

Audit Committee – 22nd September 2011

7. 2010/11 Annual Statement of Accounts

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1. Purpose of the Report

To present the 2010/11 Annual Statement of Accounts to the Audit Committee for approval.

2. Recommendations

- (a) To approve the 2010/11 Statement of Accounts. A copy of the Statement of Accounts has been circulated separately with this agenda.
- (b) To note the unqualified opinion on the financial statements.

3. Background

- 3.1 As a local authority SSDC is required to demonstrate compliance with the underlying principles of good governance and that a framework exists to demonstrate this. One of the principles is accountability and preparing and publishing the annual Statement of Accounts is one way that the Council achieves this objective.
- 3.2 The Accounts and Audit Regulations (England) 2011 came into force on 1 April 2011. This revised procedures for the approval and publication of the annual Statement of Accounts. The Responsible Financial Officer must now sign the accounts as true and fair by 30th June 2011 and Members are required to formally approve the audited and amended annual Statement of Accounts by the 30th September 2011. The Statement of Accounts needs to be approved and signed by the Chair of this committee. **Please contact Amanda Card before the meeting on 01935 462542 with any questions on the information presented.**
- 3.3 The Statement of Accounts for 2010/11 has been prepared following International Financial Reporting Standards (IFRS) that is a move from previous years Statement of Accounts which were based on UK Generally Accepted Accounting Practices (UK GAPP).
- 3.4 This report:
 - Outlines the key features of the 2010/11 revenue outturn position;
 - Summarises the 2010/11 capital outturn position;
 - Presents the 2010/11 Statement of Accounts and explains the key features and reasons for variations within those accounts.

- Explains the reasons why misstatements to the financial statements will not be adjusted.

4. Key Features of the 2010/11 Outturn Reports

4.1 Revenue Outturn

4.1.1 The figures that were presented to District Executive on 2nd June 2011 represent the "Above the Line" budgets that are monitored by the Executive on a quarterly basis. Members of the Audit Committee will find that the figures presented to them in the Statement of Accounts differ from those reported to District Executive as they represent both "Above" and "Below the Line" as a total cost. The "Below the Line" figures are distinguished from the "Above the Line" costs as they are outside the control of the delegated budget holder, being capital charges and recharges from support services such as Human Resources, Legal and Financial Services.

4.1.2 The overall outturn for SSDC Services, excluding the LSP, in 2010/11 was £722,000 underspent. Outlined below is the summary of the figures presented to the District Executive on 2nd June 2011;

Service	Original Budget	Movement During the Year	Outturn Budget	Actual Spend	Variation	
	£'000	£'000	£'000	£'000	£'000	
Strategic Management	746	(80)	666	499	(167)	F
Financial Services	(95)	438	343	409	66	A
ICT Services	986	47	1,033	1,022	(11)	F
Procurement & Risk Management	240	25	265	203	(62)	F
Revenue & Benefits	(99)	8	(91)	(39)	52	A
Democratic Services	1,103	(7)	1,096	1,069	(27)	F
Legal Services	266	11	277	330	53	A
Fraud & Data Management	101	0	101	96	(5)	F
Human Resources	412	3	415	327	(88)	F
Place & Performance	567	13	580	460	(120)	F
Economic Development	526	(3)	523	488	(35)	F
Development Control	533	(63)	470	647	177	A
Spatial Policy	2,649	(26)	2,623	2,724	101	A
Community AD & Cohesion	131	8	139	98	(41)	F
Third Sector & Partnerships	325	10	335	314	(21)	F
Area East	416	64	480	390	(90)	F
Area North	324	49	373	285	(88)	F
Area South	393	25	418	392	(26)	F
Area West	447	10	457	393	(64)	F
Operations & Customer Focus	590	(15)	575	548	(27)	F
Environmental Health	1,192	(88)	1,104	1,031	(73)	F
Civil Contingencies	122	75	197	190	(7)	F
Engineering & Property Services	608	(20)	588	369	(219)	F

Service	Original Budget £'000	Movement During the Year £'000	Outturn Budget £'000	Actual Spend £'000	Variation £'000	
Building Control	(110)	(1)	(111)	11	122	A
Streetscene	1,832	(95)	1,737	1,694	(43)	F
Waste & Recycling	3,593	(59)	3,534	3,479	(55)	F
Licensing	10	0	10	(32)	(42)	F
Arts & Entertainment	341	2	343	400	57	A
Sport & Leisure Facilities	292	0	292	351	59	A
Community Health & Leisure	786	4	790	780	(10)	F
Housing & Welfare	769	25	794	731	(63)	F
Countryside	266	0	266	241	(25)	F
SSDC Services	20,262	360	20,622	19,900	(722)	F
LSP	48	46	94	54	(40)	F
All Spend	20,310	406	20,716	19,954	(762)	F

(Note that all figures in brackets are underspends).

4.1.3 The comparative position over the last two years was 4.2% underspent in 2010/11 and 1.0% underspent in 2009/10. (This is after taking out the figures for Treasury Management and the Local Strategic Partnership to ease comparison).

4.2 Carry Forwards

4.2.1 The District Executive was asked to approve £392,650 of specific carry forwards to 2011/12. This includes £40,510 for the LSP and £352,140 for SSDC services.

4.3 Revenue Balances and Reserves

4.3.1 Unallocated general fund balances totalled £3,117,000 at the end of the 2010/11 financial year. Regular reviews of balances were carried out during 2010/11 and the required levels were met throughout the year. The review carried out in May 2011 has set a level of £2,191,550 for the 2011/12 year, an increase due to the risks of the economic downturn on the Medium Term Financial Plan, the raised risks within the banking sector, and possible greater litigation risks but as members can see the levels of balances are still sufficient for the new financial year.

4.3.2 Specific Reserves totalled £4,478,000 at the end of the financial year. These reserves are actual cash sums set-aside for specific purposes.

4.4 Capital Outturn Report

4.4.1 The capital programme spend for 2010/11 was £2,717,730, which equates to a 40.1% underspend. This compares to a 28.7% underspend in 2009/10.

4.4.2 All completed capital schemes are shown in the table below:

Scheme	Revised Budget £'000	Actual Spend £'000	Variation £'000		Responsible Officer
Capital Salaries	200	225	25	A	A Card
Eastern End, Yeovil Improvement Grants	20	18	(2)	F	K Close
Alternative electric supply at Brympton Way	200	202	2	A	I Johns
Contribution to public toilets in Peter Street, Yeovil	150	107	(43)	F	P Biggenden
Vehicle weight monitoring system	23	19	(4)	F	C Cooper
Yeovil Vision Flagship play space	183	183	0	F	R Parr

5. Loans

5.1 SSDC has a loans policy where loans may be given at PWLB (Public Works Loans Board) rates to local voluntary and charitable organisations. The maximum outstanding sum of those loans must not exceed £1,000,000 at any time. At the end of 2010/11 the amount of loans outstanding under this policy was £406,876.

6. Statement of Accounts

6.1 The District Auditor will review the annual Statement of Accounts and supporting working papers and will issue his opinion as to whether they present fairly the financial position of South Somerset District Council at 31 March 2011 and its income and expenditure for the year then ended.

6.2 A copy of the Statement of Accounts has been circulated separately with this agenda. In addition to this, a summary of the statements will be prepared in leaflet format to make them more accessible to the end user.

7. Key Features from the Statement of Accounts

7.1 The Statement of Accounts contains four core statements reflecting the financial position of SSDC as at 31st March 2011. These are;

- Movement in Reserves Statement;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Cash Flow Statement.

7.2 There are additional statements relating to the Collection Fund (which deals with the collection and distribution of Council Tax and Business Rates).

7.3 It is a statutory requirement for all local authority financial statements to be IFRS compliant. This requirement has meant that the format of the core financial statements have changed substantially.

7.4 The Code of Practice on Local Authority Accounting introduces further technical changes:

7.4.1 Short-term accumulating compensated absences refer to the benefits that employees receive as part of their contract of employment. The most significant benefit is holiday pay. The Authority is required to accrue for any annual leave earned but not yet taken as at 31 March each year. This has resulted in a charge to the Comprehensive and Income Statement. This is then subsequently reversed out in the General Fund (by statutory provision) to the Accumulating Compensated Absences Adjustment Account.

7.4.2 All leases that the Council are involved with whether as a lessee or a lessor had to be assessed to ensure that they were accounted for correctly. As a result many of the vehicle and printer leases where we are lessee were reclassified from an operating lease to a finance lease. This involved creating assets (vehicles and printers) and finance lease liabilities, and any lease payments to be split between principal repayments and interest payments. Retrospective accounting has been applied as it was necessary to account for Finance leases as if they always had been such.

7.4.3 Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable and all conditions will be met. Previously grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund. The Grants Deferred Account no longer exists and the balance transferred to the Capital Adjustment Account.

7.4.4 Under the Code, grants and contributions for revenue are recognised as income when they become receivable. Previously they were held as a receipt in advance and recognised as income to match expenditure.

7.4.5 The Code has changed the definition of the categories within Non-Current Assets. Investment Property are now considered Plant, Property and Equipment if they are not used solely to earn rentals and/or for capital appreciation. Under the new definition, South Somerset District Council do not hold any Investment Properties as properties previously held as Investment Properties are held for economic development purposes.

7.4.6 IFRS introduces the concept of accounting for different components of assets separately. Component accounting recognises that different components of assets could have different useful lives. All Plant, Property and Equipment were reviewed as to whether it should be componentised.

7.4.7 As a result of these technical changes, the 2009/10 statements have been restated in order to comply with IFRS.

8. The Comprehensive Income and Expenditure Statement

8.1 This account gives detailed information about the total expenditure on the services we provide. It also shows the council tax and government grants received to help pay for those services. The net operating expenditure figure is reconciled to the outturn spend position outlined to District Executive in the following way:

	£'000
Total Spend Reported to the District Executive (as Paragraph 8)	19,954
Adjustments:	
Items subsequently reversed in the Statement of Movement in Reserves Statement – General Fund Balance (page 33 of the financial statements)	(7,059)
Items reported beneath the Net Cost of Services on the Comprehensive Income and Expenditure Statement	3,156
Net Cost of Services (taken from the Comprehensive Income and Expenditure Statement, page 34 of the financial statements)	16,018

8.2 The major year on year variations (over £1 million) and explanations for those variances are outlined below:

Services	Previous Year 2009/10 £'000	Current Year 2010/11 £'000	Variance £'000	Reason for Variance
Central Services	2,188	1,094	(1,094)	2009/10 included £919k in respect of redundancy/severance payments to Strategic Management staff
Cultural, Environmental and Planning Services	16,019	18,303	2,284	2009/10 included impairment charges for buildings, which were recategorised from Investment Property to Plant, Property and Equipment.
Exceptional Items of Income and Expenditure	0	(10,019)	(10,019)	In the 2010/11 budget, the coalition government announced that the pension increase order applied to pensions in payment will be linked to the Consumer Price Index rather than the Retail Price Index.

Note that figures in brackets show underspends compared to the previous year spend.

9. The Balance Sheet

9.1 The Balance Sheet provides the Council with a snapshot of our financial position overall as at the 31st March 2011. At 31 March 2011 the authority's net assets amounted to £48.03 million (£23.72 million at 31 March 2010).

9.2 The authority's net assets are significantly reduced by the inclusion of the pension scheme liability of £44.77 million (compared to £65.73 million at 31 March 2010). The present value of the pension scheme liability has fallen to £108.25 million (from £124.36 million at 31 March 2010) and the fair value of the scheme assets have increased to £63.48 million (£58.63 million at 31 March 2010).

9.3 In practice, the amount of net worth that can be used is £40.75 million (Usable Capital Receipts £31.57 million, Capital Grants Unapplied £0.82 million, Earmarked

Reserves £4.48 million and Balances £3.88 million). The remaining £9.78 million is held in technical reserves which are not available for use.

- 9.4 In addition, Members will note the Contingent liabilities disclosed in **note 50**. Contingent liabilities are possible future obligations; they are not accounted for within the balance sheet, as the obligation will only be confirmed if uncertain events happen in the future. Any claims would need to be funded from SSDC balances.

10. Cash Flow Statement

- 10.1 This statement outlines the changes in cash and cash equivalent of the authority during 2010/11.

10.2 There has been a net increase in cash and cash equivalents of £487k.

10.3 Cash Equivalents are short-term highly liquid investments that are readily convertible within 24 hours to known amounts of cash and which are subject to an insignificant risk of changes in value.

11. Collection Fund

11.1 The Collection Fund shows the total SSDC has collected on behalf of all of the precepting authorities (e.g. Somerset County Council, Avon & Somerset Police Authority, Devon & Somerset Fire & Rescue Authority and town/parish councils). It also shows the amounts distributed to those authorities. The major variations are shown below:

Heading	Previous Year 2009/10 £'000	Current Year 2010/11 £'000	Variance £'000	Reason for Variance
Income from Council Taxpayers	(78,049)	(79,305)	(1,256)	Average Council Tax Increase of 1.03% (3.21% in 2009/10) and increase in tax base 0.4% (0.4% in 2009/10)

Note that figures in brackets in the first two columns represent income, and in the last column represent an increase in income or a reduction in expenditure.

12. Auditor's Opinion

12.1 An unqualified opinion has been issued on the financial statements.

12.2 During the audit there were some amendments made to the draft financial statements. Processes have been put in place to eliminate the errors that have been identified during the 2010/11 audit to ensure that they do not occur in future years.

12.3 There are two misstatements to the financial statements that remain unadjusted.

12.3.1 An invoice for £55,895 for services delivered before 31 March 2011 was omitted from the accounts for 2010/11. As a result, the expenditure for 2010/11 is understated and the general fund balance is overstated by £55,895. The amount is immaterial and as such has not been amended. The omission was due to a project being managed by one service but paid from another service's budget. A creditor provision was not made. Steps have been put in place to reduce the risk of this occurring in future years.

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12.3.2 Land leased to another organisation had been classified as an operating lease but under the new accounting arrangements should have been classified as a finance lease. To remedy this, the value of the land should be removed from the balance sheet (creating a capital receipt of £37,500) and a long-term debtor (of £300,840) set up to recognise the future income streams. Other technical adjustments would also be required. The error has not been corrected due to the number of disclosures that would require amending and the time involved doing so. It is felt that it would not create any additional benefit to the reader. However, it is accepted that this is an error and the amendments will be made during 2011/12 to ensure that the accounting is correct.

13. Financial Implications

13.1 There are no financial implications associated with these recommendations.

Background Papers: *Revenue outturn 2010/11*
 Capital outturn 2010/11
