STATEMENT OF ACCOUNTS 2010/11

To:	**Governance and Audit Committee – 29 June 2011**
Main Portfolio Area:	**Corporate**
By:	**Financial Services Manager**
Classification:	**Unrestricted**
Ward:	**All**

Summary: This report presents the Statement of Accounts for 2010/11 for Members to note. Members are also asked to approve the proposed movements to reserves.

For decision

1.0 Introduction

1.1 The Accounts and Audit (England) Regulations 2011 require the S151 Officer to sign and date the statement of accounts by 30 June, and certify that it presents a true and fair view of the financial position of the Council at the end of the year to which it relates and of the income and expenditure for that year. The Governance and Audit Committee must approve the accounts by 30 September. The accounts must also be published by this date.

1.2 Previously members were required to approve the accounts by 30 June, prior to the audit. This has now been moved to 30 September so that members can be made aware of the findings of the audit and hence make a better informed decision. However, this Council will continue presenting its pre-audited statements to members in June to give members an early notification of the financial outcome of the previous financial year.

1.3 The statements presented have therefore not yet been audited by the Audit Commission. The audited set of accounts will be presented to the Governance and Audit Committee in September for approval.

2.0 Statement of Accounts

2.1 The Statement of Accounts for 2010/11, (to be circulated separately), have been prepared in accordance with the Accounts and Audit Regulations and the Code of Practice and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.2 **Annex 1** to this report details the changes introduced as a result of the introduction of International Financial Reporting Standards (IFRS). These changes are significant resulting in accounts that look very different to previous years. The 1 April 2009 balance sheet has been restated on an IFRS basis to aid comparisons between years. Members will note that there has been an increase in the number of notes to the core financial statements.

This is as result of the new requirements under IFRS.

2.3 The Statement of Accounts reports the final expenditure figures and income for the financial year 2010/11 and the financial position of the Council as at 31 March 2011.

2.4 The main documents within the Statement of Accounts are as follows:

Movement in Reserves Statement – this statement shows the movement in the year on the different reserves held by the authority and is analysed into usable and unusable reserves. The 'Surplus/Deficit on the Provision of Services' line shows the true cost of providing the authority's services.

Comprehensive Income and Expenditure Statement – this statement shows the accounting cost of providing services in accordance with accepted practices rather than the amount to be funded by the taxpayer.

Balance Sheet – the balance sheet shows the value of the assets and liabilities of the authority. The total of the assets less liabilities is matched by the reserves (usable and unusable) that the authority holds.

Cash Flow Statement – this statement shows the changes in the authority's cash and cash equivalents during the reporting period, and shows how the authority generated and used these, classifying cash flows as operating, investing or financing activities.

3.0 Overview of the 2010/11 Financial Year

3.1 During the last financial year Members have received regular budget reports on the monitoring of the Council's General Fund, Housing Revenue Account and capital programme.

3.2 The last budget monitoring report to Cabinet showed a projected under-spend of £301k on the General Fund. Further savings of £266k were reported to the Corporate Management Team in the March budget monitoring report. A total under-spend of £567k was therefore identified during the year as part of the budget monitoring process. Further variances were identified at year end of £338k, mainly in respect of monies set aside for volatile budgets, such as interest payable and receivable, insurance and pensions, which were subsequently not required. The pre-audit outturn therefore shows a total underspend of £905k.

3.3 As reported to Members in March, the General Fund balances will be replenished by £101k to take them up to the recommended level of 10% of the net budget requirement. A further £145k will be set aside as a contingency.

3.4 As part of the 2010/11 budget proposals, Members agreed that a sum of £17.6k should be set aside in the Renewal Reserve to meet the cost of CRB checks and the best value survey and that a further £35.4k should be set aside in the Elections Reserve to meet the cost of future district elections.

3.5 The remaining underspend of £606k is proposed to be transferred to the following earmarked reserves. This requires Member approval.

Proposed Contributions to Reserves

	£'000s
Priority Improvement Reserve: This reserve is for one-off projects and for pump priming investment into service improvements	466
Accommodation Reserve: To set aside monies to replace the Council Chamber intercom system	50
Insurance Risk Management: To meet the expected increase in insurance premiums	50
Maritime Reserve: To fund the balance on the breakwater project	40
	606

3.6. In addition, further savings of £300k were generated within Environmental Services during the year, but were not reflected in the budget monitoring position. It was agreed by CMT that of these savings a sum of £100k would be transferred to various Environmental Services Reserves and £200k would be transferred into the Waste Vehicle Maintenance Reserve (to be renamed Waste and Maritime Vehicle Maintenance Reserve). Members are asked to approve these transfers to reserves.

3.7. It is also proposed to move a sum of £250k from the Customer Services Reserve to the Maritime Reserve to support pressures within the Maritime service area.

3.8. The Housing Revenue Account (HRA) generated a surplus of £1.003m in 2010/11 against a budgeted surplus of £525k. The main reasons for the variance are: an increase in Contributions to Expenditure of £100k due to a more robust approach in the pursuit of rechargeable repairs; a reduction in the amount of disturbance grants paid against that estimated of £86k; a reduction in the proportion of capital charges to the HRA of £134k due to interest rates; an increase in interest received on balances of £45k. The reduced capital charges to the HRA also resulted in a greater pay-over of Housing Subsidy of £139k against that budgeted.

3.9. The accumulated HRA balance at 31 March 2011 is £9.022m. The balance provides flexibility for the delivery of the Housing Business Plan which has recently been reviewed.

3.10. The authority has reviewed its asset valuations in line with appropriate guidance. The authority's Social Housing is valued on an Existing Use Value – Social Housing to which an adjustment factor is applied to reflect the fact that the property is used as social housing as determined by guidance issued from CLG. This year there has been a significant reduction in the adjustment factor applied falling from 45% to 32% due to growth in vacant possession values, falling yields in the private rented market and continued rent restructuring in the public sector. This has contributed to the £38m impairment in the value of the housing stock. In General Fund, operational land and buildings have been impaired by £1.1m to reflect the fall in value where appropriate. Impairments can be defined as a reduction to the value of a fixed asset (below its carrying amount in the Balance Sheet) due to a clear consumption of economic benefits or a general fall in market value.

3.11 The Capital Programme has been regularly reviewed throughout the year due to the national economic situation and in particular to reflect the adverse conditions with regard to asset disposals and the ability to generate capital receipts to fund the programme. The main areas of spend included £4.3m investment in the Council's dwelling stock and estates, £3.2m investment in General Fund assets and £2.4m provided by way of capital grants. The total spend was financed through borrowing, use of capital receipts, grant funding, revenue contributions and developers' contributions (S106 receipts).

4.0 Public Access

4.1 The 2011 Accounts and Audit Regulations set out the requirements for the Council to allow public access to, and copying of, all accounting records, and for access to the external auditor to allow questions about, or objection to, the draft accounts. In accordance with this requirement the statutory 20 days required for public access are from 8 July 2011 to 4 August 2011 and the external auditor will be available for questions and comments from 5 August 2011 to the conclusion of the audit.

5.0 Options

5.1 That Members approve the proposed movements to reserves.

5.2 That Members do not approve the proposed movements to reserves.

6.0 Corporate Implications

6.1 Financial

6.1.1 The financial implications for the Council are included in the Statement of Accounts.

6.2 Legal

6.2.1 Although the Accounts and Audit Regulations require the Statement of Accounts to be approved by Members by 30 September 2011, it is considered prudent to make Members aware of the draft outturn position at the earliest opportunity.

6.3 Corporate

6.3.1 Under the Local Code of Corporate Governance accepted by Cabinet on 10 November 2004, the Council is committed to publish and make available reports that give an objective and understandable account of its activities, achievements, financial position and performance.

6.3.3 The accounts submitted for audit must be presented fairly and contain only a small number of non-trivial errors. They must also be subject to robust Member scrutiny prior to approval.

6.4 Equity and Equalities

6.4.1 There are no equity or equality issues arising from this report

7.0 Recommendations

7.1 That Governance and Audit Committee note the draft Statement of Accounts for 2010/11 and approve the proposed movements to reserves.

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Background Papers: Financial Services' working papers

Annex 1

EXPLANATION OF CHANGES TO THE CONTENT AND FORMAT OF THE 2010/11 ACCOUNTS

Introduction

The annual statements of government departments and other entities in the public sector have previously been prepared using accounting policies based on UK Generally Accepted Accounting Practice (UK GAAP). In order to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice, the Government announced in March 2007 that the public sector would adopt International Reporting Standards (IFRS). Local authorities are required to produce their accounts based on IFRS for the first time in 2010/11.

IFRS imposes significant additional reporting and disclosure requirements. The main changes for this authority's accounts are summarised below.

Leases

It has been necessary to review all leases where the Council is either the lessor or the lessee. Land has had to be treated separately from buildings under property leases. The IFRS definition of a lease is wider than that applied under UK GAAP and covers all contracts that depend on the use of an asset. The judgment as to whether a lease is a finance lease or an operating lease is more subjective under IFRS. More arrangements are now classified as finance leases which means more assets have been brought onto the balance sheet and more long term liabilities have been recognised. This in turn has had implications for the calculation of the Capital Financing Requirement, Minimum Revenue Provision (MRP) policy and calculation, as well as for the Council's prudential indicators. Reviewing all the Council's leases has proved to be a time consuming task.

Asset Classifications

IFRS has introduced different requirements for the valuation of assets which has impacted on the measurement basis and frequency of valuations.

The definition of investment assets is quite strict and these assets now require more frequent valuations. Consequently, some £9m of investment property has now been reclassified as non operational land and buildings in the restated balance sheet as at 1 April 2009. Gains and losses on the revaluation of investment property are no longer retained in the Revaluation Reserve on the balance sheet but are reflected in the Comprehensive Income and Expenditure Account under financing and investing income and expenditure and reversed out to the Capital Adjustment Account on the balance sheet to ensure there is no impact on the taxpayer.

Assets that have been identified for disposal but are not expected to be sold within twelve months of the balance sheet date are now classed as surplus assets under the balance sheet heading Property, Plant and Equipment. Only those assets expected to be sold within one year can now be classified as held for sale.

Government Grants Deferred

Government grant income used to finance the acquisition or enhancement of non current assets is no longer deferred and released to the General Fund over the life of the asset but is recognised immediately as non specific grant income in the Comprehensive Income and Expenditure Account and is then reversed out via the Capital Adjustment Account so that there is no impact to the taxpayer.

Capital Grants and Contributions

Similarly, any capital grants and contributions received with conditions on their use are released to the General Fund in the same way once the conditions have been satisfied. Where conditions are yet to be met, the grants are held on the balance sheet under Capital Grants Receipts in Advance.

Cash and Cash Equivalents

Cash equivalents are now shown with cash balances in the balance sheet. Cash equivalents are short term investments that are readily convertible to cash within three months of the date of acquisition.

Segmental Reporting

Authorities are required to analyse their financial performance in the Comprehensive Income and Expenditure Statement using the service analysis included in the Best Value Accounting Code of Practice. However, a note to the accounts is now required under IFRS to show income and expenditure on the same basis as internal management reporting. The note also has to reconcile to the figures in the Comprehensive Income and Expenditure Statement.

Disclosures

The number of disclosures required as notes under IFRS have increased significantly resulting in a Statement of Accounts that is now considerably longer than before.