

This Report will be made public on 19 June 2009

Folkestone

Hythe & Romney Marsh
Shepway District Council



www.shepway.gov.uk

Report Number

AU/09/10

To: Audit and Compliance Committee
Date: 29 June 2009
Status: Non-Executive Decision
Responsible Officer: Kathryn Beldon
Cabinet Member: Councillor D D Monk

SUBJECT: SHEPWAY DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2008/09

SUMMARY: This Report presents the council's Statement of Accounts for the year ended 31 March 2009, including a commentary on the financial results for that year. The Statement of Accounts is subject to audit.

REASONS FOR RECOMMENDATION:

The Audit and Compliance Committee is asked to agree the recommendations set out below because in accordance with the Accounts and Audit Regulations 2003 and the council's constitution, it is required to approve the council's completed accounts.

RECOMMENDATIONS:

1. To receive and note Report AU/09/10.
2. To approve the Statement of Accounts for 2008/09.

1. INTRODUCTION AND BACKGROUND

- 1.1 Shepway District Council provides a wide range of services to its council tax payers and its rent payers. Spending is split between capital and revenue expenditure. Revenue expenditure is financed from council tax, rents, government grants and contributions, fees and charges and other income. Capital expenditure provides economic benefits lasting more than one year and is financed from loan, grants, capital receipts and revenue contributions. The Statement of Accounts at Appendix A sets out the financial position of the council for 2008/09.
- 1.2 The content and format of the Statement of Accounts is prescribed in the Code of Practice on Local Authority Accounting in the United Kingdom 2008 - A Statement of Recommended Practice (SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The SORP constitutes proper accounting practice under the terms of section 21(2) of the Local Government Act 2003.
- 1.3 There are no significant changes between the council's Financial Statements for 2008/09 and those published for 2007/08. The changes introduced in 2008/09 are described in the Statement on page 1 of the Explanatory Foreword.
- 1.4 This report provides an overview of the contents of the accounts and draws attention to the reasons for any significant changes in the council's financial position.

2. CONTENTS OF THE STATEMENT OF ACCOUNTS

2.1 Explanatory Foreword (Pages 1 to 6)

The foreword provides a brief summary of the most significant matters reported in the accounts and sets out the context in which the accounts are produced.

The key features included within the Explanatory Foreword are:

- i) General Fund net expenditure for 2008/09 was £18.517m, an under spending of £600k compared to the latest approved budget of £19.117m. The main reason for the under spending is a refund of VAT on excess charges with interest from HM Revenue and Customs of £392k.
- ii) The General Reserve balance at 31 March 2009 has increased to £2.565m which is above the "target" level of prudent reserves assessed at £2m.
- iii) Earmarked revenue reserve balances at 31 March 2009 are £1.614m, of which £925k is committed.
- iv) Housing Revenue Account reserve at 31 March 2008 is £2.235m.
- v) Capital investment in 2008/09 amounted to £6.813m which was £84k more than the latest approved budget.

- vi) Total debt fell by £790k to £36.288m at 31 March 2009. New borrowing of £907k was offset by an improvement to the council's overall cash flow.
- vii) The Collection Fund deficit decreased by £238k to £766k at 31 March 2009. The council's share of the deficit is £137k, of which £105k will be recovered in 2009/10 with the remainder being recovered in 2010/11.
- viii) The council's Pensions Fund liability increased by £7.8m to £35.1m at 31 March 2009. This increase is mainly as a result of poor investment returns during 2008/09.

2.2 Accounting Policies (Pages 7 to 16)

This section includes the accounting policies for 2008/09.

2.3 Statement of Responsibilities (Page 17)

This sets out the responsibilities of the council and the Chief Finance Officer in relation to the production of the Statement of Accounts.

2.4 Income and Expenditure Account (Page 18)

The account summarises the resources that have been generated and consumed in providing services and managing the council during last year. It includes day to day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

The Income and Expenditure Account shows the deficit for 2008/09 to be £32.153m which is £26.555m greater than the £5.598m deficit reported in 2007/08. The significant reason for this is a fall in property prices. External valuers commissioned by the council to assess the value of its fixed assets have advised that council housing valuations should be reduced by 18% and other housing assets by 12.5%. This resulted in an impairment cost of £27.775m. Impairment costs do not fall to be met by rent and tax payers and are therefore reversed out in the Statement of Movement in the General Fund Balance (see below).

The income and expenditure disclosed in the Income and Expenditure Account are measured using the same accounting conventions that a large (unlisted) company would use when preparing its financial statements. However the items of 'income' and 'expenditure' which are taken into account when determining an authority's budget requirement is determined by statute and non-statutory proper practices rather than accounting conventions. The main differences between these two approaches are:

- Capital invested is accounted for as it is financed, rather than when it is consumed.
- The payment of a share of housing capital receipts to the Government scores as a loss in the Income and Expenditure

Account but is met from usable capital receipts balance rather than Council Tax.

- Retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as future benefits are earned.
- When the council gives loans on advantageous terms the actual interest (if any) is charged rather than recognising an effective market interest rate in the Income and Expenditure Account.
- Gains and Losses on the derecognition of loans are spread in accordance with regulations rather than being either written off to the Income and Expenditure Account immediately or becoming part of the carrying amount of a replacement loan.

The **Statement of Movement in the General Fund Balance** (Page 19) compares the council's spending against the government grant due and the Council Tax raised for the year. This shows a surplus of £798k, which represents an increase of £600k compared to the budgeted surplus of £198k. The variance is explained in the table below:

<u>2008/09</u>	£'000
General Fund Surplus – latest budget	(198)
Less Actual Surplus	<u>(798)</u>
Variance	<u>(600)</u>
Explained by:	
Back-dated VAT claim	(392)
Net Portfolio underspend	(488)
Underspend on administrative services	(169)
Increased contribution to reserves	<u>449</u>
General Fund Underspend	<u>(600)</u>

2.5 **Statement of Movement on the General Fund Balance (Page 19)**

The General Fund Balance compares the council's spending against the council tax that is raised for the year, taking into account the use of resources built up in the past and contributions to reserves earmarked for future expenditure.

	£'000
General Fund Balance Brought Forward	(1,767)
Deficit for the Year	32,153
Amounts included in Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance.	(34,373)
Amounts required by statute to be included when determining the movement on the General Fund Balance	1,082
Transfers to/(from) General Fund Balance when determining the movement	340
General Fund Balance carried forward	<u>(2,565)</u>

2.6 Statement of Total Recognised Gains and Losses (Page 20)

This statement brings together all the gains and losses of the council for the year and shows the aggregate increase or decrease in its net worth. In addition to the deficit on the Income and Expenditure Account, it includes any gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

The Statement of Total Recognised Gains and Losses shows that the council's net worth has reduced by £39.183m in 2008/09. The main reasons for this decrease are outlined in section 2.7.

2.7 Balance Sheet (Page 21)

The Balance Sheet sets out the financial position of the council at 31 March 2009. The Statement shows the balances and reserves at the council's disposal, its long term indebtedness and fixed and net current assets employed. Overall the council's net worth has decreased by £39.183m to £106.488m. The principal movements on the balance sheet are described below.

- The value of total fixed assets fell by £33.157m. This is principally due to the impairment of fixed assets arising from the reduction in the value of council dwellings and also depreciation charged on fixed assets.
- Long term investments increased by £7.4m and short term investments decreased by £9m. The main reason for this movement is due to the decision taken in August 2008 to call back the £10m cash fund managed by the external fund manager, Investec Asset Management Ltd, and invest £7m in long term deposits and £3m in

a short term deposit with approved financial institutions. The objective of the investment decision was to provide an improved level of certainty over interest returns.

- The Pension Liability and Reserve have increased by £7.750m. These notional accounts reflect the underlying pension commitments that the council has in the future.

Revenue reserves have increased by £1.376m. The minimum prudent level of reserves that the council should maintain is a matter of judgment. It is the council's safety net – a contingency to cushion the impact of unexpected events or emergencies and a working balance to help cushion the impact of uneven cash flows. The council approved a Policy on Reserves which stated that the minimum level of reserves should be as follows:

	Minimum Level	Target Date
General Fund Balance	£2.0m	2012
Housing Revenue Account	£1.0m	n/a
Capital	£0.5m	n/a

The current levels of reserves are shown in the table below:

	2008/09			2009/10		
	Balance 1/04/08 £000	Use of £000	Additions £000	Balance 31/03/09 £000	Budgeted (Use of)/ Increase £000	Projected Balance 31/03/10 £000
General Reserves						
General Fund	1,767	0	798	2,565	413	2,978
Housing Revenue Account	2,677	(442)	0	2,235	(535)	1,700
Earmarked Reserves						
Collection Fund	(1,004)	0	238	(766)	587	(179)
Leisure Reserve	404	(24)	0	380	0	380
Carry Forward Reserve	148	(148)	859	859	(859)	0
Corporate Property Reserve	51	(20)	26	57	21	78
Vehicles, Equipment and Technology Reserve	217	(44)	43	216	39	255
Maintenance of Graves	12	0	0	12	0	12
Business Rates Relief	0	0	90	90	(30)	60
Total Revenue Reserves	4,272	(678)	2,054	5,648	(364)	5,284

The General Fund Balance stands at £2.565m at 31st March 2009. This includes £392k in respect of a refund on VAT for car park excess charges. Whilst the reserve appears healthy, the budget position remains extremely tight. There is anticipated growth in budget requirement for concessionary fares for 2009/10 and future years. In addition, the council is anticipating a

negative impact on its finances in the current economic climate. It is therefore prudent to maintain the reserve at this level.

2.8 Cash Flow Statement (Page 22)

This Statement summarises the cash in flows and out flows arising from transactions with third parties arising from revenue and capital purposes. The Statement shows that there has been a net cash outflow.

2.9 Housing Revenue Account (Page 48-52)

The council, as a recognised housing authority, must produce a statement of the Housing Revenue Account (HRA) in accordance with the requirements of the Local Government and Housing Act 1989. For 2008/09, there was a deficit of £442k, resulting in a HRA Reserve of £2.235m. The planned deficit for 2008/09 was £605k. The variation of £163k is detailed on page 5 of the Statement.

2.10 Collection Fund (Pages 53-54)

The council is required to maintain a separate fund for the collection of the Council Tax and Business Rates income and payment of precepts. Overall, there was an in year surplus of £238k giving a total deficit of £766,000 at the year end. The council's share of the deficit is £137k and this will be recovered over the next couple of years.

2.11 Annual Governance Statement (Pages 55 to 60)

The Accounts and Audit Regulations 2003 places a requirement on local authorities to publish a Statement on Internal Control (SIC) with the annual financial statements. CIPFA guidance, issued in 2007, recommends as best practice that this is included in an Annual Governance Statement. The Audit and Compliance Committee is required to consider this Statement independently from the Financial Statement. Hence the Annual Governance Statement is a separate item on this agenda.

2.12 Glossary (Pages 61 to 63)

A definition of some of the terms used within the accounts is provided.

3. AUDIT

- 3.1 The Statement of Accounts is subject to audit. The audit is planned to take place during July/August and it is expected that the Audit Commission will present its report to this Committee on 16 September 2009.

4. CONCLUSION

- 4.1 The Committee is asked to approve the Statement of Accounts for 2008/09 in accordance with the Accounts and Audit Regulations 2003.

5. RISK MANAGEMENT ISSUES

5.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
External audit of the accounts identifies significant changes that must be made to the Statement of Accounts.	High	Low	Accounts prepared in compliance with best accounting practice.

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 Legal Officer's Comments (JC)

This report complies with the Accounts and Audit Regulation 2003 (as amended), which sets out the requirements for the Statement of Accounts (Regulation 7) and states that the accounts must be approved by the Committee Resolution (Regulation 10).

6.2 Finance Officer's Comments (LB)

There are no further finance related comments.

6.3 Diversities and Equalities Implications

None.

7. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officers prior to the meeting

Gary Whittaker, Principal Accountant
Telephone: 01303 853238 Email: gary.whittaker@shepway.gov.uk

Louise Birch, Financial Services Manager Telephone: 01303 853332 Email: louise.birch@shepway.gov.uk

The following background documents have been relied upon in the preparation of this report:

Data from the Financial Management System
Working Papers held within the Financial Services.

Appendices:

[Appendix A](#) - Statement of Accounts