

## **DRAFT STATEMENT OF ACCOUNTS 2011/12**

**Submitted by:** Head of Finance

**Portfolio:** Finance and Budget Management

**Ward(s) affected:** All

### **Purpose of the Report**

To submit the draft Statement of Accounts 2011/12 for consideration by the Audit and Risk Committee and to gain approval for the financing of capital expenditure. The report highlights the key issues which are contained in these accounts including a commentary on the General Fund outturn, the Collection Fund and the Balance Sheet and to note the position regarding the Council's reserves.

At this stage the Statement of Accounts is in a draft stage and is subject to external audit. Once that audit is completed then the Statement will be submitted to this committee for formal scrutiny and approval.

A copy of the draft Statement of Accounts is attached at Appendix A.

### **Recommendations**

- (a) That the contents of the draft Statement of Accounts for 2011/12 be noted.**
- (b) That the financing of capital expenditure incurred during 2011/12, as set out in Appendix B be approved.**

### **Reasons**

It is a statutory requirement, contained in the Accounts and Audit Regulations 2011 that the Council produces a Statement of Accounts detailing its financial transactions for the year and its position at the year end. It is also a requirement that the financing of capital expenditure incurred in 2011/12 is approved.

## **1. Background**

- 1.1 The Accounts and Audit Regulations 2011 govern the way in which a local authority should present its financial affairs. These require that a local authority must produce a Statement of Accounts for each financial year detailing its financial transactions for the year and its position at the year end and that this Statement be scrutinised and approved by an appropriate committee, in this case the Audit and Risk Committee, by 30 September. The Statement is produced in a standardised form in line with CIPFA (the Chartered Institute of Public Finance and Accountancy) guidelines.
- 1.2 The Regulations require the draft Statement of Accounts to be certified by the responsible financial officer, who is the Executive Director (Resources and Support Services), as presenting a true and fair view of the Council's financial position by 30 June and this has been done. On presentation to you for approval the final audited version of the Statement will be recertified by him.
- 1.3 The annual statutory audit commenced on 2 July 2012 during which the external auditor is required to ascertain that the accounts present a true and fair view of the financial position of

the Borough Council and to ensure that they have been produced in accordance with all relevant codes of practice. This should allow time for the audit to be concluded and any amendments required to be made and a final version of the Statement of Accounts produced for submission to your committee for scrutiny and approval at the meeting scheduled for 26 September 2012.

- 1.4 Whilst 30 September is the date by which formal approval must be given, it is felt that members will want to receive a report on the outturn position for 2011/12 before then. Accordingly, the draft Statement is being reported to you now, for information, together with a commentary on the main points of interest in the accounts. It should be noted that it is not intended that this meeting should be the forum for the formal scrutiny of the accounts, although if members wish to raise any queries these will, of course, be responded to. The intention is rather to report on the 2011/12 outturn and year end financial position and any ongoing financial implications arising there from.
- 1.5 Elsewhere on your agenda the Annual Governance Statement is being submitted to you for approval. Whilst the Accounts and Audit Regulations 2011 do not require this to be included in the Statement of Accounts, they require it to be published, so it is intended to include it in the published Statement of Accounts, as in previous years.
- 1.6 It is also required that the financing of capital expenditure incurred in the year be approved. Accordingly, Appendix B sets out the expenditure for 2011/12 and the ways in which it has been financed.

## 2. **The General Fund Budget**

- 2.1 The General Fund is the main account of the Council and relates to all of those services which are funded by the Council Tax, Redistributed Business Rates and Formula Grant from the Government.
- 2.2 The budget for the General Fund for 2011/12 was originally set in February 2011 and amounted to a net total of £15,428,700. The eventual outturn for the year was an adverse variance against this figure, of £162,808.

## 3. **The General Fund Outturn**

- 3.1 As mentioned above, the out-turn in respect of the General Fund Revenue Account was £162,808 worse than the original estimate. It was known in advance that 2011/12 would once again be a difficult year for all local authorities financially, owing to the continuation of the economic recession which would particularly have an impact on some income sources, which was indeed the case. A number of areas of income, largely ones that are sensitive to the state of the local and national economy, were particularly affected as shown in the following table:

	<b>Budget</b>	<b>Outturn</b>	<b>Variance</b>
	£000s	£000s	£000s
Local Land Charges	394	154	240
Commercial Properties Rents	322	104	218
Planning Applications Fees	431	292	139
Car Parking Income	1,214	1072	142
Markets Stalls Income	263	190	73

Provision for Income Loss	(200)	-	(200)
Total	2,424	1812	612

Several of these areas were additionally affected by particular circumstances relating to 2011/12. Some Lancaster Buildings units remain unlet, following the completion of the refurbishment works, now completed, and the continuation of the extensive repair works at the Midway car park into the early part of 2011/12 will have had an effect on income.

Part of the shortfall in relation to income has been covered by the provision included in the budget for income loss of £200,000 (included in the table above). Otherwise the adverse variances have been met largely by favourable variances on other budget heads, summarised in the table below.

Item	Saving or additional income
	£000s
Employee Expenses, e.g. vacant posts	133
Litter Enforcement fines - additional income	22
Additional Grants and Contributions	73
Emergency Planning Costs	21
Watercourses expenditure	45
Homelessness expenditure	54
Community Recreation Service	36
Planning Appeals provision contribution not required	25
Equipment Repairs Fund contributions not required	22
Members Allowances	22
Elections	21
Total	474

The outturn reflects the monitoring statements provided to members throughout the year.

- 3.2 An amount of £162,808 has been transferred from the Budget Support Fund to cover the negative variance.
- 3.3 As can be seen in Note 22 to the Accounts, the balance on the Budget Support Fund now stands at £0.624m, a reduction of £0.469m from the 1 April 2011 balance. This movement comprises:
- £0.368m transferred from the Fund to support the 2011/12 budget, in accordance with the budget setting resolution of February 2011;
  - £0.163m transferred from the Fund to make good the negative variance;
  - net transfers of £0.062m into the Fund in respect of budget underspendings carried forward from one year to another.
- 3.4 £179,000 is to be used from the Budget Support Fund to support the 2012/13 Budget which was approved on 22 February 2012.

- 3.5 Experience to date in the current year is that income continues to be depressed and that the levels allowed for in the 2012/13 budget may not be achieved. Until the country emerges from the recession this is likely to be an ongoing situation. The regular budget monitoring reports provided by the Cabinet Portfolio Holder for Resources and Efficiency will keep Members updated as the year proceeds.
- 3.6 The Council's investment with Heritable Bank, of £2,500,000, together with interest due up to that date of £9,192, was frozen in 2008/09 as a result of the bank being placed into administration. Following this the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a recommendation to councils with such frozen investments that they should make provision for the amount deemed to be at risk, based on a possible timetable, spanning four years, for repayment of a specified proportion of the investment (originally 80%, later revised to 85%). Applying this calculation gave an amount of £795,202 in respect of the Council's investment, including notional interest payable on the frozen funds over the period. Provision for this amount was made in the 2008/09 accounts, by way of an impairment charge. Since then a total of £1,702,904 has been repaid to the Council up to 31 March 2012 plus a further £95,089 in April 2012. The actual experience of repayments and the predictions of the amount that will be repaid made by the bank's administrator have been more favourable than the original assumptions made in the CIPFA recommended method for calculating the impairment amount. Consequently, the recommended method has been revised several times, enabling the amount of impairment charged to be reduced, resulting in a credit to the revenue account. There was only a small change to be made in respect of the revised calculation as at 31 March 2012.
- 3.7 The Statement of Accounts includes (at Note 43) the accounts of the North Staffordshire Building Control Partnership, the vehicle through which this Council delivers the Building Control service. Overall the Partnership made a small surplus of £11,585 in respect of fee earning activities, which is in line with the requirement contained in the Building Control Regulations that a break-even position should be achieved over a number of years.

#### **4. The General Fund as shown in the Statement of Accounts**

- 4.1 The transactions of the General Fund are shown in the Statement of Accounts in the Comprehensive Income and Expenditure Statement (CI&ES) and the Movement in Reserves Statement. Further detail of the reserves movements is given in notes 7, 8 and 23. In effect, the CI&ES contains all of the expenditure and income of the General Fund whilst the Movement in Reserves Statement shows the transfers from reserves which have taken place to arrive at the final balance for the year. The Movement in Reserves Statement also shows, at its foot, the final year-end balances on the different classes of reserve. As can be seen, the General Fund Balance has changed from its opening balance of £1.750m to £1.400m at 31 March 2012. The reduction in the minimum balance was approved by Full Council on 22 February 2012. It represents the minimum balance required, calculated by means of a risk based assessment, to safeguard against foreseeable variations in relation to the General Fund Revenue Budget.
- 4.2 The CI&ES shows a deficit of £12.616m for the year. At first sight this may seem strange but it should be remembered that this is the balance before transfers to and from reserves are taken into account, via the Movement in Reserves Statement. All of this balance has been reversed out by net transfers to reserves as shown in the Movement in Reserves Statement. These transfers are either to meet the cost of expenditure contained in the Cost of Services, to meet the deficit of £0.163m or to reverse out various charges representing proper accounting practice which have been made, as required by the CIPFA Accounting Code of Practice, but which are to be removed from the final total as such charges are, by law, not to be met by Council Tax Payers. Examples of these are various capital charges (such as in relation to depreciation of assets or where an asset has been revalued downwards) and

pensions fund transactions. There are a number of notes set out beneath the CI&ES, which explain, in relation to some items contained in the account, why their amounts differ significantly from 2010/11 to 2011/12.

- 4.3 In addition the CI&ES includes the surplus or deficit on revaluation of fixed assets and actuarial gains or losses on pensions assets and liabilities. Both of these items are subject to significant volatility, as can be seen from the pensions amount changing from a negative value of £9.610m in 2010/11 to a positive value of £7.711m in 2011/12. This is largely due to the Pensions Fund actuary adjusting his calculations to take account of changes to pension increases announced in the Chancellor's budget statement, which resulted in a large negative amount being credited, as a one-off item, to the General Fund Revenue Account in 2010/11. All of the balance of £12.616m has been reversed out by net transfers from reserves as shown in the Movement in Reserves Statement.
- 4.4 Notes 9, 10 and 11 provide a breakdown of the Other Operating Expenditure, Financing and Investment Income and Expenditure and Taxation and Non-specific Grant Income, respectively, which appear in the bottom half of the CI&ES.

## 5. **The Collection Fund**

- 5.1 The Collection Fund is a separate account which contains the financial details which refer to the collection of Council Tax, Business Rates and the former Community Charge. The purpose of this account is to illustrate how much of the above income has been collected and to see how this compares to the amounts of the levies that have been made for the Borough Council, the County Council, the Police Authority and the Fire Authority.
- 5.2 This is a somewhat technical account but the key issue is to see if the account is in surplus or deficit and to what extent. In collecting income the Borough Council has to make an assessment of how much will ultimately be collected. The Collection Fund had an accumulated deficit of £0.259m as at 31 March 2012. This will be recovered from the precepting authorities (Newcastle BC, Staffs CC, Police Auth, Fire Auth) and will be used in calculating how much Council Tax will be levied in 2013/14.
- 5.3 As can be seen the Fund achieved a deficit of £0.386m for the year, compared to a surplus of £0.414m in 2010/11. This was mainly due to changes to the discount regime introduced in 2011/12, affecting the amounts payable by taxpayers, a number of retrospective adjustments being made to the amounts due to be paid by taxpayers, some temporary reduction in recovery activity as a consequence of the bedding in of the new revenues ICT system and a small increase in the amount set aside for possible bad debts.

## 6. **The Balance Sheet**

- 6.1 The main features of the Balance Sheet are as follows:
- There are Net Tangible Fixed Assets of £62.015m which consist of Plant, Property and Equipment, Investment Properties, Heritage Assets and Assets Held for Sale. Notes 12, 13 and 14 to the Statement of Accounts show an analysis of the first three classes of asset, together with a summary of movements during 2011/12. The main reasons for the increase in the fixed assets balance compared to the 31 March 2011 value are the construction of the Jubilee 2 project and the acquisition of the Ryecroft site. The assets held for sale at 31 March 2011 have now been disposed of, the main item being the "Blue Planet" site at Ravensdale.
  - Investments (long and short term) amounted to £10.996m and have reduced by £7.577m compared to 31 March 2011. In particular, this reflects the use of capital

receipts to finance projects in the capital programme (£6.543m). Owing to the current situation in the financial markets, the emphasis is now on short term investments as a means of reducing the risk of exposure to default by organisations with whom money has been placed, so all of the Council's current investments are short term (£10.851m). The amount of £0.145m shown in the Balance Sheet as long term relates to an element of the Heritable Bank investment which, according to the CIPFA Accounting Code has to be classified as long term.

- The amount owed to the Council by its short term debtors (after a deduction for the estimated amount which might be at risk of non-payment) is £6.975m. Further analysis of this amount is shown in Note 18 to the Statement of Accounts. Short Term Debtors have decreased by £2.448m compared with 31 March 2011. The main reason for this decrease is that in 2010/11 the Council overpaid the Department of Communities and Local Government in respect of the National Non Domestic Rates Pool resulting in an amount due from the department of £3.104m at 31 March 2011, included in debtors, whereas in 2011/12 the department was underpaid, resulting in an amount owing to them at 31 March 2012 of £2.741m, which is included in the short term creditors balance. This happens because payments are made based on an estimate made before the year commences with the final amount due determined after the year end from data in the accounts and the NNDR collection system. The amount underpaid will be paid to the department in 2011/12. Offsetting this, other local authority debtors, largely comprising the precepting authorities' share of the Collection Fund deficit and related balances, increased by £1.361m whilst sundry debtors (comprising many individual accounts) reduced by £0.545m.
- The balance shown as a Long Term Debtor of £2.190m relates to the balance owing to the Council in respect of properties let on finance lease terms (£1.582m), the outstanding loan to Kidsgrove Town Council in respect of works to the Victoria Hall Kidsgrove (£0.203m) and outstanding mortgages (£0.405m). The balance in relation to property leases arises because some of the council's leases are classified as finance leases rather than operating leases. This requires the amount remaining to be paid over the lease term to be shown in this way. The finance lease element has reduced by £0.147m reflecting payments made in 2011/12, whilst the mortgages balance has increased by £0.395m from £0.010m, as a result of the transfer to the Council of the loan portfolio formerly administered by the Kickstart partnership in respect of loans made to home owners in the Borough to enable improvement works to take place.
- The amount the Council owes to its creditors is £8.843m. Further analysis of this amount is shown in Note 21 to the Statement of Accounts. Creditors have reduced by £2.075m compared to 31 March 2011. Amounts owing to central government were little changed, the additional amount owing in relation to the NNDR Pool contribution, referred to earlier in relation to short term debtors, being offset by a decrease of a similar value in the amount owing to the Department of Work and Pensions in respect of housing benefits subsidy overpaid. However, an amount owing to Advantage West Midlands at 31 March 2011 in respect of repayment of grant was paid to them in 2011/12, thereby reducing the creditors balance. Additionally, the amounts owing to sundry creditors for supplies of goods and services and miscellaneous year end accruals reduced by £1.317m.
- Cash at bank and held by collectors, cashiers and as petty cash floats has changed from an in hand position of £0.774m at 31 March 2011 to £0.354m at 31 March 2012. This is mainly as a result of a reduction in the actual year end cash at bank balance of £0.437m, reflecting differing cash flow positions at the respective year-ends.

- The Liability relating to Defined Benefit Pension Schemes increased from £46.698m to £54.591m. This increase is mirrored by an increase in the Pensions Reserve balance. The change mainly arises from the impact of the use of a reduced discount rate to be applied to the value of the Fund's liabilities, taking account of future financial assumptions made by the Fund actuary, coupled with poorer than expected asset returns over the year. These amounts are required to be included in the Council's accounts as a result of the application of International Accounting Standard 19 (IAS19) and the CIPFA Code of Accounting Practice. Neither directly relate to Borough Council transactions - they relate to those of the Staffordshire County Council Pension Fund of which the Council is a member and represent the Council's share of net scheme liabilities (after deduction of the value of scheme assets). Whilst the net liability indicates the Council's long term commitment to pay retirement benefits, statutory arrangements for funding the deficit mean that its financial position remains healthy. Further details relating to the Pension Fund are contained in Note 39 to the Accounts.

## 7. **Reserves**

- 7.1 The Council has usable reserves totalling £16.342m. Note 23 to the Accounts shows a full analysis of all these reserves. The main items, with their balances at 31 March 2012, are:
- Capital Receipts Reserve (£2.420m)
  - Capital Grants Unapplied (£1.321m)
  - Budget Support Fund (£0.624m)
  - Contingency Reserve Fund (£0.108m)
  - Insurance Fund (£0.240m)
  - New Initiatives Fund (£0.125m)
  - ICT Development Fund (£0.732m)
  - Renewal and Repairs Fund (£0.043m)
  - RENEW Reserve (£0.132m)
  - Equipment Replacement Fund (£0.229m)
  - Standards Fund (£0.95m)
  - New Homes Bonus Reserve (£0.264m)
- 7.2 Generally the level of reserves has reduced compared with their opening balances at the beginning of 2011/12.
- 7.3 The Capital Receipts Reserve is fully committed to financing the current capital programme, whilst the majority of the balance on the Capital Grants Unapplied Reserve is either already committed to finance current schemes or is earmarked for future schemes. The ICT Development Fund is also committed to finance new or replacement ICT software and hardware. The LSVT Capital Fund and the Special Projects (Economic Development) Fund (with a combined opening balance £3.052m) have been fully used during 2011/12 to finance capital expenditure incurred during the year.
- 7.4 The balance of the Contingency Reserve remains above its agreed minimum level of £0.100m.
- 7.5 The Budget Support Fund and General Fund Balance are discussed at paragraphs 3.2 to 3.4 above and 4.1, respectively.
- 7.6 The levels of reserves will be considered as part of the budget preparation process for 2013/14. Some may require "topping up", either from the revenue budget or a transfer from

another reserve. In particular, the Renewals and Repairs and Insurance Funds need to be reviewed to ensure that they are adequate.

7.7 Unusable Reserves total £9.517m These were established as a result of the need to enable various accounting transactions and are not available for use to meet expenditure, either revenue or capital.

8. **List of Appendices**

Appendix A - Statement of Accounts 2011/12 (Draft)

Appendix B - Financing of Capital Expenditure