

COMMITTEE: AUDIT AND GOVERNANCE

DATE: 22 JUNE 2010

SUBJECT: THE STATEMENT OF ACCOUNTS 2009-10

REPORT BY: HEAD OF CORPORATE FINANCE

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IMPLICATIONS:

LEGAL	✓	COMMUNITY SAFETY
EQUALITIES		ENVIRONMENT
FINANCIAL	✓	CONSULTATIONS
STAFFING		OTHER

WARDS AFFECTED: NONE

PURPOSE

1. A committee of the Council is required to pass a resolution approving the 2009-10 Statement of Accounts, Income and Expenditure Accounts and Balance Sheets attached at Appendix A by 30 June. In accordance with Council minute 50/2006, this non-Executive function is now the duty of the Audit and Governance Committee.

RECOMMENDATION(S)

2. **Audit and Governance Committee is recommended to approve the Council's Statement of Accounts, Income and Expenditure Accounts and Balance Sheets, together with the Annual Governance Statement that is subject to a separate report on this agenda.**

BACKGROUND

3. The Accounts and Audit Regulations 2003 specified very particularly how a local authority's accounts should be prepared and approved.
4. The regulations require that committee (not a sub-committee) of the Council shall pass a resolution approving the Statement of Accounts, Income and Expenditure Account and Balance Sheet before the 30 June immediately following the end of a year. The Council's Constitution specifies that the Audit and Governance committee is the responsible committee for passing this resolution. This is also in accordance with the Local Government Act 2000.
5. It is a requirement of the regulations that following approval by the relevant committee, that the Statement of Accounts shall be signed and dated by the person presiding at the meeting.
6. In accordance with the regulations and in order that the Audit and Governance Committee can have confidence in the accounts that they are being asked to approve, the Head of Corporate Finance in his statutory role as Chief Financial Officer has to sign and date the accounts to certify that he believes the accounts present a true and fair view of the financial position of the Council. This will be done prior to the chair of the meeting signing the accounts.
7. The External Auditors are due to commence their audit of the accounts in week commencing 12 July. Should there be amendments as a result of the audit they will be reported to this committee, but formal re-approval will not be necessary. The timetable set by the regulations does not anticipate the audit being completed prior to the approval of the accounts.
8. The Executive considered the provisional outturn on 7 June 2010. The decisions taken by the Executive concerned the allocation of monies to various reserves. These decisions were in line with the decisions taken by Full Council when approving the 2010-11 budget in February.

REPORT

9. The Statement of Accounts is prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009 – A Statement of Recommended Practice (SORP 2009), published by the Chartered Institute of Public Finance & Accountancy (CIPFA).
10. The SORP requires the accounts to be produced in a format that is consistent with generally accepted accounting practices (UK GAAP). This means that the accounting requirements that have their origin in statute

and non-statutory proper practice are disclosed in accordance with the UK GAAP as reserve movements.

11. The Income and Expenditure Account replaced the Consolidated Revenue Account from the 2006-07 accounts and only includes income and expenditure. The Statement of Movement on General Fund Balance, which shows the amount that would be reported as the surplus or deficit for the year under statute and non-statutory proper practice and immediately follows the Income and Expenditure Account.

The Statement of Accounts, Income and Expenditure Account and Balance Sheet

12. The Statement of Accounts, Income and Expenditure Accounts and Balance Sheets are intended to provide clear information about the authority's finances, in a standardised way, to aid comparison between authorities. They provide information on the cost of services, sources of finance used to fund the services and the assets and liabilities held by the authority at the year-end.
13. The detailed accounts are attached at appendix A and explanatory details follow below. The accounts include the following: -
 - the introduction and the explanatory foreword setting out the background to the financial year.
 - the Statement of Accounting Policies.
 - summarised statements of the Council's Income and Expenditure Account, Movement on the General Fund Balance, Total Recognised Gains and Losses, Balance Sheet and Cash Flow.
 - summarised statements of the supplementary financial statements, the Housing Revenue Account and the Collection Fund.
 - the Council's Group Accounts. If the Council was subject to the Companies Acts, it would be required to consolidate its accounts with that of the Airport Company in order to show the overall results and financial position of the group. This account gives a local authority equivalent for information purposes.
 - the Statement of Responsibilities.
 - the Annual Governance Statement.
 - the Glossary of terms

Interpretation of the Accounts and Key Issues

14. The Statement of Accounts attached at Appendix A give a full disclosure of the financial affairs of the Council. There are a number of statements where it is beneficial to give Members further commentary and highlight key issues.

15. **Introduction & Explanatory Foreword (page 1 to 7)** – with regard to the General Fund, Members will see that the overall deficit on the Income and Expenditure Account for 2009-10 is £43.6 million. This is performance measured in standard accounting terms and does not reflect the actual change in General Fund Balances once local government rules have been applied. Once these rules are applied the accounts show a surplus of £1.2 million. This reflects the planned utilisation of £0.4 million of surplus monies, which were kept in the general fund and not allocated to a specific reserve and an increase of £1.6 million in school balances throughout the Borough.
16. The foreword highlights how the 2009-10 budget was spent, detailing a major increase in school spend, additional investment in demand-driven areas of social care and a number of short term projects including support for Housing services and for advisory services for the local community during the recession. It also highlights excellent budget monitoring and the fact that there were no unexpected overspends.
17. The foreword also sets out the changes in the level of General Fund balances, highlights include a significant contribution to the recession reserve to help the Council deal with the current economic downturn. It also details how increases in the various other reserves may be utilised.
18. **Revenue expenditure and financing 2009-10 (page 8)** – the main points to highlight are that the Council Tax only generates 11% of the income and that employee costs and running costs both account for 45% of expenditure incurred.
19. **Capital expenditure and financing 2009-10 (page 9)** – 53% of capital expenditure is made on investment in schools and other services for children, 11% for Housing (public and private) and 14% for Highways. 55% of the spend is financed by external resources / contributions and 29% is financed by borrowing.
20. **Statement of Accounting Policies (page 10 to 20)** – The only significant changes are to do with the Collection fund and are highlighted in the opening paragraphs.
21. **Income and Expenditure Account (page 21)** – this is the key statement of revenue expenditure for 2009-10. As explained above it is based on UK GAAP requirements. Expenditure is shown as £605 million, with income of £402 million (this includes £136 million for the Dedicated Schools Grant), giving net operating expenditure of £203 million. This was funded by General Government Grants of £28.3 million, redistributed Non-domestic rates of £70.5 and £60.5 million from Council Tax Payers. The

costs of services are shown in the prescribed format and in accordance with Financial Reporting Standard (FRS) 17, which deals with retirement benefits. The Income & Expenditure Account for 2008-09 has been restated to reflect the changes in accounting for income from the Council Tax.

22. **Statement of Movement on the General Fund Balance (page 22 - 23)** – this statement shows how the brought forward balances on the general reserve and schools reserves has been adjusted in the year to reach the carry forward of balances to 2009-10.
23. **Statement of total recognised gains and losses (page 24)** – this statement is prepared in accordance with FRS 3 “Reporting Financial Performance” which requires that all gains and losses should be included in such a statement. It shows the movement on the General Fund Balance and other Balance Sheet movements in 2009-10.
24. **Consolidated Balance Sheet (pages 25 to 26)** – this is the key statement showing the assets and liabilities of the Council. The Balance Sheet for 2008-09 has been restated to reflect the required change in accounting for the Collection Fund. Debtors and Creditors for Non-Domestic Rates (NDR) are now netted with the outstanding balance with government for NDR. The proportion of prepayments and debtors for Council Tax which are attributable to the major preceptors are now shown as a net balance with the preceptor.
25. Property valuations of fixed assets have been made in accordance with guidance issued by the Royal Institution of Chartered Surveyors (RICS) and other assets follow guidance from CIPFA. Members may wish to review the size and value of the Council’s assets and liabilities, and to ask questions to gain assurance that they are being effectively managed. It will be seen that the Council has £307 million worth of operational land and buildings, other than Council Houses, and £62 million worth of investment properties. This emphasises the vital importance of good asset management, to ensure effective and efficient use of the operational assets, and income maximisation from the investment buildings. It can also be seen that the Council had £50 million of debtors at the year-end, emphasising just how important effective debt collection is to the Council’s financial health.
26. External borrowing has increased by just under £9 million following the taking out of some new loans to fund capital expenditure and the repayment of some loans.
27. The pensions liability of £348.5 million is a major long-term liability to the Council. This figure is very volatile. Last year it was £164.6 million, so the

deficit has increased by £183.9 million. This is principally due to the way the liabilities for future pension payments are valued. Firstly the assumptions on life expectancy have been reviewed and increased, so there are more years payments to be made. The major impact, however, results from the change in the rates used to give those future payments a present value. The actuary reports that the 'real' discount rate used (net of inflation) used has more than halved. This is due to a reduction in the corporate bond yield and an increase in the actuary's expectations of future inflation levels (important since local government pension liabilities are linked to inflation). Changes in those assumptions have a huge effect on the accounts. This is because, unlike central government accounts, local government accounts show the full future pension liability not just for those currently being paid a pension, but also for all pension rights accrued to date by those currently employed, for the whole expected lifetimes of all those employees and pensioners.

28. The extent of change shows the impact of the financial assumptions regarding discount rates and pension inflation. Pension liabilities are also dependent on the investment market (at 31 March some 58% of investments within the Pension Fund were in equity investments and the Fund plans to make some investments in other volatile areas such as commodities, so there could be significant variations in asset values, up or down, in years to come), the shape of the pension scheme in future (a new scheme became effective from April 2008), the assumptions made in the next major actuarial valuation, and the number of years over which the deficit can be made good. This makes predicting future costs problematic.
29. Reserves and balances have decreased by £4.8 million to £41.7 million at the year-end. £8.9 million of those reserves are specifically held for use by schools and central expenditure funded from the Dedicated Schools Grant. A number of the General Reserves are also committed for use in 2010-11 or later including the Invest to Save reserve at £2.15 million, the Recession reserve at £2.70 million and the service provision reserve at £3.74 million. The insurance reserve (£4.3 million) is required as part of the Council's self-insurance and is assessed annually as part of the Budget report.
30. **Cash Flow Statement (page 27)** – this is a technical statement, which highlights movements of cash during the year. Cash flow is extremely important to the Council to ensure that sufficient monies are available at the appropriate time to fund both capital expenditure and revenue services.
31. **Notes to the Statements (page 28 to 64)** – there is a lot of detail included within the notes and they aim to advise and analyse information to enhance the understanding of the accounts.

32. **Housing Revenue Account (page 65 to 71)** – this statement shows the income and expenditure for the Council's housing stock, which generated a deficit of £3.84 million based on UK GAAP. This is because of a large decrease or impairment in the value of the housing stock, due to current market conditions. The Statement of Movement on the Housing Revenue Account Balance shows that the actual decrease in the balance was £1.23 million following the adjustments required by statute and non-statutory proper practices. The revenue reserve therefore stands at £1.21 million. PricewaterhouseCoopers advise that the minimum balance for each dwelling should be £150 and that equates to £1.25 million.
33. **Collection Fund (page 72 to 74)** – there is a deficit of £2.3 million at the year end and this will be included within the calculation for setting the Council Tax for 2011-12.
34. **Group Accounts (page 75 to 81)** – each year a review is undertaken to assess whether companies, subsidiaries or associates of the Council need to be included within the group accounts. As in previous years it is only London Luton Airport's accounts that need to be incorporated within the group accounts.
35. **Annual Governance Statement for 2009-10 (page 83 to 99)** – a separate report is being made to the Audit and Governance Committee at this meeting.
36. **Glossary of terms (page 103 to 112)** – the glossary aims to describe various accounting terms and accounts that may not be readily understood.

PROPOSAL/OPTION

37. The committee is required to approve the accounts before 30 June 2010, so any decision other than to approve the accounts would need to be fully justified.

LEGAL IMPLICATIONS

38. Save for those set out above there are no further legal implications to this report and this has been agreed by Richard Stevens in Legal Services on 16 June 2010.

FINANCIAL IMPLICATIONS

39. Financial implications are dealt with in the body of the report.

APPENDIX

A. The Statement of Accounts 2009-10 (Enclosed separately)

LIST OF BACKGROUND PAPERS

LOCAL GOVERNMENT ACT 1972, SECTION 100D

Code of Practice on Local Authority Accounting in the United Kingdom 2009 – A Statement of Recommended Practice and associated practitioner guidance notes – published by the Chartered Institute of Public Finance (CIPFA).

Delivering Good Governance in Local Government - Framework 2007 – published by CIPFA.

The Best Value Accounting Code of Practice – England and Wales – published by CIPFA.