	<p style="text-align: center;">General Purposes Committee 29 June 2010</p> <p style="text-align: center;">Report from the Director of Finance and Corporate Resources</p>
For Information	
Supplementary Report - 2009/10 Statement Of Accounts	

Forward Plan ref:

***Reason for urgency**

Under the Accounts and Audit Regulations, the General Purposes Committee is required to consider and approve the Statement of Accounts by 30 June. The Statement of Accounts has only recently been completed and it was not possible to send this supplementary report out with the original Committee papers.

1. SUMMARY

- 1.1 Members have received a report on the 2009/10 accounts which sets out the legal and accounting requirements in relation to their approval and publication, including the requirement that they are approved by General Purposes Committee by 30 June 2010.
- 1.2 The accounts have been finalised and a draft is attached to this supplementary report which highlights some key issues for the Committee's attention.

2. RECOMMENDATIONS

- 2.1 Members are referred to the recommendations in the main report, sent out with the agenda.

3. STATEMENT OF ACCOUNTS

- 3.1 Prior to the beginning of the financial year, members set revenue and capital budgets, council tax, housing rents, borrowing and so on. This is a very public and open process for which members are fully accountable. However there is less focus on, and public accountability for, how these funds have actually been spent by the year end. This is partly because of ever increasing and

complex accounting requirements which mean the accounts themselves are difficult to understand by anybody but finance specialists.

- 3.2 As a consequence, the government and the Audit Commission have sought to make councils more accountable for what they have spent during the preceding year by imposing stringent accounts approval requirements including the requirement for Committee approval of the accounts, for the Chair of the Committee to sign the accounts once approved, and for a further report should there be material changes to accounts that occur during the audit process.
- 3.3 A number of measures have been taken in Brent to support this drive for increased accountability, including:
- Production of this explanatory report which is intended to help members understand the main elements of the accounts;
 - Reporting to the Executive and Performance and Finance Select Committee on the overall outturn for 2009/10, combining financial data with activity and performance data for the year;
 - Publication of a plain English summary of the accounts as part of the council's Annual Review. This will be circulated with The Brent Magazine in the autumn.
- 3.4 The Chartered Institute of Public Finance and Accountancy has carried out a review of how requirements can be changed to make the accounts simpler and more meaningful to councillors, the public and other stakeholders. The outcome of this review has led to a slight reduction in notes to the accounts for 2009/10. However this has been more than offset by new requirements including enhanced remuneration reporting and the implementation of new requirements under International Financial Reporting Standards (IFRS).
- 3.5 Councils have also been required in recent years to achieve closing of accounts much earlier than previously. Members should note that there is a trade-off between the speed of closing accounts and the amount of checking that can be done. The council has quality control procedures that work well but the earlier closure of accounts means there is a greater risk that amendments may be needed to the accounts during audit. Members therefore need to be aware that the level of balances, and other items in the accounts, may be subject to change during the audit process. Although General Fund balances shown in the accounts at the end of 2009/10 are £8.963m, there is a risk that this amount could be reduced during audit. Should there be any material changes to the accounts during the audit, we will report them for approval to a future meeting of General Purposes Committee. Any changes to the balances position will also be reported to the Executive as part of the performance and finance review process.
- 3.6 The annual accounts of the council set out:
- An Explanatory Foreword providing summary and contextual information;
 - A Statement of Responsibilities for the Statement of Accounts;

- An Annual Governance Statement which sets out the overall governance arrangements for the authority, including the system of internal control;
- A Statement of Accounting Policies used in putting together the accounts;
- A series of core financial statements which show:
 - o How the council spent monies raised from council tax payers provided by government and other agencies – the Income and Expenditure Account and the Statement of Movement on the General Fund Balance;
 - o The council’s Consolidated Balance Sheet – its overall assets, including housing, land and other property, investments, and debts owed to the council; and its major liabilities, including amounts borrowed and pension fund liabilities. The Consolidated Balance Sheet is closely related to the Statement of Recognised Gains and Losses, which precedes it in the accounts, and shows the change to the net worth of the council;
 - o Cash flowing into and out of the council during 2009/10 – the Cash Flow Statement.
- Related to these core statements are over fifty detailed notes which seek to provide further information on the key components of the statements;
- How rents, housing subsidy, and other income were used to fund spending on housing properties owned by the council – the Housing Revenue Account;
- The Collection Fund account which shows the way in which council tax is used to fund the council’s spending, and spending by the Greater London Authority;
- The Group Accounts which consolidate the council’s accounts with all subsidiaries, associated companies and joint ventures that the council has a material interest in.

4. EXPLANATORY FOREWORD (pages 2 to 9)

- 4.1 The explanatory foreword summarises the outturn on the revenue account, capital programme and Housing Revenue Account. It includes an explanation of variations from budget.

5. STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS (page 15)

- 5.1 This sets out the responsibilities of:
- The council to make arrangements for proper administration of its financial affairs, including appointing an officer to carry out these duties, to secure economic, efficient and effective use of resources, and to approve the Statement of Accounts;
 - The Director of Finance and Corporate Resources to prepare the accounts in accordance with accounting codes of practice, to present

fairly the financial position of the council, to keep proper up to date accounting records, and to take reasonable steps to prevent fraud and corruption;

- The General Purposes Committee to approve the accounts on behalf of the council.

5.2 The statement on the Director of Finance and Corporate Resources responsibilities has been signed. The statement of Committee approval will be signed by the Chair of General Purposes Committee, subject to approval of the accounts by the committee.

6. ANNUAL GOVERNANCE STATEMENT (pages 17 to 41)

6.1 The Annual Governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and the way in which it accounts to, leads and engages with the community. The system of internal control remains an important aspect of the overall annual governance framework. The statement was subject to consideration at the Audit Committee on 15 June after which it was signed by the Leader of the Council and Chief Executive.

6.2 The statement sets out the governance framework and the processes in place to review and maintain its effectiveness. Significant governance issues identified are as follows:

- The Council's major transformation agenda will require elements of change to existing governance arrangements and will involve significant levels of resource and co-operation across the Council;
- The continued review of governance arrangements of partnerships, given their importance in delivering LAA priorities;
- Building on the strengthened risk management framework to ensure it is embedded across the Council;
- Seeking recovery of deposits with Icelandic banks through working with other local authorities, the Local Government Association and the Chartered Institute of Public Finance and Accountancy (CIPFA);
- Identifying and managing the impacts of budget pressures within Environment & Culture, Children & Families and Adult Social Care;
- Reviewing governance arrangements following the outcome of the current investigation into Copland School;
- Delivery of the action plan to address the outstanding issues relating to the Interact Payroll and HR system;
- Establishing a formal process for the review of declarations of interest as part of the updated conflicts of interest policy

7. STATEMENT OF ACCOUNTING POLICIES (pages 42 to 50)

- 7.1 This sets out the accounting policies used in putting together the accounts. These are in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

8. THE INCOME AND EXPENDITURE ACCOUNT (pages 51 to 54)

- 8.1 The Income and Expenditure Account was introduced in 2006/07. It replaced what was previously known as the Consolidated Revenue Account. It covers all income and expenditure on the council's General Fund, including schools' spending and the net impact of the Housing Revenue Account. Details of the Housing Revenue Account are provided in a supplementary financial statement (see below).
- 8.2 The purpose of the account is to show the council's spending on services, how this was funded, and the year end balances.
- 8.3 The new presentation brought councils' accounting practice into line with the UK GAAP (Generally Accepted Accounting Practices). The two major areas of difference between GAAP and local authority accounting were treatment of capital investment, depreciation of assets, and retirement benefits. Table 1 below summarises the impact of the different approaches – details of the £73.373m accounting adjustments are set out in page 53 of the accounts.

Table 1 - Conversion from GAAP basis to local authority funding basis

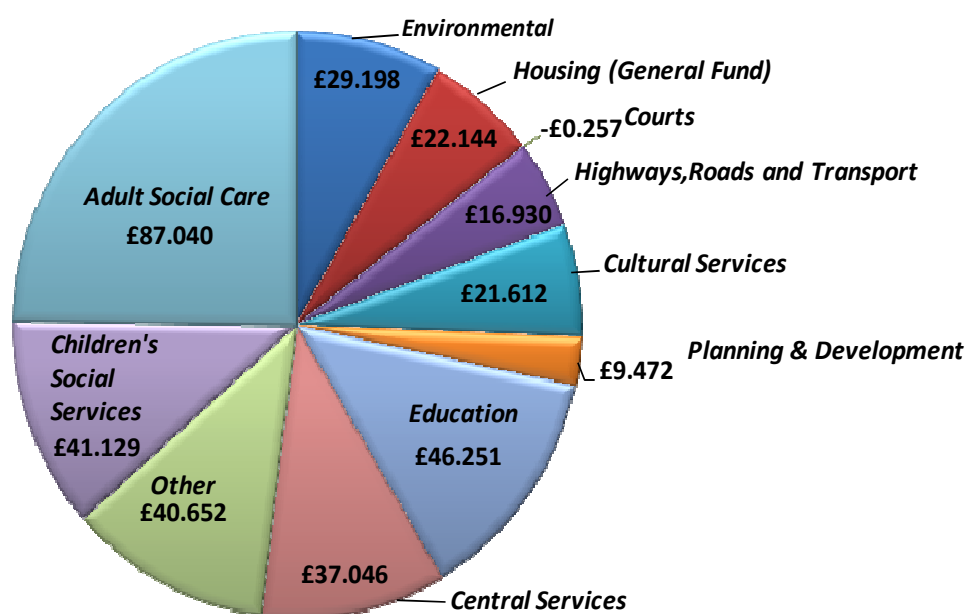
	2009/10 £'000
Deficit for the year using generally accepted accounting practices	72,978
Accounting adjustments to align with council funding arrangements	(73,373)
Reduction in General Fund balance (includes both schools and general balances)	395

- 8.4 Table 2 below shows the overall movement in balances in 2009/10, divided between schools and general balances. The net increase for the year of £395k represents a £514k reduction in school balances and a £909k increase in general balances. Overall, general balances are £8.963m and school balances are £14.072m at 31 March 2010.

Table 2 - Movement in general and school balances in 2009/10

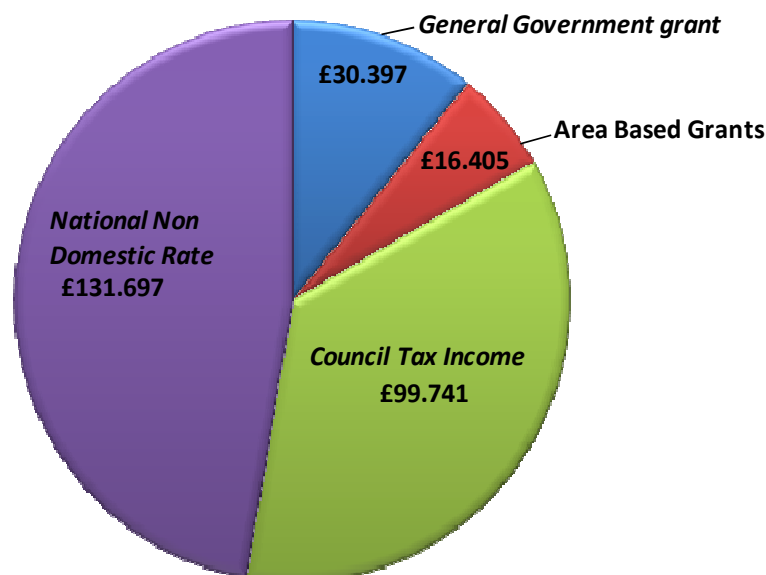
	General balances £'000	School balances £'000	Total £'000
Balances at 31 March 2009	8,054	14,586	22,640
Surplus/(deficit) on revenue account during 2009/10	909	(514)	395
Balances at 31 March 2010	8,963	14,072	23,035

8.5 The detail of the Income and Expenditure Account shows net spending on each of the council's services and how it was funded. Chart 1 below shows how the council's net spending in 2009/10 of £351.217m was distributed between council services, using the CIPFA service categories. This excludes council housing, which is self-financing from rents and grants, and schools spending, which is funded from the Dedicated Schools Grant.



Note – “Other” includes interest payable on debt of £29.8m.

8.6 Chart 2 shows sources of the £278.240m raised to pay for the council's services.¹



9. THE CONSOLIDATED BALANCE SHEET (pages 55 to 56)

9.1 The Balance Sheet shows the overall worth of the council – the assets it holds and its liabilities. Assets and liabilities are shown as long term and short term, with long term being any assets or liabilities with a life of more than one year. The accounts also include a Statement of Recognised Gains and Losses which measures changes to the net worth of the council.

9.2 The amount the council owns and is owed is known as assets. The amount the council owes others is known as liabilities. The difference between these two is how much the council is worth. At 31 March 2010 the net worth of the council was £2.061m. The key items within the Balance Sheet are included in Table 3 below.

¹ Note that this excludes fees and charges and specific grants which are used to fund services directly and taken into account in net spending figures.

Table 3 - Assets and liabilities – the council’s balance sheet

	31 March 10 £'000	31 March 09 £'000
What the council owns or is owed (assets):		
Fixed assets we own such as land, building, vehicles, infrastructure and equipment	1,461,339	1,365,532
Amount owed to us by other people/organisations (less provision for bad debts)	76,375	73,643
The amount we hold in investments	68,842	97,489
Other assets	26,893	14,836
Total we own and are owed	1,633,449	1,551,500
What the council owes (liabilities):		
We owe other people/organisations	62,577	69,903
We have outstanding loans	665,746	673,172
We have to meet future years pension costs	673,880	478,870
We have received capital grants for assets	188,163	154,493
We have other liabilities such as deposits and provisions	41,022	16,693
Total amount we owe	1,631,388	1,393,131
Total the council is worth	2,061	158,369

9.3 The Consolidated Balance Sheet shows a decrease in the net worth of the council (total assets less liabilities). The Statement of Recognised Gains and Losses (page 54 of the accounts) sets out the factors that have given rise to this change. The principal factors are deficits arising from revaluation of assets and actuarial losses arising principally from changes in assumptions underlying the calculation of the present value of pension liabilities.

10. CASH FLOW STATEMENT (page 57)

10.1 The cash flow statement summarises the total cash transactions of the council during the year.

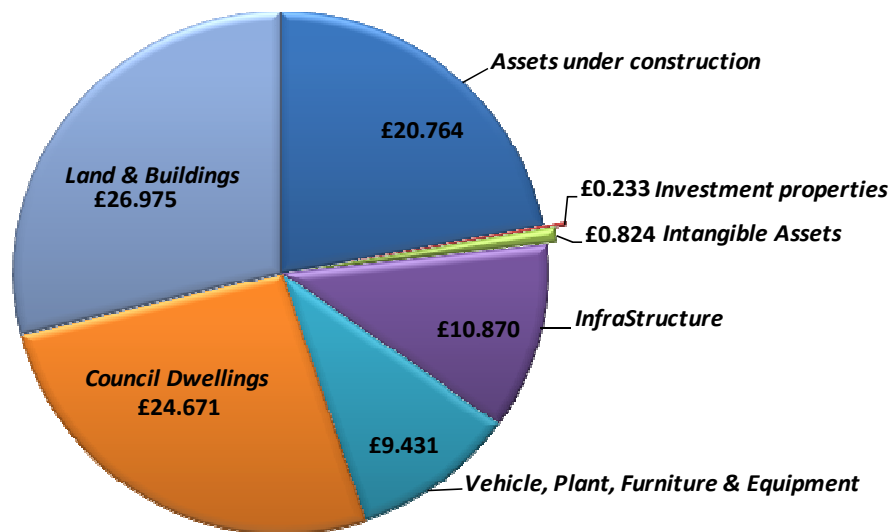
11. NOTES TO THE CORE FINANCIAL STATEMENTS (INCLUDING DETAILS OF CAPITAL SPENDING AND FINANCING) (pages 58 to 107)

11.1 The notes to the core financial statements – the Income and Expenditure Account, the Consolidated Balance Sheet, and the Cash Flow Statement – are included in a single section of the accounts.

11.2 Notes 20 and 21 (pages 80 and 81) include details of the council's capital spending and the way it was financed. The total spent on capital in 2009/10 was £104.337m. Of this, £93.768m was spent on the council's own assets and the balance was used to fund capital expenditure incurred by other bodies or individuals, including contributions to regeneration schemes, housing association grants, private sector renewal grants, and disabled facilities grants.

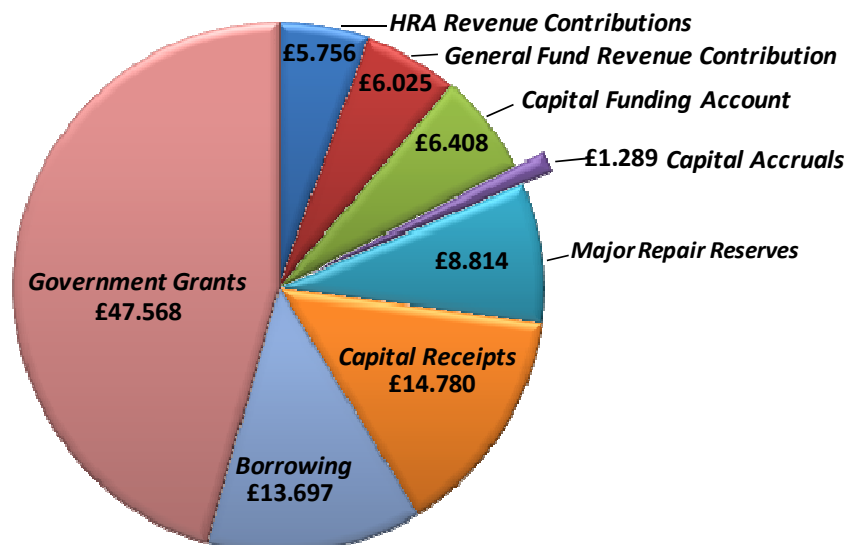
11.3 Chart 3 shows how the £93.768m spent on council assets was allocated to different asset types.

Chart 3 - 2009/2010 Capital Expenditure by Asset Type



11.4 Chart 4 shows sources of financing for the total capital spending.

Chart 4 2009/2010 Financing of Capital



12. THE HOUSING REVENUE ACCOUNT (pages 108 to 113)

12.1 The Housing Revenue Account shows spending on council housing and how it was financed. As with the main Income and Expenditure Account, the requirement to align accounting practice with UK GAAP means that the reported surplus on the HRA (£10.305m in 2009/10) has to be adjusted. The deficit after making these adjustments is £2.255m – the difference between balances brought forward of £4.429m and balances carried forward of £2.174m.

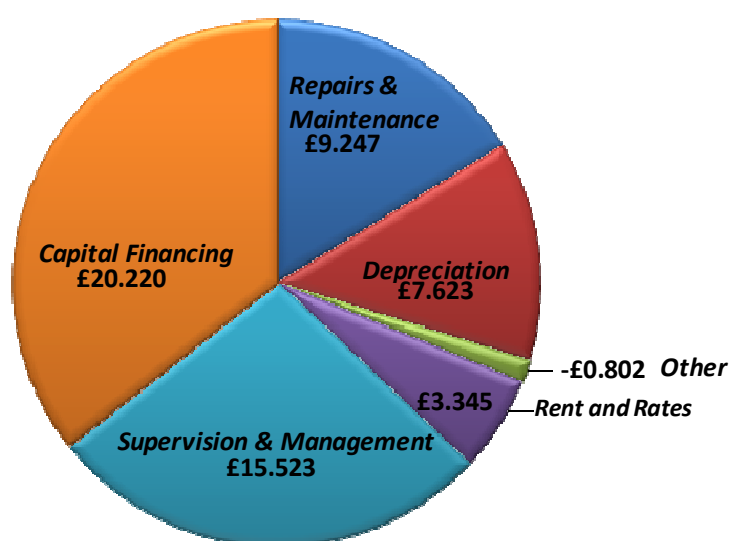
12.2 Table 4 below shows the calculation of the surplus.

Table 4 - Movements on the HRA in 2009/10

		£'000
Income to the HRA		(65,461)
Expenditure on HRA services	35,738	
Financing expenditure	20,220	
Other items included in net surplus calculation	<u>(802)</u>	<u>55,156</u>
Surplus on HRA services		(10,305)
Accounting adjustments		<u>12,560</u>
Deficit for the year		2,255
Balances brought forward from last year		<u>(4,429)</u>
Balances at 31 March 2010		(2,174)

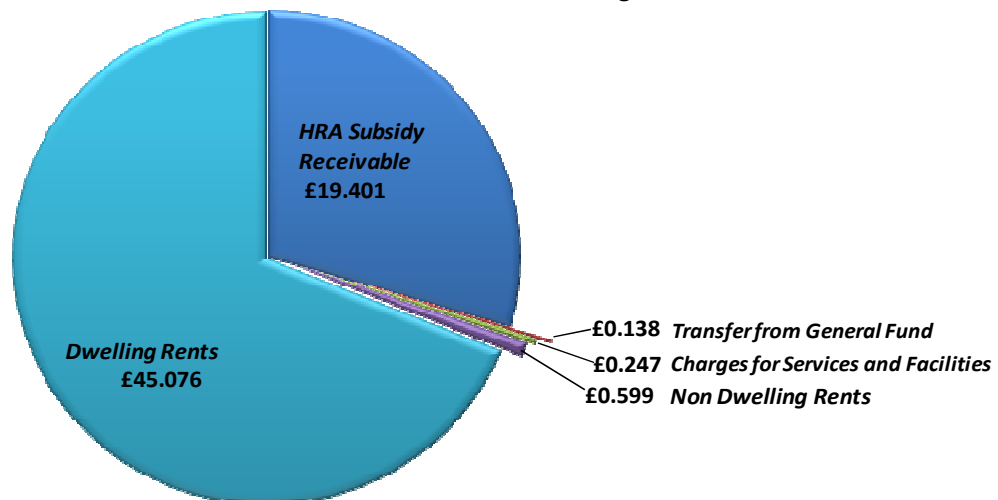
12.3 Chart 5 below shows the breakdown of the £55.156m spent on council housing in 2009/10.

Chart 5 - 2009/10 Spending - Council Housing



- 12.4 Chart 6 shows sources of the £65.461m raised to fund spending on council housing.

Chart 6 - 2009/10 - Income to Fund Council Housing



13. THE COLLECTION FUND (pages 114 to 117)

- 13.1 The Collection Fund accounts for total income from council tax-payers which is shared between Brent Council and the Greater London Authority. It also accounts for rate income collected from non-domestic rate payers which is paid into a national pool and the government then distributes to local government as part of the grant settlement. £100.895m of the total £130.414m paid out of the Collection Fund was allocated to Brent Council; the balance of £29.519m was allocated to the GLA.

14. GROUP ACCOUNTS

- 14.1 Many authorities now provide services through partner organisations which operate under the control of the authority. In these cases the financial statements of the reporting authority alone do not fully present the full picture of its activities and financial position. Group financial statements are therefore required to reflect the extended service delivery carried out by these separate legal entities on behalf of the authority. The council has reviewed the relationships it has with partner organisations and only Brent Housing Partnership (BHP)² falls with the legal definition of group accounts.
- 14.2 The group accounts pull together the activities of the council and BHP into a number of key statements including the group Income and Expenditure Account which incorporates the council's Income and Expenditure Account together with BHP's profit & loss account.

² BHP was created as an Arms Length Management Organisation (ALMO) with the purpose of controlling and managing the majority of the council's landlord services.

14.3 At the time of preparing this report BHP's accounts had not been received and as a consequence were not able to be included. The group accounts will therefore be provided to Members separately.

15. PENSION FUND ACCOUNTS (pages 126 to 141)

15.1 The responsibility for approving the accounts of the Pension Fund rests with the administering authority. These set out the assets of the Fund and how these have changed over the year along with transactions with Fund members and employers (payment of pensions and receipt of contributions).

16. FINANCIAL IMPLICATIONS

16.1 This report wholly relates to the council's finances.

17. LEGAL IMPLICATIONS

17.1 Legal implications were set out in the main report.

18. DIVERSITY IMPLICATIONS

18.1 This report has been subject to screening and officers believe that there are no diversity implications.

19. STAFFING IMPLICATIONS

19.1 There are no specific staffing implications.

20. BACKGROUND INFORMATION

Code of Practice on Local Authority Accounting in the United Kingdom 2009.
Accounts and Audit Regulations 2003.

Any person wishing to inspect these documents should contact Max Gray, Finance Manager, Room 115, Brent Town Hall, Forty Lane, Wembley, Middlesex HA9 9HD, Tel. 020 8937 1464.

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