

**TITLE OF REPORT:** Statement of Accounts 2009/10

**REPORT OF:** Derek Coates, Strategic Director, Finance and ICT

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### **Purpose of the Report**

1. The report asks the Accounts Committee to approve the Council's Statement of Accounts 2009/10 prior to the commencement of the audit by the Audit Commission.

### **Background**

2. The Accounts and Audit Regulations 2006 require local authorities to approve their Statement of Accounts by 30 June of each year. The Accounts Committee have delegated powers from Council to approve the Statement of Accounts.

### **Proposal**

3. The proposal is for the Accounts Committee to consider this report along with the supporting information in Appendix 1 and the Statement of Accounts 2009/10 in Appendix 2 and approve the Statement prior to the commencement of audit. The Audit Committee reviewed the Statement of Accounts on 21 June 2010 and any comments will be reported separately. The Committee will consider a further report on 24 September 2010, detailing the outcome of the audit.

### **Recommendations**

4. The Accounts Committee is asked to consider the supporting information in Appendix 1. Any comments submitted by the Audit Committee and approve the Statement of Accounts 2009/10 attached at Appendix 2.

for the following reason

- (i) to comply with legal requirements and the Council's constitution.

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**PLAN REF:**

### **Policy Context**

1. The proposals in this report are consistent with Vision 2030 and the Council's Corporate Plan. In particular, they contribute to achieving a sustainable financial position over the life of the Corporate Plan and the Medium Term Financial Strategy (MTFS).

### **Background**

2. The Accounts and Audit Regulations 2003, as amended by the 2006 Regulations, require local authorities to approve their Statement of Accounts by 30 June of each year. The Accounts Committee has delegated power from Council to approve the Statement of Accounts.

### **Changes to the Presentation of the Statement of Accounts 2009/10**

3. The Statement of Accounts has to be prepared in accordance with proper accounting practice. This is represented by the "Code of Practice on Local Authority Accounting in the UK 2009 : A Statement of Recommended Practice", published by CIPFA. This is commonly referred to as the SORP.
4. The 2009 SORP replaces the 2008 version and introduces a number of changes to the format of the statements. The substantive changes that affect the Council's Statement of Accounts for 2009/10 are:
  - The accounting requirements for Private Finance Initiatives (PFI) are no longer based on UK GAAP, but on an interpretation of International Financial Reporting Standards (IFRS). The impact on the Council's accounts is that the assets used to deliver schools PFI schemes are now included in the statements.
  - Accounting for local taxes – National Non Domestic Rates (NNDR) and Council Tax. The SORP has been changed to reflect the fact that the Council collects income on behalf of other bodies. Council Tax is collected on behalf of Northumbria Police Authority and the Tyne and Wear Fire and Rescue Authority, and NNDR is collected on behalf of Central Government. In these cases, the Council acts as agent only and the entries in the statement of accounts now reflect the net cash owed to / from the other parties.

In addition to the above, the Local Authority Accounting Panel (LAAP) Bulletin 85 sets out the new disclosure requirements for remuneration reporting for Public Bodies in England Wales. The new requirements have been introduced to provide greater transparency and accountability to local taxpayers in respect of the total remuneration package for the senior team charged with the stewardship of the organisation. The new provisions, which came into effect on 31 March 2010, requires local authorities to include the remuneration information of senior employees in a note to the statement of accounts. For senior employees whose salary is £50,000 or more per year but less than £150,000, they are required to be listed individually by way of job title. Persons whose salary is £150,000 or more per year must also be identified by name.

In each case, the comparative figures for 2008/09 have been restated to aid meaningful comparison.

5. The format of the statement does not allow simple comparison with the usual presentation of the Council's budget. Both the revenue outturn and capital programme with variances were reported to Cabinet on 22 June 2010 and are consistent with the figures in the Statement of Accounts.

### **Statement of Accounts 2009/10**

6. The ***Explanatory Foreword*** provides a brief summary of what is in the Statement of Accounts. It refers to the requirement of the new 2009 SORP and highlights changes in presentation.
7. The Foreword also reconciles the figures in the "core" statements with the Revenue and Capital Programme outturn positions, which were reported to Cabinet on 22 June 2010.
8. The Foreword focuses on the movement in the Council's General Fund and other earmarked resources. It confirms that the movements are broadly consistent with the Council's Medium Term Financial Strategy (MTFS).
9. Other areas covered in the Foreword include reference to the impact of the Current Economic Climate, Housing Market Renewal, Joint Venture, South Tyne and Wear Waste Management Partnership, Building Schools for the Future, Efficiency and prospects for 2010/11 and beyond.
10. The ***Statement of Responsibilities*** explains the role of the Council and the Strategic Director, Finance and ICT in the preparation of the Statement of Accounts.
11. The ***Annual Governance Statement*** describes the governance environment in the Council, with links to the Local Code of Governance. It also reviews the effectiveness of the governance and internal control framework using evidence from Cabinet Members, managers within the Council, a review of the effectiveness of Internal Audit and the work of the Internal Audit Service, risk management arrangements, performance management arrangements and the views of external auditors and inspectors. The review concludes that governance and internal control arrangements are satisfactory and effective, with the exception of certain specific systems and arrangements operating within Adult Social Care. The Audit Committee considered the evidence and the Annual Governance Statement on 21 June 2010 and agreed it for inclusion in the Statement of Accounts 2009/10.
12. The ***Independent Auditor's Report*** will be completed following the audit of the accounts in September 2010.
13. The ***Statement of Accounting Policies*** explains how the figures in the Statement of Accounts have been prepared. It confirms that the accounts have been prepared in accordance with the 2009 SORP and all relevant Financial Reporting Standards (FRS's), and, in the case of PFI, all relevant International Financial Reporting Standards (IFRS's). If the Council did not comply with the 2009 SORP, it would have to be disclosed in this section of the Statement of Accounts.
14. The Statement of Accounting Policies also sets out the reasons why the Council is holding provisions and reserves and explains how the need to comply with statutory

provisions means that some figures required by reporting standards have to be matched by corresponding entries to neutralise the impact. The most notable area where this is a feature is pensions (governed by FRS17) which has a significant impact on the Council's accounts through the requirement to recognise pension liabilities when they arise, rather than when they are paid. This introduces a liability for the Council of £509 million, which is not recognised in the payments and contributions required by relevant local authority regulations and accordingly not funded on that basis. The requirement to recognise the current service cost and liability for pensions distorts the financial results for the year.

15. The ***Income and Expenditure Account*** reports all income and expenditure for all the services provided by the Council and how these have been financed. The presentational format differs from the usual method of reporting to Cabinet due to the need to reflect proper accounting practices and the inclusion of pension liabilities and the Housing Revenue Account (HRA). The Explanatory Foreword reconciles the Income and Expenditure Account to the revenue outturn considered by Cabinet on 22 June 2010, and shows that there was an increase to the General Reserve in 2009/10 of £6.061m. This is primarily due to services spending within budgets by £0.8m (0.3%) and other results including a surplus on the Construction Services trading account, reductions in insurance and a VAT refunds in year. After agreed appropriations to / from Earmarked Reserves, the increase on the General Fund is £6.115m, made up of an increase of £0.054m in the Local Management of Schools (LMS) Budget Share Reserve which covers school liabilities and an increase in the General Reserve of £6.061m.
16. The Income and Expenditure Account shows a deficit of £110.202m in 2009/10. This is not a reflection of the revenue outturn position because it does not take into account some income sources which are now reported outside of the Income and Expenditure Account. In reality the General Fund balance increased by £6.115m as described above. The movement on the Income and Expenditure Account from a deficit of £161.665m (restated) in 2008/09 to one of £110.202m in 2009/10 is mainly as a result of lower capital charges due to the impairment of assets which was undertaken in 2008/09 to reflect the impact of market conditions.
17. The ***Statement of Movement on the General Fund Balance*** uses the Income and Expenditure Account as a starting point to reconcile to the change in the balance on the General Fund. The increase of £6.115m during 2009/10 is a better measure of financial performance on the General Fund, as it takes out figures which do not comply with statutory provisions including pensions, actual capital charges, the HRA surplus and transfer to / from Earmarked Reserves.
18. The ***Statement of Total Recognised Gains and Losses (STRGL)*** adds to the deficit on the Income and Expenditure Account all other gains and losses during 2009/10. The major change results from an actuarial loss of £117.5m on the pension fund assets and liabilities following the annual assessment of future pension liabilities in accordance with the requirements of FRS17. The overall loss of £219.872m represents the decrease in the Council's net worth based on book values.
19. The ***Balance Sheet*** summarises the Council's assets, liabilities and reserves, and shows the net worth of the Council, which is the difference between its assets and liabilities. The value of the Council's fixed assets, two thirds of which are council houses, ensure that the Council's has a positive net worth of £428m.

20. The final “core” statement is the **Cash Flow Statement** which describes the movement in cash during 2009/10 arising from all transactions.
21. **Notes to the Core Statements** are set out on pages 45 to 89. These allow a greater understanding of how the figures in the “core” statements are derived. The notes also refer to any exceptional events during the year, such as impairments of council dwellings and equal pay provision. With reference to equal pay, the Council has received a Capitalisation Direction to spread the potential costs of equal pay over a number of years. In addition, Government regulations allow discretion not to charge to revenue the potential impact of equal pay claims until such time as they become payable.
22. Under Related Party Transactions (Note 15), reference is made to the survey of Councillors and Strategic and Group Directors’ interests. This revealed that there are no material related party transactions with the Council from this source.
23. The provisions and reserves held by the Council at 31 March 2010 are also explained in the notes. The increase in provisions mainly reflects the potential impact of equal pay and the movement in reserves is broadly the same as outlined in the MTFs and as part of the council tax report for 2010/11 with the additional appropriation to the Cultural Development Reserve to continue to support the delivery of key sporting and cultural events including the host city bid for the 2018 World Cup.
24. In addition to the known liabilities included in the Balance Sheet, the notes have to declare any other potential liabilities which could materialise in the future. Two new contingent liabilities for 2009/10 refers to potential pension liabilities under agreements associated with the repairs and maintenance contracts between the Council and Morrison’s Ltd and potential costs in relation to a Judicial Review claim lodged by SAVE Britain’s Heritage with regard to demolition of properties in Bensham and Saltwell. In addition there is still a contingent liability in relation to equal pay claims to reflect the fact that additional claims may be received in the future.
25. There are two “supplementary” statements. The **Housing Revenue Account** (HRA) is a statutory account which shows the cost of providing housing in Gateshead. The assets, liabilities and HRA surplus are consolidated in the Balance Sheet described earlier, but the income and expenditure has to be disclosed separately from the General Fund.
26. At 31 March 2010, the HRA surplus was £16.854m, a decrease during the year of £1.337m compared to a budgeted decrease of £1.290m. This was mainly due to an increase in repairs and maintenance costs associated with void properties and a reduction in the amount of investment income. The HRA surplus will need to cover any future costs arising from equal pay liabilities and will continue to support planned prudential borrowing in 2010/11 and future years by supplementing the Capital Programme agreed by the Council in February 2010. This will further reduce the surplus over the next few years.
27. The **Collection Fund Account** brings together all transactions involving council tax and non-domestic rates collection, along with the precepts and demands from Northumbria Police Authority, Tyne and Wear Fire and Civil Defence Authority and the Council. The result was a deficit for the year of £0.874m, reducing the surplus at 31 March 2010 to £0.144m.

## **Audit of Accounts**

28. Following approval by the Accounts Committee, the Council's accounts are open to formal inspection by the public from 12 July 2010 to 6 August 2010. The Audit Commission will be available to receive any questions on the accounts from electors, in accordance with the Accounts and Audit Regulations, from 9 August 2010.
29. The Audit Commission will carry out the audit of the accounts over the next three months. Any issues arising from the audit requiring changes to the Statement of Accounts will be reported to the Accounts Committee at the meeting on 24 September 2010.
30. The Audit Committee will also consider the Audit Commission's report following approval of the Statement of Accounts for publication. The published version will be distributed to all Councillors in October 2010.

## **Consultation**

31. There has been no external consultation on this report.

## **Alternative Options**

32. No alternative options are proposed.

## **Implications of Recommended Option**

33. Financial Implications – the Strategic Director, Finance and ICT confirms that the financial implications are as set out in this report and the Statement of Accounts 2009/10.
34. Risk Management Implication – no additional risks have been identified in this report or in the completion of the Statement of Accounts 2009/10.
35. Human Resources Implications – none
36. Equality and Diversity Implications – none
37. Crime and Disorder Implications – none
38. Sustainability Implications – none
39. Human Rights Implications – none
40. Ward Implications – none