**APPENDIX A**

**DRAFT STATEMENT OF ACCOUNTS 2010/11**

**Submitted by:** **Head of Finance**

**Portfolio:** **Resources and Efficiency**

**Ward(s) affected:** **All**

**Purpose of the Report**

To submit the draft Statement of Accounts 2010/11 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 2010/11 be noted.**

**b) That the financing of capital expenditure incurred during 2010/11, as set out in Appendix A 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 2010/11 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. The Statement is produced in a standardised form in line with CIPFA (the Chartered Institute of Public Finance and Accountancy) guidelines.

1.2 As reported to you at your meeting on 18 April, the 2011 Regulations no longer require the Statement of Accounts to be approved by 30 June (as was the case for previous statements up and including the one for 2009/10). Instead the Regulations state that approval must be given by 30 September. There were two practical reasons for making this change. The first, specific to 2010/11, was that this would give more time to complete the accounts, having regard to the changes and complexity involved in converting to an International Financial Reporting Standards (IFRS) compliant format (see later paragraphs). The second was that the government felt that it was better to gain approval of the Statement of Accounts once, following its audit by the external auditor. Detailed scrutiny of the statement would take place at that stage. Members would, therefore, know that the Statement was not subject to changes required as a result of audit findings, and could focus their scrutiny on what the information in the Statement showed about the Council's financial position and what this meant for the Council going forward.

1.3 The Regulations require (as previously) 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.

1.4 The annual statutory audit commenced on 4 July 2011 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 ample 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 2011.

1.5 Although it is no longer necessary to gain approval of the statement of accounts until September, it is felt that members will want to receive a report on the outturn position for 2010/11 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 2010/11 outturn and year end financial position and any ongoing financial implications arising there from.

1.6 From previous reports that you have received, you will be aware that the 2010/11 Statement of Accounts will be the first to be prepared in an IFRS compliant format. This means that there are numerous changes to the layout and contents compared to the previous Statement. The primary statements are now the Statement of Movement in Reserves, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement. Because the adoption of IFRS has required many changes in accounting practices and to the format and contents of the Statement of Accounts, the comparative figures for the previous accounting period, 2009/10 and balances as at 31 March 2010, have been restated to conform to IFRS. This means that some figures and the Statements and Notes which contain them are not directly comparable to those shown in the published 2009/10 Statement of Accounts.

1.7 Training will be provided by the Audit Commission's Audit Manager for Newcastle Borough Council for committee members prior to commencing the main business on your agenda. This is aimed at giving an understanding of the background to the implementation of IFRS and the main changes to the Statement of Accounts.

1.8 Elsewhere on your agenda the Annual Governance Statement is being re-submitted to you for approval. Whilst the Accounts and Audit Regulations 2011 no longer require this to be included in the Statement of Accounts, they require it to be published, so it is intended to continue to include it in the published Statement of Accounts.

1.9 It is also required that the financing of capital expenditure incurred in the year be approved. Accordingly, Appendix B sets out the expenditure for 2010/11 and the ways in which it has been financed.

## 2. <u>The General Fund Budget</u>

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, Business Rates and Formula Grant from the Government.

2.2 The budget for the General Fund for 2010/11 was originally set in February 2010 and amounted to a net total of £17,866,650. The eventual outturn for the year was an adverse variance against this figure, of £87,019.

## 3. <u>The General Fund Outturn</u>

3.1 As mentioned above, the out-turn in respect of the General Fund Revenue Account was £87,019 worse than the original estimate. As a proportion of the budget the deficit represents a little under 0.5%. It was known in advance that 2010/11 would once again be a difficult year for the Council financially, owing to the continuation of the economic recession which would particularly have an impact on some of its income sources. This 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:

| | **Budget** | **Outturn** | **Variance** |
|---|---|---|---|
| | £000s | £000s | £000s |
| Local Land Charges | 388 | 178 | 210 |
| Cremation Fees | 663 | 604 | 59 |
| Lancaster Buildings Rents | 317 | 87 | 230 |
| Planning Applications Fees | 421 | 377 | 44 |
| Car Parking Income | 1,195 | 961 | 234 |
| Markets Stalls Income | 259 | 209 | 50 |
| Total | 3,243 | 2,416 | 827 |

Several of these areas were additionally affected by particular circumstances relating to 2010/11. Bereavement Services income was depressed owing to closure of the crematorium whilst replacement of cremators took place, Lancaster Buildings was disrupted by refurbishment works, now completed, and the extensive repair works at the Midway car park will have had an effect on income.

Part of this shortfall has been covered by the provision included in the budget for income loss of £200,000 and otherwise largely by favourable variances on other budget heads.

The outturn reflects the monitoring statements provided to members throughout the year, which from period 7 (October) onwards indicated a negative variance of between £30,000 and £51,000.

3.2 An amount of £87,019 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 £1.093m, a reduction of £0.535m from the 1 April 2010 balance. This movement comprises:

- £0.468m transferred from the Fund to support the 2010/11 budget, in accordance with the budget setting resolution of February 2010;
- £0.087m transferred from the Fund to make good the negative variance;
- net transfers of £0.020m into the Fund in respect of budget underspendings carried forward from one year to another.

3.4 £368,000 is to be used from the Budget Support Fund to support the 2011/12 Budget which was approved on 23 February 2011.

3.5 Experience to date in the current year is that income continues to be depressed and that the levels allowed for in the 2011/12 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 report you received in relation to the 2008/09 accounts referred to the Council's frozen investment with Heritable Bank. At that time the amount frozen was £2,509,192, comprising £2,500,000 capital and £9,192 interest accrued from the date of deposit to the date the bank went into administration. CIPFA issued a recommendation to Councils with frozen investments in Heritable that they should make provision for the amount deemed to be at risk, based on a possible timetable (five payments between July 2009 and July 2013) for repayment of 80 per cent of the frozen funds and non-payment of the remaining 20 per cent. CIPFA also supplied a model to be used to calculate the amount to be provided for, which includes notional interest payable on the frozen funds over the four year period (which is in fact unlikely to be paid). Applying this calculation gave an amount of £795,202 in respect of the Council's investment. Provision was made for this amount in the 2008/09 accounts by way of an impairment charge. The actual experience of repayments made by the Administrator during 2009/10 was better than anticipated by them and in the original CIPFA model. In fact almost 35 per cent of the frozen amount had been repaid as at 31 March 2010. As a result CIPFA issued a revised model, allowing for a further 50 per cent to be repaid, to be used to calculate the amount of the impairment provision, taking account of the improved position. The resultant recalculation allowed the impairment provision to be reduced by £155,085 in 2009/10. CIPFA have issued a further revised impairment calculator to reflect the position at 31 March 2011. This results in the amount of impairment required to be made remaining virtually unchanged (an increase of £1,837) and this adjustment has accordingly been made in the 2010/11 accounts. As at 15 July 2011 £1,514,577 has been received from the Heritable Bank Administrator, which represents 60.4% of the amount frozen.

3.7 The Statement of Accounts includes (at Note 42) the accounts of the North Staffordshire Building Control Partnership, the vehicle through which this Council delivers the Building Control service. Revised Building Control Regulations now permit the publication of jointly delivered services to be published in this way rather than separated out into the elements relating to each individual partner for publication in those partners' Statements. Overall the Partnership made a small surplus of £2,305 in respect of fee earning activities, which complies with the Regulations which require 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 22. 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 not changed from its opening balance of £1.750m. This still 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 surplus of £17.608m 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 £0.087m 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.

4.3 In addition, the position as shown in the CI&ES differs from that shown in the old style Income and Expenditure Account in that it now includes the surplus or deficit on revaluation of fixed assets and actuarial gains or losses on pensions assets and liabilities, which were previously shown in a separate Statement, the Statement of Total Recognised Gains and Losses, which no longer exists under the IFRS regime. Both of these items are subject to significant volatility, as can be seen from the pensions amount changing from a positive value of £27.025m in 2009/10 to a negative sum of £9.610m in 2010/11. 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 result in a large negative amount being credited to the General Fund Revenue Account. All of the balance of (£17,608m) 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 surplus of £126,525 as at 31 March 2011 - this will be deducted from the amounts that will be collected in 2011/12 and will be used in calculating how much Council Tax will be levied in 2012/13.

5.3 As can be seen the Fund achieved a surplus of £414,880 for the year. This was mainly due to the precepting authorities reimbursing the Fund for past deficits, in proportion to the amount of their precept for the year, as they are required to do by the legislation governing the operation of the Collection Fund, the total amount of these payments being £106,105, of which the Borough Council's share was £15,150. This continues the trend towards a surplus situation which became apparent in 2009/10.

## 6. **The Balance Sheet**

6.1 The main features of the Balance Sheet are as follows:

- There are Net Tangible Fixed Assets of £58.086m which consist of Plant, Property and Equipment, Investment Properties and Assets Held for Sale. Notes 12 and 13 to the Statement of Accounts show an analysis of the first two classes of asset, together with a summary of movements during 2010/11. The main reasons for the increase in the fixed assets balance are: the construction of the Jubilee 2 project and to a lesser extent the fitting of an additional replacement cremator and the construction of burial facilities at Audley.

- Investments (long and short term) amounted to £18.573m and have reduced by £6.154m compared to 31 March 2010. In particular, this reflects the use of capital receipts to finance projects in the capital programme (£7.129m). 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 (£18.361m). The amount of £0.212m 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 £9.423m. Further analysis of this amount is shown in Note 17 to the Statement of Accounts. Short Term Debtors have decreased by £1.084m compared with 31 March 2010. The main reason for this decrease is the amount overpaid to the Department of Communities and Local Government in respect of the National Non Domestic Rates Pool, which was £4.337m at 31 March 2009 and is £3.104 at 31 March 2011, a reduction of £1.233m. 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 overpayment will be refunded in 2011/12.

- The balance shown as a Long Term Debtor of £1.971m relates to the balance owing to the Council in respect of properties let on finance lease terms (£1.729m), the outstanding loan to Kidsgrove Town Council in respect of works to the Victoria Hall Kidsgrove (£0.232m) and a small balance relating to Housing Act mortgages. The balance in relation to property leases arises as a result of the implementation of IFRS which has resulted in some of the council's leases being reclassified as finance leases rather than operating leases. This requires part of the amount remaining to be paid over the lease term to be shown in this way.

- The amount the Council owes to its creditors is £10.918m. Further analysis of this amount is shown in Note 20 to the Statement of Accounts. Creditors have increased by £1.786m compared to 31 March 2009. The main reason for this is Housing Benefit Grant from the government in respect of rent allowances, where £2.785m more has been overpaid to the Council, again as a result of payments being based on estimates made before the year commences. This is counterbalanced by a decrease in the balance owing to sundry creditors for supplies of goods and services of £0.750m.

- Cash at bank and held by collectors, cashiers and as petty cash floats has changed from an in hand position of £0.376m at 31 March 2010 to £0.774m at 31 March 2011 . This is mainly as a result of a reduction in the actual year end bank balance shown on the bank statements of some £0.421m, reflecting differing cash flow positions at the respective year-ends.

- The Liability relating to Defined Benefit Pension Schemes decreased from £68.703m to £46.698m. This decrease is mirrored by an decrease in the Pensions Reserve balance. The decrease arises from the changes in actuarial assumptions referred to earlier in paragraph 4.3. 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 38 to the Accounts.

## 7. <u>Reserves</u>

7.1 The Council has usable reserves totalling £16.342m. Note 22 to the Accounts shows a full analysis of all these reserves. The main items, with their balances at 31 March 2011, are:

- Capital Receipts Reserve (£5.985m)
- LSVT (Large Scale Voluntary Transfer - Housing) Fund (£2.269m)
- Special Projects (Economic Development) Fund (£0.883m)
- Capital Grants Unapplied (£1.935m)
- Budget Support Fund (£1.093m)
- Contingency Reserve Fund (£0.114m)
- Insurance Fund (£0.338m)
- New Initiatives Fund (£0.201m)

- ICT Development Fund (£0.800m)
- Renewal and Repairs Fund (£0.096m)
- RENEW Reserve (£0.142m)
- Equipment Replacement Fund (£0.157m)
- Standards Fund (£0.95m)

7.2 Generally the level of reserves has reduced compared with their opening balances at the beginning of 2010/11.

7.3 The first three of the above reserves are 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.

7.4 The Organisational Development and Change Management Funds (with a combined opening balance £0.316m) have been fully used during 2010/11 and the Contingency Reserve balance has reduced from £0.540m to £0.114m. This is largely due to funding redundancy and actuarial strain pensions fund payments in relation to staff leaving the Council's employment as a result of restructurings following the budget service reviews. 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 2012/13. Some may require "topping up", either from the revenue budget or a transfer from another reserve. In particular, the Renewals and Repairs Fund needs to be reviewed to ensure that it is adequate to maintain property assets in a fit state.

7.7 Unusable Reserves total £13.290m. 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. <u>List of Appendices</u>

Appendix A - Statement of Accounts 2010/11 (Draft) **NOT INCLUDED IN THIS APPENDIX**
Appendix B - Financing of Capital Expenditure