

## ITEM NO:9(i)

<b>DECISION-MAKER:</b>	COUNCIL			
<b>SUBJECT:</b>	STATEMENT OF ACCOUNTS 2008/09			
<b>DATE OF DECISION:</b>	15 JULY 2009			
<b>REPORT OF:</b>	CABINET MEMBER FOR RESOURCES AND WORKFORCE PLANNING PORTFOLIO			
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### STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

### SUMMARY

In accordance with Accounts and Audit Regulations 2003, the Statement of Accounts 2008/09 was submitted to the Audit Committee on 24<sup>th</sup> June and Standards & Governance Committee for approval on 25<sup>th</sup> June 2009. A copy of the draft unaudited accounts is available in the Members Room.

Presenting the accounts at this time means that the Annual Audit, carried out by the Audit Commission, will not have been completed. Any major changes to the Statement of Accounts arising from the annual audit will be reported to the Audit Committee after the completion of the audit on 30<sup>th</sup> September 2009.

### RECOMMENDATIONS:

- (i) To note the approval of the Statement of Accounts 2008/09 by the Standards and Governance Committee on 25<sup>th</sup> June 2009, subject to any changes required after the completion of the Audit. Any such changes will be presented to the Audit Committee.

### REASONS FOR REPORT RECOMMENDATIONS

1. It is a legal requirement to approve the Statement of Accounts by 30<sup>th</sup> June 2009.

### CONSULTATION

2. Not Applicable.

### ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. It is a legal requirement to approve the Statement of Accounts by 30<sup>th</sup> June 2009.

### DETAIL

4. The Statement of Accounts is a complex document with the layout and information provided being defined by statutory requirements. The key issues are detailed below.

## **CHANGES TO THE 2008/09 ACCOUNTS**

5. The 2008 SORP has introduced a number of changes to local authorities' financial statements. The key changes include:
- **Revenue Expenditure Funded from Capital under Statute**  
Previously Deferred Charges was used to recognise expenditure that regulations permitted to be funded from capital resources, but which did not satisfy the SORP's criteria to be classified as capital expenditure. The 2008 SORP has effectively replaced deferred charges with Revenue Expenditure Funded from Capital under Statute (Change in Accounting Policy) which has no impact on Council Tax;
  - **Retirement Benefits – FRS17 Disclosures**  
The 2008 SORP incorporates the requirements of a revised Pensions SORP published in July 2007. The Pensions SORP was revised to take account of the requirements of the financial instruments reporting standards FRS25 and FRS26.  
The main change, effecting the Council, is that Pension Fund Assets (Investments) are now required to be shown on a fair value basis and where there is an active market the bid price is usually the appropriate quoted market price (previously the mid-market price).;
  - **Area Based Grant (ABG)**  
ABG replaces Local Area Agreement Grant (LAA) from 2008/09. Unlike LAA Grant, ABG is non-ringfenced general grant. The SORP requires ABG to be accounted for as general grant within the Income and Expenditure Account with other general income sources, whereas LAA Grant was included within Net Cost of Services. Comparative figures have not been restated as this does not amount to a Change in Accounting Policy.

## **IMPACT OF THE RECESSION**

6. The current economic climate has had three major impacts on the Council's financial position during 2008/09:-
- A loss of income from fees and charges which is expected to continue into 2009/10.
  - A drop in income from investments.
  - Capital receipts from the sales of land and property have been far less than forecast and many key schemes in the City have either been put on hold or abandoned.

In addition, to these impacts, there has been a notional impact of approximately £180m through the Income and Expenditure Account due to reductions in the values of Fixed Assets (impairments) which are required to be reflected in the Financial Statements.

Despite these issues, the Council was still able to approve a balanced budget that took these losses into account. The Council also took the decision to suspend the sale of any major assets until such time as the market picks up.

The recession and the turmoil in the banking sector have also made the management of the Council's cash flow problematic. In response to the events of last year the Council took several decisions to reduce the risks

within its investment portfolio and restructured its loan portfolio to take account both of low short term interest rates and to lessen its overall exposure in the investment market.

## REVENUE EXPENDITURE AND INCOME

7. The Statement of Accounts presents the Income and Expenditure Account in a statutory format which includes notional costs that have no impact on the Council Tax charge.

The table on page 4 of the Statement of Accounts presents the Council's revenue and income in a format that shows the net impact on the General Fund Balance, compared to budget. This shows that compared to the original budget which assumed a contribution from general reserves and working balances of £2.6M, the contribution from reserves has reduced by £5.5M and we were able to contribute £2.9M to working balances.

During the year, the Council made changes to the original budgets which were reported to Cabinet in February 2009. Compared to the revised budget, the Council has under spent by £7.1M, which is made up as follows:

	£M
Savings in Portfolio budgets	(3.7)
Additional Investment Income	(0.9)
One-off Commutation Adjustment	(1.0)
Other Variations	(1.5)
<b>Total</b>	<b>(7.1)</b>

8. Against this underspend are requests for carry forward of budget of £753k which are subject to review as part of the Revenue Outturn report elsewhere on the agenda.

Further draws on the overall underspend of £7.1M (also outlined in the Revenue Outturn report) include:

- Organisational Development Reserve (£2.2M) - Every year as part of the outturn position officers review the funding within the strategic reserve to deal with organisational change. It is proposed this year given the overall under spend to contribute an additional £2.2M into the Organisational Development Reserve which is used for restructuring, re-training, redeployment and redundancy costs in future years.
- Accommodation Reserve (£1.2M) – Full Council has agreed to automatically carry forward any surplus/deficit on the central repairs and maintenance budget at year-end subject to the overall financial position of the Authority. However as work associated with the implementation of the Accommodation Strategy (including the major works associated with the civic centre) will commence shortly, it was felt that a more flexible approach to building related budgets was required in the future. Consequently, Cabinet has approved the delegation of authority to the Executive Director of Resources following consultation with the Cabinet Member for Resources and Workforce Planning to allocate premises related resources (revenue

and capital) in order to maximise the efficient use of resources in respect of general repairs and maintenance, major works to civic buildings and the implementation of the accommodation strategy. It is recommended that the under spend on the central repairs and maintenance budget of £1.2M is added to the Strategic Reserve to ensure that this can be achieved.

- Pot Holes (£100k) - In March, it was announced at Full Council that an additional spend of £100k, funded from within existing resources within the 2009/10 Environment & Transport Portfolio budget, would be directed towards repairing pot holes, to help address the impact caused by the adverse winter weather conditions. It is proposed to fund this expenditure from the overall under spend in order to reduce the budgetary pressure on the Portfolio in 2009/10.

## **GENERAL FUND BALANCES**

9. The General Fund balance stands at £15.2M and is used as a working balance and to support future spending plans. This compares to a balance of £12.3M at the end of 2007/08.

## **CAPITAL EXPENDITURE**

10. In 2008/09 the Council spent £76M on capital projects. This was £21M less than the approved estimates, principally due to slippage of expenditure which will now be incurred in 2009/10.

## **THE COLLECTION FUND**

11. The Collection Fund had a surplus for the year of £1.7M. There was a surplus brought forward from 2007/08 of £0.5M, to give a net surplus to be carried forward of £2.3M. The 2009/10 budget assumed a surplus of £1.8M. Therefore there will be a surplus of £0.5M of which £0.4M can be taken into account when setting the 2010/11 budget.

## **PENSIONS**

12. In 2008/09 the Council paid an employer's contribution of £21.0M into Hampshire County Council's Pension Fund. The employer's rate in 2008/09 was 18.1% of employees' pay. The rate set for 2009/10 is 18.6%.
13. The Council's share of the assets in the Hampshire County Council pension fund at 31 March 2009 was £308.2M, compared to its estimated liabilities of £606.2M, giving an estimated deficit on the Fund of £298.0M. The deficit will be made good by increased contributions at a level assessed by the scheme actuary.

## **FINANCIAL/RESOURCE IMPLICATIONS**

### **Capital**

14. The capital implications are considered as part of the Capital Outturn reports that will be presented to Council on 15<sup>th</sup> July 2009.

### **Revenue**

15. The revenue implications are considered as part of the Revenue Outturn reports that will be presented to Council on 15<sup>th</sup> July 2009.

**Property**

16. There are no specific property implications arising from this report

**Other**

17. None.

**LEGAL IMPLICATIONS**

**Statutory power to undertake proposals in the report:**

18. Accounts and Audit Regulations 2003.

**Other Legal Implications:**

19. None.

**POLICY FRAMEWORK IMPLICATIONS**

20. None. It should be noted that the Statement of Accounts is prepared in accordance with CIPFA’s code of Practice on Local Authority Accounting in the UK.

**SUPPORTING DOCUMENTATION**

**Non-confidential appendices are in the Members’ Rooms and can be accessed on-line**

**Appendices**

1.	None.
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**Documents In Members’ Rooms**

1.	Draft Unaudited Accounts
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**Background Documents**

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1. None	

**Background documents available for inspection at:** N/A

**FORWARD PLAN No:** N/A      **KEY DECISION?**      N/A

**WARDS/COMMUNITIES AFFECTED:**      N/A