

## Audit committee, 21 September 2011

### 2010/11 Statement of Accounts

#### Key changes and highlights

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### Areas to be covered

- Legal background
- Main changes following implementation of IFRS
- Financial highlights
- Reconciliation of the Management Accounts to the Statement of Accounts
- Questions

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### The Legal Framework

- Audit Commission Act 1998 – requirement to prepare an annual Statement of Accounts
- Local Government Act 2003 - accounts to be prepared in accordance with 'proper accounting practices' and the Accounts and Audit Regulations 2003 (as amended in 2011)
- Proper accounting practices are defined by the CIPFA *Code of Practice on Local Authority Accounting in the United Kingdom 2010/11* (the 'Code')
- Local Government & Housing Act 1989 - separate Housing Revenue Account ('ring-fenced')
- Statutory requirement to maintain a separate Collection Fund for council tax and business rates

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### Code of Practice on Local Authority Accounting – the rules!

- Accounts must be prepared in accordance with the Code
- From 2010/11 the Code is based on International Financial Reporting Standards (IFRS)
- Changes to accounting policies have been made in previous years but main presentational changes are in 2010/11
- 2010/11 Code guidance notes have 759 pages
- 2010/11 Statement of Accounts is 125 pages (65 pages in 2005/06)

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### Main changes in 2010/11 under IFRS

- Mainly presentational for CBC – accounts look very different!
- Main Technical changes
  - Expenditure now includes cost of staff holidays and flexitime not taken at year end
  - All leases reassessed and reclassified as necessary
  - Capital grants and contributions now credited to Income & Expenditure (I&E) when the conditions are met
  - Changes in value of Investment properties credited or debited to I&E
  - New category of Assets Held for Sale (e.g. North Place/Portland St. car parks)
  - Value of Heritage assets to be included from 2011/12
- Technical changes do not impact on General Fund Balance as they are reversed out to other reserves

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### Main Presentational Changes

- I&E Account and Statement of Recognised Gains and Losses (STRGL) combined into a Comprehensive I&E Statement, showing all gains and losses for the year
- Changes to the service groupings
- On Balance Sheet fixed assets reclassified as PPE, Investment property and Assets Held for Sale
- Reserves classified as Usable or Unusable
- New Statement – Movement in Reserves
- Many new and more detailed notes e.g. Critical Judgements Made, Segmental Reporting

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## Financial highlights in 2010/11

- Overall under-spend compared to revised budget for the GF of £174k, helping to increase GF balance to £2.667 million at year end
- Overall under-spend compared to revised budget for the HRA of £684k, helping to increase HRA balance from £1.6 to £3.7 million
- Overall reduction in Net Assets of £10.8 million, mainly as a result of :
  - Reduction in value of HRA dwellings of £46 million on revaluation (charged to Capital Adjustment Account (CAA))
  - 'Loss' on transfer of housing land to CBH for new build of £1.1 million (charged to CAA)
  - Increase in value of Icelandic bank investments of £3 million (transferred to earmarked reserves)
  - Reduction in Pensions liability of £32 million (transferred to Pensions Reserve)

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## Financial highlights continued

### Other highlights

- £6.9 million was spent on capital items, including £2.9 million on the housing stock and £1.1 million on recycling vehicles, bins and caddies
- Despite the need to borrow for the recycling equipment, the Capital Financing Requirement (CFR) increased by only £5k, since debt repayments of £875k were made
- £2.1 million in capital receipts were received, of which £900k was used to fund capital expenditure and loan premiums from previous years, leaving £1.2 million at the year end (to be used for affordable housing and regeneration)
- £803k in partnership funding was used to fund capital expenditure
- As shown on the Cash Flow Statement, external borrowing went down by £4.3 million

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## Financial highlights continued

### Other highlights continued

- Earmarked reserves increased by £800k, however this included £2.5 million transferred to reserves for the Giltinir Icelandic bank investment; other reserves reduced by £1.7 million, due to budgeted transfers to fund capital and other one-off expenditure
- Group accounts show net assets of £215 million, including
  - £22 million investment in Gloucestershire Airport
  - £3 million CBH dwellings under construction

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## Icelandic Bank investments

- Need to reassess their value at 31 March 2011, based on the latest estimated recovery rates and time until repayment
- 2009/10 Giltinir investments assumed not to have priority status, resulting in a reduction in value ('impairment') of £2.7 million chargeable to the I&E account
- However a capitalisation direction was received, allowing the impairments to be funded by borrowing over 20 years
- On 1 April an Icelandic court decided such investments had priority status, meaning £2.4 million of the original impairment could be reversed
- However the decision is subject to appeal, therefore the credit to the I&E was transferred to an earmarked reserve in case decision reversed
- If decision stands, reserve will be used to repay the borrowing

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## Icelandic Bank investments cont'd

- Repayments of £553k received for KS&F loans
- Increase in value of remaining KS&F loans of £326k, of which £240k used to repay the borrowing
- Interest due of £300k credited to I&E and transferred to reserves
- If decision of Icelandic court stands, of the original £11 million invested an estimated £10.2 million (93%) will currently be recovered

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## Difference between management accounts and Statement of Accounts

- Surplus on management accounts £174k, but Deficit on CI&E Statement (page 21) £33.5 million
- Why? CI&E Statement includes
  - Housing Revenue account (HRA)
  - Items such as depreciation, impairments, capital grants, additional pension costs, transfers to reserves, etc which are reversed out in the Movement in Reserves Statement, so do not fall on council tax

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## Reconciliation Statement

<b>Comprehensive Income &amp; Expenditure Statement - Deficit for year</b>	<b>33,450</b>
Less: Depreciation and impairment of assets	(2,776)
Less: Revenue expenditure funded from capital under statute	(188)
Less: Housing capital receipts	(415)
Add: Capital grants	589
Add: Gain on disposal of fixed assets	268
Add: Pensions adjustments	10,917
Less: Housing Revenue Account deficit (including impairments of £46 million)	(44,729)
Add: Provision for repayment of debt and loan premiums	1,021
Add: capital expenditure charged to revenue	852
Add: net Transfers to earmarked reserves	837
<b>General Fund Underspend as reported in Outturn Report (management accounts)</b>	<b>(174)</b>

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## Any Questions?



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