractual service arrangements which effectively require the use of specific assets) arrangements. The impact is to identify more leasing arrangements for the Council, both as Lessor and Lessee, as being Finance leases which require the value of the assets subject to the lease to be reflected in the Council's accounts. The changes in respect of grants and contributions is to change the timing of when the income is recognised, to ensure that all such income even if of a capital nature is shown within the CIES and to change the classification of

unspent funds within the accounts. The changes affecting the classification of fixed assets included a reclassification of what constitutes an investment asset and the movement of assets that are surplus and expected to be sold in the next year out of fixed assets and into a current asset entitled 'Assets Held for Sale'. The change in accounting for staff leave entitlements require the Council to accrue for any leave not taken but carried forward into the new financial year.

2.3 Not only do the IFRS changes impact on 2010/11 accounts but also the Council is require to restate the 2009/10 accounts to show the impact on the comparative figures. Although the IFRS adjustments have no impact on the level of available resources or on tax payers the impact of these changes on the published accounts can be gauged by the analysis of the impact on the comparative figures shown in Note 43 to the accounts. These show a movement of nearly £10m in net cost of services for 2009/10 and over £100m in the stated net worth of the Council.

3. Statement of Accounts 2010/11

3.1 The Explanatory Foreword which starts on Page 5 of the Statement of Accounts gives an outline of the Council's financial activity during 2010/11. In summary the General Fund revenue account show an underspend of £3.3m on budgeted net service expenditure of £209m which after increased contributions to earmarked reserves enabled the General Fund balances to be increased by £1.07m to just over £16m. The largest single cause of the underspend was a one-off better than expected recovery of old parking debts amounting to £2.5m.

3.2 The Housing Revenue Account recorded a net deficit of £0.123m on turnover of £84m. This has left a HRA balance of £3.1m at year end which is approximately £1.1m higher than expected at the start of the year. Total Capital expenditure in year was £91.6m compared to a budget of £98.8m. The Collection Fund showed a deficit of £0.271m, an improvement from the £1.482m deficit in 09/10. The Council's share of the 10/11 deficit which is £0.201m will be taken into account in setting Hammersmith & Fulham's Council Tax in 2012/13. Further details on the financial performance of all these elements can be found within the Statement of Accounts.

3.3 Apart from the routine items of revenue and capital expenditure there are two items that have had a material impact on the Statement of Accounts for 2010/11. One is a credit of £88.7m in past service pension costs. This represents a reduction in the estimated future costs of accrued pension entitlements arising from the Government's intention to switch the indexation of pensions from the Retail Price Index (RPI) to the Consumer Price Index (CPI). This has been recognised in the CIES under Non Distributed Costs – General and in the Balance Sheet by a reduction of the debit balance in the Pensions Reserve. It has no effect on the General Fund balance.

3.4 Also within the CIES is an impairment charge of £465m against the Local Authority Housing (HRA). This comes about from the full revaluation of the Council's housing dwelling stock which occurred during the year. Of this charge £352m (75%) was a result of the Government changing the adjustment factor applied to the gross valuation of the stock to derive the Existing Use Value –

Social Housing used in the Council's accounts. This item has no impact on HRA balances or rent levels but does reduce the value of assets in the Balance Sheet.

4. Annual Governance Report

4.1 The Annual Governance Report (Appendix 1) summarises the findings from the Audit Commission's 2010/11 audit. Although there are a few areas to be completed the District Auditor states that he plans to issue an unqualified opinion on the audit statement. The auditor is required to identify specific risks and areas of judgment that he considered as part of the audit. The risks and the auditor's findings are listed on Page 7 of the AGR. The areas of improvements that the audit has found are identified on pages 8 and 9 together with the auditor's recommendations. All the recommendations together with the Council's comments are brought together in Appendix 5 of the AGR.

4.2 There were some amendments required to the original draft statement of accounts and these have been agreed with the auditor and incorporated in the Statement of Accounts attached as Appendix 3 to this report.

4.3 The District Auditor also asks the Committee and management for written representations about the financial statements and governance arrangements. To that end Members are asked to consider and approve the draft letter of representation included as Appendix 3 of the AGR.

5. Value for Money

5.1 The District Auditor intends to issue an unqualified conclusion stating that the Council has proper arrangements to secure value for money. He comments on Page 10 of the AGR that the Council has robust systems and processes in place to manage effectively financial risks and opportunities and that the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

6. Pension Fund Annual Governance Report

6.1 The Audit Commission is obliged to submit a separate Annual Governance Report for the Pension Fund. This is attached as Appendix 2. The District Auditor states he intends to issue an unqualified opinion. There was only one non trivial error found which has been corrected and there is one recommendation regarding administration reconciliations which has already been acted upon. The Pension Fund accounts are included in the overall Statement of Accounts from Page 84 onwards.

7 List of Appendices

Appendix 1 – Audit Commission Annual Governance Report (Main Financial Statements)

Appendix 2 – Audit Commission Annual Governance Report
(Pension Fund)

Appendix 3 – Annual Statement of Accounts (including Pension
Fund)- to follow