

<u>Committee and Date</u>	<u>Item</u>	<u>Paper</u>
Audit Committee 18 June 2010		
Council 18 June 2010	Public	

STATEMENT OF ACCOUNTS 2009/10

Responsible Officer Laura Rowley

e-mail: Laura.Rowley@shropshire.gov.uk

Tel: 01743 252007

Fax 01743 252007

Summary

The 2009/10 Statement of Accounts, which is subject to audit, must be approved by Full Council and signed by the Chairman by 30 June 2010 (Accounts and Audit Regulations 2003 as amended 2006). The Draft Statement of Accounts for 2009/10 is appended to this report. This report provides an overview of the Accounts and also provides details of the reasons for the most significant changes between the 2008/09 Accounts and the 2009/10 Accounts.

The final revenue outturn for 2009/10 is an overspend of £919,000 on an original gross budget of £574,019,000. The final capital outturn shows a spend of £78,270,000, representing 83% of the revised budget.

The authority's specific reserves and provisions have increased by £7,290,000, after incorporating the balances transferred from the Districts. This was largely due to contributions to the Shropshire Waste Partnership Smoothing Reserve of £3,535,000. The general fund balance has increased by £625,000. Schools' balances have increased by £96,000. Full details of the revenue and capital outturn position and the reserves, provisions and balances held by the authority are set out in separate reports on the Agenda for this meeting.

Recommendations

To the Audit Committee

- A. To receive and comment on the draft 2009/10 Statement of Accounts and comment to Full Council as appropriate.
- B. To note that the 2009/10 Statement of Accounts are to be audited by the Audit Commission during July and August and that any material changes required as a result of the audit will be reported to the Audit Committee and Council.
- C. To note that formal publication of the audited 2009/10 Statement of Accounts is required by the 30 September 2010 (Accounts and Audit Regulations 2003 as amended 2006).

To Shropshire Council

- A. That Full Council take into consideration the observations of the Audit Committee.
- B. To note that the 2009/10 Statement of Accounts are to be audited by the Audit Commission during July and that any material changes required as a result of the audit will be reported to the Audit Committee and Council.
- C. That Council consider and approve the 2009/10 Statement of Accounts and that the Chairman signs them (in accordance with the requirements of the Accounts and Audit Regulations 2003 as amended 2006).
- D. That the Director of Resources be authorised to make any final adjustments.

- E. To note that formal publication of the audited 2009/10 Statement of Accounts is required by the 30 September 2010 (Accounts and Audit Regulations 2003 as amended 2006).

REPORT

Background

1. A copy of the 2009/10 Statement of Accounts is attached at Appendix 1. The external audit by the Audit Commission will take place during July and August, after which the Statement of Accounts will be formally published and a final report brought to Full Council. Any material changes as a result of the audit will be reported to the Audit Committee and Council at the earliest opportunity once the Accounts have been signed off by the District Auditor.
2. The statutory deadline for the formal publication of the audited 2009/10 Statement of Accounts is 30 September 2010.

Key Outcomes

3. The overall revenue outturn position for 2009/10 is set out in the table below and provides a summary of the outturn position for each Service Area:

	Children and Young People £000	Community Services £000	Development Services £000	Res, CEX, L&DS and Corporate* £000	Total £000
Budget available to spend in 2009/10	46,683	82,029	65,317	17,016	211,045
Outturn for 2009/10	46,923	83,194	65,277	16,570	211,964
Over or (under) spends carried forward to set against or add to 2010/11 budget	240	1,165	(40)	(446)	919

4. The costs of the voluntary early retirement and redundancy associated with the unitary process are set out in the table below. The costs for 2009/10 have been charged against Non Distributed Costs. The majority of the unitary transition costs related to ex-district staff that had left during post 1st April 2009 in order to oversee the unitary transition process. All of these costs were provided for in the District Council's 2008/09 Statement of Accounts. All costs incurred have been met from the Voluntary Early Retirement Reserve in 2009/10.

	Redundancy	Pension Fund Strain	Total
Unitary Transition	1,799,770	1,431,990	3,231,760
Unitary Transformation	338,940	331,880	670,820
Total	2,138,710	1,763,870	3,902,580

5. The overall capital outturn position for 2009/10 is set out in the table below and provides a summary of the outturn position for each service area:

Service Area	Capital Budget £	Actual Spend 31 Mar 09 £	Variance £	Comparison of Budget to Spend %
Community Services	16,542,953	11,348,747	5,194,206	69
Children and Young People's Services	38,463,850	34,343,515	4,120,335	89
Development Services - Non LTP	10,795,327	5,389,641	5,405,686	50
Development Services - LTP	19,825,485	19,220,496	604,989	97
Resources	8,952,322	7,967,675	928,030	90
Total	94,579,937	78,270,074	16,309,863	83

6. Capital expenditure in 2009/10 was £78,270,074, representing 83% of the capital budget. The total slippage from 2009/10 to 2010/11 is £16.2m.
7. Movements in the Council's General Fund Balance in the year have been as follows:

	£000
Actual balance at 1 April 2009	2,250
General Fund Balances transferred from the Districts	5,980
Final variations on closedown:	
- Base Budget Contribution (compensating savings built into 2010/11 budget)	(3,200)
- Voluntary Early Retirement	(1,556)
- Capital Projects	(604)
- Insurance – below the line underspend	5
Total of Variations	(5,355)
Final Balance at 31 March 2010	2,875

8. There has been an overall increase of £625,000 in the General Fund Balance during the year.
9. Schools' balances have to be ringfenced for use by schools and schools have the right to spend those balances at their discretion. The total balance of £7,648,000 represents 5.4% of Schools' delegated budgets. The movement in schools' balances is as follows:

	2008/09 £000	2009/10 £000	Increase/ (Decrease) £000
Schools:			
- Revenue Balances	5,305	5,428	123
- Invested Balances	2,074	2,055	(19)
- Foundation Schools' external balances*	173	165	(8)
Total	7,552	7,648	96

* Foundation Schools' 2008/09 external balances of £173,000 have been estimated.

10. As the Foundation Schools' external balances are not included in the General Fund Balances, the movement on these balances is removed when reconciling the movement on the General Fund.

11. School balances are also adjusted to take account of the expenditure on IT equipment for schools, where the cost of the equipment is recharged to schools over the life of that equipment, effectively operating as an internal leasing arrangement. At the end of 2009/10 £221,000 was being used in this way compared to £240,000 in 2008/09. After these adjustments to school balances, the net cash movement on Schools' Balances is an increase of £165,000.
12. The Council has created a number of specific reserves and provisions to provide for known or anticipated future liabilities. The overall change in revenue reserves and provisions during 2009/10 is as follows:

Balance of Reserves and Provisions	£000
As at 31 March 2009 (Restated)	21,983
Balances transferred from the Districts	8,902
Amended Opening Balance as at 1 April 2009	30,885
As at 31 March 2010	38,175
Increase/(Decrease)	7,290

Statement of Accounts

13. The purpose of the Statement of Accounts is to give electors, those subject to locally levied taxes and charges, Members of the Authority, employees and other interested parties clear information about the Authority's finances. The format of the Statement of Accounts is governed by the SORP, to make the document as useful as possible to its audience and so as to make meaningful comparisons between authorities possible. The SORP requires:
- All Statement of Accounts to reflect a common pattern of presentation, although at the same time not requiring them to be identical.
 - Interpretation and explanation of the Statement of Accounts to be provided.
 - The Statement of Accounts and supporting notes to be written in plain language.
14. All of the above has been taken into consideration when producing the authority's own Statement of Accounts. These accounts comprise various sections and statements, these are all briefly explained below:
- **An Explanatory Foreword** – this provides a review of the financial position of the Council for the financial year 2009/10. The format of this information has changed in 2009/10 to provide a more thorough explanation of the key activities that the Council has undertaken during the financial year, the Council's position on borrowing and investments, the Pensions Liability held within the Balance sheet and current and future projects that the Council is undertaking.
 - **The Statement of Responsibilities** – this details the responsibilities of the authority and the Director of Resources concerning the authority's financial affairs and the actual Statement of Accounts.
 - **The Audit Opinion and Certificate** – this is provided by the Audit Commission following the completion of the annual audit, this document is therefore draft pending the outcome of the audit.
 - **The Accounting Policies** – this statement explains the basis for the recognition, measurement and disclosure of transactions and other events in the accounts.

- **The Core Financial Statements**, which comprises:
 - § **The Income and Expenditure Account** – this is fundamental to the understanding of a local authority’s activities. It brings together all of the functions of the authority and summarises all of the resources that the authority has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the authority, before allowing for the concessions provided by statute to raise council tax according to different rules and for the ability to divert particular expenditure to be met from capital resources. The 2009/10 Income and Expenditure Account reports a deficit for the year of £53,125,000, however, this is not cash as this takes into account a number of significant theoretical amounts for matters relating to pensions and use of assets. The real cash position was actually a deficit during the year of £5,350,000. All of the theoretical amounts can be seen in the Statement of Movement on General Fund Balance and associated note.
 - § **The Statement of Movement on General Fund Balance** – this provides a reconciliation showing how the balance of resources generated/consumed in the year links in with statutory requirements for raising council tax.
 - § **The Statement of Total Recognised Gains and Losses** – this demonstrates how the movement in total equity in the Balance Sheet is linked to the Income and Expenditure Account surplus/deficit and to other unrealised gains and losses.
 - § **The Balance Sheet** – this is fundamental to the understanding of the authority’s financial position as at the 31 March 2010. It shows the balances and reserves at the authority’s disposal, long term liabilities and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held. As can be seen from the balance sheet the authority’s total equity amounts to £686,096,000, an increase of £224,007,000 which is analysed in the Statement of Total Recognised Gains and Losses. In short this demonstrates that the authority’s assets exceed liabilities by this amount and this represents a very healthy financial position.
 - § **The Cash Flow Statement** – this consolidated statement summarises the authority’s inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand and deposits repayable on demand less overdrafts repayable on demand.
- **The Notes to the Core Financial Statements**, which provides supporting and explanatory information on the Core Financial Statements.
- **The Group Accounts** – these have been prepared to account for the Council’s share in West Mercia Supplies, the North Shropshire Community Asset Trust (CAT) and South Shropshire Leisure Limited. West Mercia Supplies has been treated as a joint venture for the purposes of the accounts, whereas the North Shropshire CAT and South Shropshire Leisure Limited have been consolidated on a subsidiary and quasi subsidiary basis respectively. The Group deficit on the Income and Expenditure Account includes a surplus of £661,000 from the 3 companies.

- **The Pension Fund Accounts** – the Shropshire County Pension Fund is administered by this Authority, however, the pension fund has to be completely separate from the Authority's own finances. This statement is an extract from the pension fund annual report and summarises the financial position of the Shropshire County Pension Fund, including all income and expenditure for 2009/10 and assets and liabilities as at 31 March 2010.
 - **The Housing Revenue Account** – the authority is required to account separately for local authority housing provision, as defined in the Local Government and Housing Act 1989 as amended. The account details the income and expenditure relating to the local authority housing provision and details of the movement on the Housing Revenue Account Balance for the year.
 - **The Collection Fund Account** - this account shows the transactions of the billing authority in relation to non-domestic rates and the council tax and illustrates how these have been distributed to preceptors and the General Fund.
 - **The Annual Governance Statement** – the authority is required to carry out an annual review of the effectiveness of the system of internal control and to include an Annual Governance Statement with the Statement of Accounts. The Statement explains how the Council has complied with the code of Corporate Governance during 2009/10. However, any significant events or developments that occur between 31 March 2010 and the date on which the Statement of Accounts is signed by the Director of Resources should also be reported. To date no such events or developments have occurred.
15. The format of the Statement of Accounts is governed by The Statement of Recommended Practice on Local Authority Accounting, published by CIPFA (the SORP). For 2009/10 there have been a number of changes to the previous SORP, the most significant of these changes, that affect the authority, are detailed below:
- The accounting requirements for the Private Finance Initiative (PFI) and similar contracts are no longer based on the UK accounting standard FRS 5 but on International Financial Reporting Standards (IFRS). This will generally result in PFI properties which are used to deliver the PFI services will now be recognised on local authorities' Balance Sheets along with a liability for the financing provided by the PFI operator. This has resulted in the QICS and Waste PFI assets and liabilities now being recognised on the balance sheet.
 - Details of accounting for council tax and National Non-domestic Rates within the billing authorities and major preceptor's accounts to accurately reflect the "agent" role that the billing authority has. Therefore the balances, arrears and prepayments within the Council's accounts reflect those only of Shropshire Council rather than the whole Collection Fund.
 - Details of the accounting treatment to be followed by all local authorities that have been reorganised from 1 April 2009. For Shropshire this has resulted in the new services that transferred from the District Accounts, being disclosed as acquired services on the face of the Income and Expenditure Account and the 2008/09 comparatives within the statement are that of Shropshire County Council only (in its role as continuing authority).
 - Five note disclosures have been removed as requirements of the 2009 SORP. These include notes on section 137 expenditure; expenditure on publicity; the building control account; Business Improvement District Schemes; and income under the Local Authorities Goods and Services Act. None of these disclosures are required by accounting standards or legislation. Shropshire Council has elected to

keep the building control account and the Local Authorities Goods and Services Act within the notes to the accounts.

- A more detailed disclosure regarding officers' remuneration which modifies the current disclosure requirements of banded salaries and extends them to include individual disclosure of the remuneration of senior officers.

Analytical Review

16. An analytical review has been carried out on each element of the Statement of Accounts, this is a final check that provides assurance that the Statement of Accounts is free of material errors and misstatements. The analytical review focuses on figures within the Statement of Accounts that have changed materially when compared with the previous years accounts. For the purposes of the analytical review, the opening balances have been adjusted to add in the cumulative District Balances transferring in. This has ensured that the analytical review is being performed on a like for like basis. For 2009/10 the materiality threshold (i.e. the level of change between 2008/09 and 2009/10) used was 10%, this threshold was used to ensure that all questions that the Audit Commission are likely to raise have been reviewed and explanations are readily available. Details of the significant changes between the two years are shown in Appendix 2.

Issues Arising During the Closing of the Accounts

17. In order to produce the Collection Fund accounts, significant work has been undertaken to ensure that the accounts tie up with the Northgate system. During this process it was noted that during 2009/10 a number of corrections have taken place on Northgate to correct errors in the brought forward arrears figures and to the data migrated across from the legacy systems. These adjustments have also been corrected within the Collection Fund accounts to ensure consistency. Further audit work will take place prior to the external audit on the Northgate controls to verify that all corrections have been treated correctly within the system and hence in the accounts.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

CIPFA's Statement of Recommended Practice (SORP) on Local Authority Accounting

CIPFA/SOLACE guidance on the Annual Governance Statement

Revenue and Capital Budget 2009/10

Human Right Act Appraisal

No conflicts with the Human Rights Act have been identified.

Environmental Appraisal

N/A

Community / Consultations Appraisal

N/A

Cabinet Member

Keith Barrow, Leader of the Council
Brian Williams, Chair of Audit Committee
Portfolio Holders

Local Member

All

Appendices

1. Statement of Accounts 2009/10 (Unaudited)
2. Analytical Review of Statement of Accounts

Decision(s)