

# Statement of Accounts 2009/10

AUDIT COMMITTEE

Date: 22<sup>nd</sup> June 2010

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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 2009/10.

## Recommendation

- The Audit Committee is asked to scrutinise and then approve, subject to any amendments, the pre-audited Statement of Accounts for the Financial Year 2009/10 (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 2009/10 for scrutiny and approval.

## 2. The Process of Closing the 2009/10 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 21st April 2009, have required further work to be undertaken on restating prior year accounts, but the Council is again in a position to meet the statutory deadline.
- 2.2 Additionally, even with the adjustments required for the restatements and a related change to 2009/10 closing needs, the Council can demonstrate a balanced Statement of Total recognised Gains and Losses. This is a key statement which shows transactions balance between the balance sheet and revenue accounts.

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

- 3.1 The outturn report to Cabinet on 9<sup>th</sup> June 2010 set out the closing position on the Council's General Fund revenue budget, being an underspend of £0.142m which has been appropriated to reserves. Further details can be found within the Cabinet report and in summary form in the Statement of Accounts itself.

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Further information on the subject of this report can be obtained from Darren Stevens on *Direct Dial No.3323* or Email [dstevens@swindon.gov.uk](mailto:dstevens@swindon.gov.uk).

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3.2 Although outturn was delivered within budget in 2009/10, service areas continued to experience difficulties in containing expenditure and raising income. This was primarily due to the ongoing difficulties of the economic downturn and use of the contingency fund as agreed by Cabinet ensured the favourable outturn. The Council ended the year with acceptable levels of general and specific reserves in the short-term, the levels of which have been considered by the Director of Finance as part of the closedown process, but the duration of the general economic position will continue to impact through budget setting.

## 4. Balance Sheet Key Issues

### Assets

4.1 The Council has total net assets at 31st March 2010 of £733million, a decrease of £170.3 million over the previous year due mainly to the liability increase of the pension liability. The fixed asset values of the Council are £1,297million.

### Debtors / Creditors

4.2 Debtors (after allowing for a provision for doubtful debts) have decreased by £11.2million to £32.7million. This decrease includes higher amounts due for NNDR (£4.9million), which is in part due to the revised accounting requirements for the collection fund, and reductions in overall service debtors due to the Wichelstowe debtor being written out. Creditors have decreased (by £21.8million), to £35.2million, with the significant element of this reduction being due to capital creditors (the Wichelstowe creditor has now been written out).

### Liabilities (Long-term)

4.3 The most significant long-term liability at 31 March 2010 (£300 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 significant future long-term commitments of £95.9 million of long-term borrowing as at 31st March 2010, of which £42.1million is payable within 5 year.

### Capital Reserves/Accounts

4.4 The Council's Balance Sheet shows £985million of capital reserves and accounts. £973million 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 £11.9 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 (£2million) and General Fund (£6million), the Collection

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Fund Adjustment Account surplus (£727k) plus £39.2million of reserves earmarked for specific purposes. These are designed to protect the Council against known and potential risks, having specific regard to the issues in the corporate risk register, and not support ongoing expenditure. In addition, the contra entry to the notional pension liability of £300 million appears in this section.

## 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.
- 5.3 The pension accounting requirements result in notional adjustments to a large number of figures in the accounts. In 2009/10, the total cost of services within the Income & Expenditure Account was notionally increased by £6.9m 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 £300 million can be seen which again cancels out to zero in both halves of the Balance Sheet.
- 5.4 The significant change in the pension liability is due to the negative state of the markets that fund assets are invested in. The economic downturn’s effect on the markets has subsequently impacted on the fund valuation for FRS17 needs. As the market shows signs of improvement in future years, the FRS17 pension liability should begin to reduce.
- 5.5 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.
- 5.6 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.

## 6. Member Questions

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6.1 Following a report at the last Audit Committee, two questions around the 2010/11 implementation of IFRS (International Financial Reporting Standards) were raised by Members. Set out below are responses to those queries:

- a) Is there any impact of leases of community buildings to voluntary groups?
  - i. The impact of IFRS leasing review is solely on the reporting entity i.e. it will impact only on the way the Council is required to account for the lease transactions. Any lease payments / arrangements of voluntary groups in Council buildings will remain the same and continue to be managed through normal property services activities.
- b) What is the scale of any financial impact to the Council of changes to lease classifications?
  - i. The Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010 referred to the impact of IFRS lease changes, for which the impact could be a change from a revenue income stream to a capital income stream (or vice versa). This statute relates only to leases in existence on 31/3/10 but has the effect of negating any change that may be deemed necessary by restatement under accounting.
  - ii. For leases entered into after 31/3/10 there is no protection and both Property and Legal Services areas were advised of the considerations in December 2009. No impact on 10/11 leases has been raised by either service.

### Alternative Options

- Not applicable.

#### **Risk Management**

##### *Financial and Procurement Implications*

- The Statement of Accounts represents details of income and expenditure for the 2009/10 financial year and the Balance Sheet as at 31<sup>st</sup> March 2010.

##### *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.

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### 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 – Un-audited Statement of Accounts 2009/10 (to follow)