

AGENDA ITEM

Audit Committee

DATE: 25th JUNE 2008

STATEMENT OF ACCOUNTS 2007/2008 - DRAFT

PAUL SLOCOMBE – DIRECTOR OF RESOURCES

PURPOSE OF REPORT

1. To present to members the draft Statement of Accounts 2007/2008.

BACKGROUND

2. The 2006 “Statement of Recommended Practice” (SORP) introduced significant change to the content and format of the Statement of Accounts in the Public Sector. The SOPR included further changes to the 2007/2008 Statement of Accounts in addition to those already embedded in the 2006/2007 Statement of Accounts. The substantive changes introduced by the 2006 SORP are:

- The removal of the Fixed Asset Restatement Account and the Capital Financing Account.
- The new requirement to establish a Revaluation Reserve and a Capital Adjustment Account

The purpose of these changes is to bring the Statement of Accounts further in-line with the UK Generally Accepted Accounting Principles (UK GAAP) on accounting for fixed assets.

3. The 2007 SORP introduced new accounting requirements concerned with accounting for financial instruments (loans, guarantees, derivatives etc). The provisions in the SORP cover all the different types of instruments that the council might issue or acquire. The SORP’s accounting requirements derive from three Financial Reporting Standards (FRSs):

- FRS 25 Financial Instruments – Disclosure and Presentation
- FRS 26 Financial Instruments – Measurement
- FRS 29 Financial Instruments – Disclosure

The impact on the Council's accounts of these new requirements has been relatively minor. Additional disclosure notes have been included in the Core Financial Statements section of the Statement.

4. As part of the annual accounts process the Council has been required to review its system of internal controls and to publish a statement of that review known as the Statement of Internal Control (SIC). From 2007/2008 onwards, the scope of the review has been extended to include the Council's wider governance arrangements as well as its internal controls. The Council is now required to publish an Annual Governance Statement (AGS) with a wider scope than the SIC, which it has replaced.
5. Attached to this report are extracts from the draft Statement of Accounts 2007/2008 providing details of the core financial statements of the Council. A copy of the full draft statement has been made available to all members of the Corporate Affairs Committee. In addition a copy of the full draft statement has been deposited within the Members Library.
6. **Appendix A - Income and Expenditure Account.** This statement is fundamental to the understanding of the local authority's activities, it reports the net cost for the year of *all* the functions/services for which the authority is responsible, and demonstrates how that cost has been financed from general government grants and income from local taxpayers.
7. **Appendix B - Statement of Movement on the General Fund Balance.** The purpose of the statement is to provide reconciliation between the statutory requirement for raising council tax and the technical accounting format of the Income and Expenditure Account.
8. **Appendix C - Statement of Total Recognised Gains and Losses.** This Statement summaries all the gains and losses on movements on the headings within the Balance Sheet together with the final balance on the Income and Expenditure Account to demonstrate the total movement in the authority's net worth for the year.
9. **Appendix D - Balance Sheet.** This statement is important to the understanding of the local authority's financial position as at the 31st March 2007. It reports details of, the value of assets owned by the council, the level of creditors (amounts owed by the Council), the level of debtors (amounts owed to the Council) and the level of provisions and balances maintained by the Council.
10. **Appendix E - Cash Flow Statement.** The statement summarises the revenue and capital cash payments and cash receipts made by the Council to/and from third parties.

SIGNIFICANT FINANCIAL ISSUES

11. Equal Pay. The Council has continued with the process of dealing with the equal pay claims during 2007/2008 received from current and previous members of staff. The financial impact of the claims on the Council is significant. The payments for claims that have been settled have continued to be capitalised and the costs of disputing the outstanding claims were provided for in the 2007/2008 budget and the medium term financial plan. The complicated process of dealing with this issue is ongoing and continues to be a major financial risk to the authority.
12. FRS17 & Net Pension Assets. In line with the Financial Reporting Standard (FRS17) disclosure, the Net Pension Assets as at 31 March 2008 is a liability of £92.28m. This has decreased substantially from a liability of £126.03m as at 31 March 2007. Most of the reduction is due to the change in fortunes of the Pension Funds investments primarily in stocks & shares and property reducing the amount of money that has to be set aside now to meet future benefits costs.
13. Efficiency Savings/Service Reviews. Middlesbrough's Medium Term Financial Plan has identified a gap between income and expenditure of over £6.6 million across the 3-year period. A series of efficiency saving proposals have been agreed to close the budget gap. Services have identified areas for efficiency reviews and funding has been set aside to fund the change programme linked to these reviews.

AUDIT

14. The Statement of Accounts 2007/2008 is still subject to external audit by the Deloittes. Deloittes will commence the audit of the statement in early July and are expected to conclude in August 2008. On conclusion of the audit a further report will be presented to this committee outlining any key issues identified.

FINANCIAL CONSIDERATIONS

15. None.

RECOMMENDATIONS

16. It is recommended that Members note the contents of the draft Statement of Accounts 2007/2008.

REASONS

17. The recommendation is supported by the requirement to comply with the Accounts and Audit Regulations 2003, which require the draft Statement of Accounts 2007/2008 to be prepared and approved by the 30th June 2008.

BACKGROUND PAPERS

Closure of accounts working papers
Draft Statement of Accounts 2007/2008.
Revenue Outturn 2007/2008 report – Executive 27th May 2008
Annual Governance Statement report – Corporate Affairs Committee 28th May
2008.

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