



ESPO MANAGEMENT COMMITTEE – 29 SEPTEMBER 2011

AGENDA ITEM 5.

JOINT REPORT OF THE INTERIM DIRECTOR AND TREASURER

STATEMENT OF ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT 2010/11

PURPOSE OF REPORT

1. The purpose of the report is to present the Statement of Accounts (attached as Appendix 1) and Annual Governance Statement (as Appendix 2) for the financial year 2010/11.

BACKGROUND

2. The Accounts and Audit regulations were amended in March 2011 to require all authorities to formally approve their accounts by the end of September following the end of the financial year. In the past, the requirement was for the accounts to be formally approved by the end of June.
3. The change has been introduced to align the approval process more closely with the procedures applying elsewhere in the public and private sectors. It will mean that members are now being asked to formally approve the accounts after, rather than before, the findings of the audit are known.
4. The accounts are required to be published by 30 September with the auditor's opinion as required by the Accounts and Audit regulations
5. The Statement of Accounts for 2010/11 is prepared under the IFRS based Code of Practice on Local Authority Accounting for the first time. This is part of a wider public sector move to international accounting standards. The NHS and Central Government adopted IFRS in 2009/10. Local authority accounts were previously prepared in accordance with UK accounting standards and the Statement of Recommended Practice (SORP).

6. Under the IFRS based Code of Practice, the Annual Governance Statement for 2010/11 is no longer considered integral to the Statement of Accounts and is now presented separately to the Management Committee for approval.

FORM OF ACCOUNTS

7. The Statement of Accounts mirrors the results presented at this meeting in June 2011 and reflects changes following the PwC audit for approval and resigning by the ESPO Management Committee Chairman. The accounts are in the format required by the Regulations and the Code of Practice on Local Authority Accounts.
8. The Statement of Accounts is accompanied by the Annual Governance Statement signed by the Interim Director for approval at this Management Committee meeting and for signing by the Chairman of the Management Committee. This statement sets out the purpose of the system of internal control, how it operates in ESPO and how its effectiveness has been reviewed.

REVISED FORMAT OF ACCOUNTS - IFRS

9. Committee are reminded that on first time adoption, IFRS requires the previous SORP based 2008/9 balance sheet and 2009/10 Statement of Accounts to be restated on an IFRS basis to provide comparative figures. As a result the balance sheet and associated notes exceptionally show 3 years accounts for 2010/11.

The main changes for the ESPO are:

10. A new presentation for the Primary Statements – summarised below:

IFRS	Contains	SORP Equivalent
Movement in Reserves Statement (MIRS)	Shows all movements in usable and unusable reserves. Key statement showing movement of the General Fund for the year.	Statement of Movement on the General Fund Balance (SMGCFB)
Comprehensive Income & Expenditure Statement (CIES)	Shows the Surplus/Deficit on the provision of services. Combines the SORP I&E and STRGL.	Income and Expenditure Account (I&E) Statement of Total Gains and Losses (STRGL)
Balance Sheet	Shows the total assets and liabilities of the ESPO. Presentational changes to the SORP including new headings	Balance Sheet

Cash Flow Statement	Shows the cash flows in/out of ESPO – presentational changes to the SORP	Cash Flow Statement
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11. Property, Plant and Equipment (PPE) – this is the new IFRS name for fixed assets on the balance sheet.
12. Leases – there is a stricter definition of what constitutes an operating lease as opposed to a finance lease. The previous tests have been replaced with a combination of eight harder tests meaning that some leases previously accounted for as an operating lease are now reclassified as a finance lease. Finance leases are required to be recognised as an asset on ESPO's balance sheet matched by a liability to pay the lease payments. The asset is then subject to regular valuations, depreciation and capital financing, although statutory regulations have been implemented to reverse out any financial effect.
13. Employee Benefits – IFRS requires the cost of annual leave not taken by the year end to be accrued as a liability on the balance sheet. This affects all employees. A detailed calculation approach was undertaken for 2008/9 and 2009/10 whilst an averaging basis was adopted for 2010/11. As part of the IFRS changes, ESPO has implemented a consistent annual leave year for all employees across the organisation to coincide with the financial year. The reversal is held in the bottom half of the balance sheet under Unusable Reserves.
14. Cash and Cash equivalents – IFRS has extended the definition of cash on the balance sheet to also include short term highly liquid investments that are readily convertible to known amounts of cash. Using the CIPFA guidance short term deposits of less than 3 months have been reclassified as cash equivalents on the balance sheet.
15. Notes to the Accounts – IFRS requires a greater level of supporting notes to assist the readers of the accounts compared with the SORP. Significant new notes include extended balance sheet disclosures for creditors and debtors, assumptions made about the future in terms of estimates in the accounts and estimates of the impact of accounting standards that have been issued but not yet adopted. The accounts have therefore increased in size by approximately 100%.
16. The Explanatory Forward to the Statement of Accounts and the Glossary at the end explain the purposes of the primary statements.

RECOMMENDATION

17. The Committee is asked to approve the Statement of Accounts and Annual Governance Statement for 2010/11.

EQUAL OPPORTUNITIES IMPLICATIONS

None have been identified.

BACKGROUND PAPERS

Annual Report and Draft Statement of Accounts 2010/11 – Report to ESPO Management Committee, 24 June 2011.

OFFICERS TO CONTACT

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