

Agenda item:

**Decision maker:** Governance Audit & Standards Committee

**Subject:** Financial Statements 2011/12

**Date of decision:** 27<sup>th</sup> September 2012

**Report by:** Head of Finance & Section 151 Officer

**Wards affected:** All

**Key decision:** No

**Budget & policy framework decision:** No

## **1. Purpose of Report**

To present the Council's audited Financial Statements 2011/12 for formal approval.

## **2. Recommendations**

It is recommended that the Financial Statements 2011/12 for Portsmouth City Council comprising the following be approved:

- **Explanatory Foreword**
- **Statement of Responsibilities for the Statement of Accounts**
- **Movement in Reserves Statement**
- **Comprehensive Income and Expenditure Statement**
- **Balance Sheet**
- **Cash Flow Statement**
- **Notes to the Financial Statements**
- **Collection Fund**
- **Housing Revenue Account (HRA)**
- **Movement on the Housing Revenue Account Balance**
- **Group Accounts**

### **3. Legislative Background**

In accordance with the Accounts and Audit Regulations 2011 the deadline for the approval of the 2011/12 Financial Statements of the City Council is 30<sup>th</sup> September 2012. Those regulations also state that:

- The Statement of Accounts of a Local Authority must be approved by resolution of a Committee of the Authority
- Prior to approval, the S151 Officer must certify the presentation of the Statement of Accounts
- Once approved, the Accounts must be signed and dated by the person presiding at that meeting
- The Statement of Accounts must be published (which must include publication on the Authority's website) by 30<sup>th</sup> September together with any certificate, opinion or report issued by the Auditor

The regulations also require that the City Council's accounts are available for public inspection for a period of 20 working days prior to the date when the District Auditor is available to take any questions on the accounts or hear any representations made by any elector (see below). This period ran from 12<sup>th</sup> July 2012 to 9<sup>th</sup> August 2012.

The District Auditor was available on and after 10 August 2012 until the conclusion of the audit process for any elector or his/her representative to question or make representations under Section 15 and 16 of the Audit Commission Act 1998 to question the auditor about, or make objections to, the accounts for the year ended 31 March 2012.

### **4. Financial Statements 2011/12**

The intent of the whole suite of financial statements is to give clear information about the Authority's finances. In particular they cover:

- The overall financial position of the City Council as a single entity and the position of the "Group" which principally includes both the City Council and MMD (Shipping Services) Limited (MMD)
- The cost of the services provided by the City Council for the year
- How the cost of the Council's Services have been financed
- Any surpluses or deficits made by the Council in the year
- The value of the Council's assets, liabilities and reserves at the end of the year

The Financial Statements have now been audited, adjustments agreed and made and are now attached for approval by the Committee.

Whilst the Annual Governance Report credits the Council with a significant improvement in the quality of the Financial Statements submitted for audit, it also reports that there were a number of errors contained within the Financial Statements and makes notable reference to the difficulties encountered with the Group Accounts. All but one of the errors identified throughout the audit have been agreed and corrected.

Due to the nature of the way in which Financial Statements are prepared (i.e. often "sliced and diced" in many different ways manually from a core set of financial accounts), their volume and the timescales in which they are undertaken, it is not uncommon for errors to be made in the compilation of Financial Statements or for inconsistencies to "creep in". Every attempt is made in the design of the process for the preparation of the Financial Statements to avoid such errors and those processes will continue to be examined and improved to minimise their occurrence in the future.

The preparation of the Group Accounts was problematic for the Council this year as a consequence of resourcing difficulties. That issue has now been resolved and alternative arrangements will be made for next year.

The one item that the Audit Commission have identified as an error, but which has not been adjusted and the reasons for not adjusting the Statements are set out in the table below

Unadjusted Error	Nature of Error	Reasons for Not Adjusting
Long Term Debtors – comparator year 2010/11	In 2010/11, the repayment of principal in relation to Finance Leases was omitted in calculating Long Term Debtors. This error has now been rectified by re-stating the 2010/11 opening balances. The Code of Practice however, does not require the correction to be made since it is not material in the context of £1.1bn of Non Current Assets.	<ul style="list-style-type: none"> <li>• The main purpose of leaving the correction in place is to provide more transparent and comparable information to the user of the accounts. To correct the accounts in 2011/12 (as opposed to 2010/11) would require an accounting transaction of £4.3m to the Comprehensive Income &amp; Expenditure Statement and therefore would distort the current years accounts and any comparison to the previous year.</li> <li>• I believe that it is not appropriate to correct an error in a re-statement of an opening balance (which involves no accounting entries and was never derived from an accounting entry) with a new and "fictitious" accounting entry. It would be more appropriate, and a justifiable departure from the Accounting Code of Practice, to simply correct (by restating) the opening balance. In effect, the same methodology as would have applied if the error was not made in the first instance.</li> <li>• It is a non cash transaction and does not have any impact on the funds available to the Council.</li> <li>• The item is not material and therefore by not adjusting it, it does not affect the overall opinion on the accounts.</li> </ul>

The members of the Committee have previously received the Draft Financial Statements 2011/12 subject to audit and have received a presentation of them. With the exception of a few minor amendments, that presentation was based on the finalised Financial Statements presented and attached to this report.

The Governance Audit & Standards Committee is requested to approve the Financial Statements 2011/12 attached which include the Unadjusted Error described above.

### **Conclusion**

The Explanatory Foreword contained within the statement of accounts provides a commentary on the overall financial position by the Head of Finance & Section 151 Officer and is intended to provide an easily understandable guide to the most significant matters reported in the accounts as well as assisting in their interpretation. A summary of the Council's overall financial position as set out in the Financial Statements is provided below.

In 2011/12 the Council has experienced an improvement in its General Reserves (excluding schools) of £3.9m and this represents the extent to which the City Council's in-year income has exceeded its in-year expenditure. There was a planned contribution from General Reserves of £0.4m, therefore this contribution to General Reserves of £3.9m represents an overall underspend against the budget of £4.3m. The £4.3m improvement arose from underspendings, in the main, arising from the non-use of contingencies, interest on surplus cash balances and lower than anticipated financial support to MMD.

The deficit on the Collection Fund of £0.419m is slightly higher than the anticipated deficit of £0.3m reflected within the Budget. The City Council's share of the £0.119m budget variance is £101,000. Combining this shortfall in the Budget with a £4.3m underspend has resulted in a net improvement in the Council's overall medium term financial position of £4.2m compared with the Revised Budget.

The overall improvement in the Council's financial position will now feature in the revisions to the Council's Medium Term Financial Strategy that aims to deliver the Council's key priorities over the medium term within a sustainable level of resources.

In addition to this, the Housing Revenue Account made a surplus of £1.1m which was £0.9m more than planned. The Account continues to be robustly managed with healthy projections over the medium term.

### **Equality Impact Assessment**

This report does not require equality impact assessment since it does not recommend any change in Council policy or practice.

**Comments of the City Solicitor**

The City Solicitor has confirmed that it is within the Committees powers to approve the recommendations set out above.

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**Chris Ward.**  
**Head of Finance & Section 151 Officer**

**Background List of documents –**

Section 100D of the Local Government Act 1972

**The following documents disclose facts or matters which have been relied upon to a material extent by the author in preparing this report –**

<i>Title of document</i>	<i>Location</i>
Final Accounts File 2011/12	Office of Head of Finance

The recommendations set out above were approved/~~approved as amended/~~ deferred/~~rejected~~ by the Governance Audit & Standards Committee on 27<sup>th</sup> September 2012

**Signed:** -----