

AGENDA ITEM

Corporate Affairs Committee

DATE: 29th JUNE 2010

DRAFT STATEMENT OF ACCOUNTS 2009/2010

PAUL SLOCOMBE – DIRECTOR OF RESOURCES

PURPOSE OF THE REPORT

1. The purpose of this report is for Members of the Corporate Affairs Committee to receive and approve the Middlesbrough Council Draft Statement of Accounts 2009/2010. The approval of the accounts by the Committee is intended to provide an opportunity for public scrutiny of the Council's financial statements and meet best practice requirements.
2. The Statement of Accounts also includes the accounts for Teesside Pension Fund for which the Council is the Administering Authority.

BACKGROUND

3. The Statement of Accounts is essentially a technical publication containing accounting statements that have been prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain and the Statutory Accounts and Audit Regulations. The Statement of Recommended Practice (SORP) further supports the accounting framework. The SORP is updated annually and specifies the accounting principles and practices required to prepare a Statement of Accounts, which present a true and fair view of the position of a local authority.
4. The key changes introduced by the recent SORPs include:

- **Accounting For Council Tax**

From 1st April 2009, the Council Tax income included in the Income and Expenditure Account will be the accrued income for the year. The Cleveland Police Authority and Cleveland Fire Authority will become debtors or creditors depending on the surplus / deficit on the Collection Fund for the year. This replaces the requirement to only include the precept amounts as in previous years. This is a major change and has required a prior year adjustment to the previous year (2008/09) figures in these accounts. There is no impact on the authority's bottom line / Council Tax.

- **True and Fair View**

For the first time in 2009/2010, the Director of Resources is required by the Accounts and Audit Regulations to certify that the accounts present a true and fair view. This replaces the "presents fairly the financial position" required in previous years.

- **Reporting Senior Officers Remuneration**

With effect 1 April 2009, Local Authorities are required to disclose details of Officer remuneration in greater detail. The effects of the changes are twofold:

- The salary banding are grouped into bands of £5,000 rather than £10,000 previously. (Starting at £50,000)
- An additional disclosure relating to the remuneration of "Senior Officers" requires that we disclose in greater detail the benefits payable to these individuals.

- **Removal of Disclosure Notes**

Five disclosure notes have been removed as requirements of the 2009 SORP:

- 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 in the statement of accounts by accounting standards or legislation.

5. Following the significant changes in 2006/07 to the layout and accounting treatments, the Statement of Accounts now contains the following:

- An Explanatory Forward;
- Annual Governance Statement;
- A Statement of Accounting Policies;
- Statement of Responsibilities for the Statement of Accounts;
- The Main Financial Statements comprising:
 - The Income and Expenditure Account;
 - The Statement of Movement on General Fund Balances;
 - Statement of Recognised Gains and Losses;
 - Balance Sheet;

- Cash Flow Statement.
- Notes to the Main Financial Statements;
- Collection Fund and notes;
- Group Accounts;
- Teesside Pension Fund- Fund Account and Net Asset Summary.

The purpose of each of the Statements within the Accounts is as follows:

6. **Explanatory Foreword:** Acts as a guide to the most significant matters impacting on the Council's finances. It gives an indication of where the Council's funding comes from, what it is spent on and what services it provides. It also sets out the financial position and is intended to assist in the interpretation of the accounting statements.

There is a review of the Financial Year included in this section and the impact on Middlesbrough of the downturn in the economy has been added to the statement:

Business and the Labour Market:

- Major employers across the Tees Valley have made redundancies, including Corus
- Decrease in commercial rental levels and asset values
- Number of business failures increasing
- Increase in the number of vacant retail and commercial property resulting from closures and downsizing
- Increased number of requests to reduce or defer rental payments
- Retail has experienced the greatest difficulties with reduced sales and numerous store closures
- Unemployment has continued to rise from 6.9% to 7.9% during the year, whilst the number of vacancies fell
- Evidence of a recovery commencing, but at a slow rate

Housing Market:

- The value for properties in Middlesbrough has seen a rise in the year by 6%. This still shows a 7% decrease from the peak in 2007
- In 2009/10, 207 new affordable homes were built. This shows an increase of 666% from the previous financial year
- The total number of dwellings completed in 2009/10 was 334, up from 148 in 2008/09.
- In 2009/10 there was 280 repossession claims issued in Middlesbrough. This was down by 38 on the 2008/09 figure
- Right to Buy sales of former council properties continued to be very low

Individuals:

- Money/Debt Enquiries continue at a high level
- Council Tax arrears increased
- Rent Arrears increased
- No reduction in monthly number of Bankruptcies
- Impact on family stability

Impact on the Council:

<ul style="list-style-type: none"> • Increase in bad debts 	<ul style="list-style-type: none"> • Increased court fees, staff workload and reduced income
<ul style="list-style-type: none"> • Requests for Hardship relief / empty Property relief / small business rate relief for Business Rates up substantially. 	<ul style="list-style-type: none"> • Increase in staff workload
<ul style="list-style-type: none"> • Large increase in Benefit Claimants 	<ul style="list-style-type: none"> • Increase in staff workload and administration costs.
<ul style="list-style-type: none"> • Reduced income from Car parks / Commercial Property Rents / planning fees 	<ul style="list-style-type: none"> • Budget pressures for services.
<ul style="list-style-type: none"> • Council share of Right to Buy receipts down 	<ul style="list-style-type: none"> • Continues to be a budget pressure.
<ul style="list-style-type: none"> • Increased demand for Welfare rights / Citizens advice services 	<ul style="list-style-type: none"> • Increase in staff workload
<ul style="list-style-type: none"> • Increase in children taken into care 	<ul style="list-style-type: none"> • Increase in social worker work load and huge costs
<ul style="list-style-type: none"> • Significant increase in numbers of free school meals. 	<ul style="list-style-type: none"> • Additional funding provided by schools to maintain the quality
<ul style="list-style-type: none"> • Capital receipts reduced and delayed 	<ul style="list-style-type: none"> • Possible difficulties funding the Council's 5 year £328 million Capital Programme.

7. **Annual Governance Statement.** The Annual Governance Statement reports on the key financial controls and wider governance arrangements in operation within the Council. The Statement was approved by the members of the Corporate Affairs Committee on the 2nd June 2010.
8. **Statement of Accounting Policies.** The purpose of the statement is to explain the basis for the recognition, measurement and disclosure of transactions and other events in the accounts. In certain circumstances, where more than one accounting basis or estimation technique is acceptable, the accounting policy and/or estimation techniques followed can significantly affect an authority's reported results and financial position.
9. **Income and Expenditure Account - Appendix A.** This is equivalent to a profit and loss account in a private sector companies accounts. It shows the income and expenditure of all the Council's functions, the net cost of Council services for the financial year and demonstrates how this has been funded (e.g. Government Grants, Non Domestic Rates and Council Tax). The format of the income and expenditure of the Council's services is presented using the Best Value Accounting Code of Practice (BVACOP) classification, again a statutory requirement.

The day to day budget monitoring arrangements of the Council are based around its own organisational structure and are different to both the statutory and BVACOP requirements. The outturn accounts reported to the Executive on the 25th May 2010 have had to be reworked to fit these formal requirements. The resulting changes however do not affect the overall net expenditure to be funded from central government grant and Council Tax, although the presentation of the figures in the Statement - Income and Expenditure account is very different.

The main difference between the Council's accounts and the published statutory accounts are as follows:

a. Service Headings

The following service headings are used in preparation of the accounts in accordance with BVACOP:

- Central Services to the Public;
- Cultural, Environmental, Regulatory and Planning services;
- Children's and Education Services;
- Highways and Transport services;
- Housing services;
- Adult Social Care;
- Corporate and Democratic Core;
- Non –distributed costs.

b. Capital Deprecation Charges

In the Statement of Accounts the Council is required to ensure that each service has to reflect a depreciation charge for the assets they use (land, buildings, plant and machinery etc).

c. Transfers To and From Reserves

Transfers into and expenditure funded from reserves are not considered part of the net cost of services and are therefore not reflected at all within the income and expenditure account.

d. Central Support Services

Under BVACOP, the costs of corporate services that are provided to front line services and an allocation of certain central expenses have to be included as service costs rather than central 'corporate' costs. Such services and costs include Finance, Legal, HR, IT, Payroll, Creditors, Debtors etc.

e. Employer's Pension Fund Contributions

Accounting for retirement benefits (FRS17) requires that employer's contributions to pension schemes, reflected in service accounts should only consist of 'current service' costs. As the actual contributions made to the Pension fund by the Council include an element of back funding to recover any previous pension scheme deficit, the service expenditure figures reported in the Statement have to be adjusted to reflect the current service costs as calculated by the fund actuary.

In addition the income and expenditure account includes as part of operating expenditure the net impact of the notional return on the pension fund assets and the increase in accrued future pension liabilities, the Middlesbrough Council elements.

f. Other Differences

Other transactions such as interest earned and paid, precept payments to Cleveland Police / Cleveland Fire Brigade / Parish Councils and trading units are not considered as part of the net cost of services and are required to be shown as separate items in the section below the service expenditure totals in the income and expenditure account.

10. **Revenue Spending**

The main components of the revenue budget for 2009/2010, and how these compare with the actual income and expenditure are set out below:

Budgeted Expenditure	Budget £Million	Outturn £Million	Variance £Million
Service Budgets			
Children, Families & Learning	23.0	24.5	1.5
Social Care	36.5	36.6	0.1
Environment	26.2	26.1	-0.1
Regeneration & Culture	8.5	7.6	-0.9
Corporate Services & Provisions	37.1	36.3	-0.8
Net Service Expenditure	131.3	131.1	-0.2
Budgeted Contribution from Reserves	-0.4	-0.4	0.0
Net Impact on the General Fund	130.9	130.7	-0.2*

***Actual outturn was a £182,000 saving**

The net budget of £130.9 million was funded by

Item	£million
Revenue Support Grant from the Government	15.3
Share of National Business Rates Proceeds	66.4
Council Tax payers for 2009/10*	49.2
= total net budget in 2009/10	130.9

Income from Council taxpayers totalling £49.2 million was based on a charge of £1,475.01 for an average Band D property.

11. **Statement of Movement on the General Fund Balance - Appendix B.** This statement reconciles the differences between the surplus/deficit for the year on the Income and Expenditure Account and the General Fund Balance.

The following table summarises the general fund position shown in the Statement of Accounts and reconciles it with the information included in the 2009/2010 Outturn report to Executive on the 25th May 2010.

Movement in balances reported in the Outturn Report	£000
Transfers from Earmarked Reserves	893
Transfers to Earmarked Reserves	-1,002
Increase in balances at 31 March 2010, resulting from service savings as per the May 2010 Outturn Report to Executive	291
Increase in General Fund balances during 2009/10	182

Movement on the General Fund balance as per the Statement of Accounts	£000
Opening Balance	5,539
Changes to the General Fund in year	182
Closing Balance General Fund as at 31 st March 2010	5,721

12. **Statement of Total Recognised Gains and Losses - Appendix C.** The principle reason for this statement is to bring together all the gains and losses that affect the Council's net worth, including the gains and losses from the revaluation of assets and the actuarial valuation of the pension fund which do not pass through the income and expenditure account.
13. **Balance Sheet - Appendix D.** This statement is important to the understanding of the local authority's financial position as at the 31st March 2010. 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 balances maintained by the Council. The main items of note are as follows:

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 2010 is £642 million (March 2009 - £566 million). Fixed assets are revalued at least every five years and there was an increase in the value of assets revalued during 2008/2009 of £29.5 million. Other long-term investments and long term debtors relate to investments with a maturity date in excess of 12 months from the balance sheet date and debt outstanding on mortgages provided to third parties for the purchase of Council and private dwellings.

Current Assets – the main items included within this heading are debtors i.e. money owed to the Council as at 31 March 2010 and short-term investments (money invested in other local authorities, a variety of banks and building societies). Short-term investments have reduced by £5.4m to £38.4 million as a result of the funds to repay long term loans. The Council's debtors decreased by £4.7 million to £39.7 million which is due to:

- In March 2008/2009 there was £7.7million of government capital grants due for major capital road schemes, which finished during 2009/2010;
- The amount of VAT owed to the authority at the year-end increased by £1.7million compared to the previous year;
- The changes in the accounting treatment on the sharing of collection fund debtors/creditors with Police & Fire authorities added £0.5 million to the debtors figure.

Current liabilities – this is the amount of money owed by the Council to its suppliers and contractors, which totalled £55.2 million as at 31 March 2010 (£45.6 million as at 31 March 2009). The increase in the Council's creditors of £9.6m is due mainly to:

- Outstanding Early Retirement/Voluntary Redundancy payments of £1.6 million;
- Outstanding payments to contractors on the Building Schools for the Future scheme of £1.8 million;
- Income in advance of £4.6 million.

Long term liabilities – this section is made up of several different items. Long term borrowing and the value of the pension liability makes up approximately 54.1% of the total. Long term borrowing was reduced by £20.1 million to £80.4 million during 2009/2010 as the Council utilised cash balances to repay loans and reduce capital financing interest charges. The Pension Liability increased to £192.95 million from £97.16 million March 2009 due to significant reductions in bond yields. This is the value placed on the Council liability by the Pension Fund Actuary and is offset in the balance sheet by a corresponding credit on the Pension Reserve.

The Council used £1.2 million of Provisions, which it had set aside to deal with long term liabilities including single status, equal pay and Building Schools for the Future. A full list is included in Appendix F.

Financed by – the total of all the items within this section is the value of the net worth of the Council. It shows the reserves and balances held as at 31 March 2010, and can be split between technical and earmarked reserves as follows:

- Technical Reserves - The two technical reserves are the Restatement Reserve (£98.1 million) and the Capital Adjustment Account (£235.5 million), which are not cash backed. The Capital Adjustment Account records the consumption of the value of asset and what used to be called deferred charges and is now Revenue Expenditure Funded from Capital under Statute over the period that the authority benefits from the expenditure.
- Earmarked Reserves – The Council's budget monitoring gives greater prominence to the level of cash backed reserves in the form of the general fund balance and earmarked reserves which are potentially useable to finance revenue and capital spending. The Council used £9.5 million of earmarked reserves to fund investment in the Change Programme, pay insurance claims and cover increases in the demand for services in Social Care and Safeguarding. The reserves were also topped up during the year by £7.0 million to leave a balance of £8.8 million to cover financial risks in future years. A full list is included in Appendix G.

14. **Cash Flow Statement - Appendix E.** This Statement explains the movement in the Council's cash balances over the year and summarises the inflows and outflows of cash. The other main Statements are produced on an accruals basis, whereby income and expenditure are matched to the period to which they relate whether or not it has been paid or received. This Statement has any non-cash accounting adjustments and accruals removed and displays the situation relating to actual cash received from third parties and actual cash paid to third parties.
15. **Collection Fund.** This statement has no equivalent in the private sector. It is required by statute and shows the transactions the Council has undertaken in relation to Non-Domestic Rates and Council Tax income. The information within the collection fund statement is consolidated into the Income and Expenditure Account under sources of finance.
16. **Group Accounts.** The authority conducts some of its activities through partnerships and separate undertakings. The SORP requires the production of Group Accounts to take account of these relationships in order to provide a full picture of the Council's overall financial position.
17. **Teesside Pension Fund Accounts.** The Pension Fund Accounts show the contributions to the Council's Pension Fund for employees employed by the 62 contributing bodies during 2009/2010, together with the pensions and other benefits paid from it, movements in investments during the year and the financial position of the fund as at 31 March 2010. The average pension paid in 2009/2010 was £3,600.

18. Over the last 2 years the Fund has experienced something of a roller coaster ride, with a fall of 17% of the Fund value in 2008/9 followed by a positive rebound of 39% in 2009/10. The large increase in the year followed from the strong returns on the worlds share (equity) markets from July onwards as fears of a global recession receded and expectations of recovery increased. The volatility in the Fund value results from the fact that the Fund is largely invested in the share markets so any short term fluctuations are reflected in the Fund's Balance Sheet. These short term swings in the Fund value look dramatic but the significance should not be overstated. Pension provision is a long term commitment and it is with the long term in mind that the Director of Resources, the Fund's investment managers, advisers and actuaries set the investment strategy and contribution rates.
19. The positive impact of the recent share market rises has meant that the Fund value at the end of the Financial Year had risen to £2.37 billion, the highest level the Fund has ever reached. The volatility in the share markets is neatly reflected in one line in the financial statements (Appendix H), the 'Change in Market Value of Investments'. For the year 2008/9 this figure was an unrealised loss of £429 million, in contrast the figure for 2009/2010 was an unrealised profit of £594 million, a 'swing' of over a billion pounds.
20. The membership of the Fund has once again shown a small rise over last year, with total membership now standing at just under 60,000. However, the impact of the current depressed economic situation is shown by the fact that, for the first time in recent years, the number of active, contributing members has fallen. Contributing to this fall were a significant number of early retirements, particularly towards the year end, as some of our major employers engaged in voluntary redundancy exercises. Where a member retires early it is the policy of the Teesside Pension Fund to recharge the Actuarial cost of the retirement to the employer. This policy has the advantages that the Fund recovers the cost of an early retirement at the outset, and that, for the employer, the impact of retirement decisions is transparent. In this financial year the Fund raised over £10 million from these early retirement recharges, up from £6 million in 2008/9.
21. **Appendices:** Attached to this report are extracts from the draft Statement of Accounts providing details of the main accounting financial statements. A copy of the full draft statement has been made available to all members of the Corporate Affairs Committee. A copy of the full statement has been deposited within the Members Library. In addition a copy of the accounts will be made available on the Council's Web site.
22. A combined Annual Report / Summary of Accounts will be produced for 2009/10. The report includes performance information and summary financial data and which will be published in the summer edition of Middlesbrough News.

External Consultation

23. Notice will be given in the local press for any interested person to inspect, and make copies of, The Statement of Accounts and other documents between 5th July and 30th July 2010. Interested persons are able to question the Auditor about the accounts and make objections to the same with effect from 2nd August 2010 until the completion of the audit.
24. The Statements will be subject to external audit - Deloitte, which will commence on 2nd August and is expected to be complete on the 25th August. A statement (ISA260) will be produced which details any unadjusted misstatements found during the course of the audit.
25. The draft Statements have been produced well within the timetable and the quality of the working papers has again improved.
26. The preparation of the Statement of Accounts has been undertaken in accordance with an internal quality assurance framework to ensure the accounts are prepared in accordance with the SORP and other relevant legislation.

FUTURE ACCOUNTING DEVELOPMENTS

27. In the 2007 budget the Treasury announced that in the future all public sector organisations including Local Authorities would be required to produce their annual financial statements using International Financial Reporting Standards (IFRS). The purpose of this change is to bring about benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice.
28. The Council is required to produce the annual financial statements using IFRS from the 1st April 2010. The move to IFRS will require a number of significant accounting changes and internal systems, procedures and processes will require adjustment to produce the necessary information required for IFRS.
29. Although full implementation is not required until the 2010/2011 financial year, the need for comparative information in the 2010/2011 statements will mean that the 2009/2010 statements must be restated into IFRS format. The Council has been preparing for this transformation for the past eighteen months and has ensured that all necessary changes to systems and procedures have been identified, evaluated and carried out. Good progress has been made and the above restatement of the 2009/2010 accounts into IFRS format will be complete by September 2010.

ROLE OF THE AUDIT & GOVERNANCE COMMITTEE

30. The role of the Audit & Governance Committee is to examine the accounts and in particular to consider the following:

- What were the key judgments made in preparation of this years accounts?
- Are there any significant changes from the previous year?
- What impact has the economic climate had on the accounts?
- Assurances about the financial systems that have provided the figures for the accounts;
- What quality control arrangements over the preparation of the accounts were put in place by the Director of Resources and his staff;
- Any issues raised by the External Auditors - Deloitte.

The members of the committee also have a responsibility to challenge and ensure themselves of the robustness of the overall financial position of the Council.

31. As noted earlier in this report, the format of the Statement of Accounts is heavily prescribed by a range of regulations and reporting arrangements. However, it is important that they are understandable and meaningful to all stakeholders. Although constrained by regulations and reporting standards, the Council is always looking to improve the content and format of the Statement of Accounts. Members' comments on how the Accounts and explanatory information could be improved in the future are therefore welcome.

OPTION APPRAISAL/RISK ASSESSMENT

32. Risk:

Risk	Category	Implications
The Council's accounts are significantly incorrect, incomplete or misstated and are "qualified" by the External auditor	Financial Reputation	Members confidence in the finance service reduced. External criticism.
The Draft Statement of Accounts is not approved by 30 June 2010	Legal, Reputation,	There is a statutory requirement for the Draft Statement of Accounts to be approved by 30 June. Failure to do so would result in external criticism.
The Council's overall financial position is not solid.	Financial Service	The Council could not meet future financial challenges/ increases in service demands without imposing cuts.

FINANCIAL, LEGAL AND WARD IMPLICATIONS

33. 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.
34. 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 £182,000 (0.14%).
35. Actual capital spend in the year was £67.4 million, compared with a budget of £78.8 million. Expenditure during the year was mainly funded from grants (79.8%), from usable capital receipts (1.8%), from borrowing (14.1%), from revenue contributions (2.9%) and from capital contributions (1.4%). The percentage of spend achieved compared to the budget represented 85.5%.

RECOMMENDATIONS

36. It is recommended that Members of the Corporate Affairs Committee approve the contents of the draft Statement of Accounts 2009/2010.

REASONS

37. The purpose of the Statement of Accounts is to present the overall financial position of the Council at 31 March 2010 in accordance with guidance produced by CIPFA.
38. The recommendation is supported by the requirement to comply with the 2006 Accounts and Audit Regulations, which require the draft Statement of Accounts to be approved by the 30th June 2010.

BACKGROUND PAPERS

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

- Code of Practice on Local Authority Accounting in the UK – SORP 2008.
- Annual Governance Statement Report to Corporate Affairs Committee 2nd June 2010
- 2009/2010 Outturn report to Executive on the 25th May 2010

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