

# Statement of Accounts 2007/08

**AUDIT COMMITTEE**

**Date:** 24<sup>th</sup> June 2008

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**Author:** Cabinet Member, Resources and the Director of Finance

**Wards Affected:** All

## **Purpose**

- To approve the pre-audited Statement of Accounts for Financial Year 2007/08.

## **Recommendation**

- The Audit Committee is asked to scrutinise and then approve the pre-audited Statement of Accounts for the Financial Year 2007/08 (subject to any changes identified through Member's consideration of the Governance Statement elsewhere on the agenda)

## **1. Reasons**

- 1.1 The terms of reference for the Audit Committee include approving the Council's annual Statement of Accounts. This report includes the pre-audited Statement of Accounts for Financial Year 2007/08 for scrutiny and approval.

## **2. The Process of Closing the 2007/08 Accounts**

- 2.1 The deadline for approving the un-audited accounts is statutorily set as the 30<sup>th</sup> June. Changes to the accounting environment, as reported to the Audit Committee on 22<sup>nd</sup> April 2008, have once again required further work to be undertaken than in prior years, but the Council is again in a position to meet the statutory deadline.

## **3. Overview of the Council's Financial Position**

- 3.1 The outturn report to Cabinet on 6<sup>th</sup> June 2008 set out the closing position on the Council's General Fund revenue budget and Housing Revenue Account (HRA), being underspends of £1.4m and £32k respectively. Further details can be found within the Cabinet report and in summary form in the Statement of Accounts itself.
- 3.2 The Council has successfully delivered its revenue budget in each of the past three years, with the majority of Departments delivering services within budget. The Council ended the year with acceptable levels of general and specific reserves, the levels of which have been considered by the Director of Finance as part of the closedown process.

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## 4. Balance Sheet Key Issues

### Assets

4.1 The Council has total net assets at 31st March 2008 of £936.8 million, a decrease of £68.8 million over the previous year due mainly to the revaluation of fixed assets. Revaluations are undertaken on a rolling five-yearly cycle. A summary of asset value movements is summarised in Table 1 below. As part of the accounting for the Wichelstowe development, an asset under construction has come on to the balance sheet of £23.2m. This will be reviewed as the development progresses and is supported in the accounts by debtor and creditor balances.

Table 1: Summary Asset Value Movements

	Operational Assets	Non-Operation Assets	Total
	£000	£000	£000
<b>Value at 31/3/07</b>	<b>1,100,760</b>	<b>89,656</b>	<b>1,190,416</b>
Adjustment*	0	(1,938)	(1,938)
Reclassification	(30,442)	30,442	0
Revaluations	44,528	28,821	73,349
Additions	51,461	33,840	85,301
Disposals	(18,506)	(41,773)	(60,279)
Depreciation	(21,469)	0	(21,469)
Impairment	(138,812)	(12,661)	(151,473)
PFI	953	0	953
<b>Value at 31/3/08</b>	<b>988,473</b>	<b>126,387</b>	<b>1,114,860</b>

\* Work in Progress accounted for in 06/07 but in 07/08 defined as non-SBC asset and written out.

### Debtors / Creditors

4.2 Debtors (after allowing for a provision for doubtful debts) have increased by £7.2million to £32.1million. The main change on debtors (£22.2 million) is due to the Wichelstowe accrual for sums owed to the Authority as land transfers to the developers are agreed. This is partly offset by the absence of £9m Treasury debtor that was present in March 07 but is not a relevant issue at March 08. Creditors have also increased (by £9.0m), with the significant element of this rise being due to capital creditors (£5.8 million), of which £3.8m is internal.

### Liabilities (Long-term)

4.3 The most significant long-term liability at 31 March 2008 (£83.2 million) related to a notional liability on the Pension Fund to comply with the requirements of Financial Reporting Standards (FRS 17) (see below). Excluding this, the Council has two significant future long-term commitments:

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1. Long-term Creditors - The Council has £22.2 million as a long-term creditor in relation to Wichelstowe. Amounts owed by the Authority are supported by the future income of land sales in the development. Developers' section 106 deposits are now shown as part of the Authority's unapplied grants and contributions balance.
2. The Council had £73.9 million of long-term borrowing as at 31st March 2008 of which £29.2 million is payable within 5 years and £43.9 million over longer periods.

### Capital Reserves/Accounts

- 4.4 The Council's Balance Sheet shows £974.6 million of capital reserves and accounts. £964.8 million of this is represented by notional accounts, which are used to revalue assets and provide contra entries to financing the capital programme. The "cash" reserves to fund future projects total £7.7 million of usable capital receipts, or sale proceeds.

### Revenue Reserves

- 4.5 Revenue Cash Reserves consist of General Balances for both the Housing Revenue Account (£2.2 million) and General Fund (£6 million), the Collection Fund deficit (£538k) plus £36.9 million of reserves earmarked for specific purposes. These are set out in more detail in Appendix 1 and are designed to protect the Council against known and potential risks, having specific regard to the issues in the corporate risk register. In addition, the contra entry to the notional pension liability of £83.2 million appears in this section.
- 4.6 The level of General Fund balances has been increased from £5m to £6m to represent 5% of the annual net budget, a widely used benchmark figure. However, the minimum level of general balances can remain at £5m in light of the level of earmarked reserves currently held.

## 5. Pensions Accounting

- 5.1 The requirements of the Accounting Standard "Accounting for Retirement Benefits" is based on a simple principle – that an organisation should account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future. FRS 17 sets out how Councils need to account for such commitments and the Pension Fund Actuary provides a report each year to the Council, providing the required estimations of liabilities, assessed under the projected unit method.
- 5.2 In these calculations the actuary uses a range of assumptions about future pay increases, investment returns and other economic factors. The resulting figures in the accounts are therefore subject to inherent uncertainties.

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5.3 The pension accounting requirements result in notional adjustments to a large number of figures in the accounts. In 2007/08, the total cost of services within the Income & Expenditure Account was notionally decreased by £1.4m and this is reversed out in the bottom half of the Account so that there is no impact on Taxpayers. In the Balance Sheet, a large pension liability and contra reserve entry of £83.2 million can be seen which again cancels out to zero in both halves of the Balance Sheet.

5.4 The figures do not actually represent the forecast deficit on the Fund in future years as they represent a snapshot picture of the cost of the Fund if it had to pay out its full future liabilities on 31st March, which would never happen in reality.

5.5 In contrast, the triennial actuarial report the Council receives offers a much more forward-looking view of the Fund and this is what is used to assess future contribution levels.

## Alternative Options

- Not applicable.

### Risk Management

#### *Financial and Procurement Implications*

- The Statement of Accounts represents details of income and expenditure for the 2007/08 financial year and the Balance Sheet as at 31<sup>st</sup> March 2008.

#### *Legal / Human Rights Implications*

- There are no Legal/Human Rights issues.

#### *Links to Corporate Plans and Policies (in particular to Swindon 2010 Promises)*

- The opinion from the External Auditor on the Statement of Accounts impacts on the Use of Resources CPA score and, consequently, the CPA rating of the Council.

## Consultees

- None

## Background Papers and Appendices

- Background papers: Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice
- Appendix 1 – Earmarked Reserves / Funds
- Appendix 2 – Un-audited Statement of Accounts 2007/08