

## 12. STATEMENT OF ACCOUNTS 2008-09 (A.137/14/PN)

### Purpose of the Report

1 To seek approval for the draft Statement of Accounts for 2008-09.

### Recommendations

2 **That the draft Statement of Accounts for 2008-09 as attached at Appendix 1 be approved.**

### How does this contribute to our policies and legal obligations?

3 The Accounts and Audit Amendment Regulations 2003 requires the Statement of Accounts to be approved by Members by 30 June of each year.

### Proposals

4 The Accounts confirm that the Authority has maintained its financial position in 2008-09, in line with the position reported to Services Committee on 5<sup>th</sup> June.

5 Following the significant number of changes to the Accounts in recent years, the accounts for the 2008-09 year are largely in the same format as the previous year.

6 The summary of the Annual Governance Statement is included in the Statement of Accounts.

7 The position on over and underspending was reported to the Services Committee on 5<sup>th</sup> June. The only changes to that position are shown in the table below.

General Fund Balance as at 31/03/08	<b>1,080,042</b>
Deficit to the General Fund as reported 5 <sup>th</sup> June	<b>(2,422)</b>
General Fund Balance as at 31/03/09 as reported 5 <sup>th</sup> June: Annex E	<b>1,077,620</b>
Further Expenditure as anticipated paragraph 16 of 5 <sup>th</sup> June report*	(89)
Substitution of revenue financing for capital*	212,542
Revised General Fund as reported in the Statement of Accounts	<b>1,290,073</b>

\*As a result of these extra adjustments the deficit allocated to the General Fund therefore changes to the surplus now reported in the Statement of Accounts of £210,031, as below:-

Deficit	(2,422)
Extra expenditure	(89)
Substitution	212,542
<b>New Surplus</b>	<b>210,031</b>

The £212,542 additional allocation to the General Fund arises for the following reason, following completion of the 2008-09 Accounts. It was not possible to report this allocation to the Services Committee as the sums depended on work undertaken during preparation of the Accounts in determining the precise figure. This allocation follows a similar allocation made in the previous two years on the same basis.

In service budgets there is a limited ability, depending on the service and the nature of the capital expenditure, to finance some capital expenditure with revenue funds. Ordinarily this is shown in the Accounts as "direct revenue financing of capital expenditure"

The Authority can choose however to finance this expenditure using capital resources – either from borrowing, capital receipts, or temporarily from short term investment funds.

In 2006/07 £212,342, in 2007/08 £160,524, and in 2008/09 £212,542 was contributed from revenue funds towards capital expenditure. It has been decided to allocate these funds instead to the General Fund, in order to retain a degree of flexibility over how the Authority determines how revenue and capital resources are financed in the short to medium term, arising from Authority resolutions in Minutes 32/06 and 19/08. The consequence of allocating the funds to the General Fund as above is a corresponding increase (by the same amounts) in the Authority's Capital Financing Requirement (i.e. its underlying need to borrow to finance capital expenditure), as the capital expenditure relating to these assets now remains unfinanced because of the switch.

The result of this is that the Authority can exercise one of two options, with greater flexibility than if the adjustment was not done:-

- 1) to use the additional funds in the general fund to support additional revenue expenditure, leaving the corresponding sums to be financed from capital resources instead, in the form of future borrowing or use of capital receipts.
- 2) To reverse the allocation if additional revenue expenditure is not required (by crediting the Capital Adjustment Account and debiting the General Fund via a Voluntary Revenue Provision in the Income & Expenditure Account to remove the unfinanced capital expenditure.)

It can be seen from the above that making of the adjustment has no overall effect on the Authority's finances other than to add flexibility between capital and revenue funds, within the rules imposed by statute. The 2008/09 amount leaves the total now allocated into the General Fund of £585,408, which remains ring-fenced. Because of this the Authority is unlikely to require a Section 16 capitalisation approval from DCLG, and so it is anticipated that this is the last year this approach will be needed.

8 Members will recall that the significant changes to the Statement of Accounts 2006-07 resulted in Local Authorities reporting much higher deficits on their Income & Expenditure Account, the majority of which only represent "book-keeping" entries which are required to be charged to the Authority's Income & Expenditure Account, and then to be subsequently reversed out (as the Statement of Movement on the General Fund Balance and Note 2 show) to derive a true "cash" surplus / deficit as traditionally managed and reported by Local Authorities prior to this change. A brief explanation of the main reasons why this difference exists, based on the figures shown in the Accounts, is highlighted below.

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		<b>£,000</b>
<b>A</b>	Deficit for the year ended 31/03/09 reported in the accounts	<b>(410)</b>
<b>B</b>	Reversal of the notional charge relating to the pension scheme	<b>518</b>
<b>C</b>	Reversal of one-off impairment charges	<b>58</b>
<b>D</b>	Reversal of depreciation charges (over and above cash financing requirements for repayment of actual debt and set aside sums for minimum revenue provision)	<b>399</b>
<b>E</b>	One off funding to reserves	<b>(355)</b>
<b>F</b>	Surplus in "cash" terms allocated to the General Reserve	<b>210</b>

**B** The £518,000 represents the estimates of the Actuary of the “extra” amount of resource required by the pension fund to finance its obligations in the future, arising from current employees in 2008-09. It should be borne in mind that every three years the Actuary recommends actual cash payments the Authority should make into the scheme based on a full valuation of the scheme (their recommendation for 2008-09 being the £900,000 actually paid) and the extra sums “required” here can often be the result of short term fluctuations in market conditions which arise between valuations as stock market fluctuations and bond yield movements affect the valuation of the pension fund’s assets and liabilities. This affects the “pensions interest cost and expected return on pension scheme assets” figure, which in 2008/09 represents £431,000 of the £518,000 figure. The important point is that the Authority pays in full the recommendations of the Actuary arising from each formal valuation, which are set at a level as required by statute, to ensure that the Authority sets aside sufficient funding for the scheme to pay future obligations. The estimates of the Actuary required for the annual accounts do however give a reasonable figure against which the actual cash contributions made can be compared, and the difference (£518,000) then becomes a notional “book-keeping” charge to the Income & Expenditure Account as shown here.

**C** The main reason for the impairment charge is a small downwards revaluation of the asset valuation for Aldern House and Ashbourne cycle hire centre. The “impairment” in value is required to be charged to the Income & Expenditure Account as shown here. The charge is then reversed as the impairment does not represent a cash loss, rather an adjustment from its previously assessed value which for Local Authorities is required to be assessed based on current values of property. However, the adjustment does represent the opinion of the valuer that the accommodation requires a higher level of maintenance to avoid future impairments or to reinstate previous valuation levels.

**D** The depreciation charge of £399,000 is the notional figure charged to the Income & Expenditure Account representing the reduction in value of assets in the 2008-09 year arising from normal use of those assets for operations, over and above any cash sums charged for repayment of debts and/or minimum revenue provision. The actual amount charged depends on the current value of the fixed asset portfolio, and an assessment of asset life remaining. The charge is reversed and replaced with a Local Authority’s cash sums used either from the capital reserve, from direct revenue financing of capital, from the actual figure paid in debt interest, and/or the minimum revenue provision which is a cash sum set aside for repayment of the principal outstanding for any loans. The depreciation figure can vary but gives an illustration as to the extent to which the Authority’s assets are being consumed and the level at which resources should be set aside for their replacement. Over time, as the asset management plan is developed, as asset holdings are rationalised, as borrowing develops in a sustainable capital strategy, and as the new minimum revenue provision policy matches payments more closely to asset lives, the cash sums charged to the Income & Expenditure account and the depreciation charges are likely to converge such that the difference is not so great as the £399,000 shown here.

**E** Finally, any movements of funds to and from reserves are effected after the surplus or deficit is calculated, whereas before these movements were shown “above the line”. The theory is that the change is not only consistent with private accounting practice, but removes any distortions in the calculation of a surplus or deficit arising from use of one off funds, or the allocation of unspent funds to reserves. This means that a Local Authority’s true surplus or deficit, based on taxpayers contributions in the year, is highlighted before any such allocations are made.

10 In view of the complexity of some of the financial reporting in the Accounts, the Chief Finance Officer will be available between the date of publication of this report and the committee meeting to meet with or respond to any queries Members may have. The Notes to the Accounts also contain specific explanations of the amounts shown in the main accounting Statements.

Audit of the Accounts

11 The audit should be completed by the end of August and will be reported to the special Audit & Performance committee on 25<sup>th</sup> September.

**Are there any corporate implications members should be concerned about?**

12 **Financial:**  
The financial position was explained in the outturn report to Services Committee on the 5<sup>th</sup> June and the Statement of Accounts contains explanations and commentary as required by the Code of Accounting Practice.

13 **Risk Management:**  
This is covered in the Annual Governance Statement

14 **Sustainability:**  
Not appropriate to this report.

15 **Background Papers** (not previously published) - None

16. **Report Author, Job Title and Publication Date**  
Philip Naylor, Chief Finance Officer, 18 June 2009