

Audited Financial Statements 2010/2011

Audit Committee

17 November 2011

Purpose of Report

- 1 To refer the Council's audited financial statements for the 2010/11 financial year to the Audit Committee.

Main Report

- 2 On 27 October 2011, the Council considered the attached report by the Acting Director of Finance on the Council's audited financial statements for the 2010/11 financial year. The Council had received an unqualified audit certificate in respect of the financial year.
- 3 The Council:
 - a) noted the audited financial statements of the Council for the 2010/11 financial year;
 - b) noted that there were no qualifications to the 2010/11 financial statements;
 - c) noted that the auditor's report for 2010/11 would be submitted to a future meeting of the Council;
 - d) approved a reduction of £1.964m in the amount set aside in the Spend to Save Fund; and
 - e) **referred the audited financial statements to a future meeting of the Audit Committee to consider in conjunction with the Auditor's report.**

Recommendation

- 4 That the Audit Committee considers the attached report in conjunction with the Auditor's annual report.

Carol Campbell
Acting Head of Legal and Administrative Services

Appendices	Report no CEC/53/11-12/F by the Acting Director of Finance
Contact/tel	Alison Henry ☎ 0131 469 3172 ✉ alison.henry@edinburgh.gov.uk
Wards affected	City wide
Background Papers	Minute of the Council of 27 October 2011

Audited Financial Statements 2010/2011

The City of Edinburgh Council

27 October 2011

1 Purpose of report

- 1.1 To present the audited financial statements for the 2010/11 financial year for Council's consideration.

2 Summary

- 2.1 Audit Scotland, the Council's External Auditors, concluded the audit and issued an audit certificate on 30 September 2011. There are no qualifications to the audit certificate on pages 151 and 152 of the financial statements.
- 2.2 The Auditor's annual report to the Council is being prepared and will be submitted to a future meeting of the Council. In accordance with the Local Authority Accounts (Scotland) Regulations 1985, these audited financial statements are now submitted for noting.

3 Main report

Changes to Financial Statements impacting on General Fund Surplus

- 3.1 The audit process identified a number of changes, which as in previous years, have been incorporated into the audited financial statements. Members will note that the financial value of these changes is greater than in previous years, mainly as a consequence of consideration of proper accounting treatment of tram expenditure, taking account of the financial implications of the agreement reached with the contractor on the revised route and costs. The changes are summarised below. A reconciliation of the unaudited and audited comprehensive income and expenditure statement and the General Fund revised outturn position can be seen in Appendix 1.

Trams

- 3.2 Following mediation on the tram project in March 2011, the Council and the contractor agreed Heads of Terms on a settlement for the tram project that would see a curtailed route to York Place and a settlement of all disputed matters between the Council and the contractor.

- 3.3 In the intervening months, throughout the summer, the Council has worked with the contractor to take the outline Heads of Terms and agree a revised contractual framework based on the new scope and cost.
- 3.4 As the increase in the cost of the tram project has partly resulted from disputed items prior to 31 March 2011, it has been appropriate to recognise this change in the 2010-11 financial statements. It should be noted, however, that these additional costs are included in the overall revised funding level of £776m approved by Council in September 2011.
- 3.5 The changes relating to the tram project are detailed in Appendix 1.
- 3.6 In addition, impairments (reduction in the value of assets) of £8.668m were applied against capital expenditure, including £3.306m incurred in 2010-11 and £5.362m incurred in previous years relating to works on the York Place to Newhaven section. Expenditure on the tram project has been classified as infrastructure assets, within property, plant and equipment. Infrastructure assets are impaired when no immediate service potential is expected from their use. Under accounting practices, this impairment had no impact on the General Fund surplus.
- 3.7 A further adjustment was made to the audited accounts for costs relating to the mediation process. This resulted in a net additional revenue cost of £0.187m.

Other Changes

- 3.8 Under International Accounting Standard 19 Employee Benefits, termination benefits have to be recognised when an authority has demonstrably committed to terminate the employment of a group of employees before the normal retirement date. The 2010-11 financial statements have been adjusted to take account of £1.232m of payments in relation to BlindCraft, which were payable in April 2011, but under IAS19 should be accounted for in the previous financial year.
- 3.9 Members are asked to note that this is a timing issue, as the costs would otherwise have been included in the current financial year's outturn.
- 3.10 Bad debts and other provisions – a review of bad debt and other provisions resulted in an additional net charge of £0.266m. Of this, a charge of £0.5m related to amounts on statutory notices that have yet to be billed. This was partially offset by a reduction in the bad debt provision for Council Tax of £0.152m and a reduction in other provisions of £0.082m.
- 3.11 Creditors – the review of creditors identified a net £0.433m overprovision. Of this £0.402m related to income from the Department of Works and Pensions for Housing Benefits.

3.12 The total impact of these changes on the outturn surplus achieved in 2010/11 was a reduction of £1.964m to £2.73m, as shown in the table below:

	£000	£000
Unaudited revenue surplus reported to Finance and Resources Committee (August 2011)		(4,694)
Adjustments included in Audited Financial Statements:		
- BlindCraft (IAS19 adjustments) (to be reversed in 2011/12)	1,232	
- Trams	899	
- Bad Debt and Other Provisions – statutory repairs	500	
- Bad Debt and Other Provisions – other provisions	(234)	
- Creditors review	(433)	
Total adjustments	<u>1,964</u>	<u>1,964</u>
Audited surplus		<u>(2,730)</u>

3.13 Members will recall that the unaudited surplus reported was £4.694m and that this was set aside in the Spend to Save Fund (£2.251m) and a contingency fund for priority outcomes (£2.443m). Members are asked to approve that the reduction be met by transferring monies back from the Spend to Save Fund but note that this may be offset in part in 2011/12 when the BlindCraft adjustment is reversed, subject to the Council's overall outturn position.

Audit Opinion

3.14 The Auditor's opinion can be seen on pages 151 and 152 of the financial statements (Appendix 2 to this report). There are no qualifications to the audit certificate.

3.15 The audit opinion includes an 'explanatory' paragraph regarding the Council's duties under section 10 of the Local Government in Scotland Act 2003 to conduct each of the significant trading operations so that income is not less than expenditure over each rolling three-year period. The under-noted significant trading operations failed to comply with this statutory requirement.

- Direct Cleaning (*)
- BlindCraft
- Catering Services – School and Welfare Catering (*)
- Catering Services – Other Catering
- Refuse Collection (including Trade Waste)

Note: those marked (*) failed to comply with the statutory requirement as a direct consequence of costs arising from equal pay settlements.

- 3.16 It should be noted that this paragraph does not represent a qualification to the Council's Financial Statements.

Group Accounts

- 3.17 The group accounts included in the audited financial statements have been re-stated to reflect adjustments to the Council's and other Group members' audited accounts.

4 Financial Implications

- 4.1 As a result of changes identified during the audit, there has been a reduction of £1.964m in the General Fund Surplus reported to the Finance and Resources Committee in August 2011. Members have been asked to approve a reduction in the amount previously set aside in the Spend to Save Fund.
- 4.2 It should be noted that the audited financial statements show that all departments managed, for a second year in a row, to achieve an underspend against budget.

5 Equalities Impact

- 5.1 There is no relationship between the matters described in this report and the public sector general equality duty.
- 5.2 There are no equalities implications arising from this report.

6 Environmental Impact

- 6.1 There are no adverse environmental impacts arising from this report.

7 Conclusions

- 7.1 As in previous years, the audit process has identified a number of changes that have been incorporated into the audited financial statements, although it is recognised that the financial value of these changes is significantly higher than in previous years.

8 Recommendations

- 8.1 Council is requested to:
- a) Note the audited financial statements of the Council for the 2010/11 financial year;
 - b) Note that there are no qualifications to the 2010/11 financial statements;
 - c) Note that the Auditor's report for 2010/11 will be submitted to a future meeting of the Council;
 - d) Approve a reduction of £1.964m in the amount set aside in the Spend to Save Fund; and

- e) Refer the audited financial statements to a future meeting of the Audit Committee to consider in conjunction with the Auditor's report.

Karen Kelly
Acting Director of Finance

Appendices	1 – Tram Adjustments 2 – Outturn Reconciliation 3 – Audited Financial Statements 2010-2011
Contact/tel/Email	Alison Henry 0131 469 3172 alison.henry@edinburgh.gov.uk
Wards affected	All
Single Outcome Agreement	All
Background Papers	Unaudited Financial Statements 2010-2011 Departmental working papers

Tram Adjustments

As noted at paragraph 3.6 in the report, expenditure on the tram project has been classified as infrastructure assets, within property, plant and equipment. Capital expenditure in any year is therefore added to the carrying value shown on the balance sheet.

The revised funding level of £776m approved by Council in September 2011 included settlement for items that had been in dispute. As some of these settlement costs related to activity that had taken place before 31 March 2011, they required to be retrospectively included in the 2010-11 Financial Statements.

The total settlement costs relating to activities prior to 31 March 2011 were £66.739m. An analysis of these costs identified that £0.464m were deemed revenue in nature and would require to be charged directly to revenue. A further £3.010m of costs related to expenditure on Line 1b, which, under accounting regulations, required to be charged to revenue, as Line 1b is no longer progressing. The settlement costs, with the exception of the £0.464m charged directly to revenue, were deemed to be eligible for grant funding and the corresponding adjustments were made to include this in the financial statements.

The table below summarises these adjustments.

	Capital Expend. £000	Capital Income £000	Net Revenue Expend. £000
Increase in cost of tram project resulting from disputed items prior to March 2011	66,739	(60,801)	n/a
Add: Adjustment to grant carried forward	n/a	15,168	n/a
Less: Items identified as revenue expenditure	(464)	n/a	464
Less: expenditure relating to Line 1b	(3,010)	2,762	248
Net Additional charge to General Fund			712
Additional capital expenditure, added to the carrying value of infrastructure assets	63,265		
Additional capital grant recognised in the Comprehensive Income and Expenditure Statement		(42,871)	

Reconciliation of Unaudited and Audited Comprehensive Income and Expenditure Statement and General Fund Revised Outturn Position:

	£000	£000
Surplus on Provision of Services per Unaudited Financial Statements		-205,777
Surplus on Provision of Services per Audited Financial Statements		<u>-238,186</u>
Difference		<u><u>-32,409</u></u>

Items that are reversed through the Movement in Reserves Statement and therefore do not impact on the General Fund Surplus

Additional capital grant, as a result of providing for costs agreed as part of the mediation process	-42,871	
Impairment costs relating to the Newhaven to St Andrew Square element of the tram project	8,668	
Accounting adjustment for donated assets (stock from NHS)	<u>-170</u>	-34,373

Items that impact on the General Fund Surplus

Review of bad debt and other provisions:		
Statutory Notices	500	
Council Tax	-152	
Other miscellaneous provisions	-82	
Review of creditors		
Net decrease	-433	
Requirement under Code to provide for redundancy and other costs for BlindCraft	1,232	
Tram mediation costs, net of grant funding	187	
Revenue costs arising from the provision for costs agreed as part of the mediation process	712	
		<u>1,964</u>
		<u><u>-32,409</u></u>

Reconciliation of Movement in General Fund Balance

	Unallocated Balance £000	Earmarked Balances £000	Total £000
Balance as at 31 March 2011 (per unaudited accounts)	-13,025	-78,573	-91,598
Adjusting items, per above	<u>0</u>	<u>1,964</u>	<u>1,964</u>
Revised balance as at 31 March 2011	<u><u>-13,025</u></u>	<u><u>-76,609</u></u>	<u><u>-89,634</u></u>