

AGENDA ITEM

**Corporate Affairs Committee**

DATE: 23<sup>rd</sup> SEPTEMBER 2009

**STATEMENT OF ACCOUNTS 2008/2009**

**PAUL SLOCOMBE – DIRECTOR OF RESOURCES**

**PURPOSE OF THE REPORT**

1. To seek members approval of the audited 2008/2009 Statement of Accounts.

**BACKGROUND AND EXTERNAL CONSULTATION**

2. Attached to this report are extracts from the audited Statement of Accounts providing details of the main accounting financial statements:
  - Appendix A - Income and Expenditure Account.
  - Appendix B - Statement of Movement on the General Fund Balance.
  - Appendix C - Statement of Total Recognised Gains and Losses.
  - Appendix D - Balance Sheet.
  - Appendix E - Cash Flow Statement.
  - Appendix F – Annual Governance Statement.
3. A copy of the full statement has been made available to all members of the Corporate Affairs Committee and a copy has been placed within the Members Library. In addition a copy of the accounts will be made available on the Council's website, once the External Auditor has signed the document.
4. The Statement of Accounts has had the following alterations made from the draft presented to members in June 2009, which are mainly technical accounting matters, which ensure complete compliance with revised Statement Of Recommended Practice (SORP) requirements and Best Value Accounting Code of Practice (BVACOP). There is no impact on the outturn for the year or the Councils overall financial standing.

	Alteration	Reason
1	Government Grants & Contributions Deferred – entries were made in the accounts to remove Government Grants and contributions received for assets that are not depreciated. This did not follow the SORP Guidance. These incorrect entries have now been removed from the accounts. Revising the Authorities Net Worth to £246M.	Ensures compliance with SORP
2	Short Term Investments – £5.5M of the investments on deposit with banks and building societies have classified as short term investments. These investments should have been classified as long term investments as the period of investment exceed twelve months. These investments have been transferred to long term investment. No overall impact on Balance sheet.	Ensures compliance with SORP

5. There are no major issues raised by the External Auditor - Deloitte and there was significant progress in the production of the 2008/2009 Statement of Accounts. The draft and final Statements have been produced within the timetable and the quality of the working papers has again improved.

#### THE YEAR END FINANCIAL POSITION

6. The application of sound financial management across all services was reflected in the final outturn for the year with a net saving compared to budget of £61,000 (0.1%).
7. There were some significant ongoing pressures dealt with by the service areas during 2008/2009 and for the first time a section was included on the impact on Middlesbrough of the current economic climate. A number of the pressure areas highlighted in the Explanatory Foreword in the statement of accounts are continuing into the current financial year including:
- Reduced right-to-buy receipts
  - Reduced income from car parking
  - More vulnerable children in care (residential and fostering)
  - Increase in demand led pressures on Older People, Physical disabilities, Learning disabilities and Personal Care.

8. The Balance Sheet is important to the understanding of the strength of the Council's financial position as at the 31<sup>st</sup> March 2009. It reports details of, the value of assets owned by the Council, the level of creditors (amounts owed by the Council), the level of debtors (amounts owed to the Council) and the level of provisions and reserves maintained by the Council. The main items of note are detailed in paragraphs 9 to 12.
9. Fixed Assets – these are assets owned by the authority which are used either in direct service provision or held for investment purposes. The value as at 31 March 2009 is £566 million (March 2008 - £544 million). Fixed assets are revalued at least every five years and there was a reduction in the value of assets revalued during 2008/2009 of £30.6 million. Actual capital spend in the year was £52.6 million, compared with a budget of £59.2 million. Expenditure during the year was mainly funded from grants (68%), from usable capital receipts (9%), from borrowing (15%), from revenue contributions (3%) and from capital contributions (5%).
10. Current Assets – the main items included within this heading are debtors i.e. money owed to the Council as at 31 March 2009 and short-term investments. Investments reduced over the year and the Council had £43.8 million invested in other local authorities, a variety of banks and building societies. The Council's debtors increased by £8.2 million to £45.1 million, which was due to:
  - An increase in outstanding government grants of £9.5 million;
  - Council Tax and NNDR debt increasing by £1.2 million;
  - A reduction of £2.5 million in sundry debtors mainly due to an improvement in debt collection procedures.The provision for bad debts also increased by £448,000 to £12.6 million.
11. Current liabilities – this is the amount of money owed by the Council to its suppliers and contractors, which totalled £46.305 million as at 31 March 2009 (£41.724 million as at 31 March 2008). The increase of £4.6 million was due mainly to outstanding payments for equal pay claims.
12. Long term liabilities – Long term borrowing of £100.5 million remained static over the year as the Council has mainly used grants and contributions to fund capital expenditure. The Pension Liability amounts to £97.16m as at March 2009 (£95.93 million March 2008). This is the value placed on the Council liability by the Pension Fund Actuary.
13. The Council's policy is to maintain an appropriate level of reserves and provisions for assessed liabilities - a full list is attached as Appendix G. They are reviewed at year-end and throughout the year. The financial risks to the Council are identified and both revenue and capital funding earmarked to cover the potential costs. The main financial risks are:
  - Equal Pay/Job Evaluation
  - Uncertainty of National/International Finances
  - Building Schools for the Future
  - Older Housing renewal
  - Primary School review (Primary strategy for Change)

- Efficiency saving targets
- Revenue Financing Gap 2009/2010 and ongoing
- Social Care demand led pressures
- Children Services demand led pressures
- Direct Schools Grant
- Partnership arrangements
- External funding

## **FUTURE ACCOUNTING DEVELOPMENTS**

14. Internationally a number of accountancy regulatory bodies have agreed to a convergence of accounting standards and practices globally to enable easier comparison of accounts across countries. Local Government accounts are moving to a standard known as International Financial Reporting Standards (IFRS). This has, and will, lead to significant changes to the format and accounting practices for local government in latter years.
15. The Council has been working on the implementation for over a year and a significant amount of the work completed including:
  - Identifying what needs changing in the Statements
  - Identifying what needs adding to the Statements
  - The financial processes across the Council which need adjusting/creating
  - Identifying the changes to the main financial system (SAP)
  - Developing and rolling out the training for members, staff and senior managers.

## **EXTERNAL CONSULTATION**

16. Notice was given in the local press for any interested person to inspect, and make copies of, the Statement of Accounts and other supporting documents between 6th July and 31<sup>st</sup> July 2009. There were no interested persons this year.

## **FINANCIAL, LEGAL AND WARD IMPLICATIONS**

17. Overall the accounts show a sound financial position for the Council with the level of balances being in line with the Council's Medium Term Financial Plan.

## **RECOMMENDATIONS**

18. It is recommended that members approve the final 2008/2009 Statement of Accounts.

## **REASONS**

19. The recommendation is supported by the requirement to comply with the 2004 Accounts and Audit Regulations, which require the audited Statement of Accounts to be approved by the 30th September 2009.

## **BACKGROUND PAPERS**

The following papers were used in the preparation of the report: -

- Draft Statement of Accounts 2008/2009
- Report to Corporate Affairs Committee 25th June 2009

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