ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**20 March 2013**
3.	**Title:**	**Closure of Accounts 2012/13**
4.	**Directorate:**	**Resources**

5. Summary

The principal objective of the Council's annual financial statements is to provide information about the Council's financial performance, financial position and cash flows that is useful to a wide range of local and national stakeholders in assessing the Council's stewardship of its resources. It is therefore important that the Council's accounts are prepared in accordance with recognised accounting standards and can be relied upon by users of the accounts.

This report brings to Members attention the main changes to accounting standards and disclosure requirements in 2012/13; their effect on the Council's accounting policies; and the project management arrangements that will be employed to secure the timely closure and production of the 2012/13 Financial Statements that are fully compliant with the Code of Practice on Local Authority Accounting (the Code).

It also reminds Members that the Audit Committee will need to formally approve the audited Financial Statements at its September meeting and asks Members whether they wish the unaudited Financial Statements to be presented to Audit Committee at its meeting in July for information.

6. Recommendations

Audit Committee is asked to:

- **Approve the changes to the Council's accounting policies**

- **Note the requirement for the Audit Committee to formally approve the audited 2012/13 Financial Statements at its September meeting**

- **Approve the receipt for information of the unaudited Financial Statements at its July meeting**

7. Proposals and Details

Local authority accounting operates in a dynamic environment which is subject to ongoing changes to accounting standards and legislative requirements which impact on local government financial reporting.

It is important that the Council continues to respond to these changes promptly and effectively to ensure that the financial information used by management and stakeholders faithfully represents the Council's true financial position.

7.1 Changes to the accounting framework in 2012/13

The key changes in 2012/13 and action taken to address them are tabulated in Appendix 1.

We have continued to liaise closely with our external auditors, KPMG, to ensure that they are satisfied that these changes and the key risks identified in their External Audit Plan are being properly addressed and will continue to do so during closedown and over the course of their audit.

7.2 Changes to the Council's accounting policies in 2012/13

No new accounting standards have been adopted by the 2012/13 Code which have a bearing on the Council's accounting policies.

Certain policies have been amended to provide greater clarity. These are as follows:

- Overheads and support services (Accounting Policy 4) – reference to the fact that following the re-integration of RBT the Council has undertaken a comprehensive review of the basis for charging out overheads and support services and that the net cost of services reported in the 2012/13 accounts will be fully reflective of the new approach

- Capital Charges to the HRA (Accounting Policy Note 15) – following the introduction of HRA self-financing, with effect from 2012/13, depreciation, revaluation and impairment losses represent a "real" charge to the HRA to be met by rent payers. The Council is taking advantage of the transitional protection offered by DCLG to housing authorities over a five year period to 2016/17. This protection allows for the reversal out of impairment and revaluation losses relating to council dwellings and to cap the amount of depreciation charged on council dwellings at the notional Major Repairs Allowance included within the HRA Business Plan for that year.

- Leases (Accounting Policy Note 16) – removal of the assumption that leases of land having an indefinite life will automatically be operating leases. The classification of a lease of land will instead be assessed on who has the risks and rewards of ownership as for all other types of lease.

- Heritage assets (Accounting Policy Note 21) – basis on which heritage assets have been recognised on the balance sheet in 2012/13

Amended accounting policy notes 4, 15 and 21 are re-produced in Appendix 2 with the changes highlighted in italics for Members information.

7.3 Financial reporting – Audit Committee's role

Members may recall that prior to 2010/11 the Accounts and Audit Regulations required that the unaudited Financial Statements be approved by Members by 30 June and the audited Financial Statements by 30 September. The Accounts and Audit Regulations 2011 removed the requirement for Members to formally approve the unaudited Financial Statements.

Audit Committee resolved that in order to maintain strong governance over financial reporting it wished to continue to receive the unaudited Financial Statements for information after they have been authorised and released for publication.

Assuming Members wish this to remain the case, the key dates Members need to be aware of are:

- 30 June 2013 – this is the date by which the unaudited Financial Statements must be authorised for publication by the Director of Financial Services.

- July 2013 Audit Committee – unaudited 2012/13 Financial Statements to be presented to Audit Committee for information.

- September 2013 Audit Committee – audited Financial Statements to be formally approved by Audit Committee following presentation to Committee of KPMG's ISA 260 report which sets out the findings of their audit of the Financial Statements.

8. Finance

No additional financial implications beyond current budgetary provision is anticipated.

9. Risks and Uncertainties

The preparation, approval and publication of the Council's annual Financial Statements remain a cornerstone of financial accountability for the local electorate, Members and other stakeholders.

Failure to comply with the Accounts and Audit Regulations, other relevant legislation and local authority accounting requirements as set out in the Code may indicate a weakness in financial reporting whereas compliance demonstrates strong governance is in place and ensures best practice is being followed.

As in previous years, in order to minimise the risk of these objectives not being met, the closedown process and production of the accounts will be project managed and subject to quality assurance arrangements.

10. Policy and Performance Agenda Implications

None other than reputational risk referred to above from non compliance.

11. Background Papers and Consultation

Code of Practice on Local Authority Accounting 2012/13
Service Reporting Code of Practice 2012/13
Accounts and Audit Regulations 2011
Audit Committee – February 2012

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Appendix 1

Key changes to the accounting framework in 2012/13

Area of accounts	**Change in accounting practice / new disclosure required**	**Action taken**
Housing reform (HRA self-financing)	Up to and including 2011/12, capital charges to the HRA for depreciation, impairment and revaluation losses had no impact on the HRA due to the way in which the housing subsidy regime worked. However, from 2012/13 under self-financing, these now become a "real" charge to the HRA and impact on the amount to be raised from rent payers. To illustrate the dramatic effect these charges can have, a downward revaluation in the value of council dwellings as at 1 April 2010 resulted in a revaluation loss of £181m being charged to the HRA in 2010/11. Due to the accounting rules at that time, the £181m was reversed out so that it didn't fall as a charge on revenue to be met by rent payers. Under self-financing, such a charge would be "real" and would fall as a charge on revenue. In order to afford housing authorities with some protection against the financial impact of charges of such magnitude arising following the move to self-financing, DCLG have agreed a 5 year transition period from 2012/13 to 2016/17. This will continue to allow authorities discretion to reverse out the effect of revaluation losses and impairments in respect of council dwellings	Steps are being taken to explore ways to mitigate the potential impact, including: • Changing the basis for valuing council dwellings • Reviewing the basis on which depreciation charges are determined • Reviewing the classification and basis for depreciating other HRA assets
Heritage Assets	Heritage assets are assets whose principal purpose is to contribute to knowledge and culture and which are preserved in trust for future generations because of their artistic, cultural, environmental, historical, scientific or technological associations. In 2011/12, there was insufficient reliable information to recognise them on balance sheet. In 2012/13, a relevant and appropriate method of valuation has been identified. As a consequence, heritage assets with an approximate value of £4.7m will be brought on balance sheet.	Heritage assets will be recognised in the 2012/13 accounts

4 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012/13 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation, and
- Non Distributed Costs – the pension cost of past service and any depreciation and impairment losses chargeable on surplus assets in Property, Plant and Equipment and Assets Held for Sale.

Corporate and Democratic Core and Non Distributed costs are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

In 2012/13, the Council has undertaken a comprehensive review of the basis for charging out overheads and support services. The net cost of service for 2012/13 is fully reflective of the new approach.

15 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding Non Current Assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible Non Current Assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. This is known as the minimum revenue provision and the policy is detailed below. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the revenue provision in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

Following the introduction of self-financing, with effect from 2012/13, depreciation, revaluation and impairment losses represent a "real" charge to the HRA to be met by rent payers. However, the Council has *taken advantage of the transitional protection offered to housing authorities over a five year period to 2016/17, to reverse out impairment and revaluation losses relating to council dwellings and to cap the amount of depreciation charged on council dwellings at the notional Major Repairs Allowance included within the HRA Business Plan for that year.*

21 Heritage Assets

Heritage assets are assets whose principal purpose is to contribute to knowledge and culture and which are preserved in trust for future generations because of their artistic, cultural, environmental, historical, scientific or technological associations. *They are recognised on balance sheet at cost or value. Where they are carried at value, the most appropriate and relevant valuation method is used including, for example, insurance values. Revaluations are carried out as and when necessary in order to keep carrying values current (there is no requirement for them to be revalued at least every 5 years).*

Operational heritage assets (i.e. those that, in addition to being held for their heritage characteristics, are used for other activities or services) are accounted for as operational assets.

Depreciation is not provided on heritage assets where they have indefinite lives.

Revaluation gains and losses and impairments of heritage assets are accounted for in exactly the same way as for Property, Plant and Equipment.