

**Meeting:           AUDIT COMMITTEE**

**Agenda Item: 3**

Portfolio Area: Resources

**Date:               28 June 2010**

**STATEMENT OF ACCOUNTS 2009/10 AND CAPITAL CONTROL SYSTEMS DETERMINATIONS**

**KEY DECISION**

Author – Clare Fletcher, Ext No 2933  
Lead Officer – Clare Fletcher, Ext No 2933  
Contact Officer – Clare Fletcher, Ext No 2933

**REASON FOR URGENCY.**

It is a statutory requirement for the Audit Committee and the Statement of Accounts Committee to formally approve the Statement of Accounts by the 30 June 2010.

**1.    PURPOSE**

- 1.1 To present the 2009/10 Statement of Accounts to the Audit Committee for review prior to submission to the Statement of Accounts Committee for approval.
- 1.2 To review certain capital financing determinations required under the Local Government and Housing Act 1989 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 and amended by the 2006 and 2009 regulations, prior to submission to Statement of Accounts Committee for approval.

**2.    RECOMMENDATIONS**

- 2.1 That the 2009/10 Statement of Accounts and capital financing determinations be considered and recommended to the Statement of Accounts Committee for approval.
- 2.2 That Members consider the 2009/10 out turn position and recommend to the Statement of Accounts Committee the approval of carry forward requests relating to under spent budgets totalling £165,600 for 2010/11.
- 2.3 That Members recommend to the Statement of Accounts Committee the approval of £740,142 net transfer from reserves.

**3.    BACKGROUND**

- 3.1 The Statement of Accounts are prepared in accordance with the Accounts and Audit Regulations 2003 and are compiled to demonstrate probity and stewardship of public funds as well as complimenting performance reporting.
- 3.2 Local authorities have a statutory obligation to publish the audited 2009/10 Statement of Accounts by 30 September 2010. Approval by Audit Committee/Council is required by 30 June 2010. In the Council's Constitution,

approval of the Statement of Accounts is required by Council, although this has been formally delegated to the Statement of Accounts Committee for 2009/10.

The time scales involved with the approval, inspection and audit of the 2009/10 Accounts are:

<b>Approval and Audit Process</b>	<b>Date</b>
(a.) Draft Annual Governance Statement considered by Audit Committee	14 June 2010
(b.) Draft Statement of Accounts to Audit Committee	28 June 2010
(c.) Approval of Statement of Accounts (subject to Audit) by Statement of Accounts Committee	28 June 2010
(d.) Audit due to commence	Mid July 2010
(e.) Accounts available for statutory Public Inspection	12 July 2010
(f.) Any Audit Issues reported to Audit Committee	6 Sept 2010
(g.) Auditors final opinion on Statements (prior to)	30 Sept 2010

3.3 The Council must make the Statement of Accounts available for public inspection for 20 working days. Following notification from the Auditor, this is due to commence on 12 July 2010.

3.4 Following completion of the Audit and finalisation of the Statement of Accounts for 2009/10, a Summary of Accounts will be produced. This will be a short, user-friendly summary of the more detailed and technically complex statutory publication. This summary will be published on the internet and in Chronicle.

3.5 The Audit Committee was established in May 2006 as an advisory committee of the Council. As such it has an important role to play in reviewing the Statement of Accounts and forming part of the robust member scrutiny of the Accounts expected by the public and the Council's external auditors.

3.6 Formal responsibility for approving the Statement of Accounts remains the responsibility of Council, for 2009/10 this has been delegated to the Statement of Accounts Committee, in order that the accounts are approved prior to the 30 June 2010 statutory deadline.

3.7 Under the Local Government and Housing Act 1989 each authority must also make certain determinations each year. These determinations relate to capital financing transactions in the preceding financial year.

## 4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

### 4.1 Statement of Accounts 2009/10 (Appendix A).

- 4.1.1 The Statement has been produced in accordance with the Code of Practice on Local Authority Accounting Statement of Recommended Practice 2009 (SoRP) published by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 4.1.2 Work has been on-going in 2009/10 to improve financial reporting. A programme of works have been on-going since February 2008 and has seen improvements recognised by the Councils external auditors, firstly the Audit Commission for the 2007/08 accounts and Grant Thornton for the 2008/09 accounts.
- 4.1.3 The Council established Stevenage Homes Limited (SHL), an Arm's Length Management Organisation (ALMO), on 1st October 2006 to manage and maintain the Council's Housing Stock on behalf of the Council. Accordingly, the Council's 2009/10 Statement of Accounts also reflects the requirement for SHL's Company Accounts to be "grouped" with those of the Council for financial reporting purposes.
- 4.1.4 The Council's Medium Term Financial Strategy (MTFS) and 5 Year Capital Strategy will be updated to reflect the 2009/10 out turn and the matters contained within this report.
- 4.1.5 The Accounts are currently subject to audit and the Statement may be subject to amendment prior to publication if requested by the Council's external auditors. Revised pages will be issued to Members for any significant amendments. The draft Statement of Accounts will be published on the Council's Internet site once approved by the Statement of Accounts Committee.

### 4.2 Capital Control System Determinations 2009/10

- 4.2.1 **Determination 1** is the use to be made in 2009/10 of usable capital receipts (i.e. the main source of funding the Council's capital programme):

	<b>£,000</b>
Capital Expenditure during 2009/10	25,469
<b>Less other Sources of Funding :</b>	
Government Contributions:	
- Grants	1,430
- Housing Subsidy and Major Repairs Allowance	6,207
Contributions from other bodies	239
<b>Total Funding from other Sources</b>	<b>7,876</b>
<b>Balance to be met from Capital Receipts</b>	<b>11,542</b>
<b>Balance to be met from Borrowing</b>	<b>6,051</b>

4.2.2 **Determination 2** relates to the amounts to be set aside from revenue as provision for credit liabilities i.e. outstanding capital debt. The legislation prescribes a minimum amount called the Minimum Revenue Provision (MRP) that must be set aside, calculated as a percentage of an authority's net debt. In other words, this represents the minimum amount which the Council must set aside within its revenue accounts for the year in question, to repay outstanding debt.

4.2.3 From 1998/99 the Council has been in a net investment position rather than having net debt. The MRP calculation excludes housing debt and therefore no MRP is required.

## 5. IMPLICATIONS

### 5.1 Revenue Summary

5.1.1 A summary of the 2009/10 out turn is as follows:-

	<b>Working Budget £'000</b>	<b>Out turn £'000</b>	<b>Variation £'000</b>
<b>Fund:</b>			
General Fund	15,093	14,220	(873)
HRA	12	(335)	(347)

### 5.2 General Fund Outturn Position

	<b>Original Budget 2009/10 £'000</b>	<b>Working Budget 2009/10 £'000</b>	<b>Actual 2009/10 £'000</b>	<b>Variance to Working Budget £'000</b>
Gross Expenditure on Services	70,894	73,850	82,031	8,181
Income	(50,681)	(53,617)	(55,469)	(1,852)
<b>Total Service Expenditure</b>	<b>20,213</b>	<b>20,233</b>	<b>26,562</b>	<b>6,329</b>
Reversal of capital charges to neutralise the impact on the Council Tax Payer	(5,140)	(5,140)	(12,342)	(7,202)
<b>Total Net Operating Expenditure</b>	<b>15,073</b>	<b>15,093</b>	<b>14,220</b>	<b>(873)</b>
Government grants incl. RSG & NNDR	(7,814)	(7,814)	(7,814)	0
Collection Fund Income	(5,454)	(5,454)	(5,454)	0
Net change in reserves for year	1,805	1,825	952	(873)
Balance brought forward	(2,906)	(2,906)	(2,906)	0
<b>Balance Carried forward</b>	<b>(1,101)</b>	<b>(1,081)</b>	<b>(1,954)</b>	<b>(873)</b>

- 5.2.1 The overall position on the General Fund shows an under spend compared to the working budget of £872,781, these variations are shown in **Appendix B** (variances over £15,000).
- 5.2.2 There were a number of significant variances that have resulted in the under spend for 2009/10 and these are:
- I. Increase in housing benefit overpayments net of bad debt provision £455,649 (recognition of prior years overpayments deducted from claimant payments).
  - II. Higher housing benefit subsidy claimed of £91,393 as a result of Local Authority overpayments being lower than the threshold set by the DWP.
  - III. Increase in grant received in March - Local Delivery Framework grant £25,000 and Growth Fund grant of £154,813.
  - IV. Under spend on utility costs across the Council's buildings of £109,632
  - V. Commercial Property income increased by £139,243 due to rent reviews recognised in the accounts and higher estimated income from Westgate and sale of garage sites.
- 5.2.3 There were also increases in expenditure relating to transfers to reserves for the following:
- VI. single status implementation £100,000
  - VII. interest equalisation reserve £294,000

### 5.3 Housing Revenue Outturn Position

	<b>Original Budget 2009/10</b>	<b>Working Budget 2009/10</b>	<b>Actual 2009/10</b>	<b>Variance to Working Budget</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Gross Expenditure	40,317	38,465	66,394	27,929
Income	<u>(37,758)</u>	<u>(36,741)</u>	(36,402)	339
<b>Net Cost of HRA</b>	<b>2,559</b>	<b>1,724</b>	<b>29,993</b>	<b>28,268</b>
Reversal of Capital Charges	<u>(1,712)</u>	<u>(1,712)</u>	(30,327)	(28,615)
<b>(Surplus) / Deficit for the year</b>	<b>847</b>	<b>12</b>	<b>(335)</b>	<b>(347)</b>
Balance brought forward	<u>(2,095)</u>	<u>(2,095)</u>	(2,095)	0
<b>Balance Carried forward</b>	<b>(1,248)</b>	<b>(2,083)</b>	<b>(2,430)</b>	<b>(347)</b>

(\* ) The outturn expenditure totals include depreciation and impairment of fixed assets, but these are notional capital charges and do not have an effect on the net cost of service.

5.3.1 The HRA under spend of £345,364 includes a number of variations across Management General and Special Expenses and additional income in a number of areas as summarised in **Appendix B**, (variances over £15,000).

5.3.2 There were a number of significant variances that have resulted in the under spend for 2009/10 and these are:

- I. Additional Supported People grant previously held on the balance sheet £217,141
- II. Reduction in number and value of insurance excesses of £104,650

5.3.3 In addition to the net under spend of £345,364 on the HRA, SHL's own Company Accounts show as at 31st March 2010 of £110,594 surplus against the forecast deficit of £222,910 for the year.

#### 5.4 Transfer to Reserves

	Balance as at 1 April 2009 £'000	Contributions £'000	Payments to Fund Expenditure £'000	Balance as at 31 March 2010 £'000
Commercial Rents	100	0	(100)	0
DSO Training	102	0	0	102
Capacity Building	86	50	0	136
Insurance	50	0	0	50
De minimus Capital	100	0	0	100
Interest Equalisation	0	295	0	295
Performance Reward Grant	0	217	0	217
Single Status	0	100	0	100
Planning Delivery Grant	0	179	0	179
	<b>438</b>	<b>840</b>	<b>(100)</b>	<b>1,179</b>

5.4.1 Members have approved the transfers to and from reserves as part of the quarterly monitoring process. The projection at the 3rd quarter was an earmarked reserve balance of £396,417. The total value of transfers to/from reserves for 2009/10 was £740,142 an additional £695,812.

5.4.2 The transfer includes four new earmarked reserves which relate to:

- I. **Interest Equalisation Reserve** -This reserve will meet the cost of fluctuations in interest rate movements. The HRA has more investments (calculation set by statute), than the total value of investments held by the Council (as at 31 March 2010). Therefore any increase in interest rates has an adverse impact on the General Fund. The fund value represents a 2% increase in investment interest rates, including the impact of any special determinations for decent homes borrowing. (£294,000 *transferred from General Fund*).

- II. **Performance Reward Grant**-The Council has accounted for performance reward grant in its accounts which was given by the Government for reaching Local Area Agreement (LAA) targets. 50% of the monies relate to revenue and as such have to be shown in the Council's revenue accounts and transferred to a reserve. The monies have been allocated to schemes by the SoStevenage Local Strategic Partnership and will be spent in 2010/11. In June 2010, the Government announced that only 50% of the awarded grant would be paid as part of the £6billion savings cuts in 2010/11. (*£217,207 transferred from General Fund, from grant received in year*).
- III. **Single Status Reserve**-The Council is working towards implementing single status for all employees by April 2011. This involves evaluation and moderation of jobs and is anticipated to require resources to bring the new pay and grading model into place. The Council also has a provision for the back pay element of the scheme. (*£100,000 transferred from General Fund*).
- IV. **Housing and Planning Delivery Grant Reserve** -The Council receives monies from the Government designed to incentivise housing growth and the underlying planning requirement to allocate land and put development plans in place. Due to the nature of the work the expenditure is often not aligned to the pattern of grant received. The funds resources have been fully allocated to future years spend. The Government announced that from 2010/11 this grant would cease as part of the £6billion savings cuts in 2010/11. This reserve was previously treated as a creditor and the income shown in the reserve is a re-categorisation of the monies on the balance sheet rather than the transfer of General Fund monies into earmarked reserves. (*£122,000 transferred from balance sheet code, £57,000 reported 3<sup>rd</sup> quarter*)

## 5.5 General Fund Carry Forward Requests

- 5.5.1 In the 3rd quarter monitoring report, Members approved carry forwards of £42,710. A further £128,600 General Fund and £37,000 HRA carry forwards are requested as part of the closure process. Carry forwards should only be approved if they are in relation to projects which by their nature are difficult to accurately phase into each individual financial year. These are areas such as the Local Neighbourhood Action Teams and specific project work, where slippage has occurred and requests to carry forward the resulting under spent budgets into the 2009/10 has been requested. These proposed carry forward budgets are as follows:

<b>Transfer to</b>	<b>Sum Requested</b>
<b>General Fund:</b>	
Neighbourhood Action Teams	£20,060
Planning & Regeneration	£25,000
Community Grants	£13,510
Budget for Full Time Safe Guarding Children Post	£13,400
Resources Pathfinder contribution	£6,000
Civic Links	£14,730

Corporate Training	
Programme commitments	£18,400
IT training	£7,500
Mayoral Expenses	£5,000
Strategic Housing market assessment	£5,000
<b>Total</b>	<b>£128,600</b>
<b>HRA:</b>	
Supported Housing study	£37,000

## 5.6. Impact of 2009/10 Expenditure on 2010/11 General Fund Budget

5.6.1 The table below details the 2010/11 General Fund budget as a result of the 31 March position. The MTFS will be presented to Members at the July Executive, this will include current pressures and savings identified by officers.

<b>General Fund 2010/11</b>	<b>£'000</b>
Original Budget Approved February 2010	13,293
3rd quarter approved 2009/10 adjustments	43
Carry Forwards June 2010	129
<b>Total Net Expenditure</b>	<b>13,465</b>
Precept and Government Grants	(13,400)
Use of General Fund Balances in 2010/11	65
Opening Balance 1 April 2010	(1,954)
Use of balances	65
Closing Balance 31 March 2011	(1,889)
Earmarked Reserves 31 March 2011*	(636)
<b>Total Revenue Reserves 31 March 2011</b>	<b>(2,525)</b>

\* excludes Performance Reward Earmarked Reserve.

5.6.2 The 2010/11 projected outturn position has improved for the General Fund and means that balances are higher than the minimum level identified in the Council's Medium Term Financial Strategy. However, there a number of risk areas for the 2010/11 budget which are:

- I. The government has already identified a number of grant cuts to meet the 2010/11 central government savings target of £6billion, which will impact on General Fund net expenditure.
- II. The impact is not known of further cuts that maybe announced in the Chancellors emergency budget on the 22 June 2010, (MTFS estimates a 5% cut in Government grant in 2011/12).
- III. The funding impact of Government intention to freeze Council tax in 2011/12 is not known.



5.6.3 The MTFS report to the July Executive will update Members on the financial projections for the next five years, incorporating the issues identified above. The strategy will also identify those under spends which are on-going and can contribute to future savings targets.

5.6.4 The HRA MTFS will also be reported to the July Executive and will update Members on the financial projections and include the 2009/10 outturn position.

## 5.7 Capital

5.7.1 The out turn position for the capital programme for 2009/10 is set out in the table below. The table compares the out turn with the original programme:

<b>Capital Programme 2009/10</b>	<b>Working Budget</b>	<b>Outturn</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
General Fund	9,570	5,724	(3,846)
Housing Revenue Account	19,263	19,745	482
<b>Total</b>	<b>28,833</b>	<b>25,469</b>	<b>3,364</b>

5.7.2 The capital programme has been financed from the following sources:

<b>Source of Finance</b>	<b>2009/10</b>
	<b>£'000</b>
Capital Receipts	(11,542)
Grants	(1,430)
Contributions	(239)
Housing Subsidy & Major Repairs Allowance	(6,207)
Borrowing	(6,051)
<b>Total</b>	<b>(25,469)</b>

5.7.3 A report will be presented to the July Executive outlining proposals for the Capital Strategy, as a result of continuing difficulties in the disposal of surplus assets.

## 5.8 Legal Implications

5.8.1 None identified at this time.

## 5.9 Equality and Diversity Implications

5.9.1 All services identified within the report have their own Equalities Impact Assessments, which are reviewed when appropriate.

## **6. BACKGROUND DOCUMENTS**

- 2009/10 General Ledger
- Final Accounts Working Papers
- 2009/10 Medium Term Financial Strategy Update
- Local Government Finance Settlement
- Housing Subsidy Determinations

## **7. APPENDICES**

- **Appendix A** - Statement of Accounts 2009/10
- **Appendix B** - 2009/10 Out turn - Analysis of Major Variances (General Fund and Housing Revenue Account)