Audit and Corporate Governance Committee Report

South Oxfordshire District Council
Listening Learning Leading

Report of Head of Finance

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To: AUDIT AND CORPORATE GOVERNANCE COMMITTEE

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AGENDA ITEM NO 11

Statement of Accounts for 2008/09

Recommendation

1. That the statement of accounts for 2008/09 be approved.

Purpose of Report

1. The Accounts and Audit Regulations 2003 requires that the 2008/09 statement of accounts be approved by the council or a committee of the council by 30 June 2009. This power is delegated to the audit and corporate governance committee. This report brings the 2008/09 statement of accounts to the committee for approval.

Strategic Objectives

2. Sound financial management is central to the ongoing delivery of all the council's functions and therefore underpins the achievement of all of the council's strategic objectives as set out in the corporate plan. The timely production, audit and publication of the statement of accounts is fundamental to managing our business effectively.

Background

3. The statement of accounts provides information on how the council has used the financial resources available to it. The statement of accounts is required by law and sets out various statutory and other relevant information.

4. The statement of accounts was prepared following the end of the financial year on 31 March 2009. These accounts are at present unaudited. The external auditor is scheduled to carry out the audit of the accounts in July and August. The statement of accounts will be made available for public inspection from 27 July 2009.

5. The statement of accounts need to be published together with any certificate, opinion or report given by the external auditor. This must be carried out by 30 September 2009.

6. This committee is asked to approve the statement of accounts as an accurate record of the council's financial transactions during the year, and of the balances at the end of the year. The committee are not being asked to scrutinise why budgets are either under or overspent other than to satisfy itself that in year transactions and year end balances are accurate.

Matters for Consideration

7. The statement of accounts comprises the primary accounting statements together with supporting notes. The explanatory foreword to the accounts provides a straightforward explanation of what the accounting statements represent. Below are detailed some of the key matters arising from the statement of accounts that members should consider before they approve them.

   ACCOUNTING CODE OF PRACTICE CHANGES FOR 2008/09

8. The statement of accounts are prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA/LASAAC) code of practice on local authority accounting in Great Britain ("the code"). There have been a number of changes to the code which mean that the 2008/09 accounts are different to previous years. The principal changes amongst these are detailed below.

   Financial Reporting Standard 17 (FRS17)

9. FRS17 governs how the council's pension costs, and future obligations are presented. Following changes to FRS17, for the 2008/09 accounts the measurement of pension scheme assets has been changed. Previously, scheme assets were valued on the basis of mid-market value, but are now required to be valued on the basis of current market price. Compliance with this has required the 2007/08 accounts to be restated, with the effect that the net worth of the council as at 31 March 2008, as shown in the balance sheet, has been restated from £140.1m to £140.8m.

10. Other 2007/08 statements / notes that have been restated as a result of the changes to pensions are:

   - income and expenditure account, where non distributed costs, and expected return on pension assets have been restated;

   - statement of total recognised gains and losses;

   - note 12, which relates to the statement of movement on general fund balance, where the net charges made for retirement benefits, and employers contributions payable amounts have been restated; and

- note 23.5 pensions reserve.

11. Full details on the local government pension scheme are included in the accounts in note 25, which has also been restated. Additional changes to FRS17 have led to significant changes to the disclosure requirements, which are reflected in note 25.

Area based grant

12. Previously, the council received local area agreement grant funding. However, from 2008/09 this has been replaced by area based grant, which is a non-ringfenced grant with no special conditions imposed on its use. Area based grant is paid directly to the council, unlike local area agreement grant funding which was paid to Oxfordshire County Council who distributed the grant to the district councils.

13. As it is not ringfenced, area based grant is shown in the income and expenditure account under "general government grant", which includes revenue support grant. This is detailed in note 11, general government grant, which is a new note to the accounts.

Cash flow statement

14. A simplified version of the cash flow statement is permitted for the 2008/09 accounts. Previously, revenue activities had to be detailed between cash in and outflows, to arrive at the net cash flow from revenue activities figure. That breakdown is no longer required and consequently the net figure provides the starting point for the 2008/09 statement.

OTHER CHANGES TO THE ACCOUNTS

15. In addition to the changes to the code identified above, the 2007/08 accounts have been subject to further restatement, for the reasons detailed below.

Revaluation of assets

16. Most of the council's operational assets, such as toilets and car parks, have a value for land and buildings. It is only the buildings element that is depreciated. When the 2007/08 accounts were completed, where such assets were revalued the total change in value for the asset was reflected in the accounts. Where the value of the asset went up this was reflected in the revaluation reserve, and where the value went down this was charged to the income and expenditure account, and ultimately reflected in the capital adjustment account.

17. The total change in the value of the asset did in some cases mask an increase in the land value, but a reduction in the value of the building, or vice versa. In reviewing the 2008/09 fixed asset closedown, officers believe that to it is correct to treat the revaluation of the land and building element of each asset separately, and thus have restated the 2007/08 accounts.

18. The asset values, as shown in the top half of the balance sheet, and the net worth of the council, are unchanged. However, in the equity part of the balance sheet the revaluation reserve is increased by £3.6m, and the capital adjustment accounts

is decreased by the same amount. The restated 2007/08 income and expenditure account reflects the additional £3.6m charge, and as this affects the deficit for the year it is reflected in both the statement of movement on the general fund balance, and the statement of total recognized gains and losses, which are similarly restated. Notes that have been restated following this change are:

- note 2, trading operations;
- note 23.3, capital adjustment account;
- note 23.6, revaluation reserve; and
- note 28, reconciliation of net (surplus)/deficit on the income and expenditure account to net cash flow.

General fund balance

19. In previous years, the general fund balance for the council has been shown as standing at £750,000. As the general fund balance is intended to represent the reserves of the council that are unearmaked, officers have concluded that the general fund balance should represent the £750,000, together with the enabling fund, and the interest received on capital receipts. Consequently, the statement of movement on the general fund balance, together with accompanying note 12, and note 23.1, summary of general fund balance and earmarked reserves, have been amended to take this into account.

FINANCIAL PERFORMANCE

Revenue and capital outturn 2008/09

20. The explanatory foreword shows on pages 6-7 the actual revenue outturn for 2008/09 compared with the budget, in a format consistent with the council's budget book. Net revenue spend for 2008/09 was £1.1m underspent against budget and a summary explanation is provided. As shown on page 8, capital expenditure in 2008/09 was £7.7m, an underspend of £1.4m against the latest approved capital programme.

21. A revenue and capital outturn report will be presented to cabinet and corporate improvement scrutiny committee in September. This will provide further detail on the reasons for the variations between revenue and capital budgets and outturn figures.

Income and expenditure account

22. The income and expenditure account shows the true cost of the council's services as defined by accounting standards. It shows that council spent £58.8m on the provision of services less income from fees and charges, sales, rents and contributions, resulting in a net cost of services of £26.3m. Other accounting adjustments, including adjustments for the council's fixed assets, such as depreciation, along with adjustments for interest income and notional charges for the council's pension fund liability (under FRS 17), mean the council's net operating expenditure was £29.3m. The total financing from government grants

and local taxpayers of £17.8m meant there was a net deficit on the income and expenditure account of £11.4 million.

23. The statement of movement on the general fund balance analyses this net deficit of £11.4 million but removes the accounting adjustments such as those identified above that cannot be charged to council tax, to reconcile to the closing general fund balance position of £27.8m.

Balance sheet

24. The reported net worth of the council fell from £140.8m to £104.0m at 31 March 2009, a decrease of £36.8m. The main reasons for this are as follows:

- Fixed assets

25. The council owned £38.5m of fixed assets at 31 March 2008, a net decrease of £9.5m on the previous year. This large reduction in value is principally the result of a review of the value of the council's assets in the current economic climate, which resulted in a total reduction in value of £10.1m. The council did incur capital expenditure and added over £2.5m to the value of its assets.

- Pension liability

26. The council's net pension liability increased by £11.9m to £29.5m, as illustrated in note 25. In the current economic climate the actuarial assumptions concerning the expected rate of return on scheme assets are lower than in previous years, whilst the mortality assumptions – which reflect expectations of life expectancy of scheme members – have increased.

27. In addition, during the year the council made a one-off payment to the Oxfordshire County Council pension fund of £5m, following the previous actuarial valuation of the scheme assets and liabilities. This payment was made with the aim of reducing the employer contributions that would be required to make good the scheme deficit over time.

- Investments

28. The value of the council's investments as shown on the face of balance sheet fell £14.8m to £96.4m. In addition to the pension fund contribution referred to above, the council spent £6.3m of its resources on capital expenditure during the year: both of these events reduce the amount the council has available to invest, and it is expected, as illustrated in the medium term financial strategy, that the amount that the council has to invest will reduce over time. The value of investments has however also been reduced by a revaluation of the council's investments in corporate bonds and unit trusts. As shown in note 23.7, this reduction amounts to £5.4m.

29. At year end, community investment fund balances were £59.2m, whilst the unallocated enabling fund balance, which is now included within the general fund balance, is £16.4m. Other usable capital receipts not included in the community investment fund amount to £1.4m.

Collection fund

30. The council as a billing authority is required to separately account for income and expenditure in respect of council tax, business rates and community charge. This account is known as the collection fund. Income of £117.3m in 2008/09 was distributed as precept / demands, and to the National Non-Domestic Rates Pool. The account is showing a net surplus of £0.4m which will be re-distributed to all precepting authorities.

PREPARATION OF THE ACCOUNTS

31. Members will be aware of the problems encountered in the preparation of the accounts in previous financial years, which have been well documented. Preparation of this year's accounts has been easier than it was in the previous year, for the following reasons:

- The accountancy team was at full establishment from 1 April, following a lengthy period when the team was under-resourced, and has remained at full strength for the duration of the closedown period;

- the existing team members are building on experience they gained in the previous year's closedown process, which has meant that final accounts tasks have been able to be complete more quickly and easily.

32. With the team at full establishment, it has proved possible to undertake more preparation and review during the final accounts process, and it proved possible for accountancy team members to liaise more closely with their counterparts at VWHDC, which has assisted both teams. This is something officers are keen to build on in the future.

33. There are however some issues that officers wish to draw to the attention of members.

- Reconciliations

34. There are still some outstanding issues concerning some of the system reconciliations that are completed at year end, concerning bank reconciliations, and the reconciliations between Academy and Agresso. Officers have worked to complete these reconciliations to a point at which they are satisfied that they are sufficient for the purposes of completing the accounts for this June deadline, but now that the accounts have been submitted efforts will be made to not only see the reconciliations through to their conclusion, but also to make a start on the 2009/10 reconciliations. It should prove easier for these reconciliations to be completed in a timely manner now that:

  - the accountancy team is at full establishment;
  - the reconciliation processes have been reviewed; and
  - the roles and responsibilities of both the accountancy team and Capita have been confirmed.

- Fixed asset accounting

35. Officers have been able to comply with the fixed asset accounting requirements for both the 2007/08 and 2008/09 accounts by the use of spreadsheets. Spreadsheets have previously proved sufficient for fixed asset accounting but officers feel that

this may not continue to be the case. The added complexity of the latest fixed asset accounting requirements, which were introduced for 2007/08, coupled with the imminent arrival of International Financial Reporting Standards, which will add further requirements, may mean that the best way to ensure that fixed asset accounting requirements continue to be met is through purchase of an asset accounting system. Officers will be considering this over the coming months, with a view to making a growth bid, if necessary, during the 2010/11 budget setting cycle.

Financial Implications

36. These are covered in the body of the report.

Legal Implications

37. Approval of the statement of accounts by the committee fulfils the requirement of regulation 10 of the accounts and audit regulations 2003. If any significant mis-statement is identified after approval then an amended version will need to be brought back to the committee.

Human Resource, Sustainability, Equality and Diversity Implications

38. There are no implications arising from this report

Conclusion

39. It is recommended that the committee formally approves the 2008/09 statement of accounts and that the chair of the committee formally signs the accounts to certify that this has been done.

Background Papers

The statement of accounts for 2008/09.