APPROVAL OF THE 2008/09 STATEMENT OF ACCOUNTS and PENSION FUND ANNUAL REPORT

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REASON FOR REPORT

The report presents the 2008/09 Statement of Accounts for approval by the Audit Committee as required by the Accounts and Audit Regulations 2003. It sets out the requirement for members to approve the Statement of Accounts and provides an update on the key technical changes, improvements within the accounting function and the key issues raised in the Council's accounts for 2008/09. In addition, it asks for approval of the annual report of the Pension Fund.

RECOMMENDATIONS

That Committee approves the Statement of Accounts for the financial year ended 31 March 2009 and the Annual Report for the pension fund for the financial year ended 31 March 2009.

INFORMATION

Requirement for Approval

The Director of Finance & Resources is responsible for the preparation of the Council's Statement of Accounts that present fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2009. The 2008/09 accounts were released by the Director of Finance & Resources for approval by the Audit Committee on 18 June 2009.

By formally approving the accounts the Audit Committee is demonstrating their ownership of the accounting statements and their confidence in the process by which the accounting records are maintained and the statements prepared.

Audit Committee, under its terms of reference, have been tasked to review, challenge and approve the annual Statement of Accounts. By undertaking this role effectively the Committee provides evidence of Hillingdon performing well under the 'Preparation of Accounts' section in KLOE 1.3 of the Use of Resources assessment.

The draft Statement of Accounts for 2008/09 is attached to this report. The accounts take the form as prescribed in the Statement of Recommended Practice for local authority accounting.

Although the pension fund accounts form part of the Council's main accounting statements, the pension fund is subject to a separate audit, for the first time, this year. That audit will also cover the Annual Report and hence it is being brought to Audit Committee for approval.

Improvements in Accounts Production Process

In October 2008 the corporate accountancy and financial planning teams were combined into a single corporate finance team. This allowed the financial reporting, budget production, budget monitoring and capital accounting functions to be aligned. The bringing together of these staffing resources has allowed a greater depth of knowledge and experience to be developed across these functions, resulting in improved control and more rigorous validation. As a result the team were much better placed, at the start of the process, to prepare this year's accounts compared to the previous two years when interim arrangements were in place.

Improvements to processes started last year have been built on over the last few months improving communication among group accountants and developing more robust arrangements to collate the accounts and the associated working papers. As a result of this better planning and pre-work the accounts were produced in a more timely way than has been possible in any previous year. This has meant that more time has been spent at the end of the process proof reading the accounts and getting the presentation right. It has also meant that the accounts have not gone out as a late report to Committee as was the case in the two previous years.

Technical Changes to the accounts

2008/09 is the penultimate year before adoption of International Financial Reporting Standards and consequently, following significant changes last year, SORP changes have been kept to a minimum.

The most significant impact on this year's accounts is a result of SORP 2007/08 changes regarding Fixed Asset revaluations and impairments. Before then these were posted to the Fixed Asset Reserve Account with nil impact on the Income and Expenditure Account. Since then, revaluation gains are posted to a Revaluation Reserve and can be reversed at a future date if the asset is later impaired due to movement in market prices. Unfortunately, 1st April 2007 was declared 'Year Zero' due to the difficulties authorities would have in establishing proper historic costs of their assets, and the carrying value at this date set as 'historic cost'. Hence there has been only one year of revaluation gains before the significant impairments of this year. Any impairment above the previous gain held against a particular asset in the Revaluation Reserve is required to be charged to the Income and Expenditure Account (most of which will be reversed out in future years assuming prices recover, thus creating artificial 'profits' in those years). These transactions are all reversed out via the 'Statement of Movements in the General Fund Balance' by statute so as not to impact on the council tax payer.

Further guidance was provided by CIPFA (LAAP Bulletin 82) with regard to the treatment of impairment of Financial Instruments following the Icelandic Banks collapse. Although any such impairment has to be posted to the accounts under UK GAAP, statutory regulation was invoked allowing reversal of this up to 2010/11. Accounting for this is a technically complex procedure based on Net Present Value of predicted cash flows up to the date when the relevant bank's books are finally closed, but also including future years interest included in the original impairment but then credited back. The result of this is that a projected impairment of £3.25m appears in the accounts for 2008/09 as £4.95m, but the impact will be £3.25m overall assuming current creditor estimates prevail.

Valuation of Pension Fund Assets has now changed from one based on 'market' price to 'bid' price, this has necessitated a small restatement to the 2007/08 balance sheet. There are a number of additional disclosure notes around FRS17 and pension assets.

Minimum Revenue Provision Policy: The Council has adopted additional freedoms afforded under Capital Regulations 2008 with regard to the duty to make prudent provision for the repayment of debt. The main impact has been to exclude capital spent to date on assets under construction from the Capital Financing Reserve calculation upon which MRP is based (MRP holiday). However the Council still satisfied the requirement for prudent provision (including actual repayment of £24.9m of debt).

Key Movements in the Accounts

The deficit shown on the Income and Expenditure Account has moved from £13.2m in 2007/08 to £68.0m this year. In terms of performance, despite appearances, this is very similar to last year but includes an additional £57m (£52m Fixed Assets and £4.9m Icelandic Banks) of impairments as described above.

There was a movement of £107.4m on the pension fund deficit due to the low value of equities at the date of valuation at 31 March 2009. This resulted from the chaos in equity markets and in the financial system in general over the last year

The outstanding debtors figure has reduced from £61.7m to £41.7m. This is due to substantial write-offs of historic NNDR debt and the existence of a capital debtor of £12.9m in 2007/08 in respect of the second payment for the Hayes stadium receipt.

The outstanding creditors figure has increased from £92.4m to £111.6m attributable to £22m due to the National Pool for NNDR payments associated with Terminal 5.

The HRA Income & Expenditure Accounts showed a £5.7m surplus in 2007/08 transformed to a deficit of £41.5m this year. Again, this is due to impairments of council dwellings with the impact as described above.

Audit of the Accounts and Public Inspection

The audit of the accounts by Hillingdon's external auditor, Deloitte, is due to start at the beginning of July and will be completed during the summer of 2009. The deadline for publishing the audited accounts is 30 September 2009 and the auditor's findings are due to be reported to Audit Committee in September 2009.

The report will include any changes that are made to the accounts between approval and the final published audited version that are deemed to be 'non-trifling'; that is adjustments of £120k or more. It will also highlight any control issues found and provides an opinion of on the Council's value for money.

The statutory inspection period for the 2008/09 accounts will be 6 July to 31 July 2009, with the Appointed Day for any questions to be raised with the external Auditor set at Monday 3 August 2009. There were no questions raised in 2007/08.

Committee Action

Committee is requested to approve the 2008/09 Statement of Accounts after which the Chairman is asked to sign and date the Statement of Accounts to formally complete the Council's approval of the accounts.