**APPENDIX E**
**Agenda Item No. 7**

# DRAFT STATEMENT OF ACCOUNTS 2008-09

Head of Finance

## 1 Purpose

1.1 This report presents the draft Statement of Accounts for approval. The statement gives the final position for the financial year that ended on 31st March 2009. The figures are presented for approval in advance of their inspection by the External Auditors. Any adjustment that the Auditors require as a result of their inspection will be reported at a later date.

1.2 The accounts are attached for members' consideration. The deadlines allowed for closing and production of the accounts mean that work still continues in terms of producing detailed working papers for the Auditors.

1.3 Despite the accounts having already been checked for accuracy and completeness the process of producing working papers to the standard required by the auditors can sometimes identify further adjustments which need to be made to the final statements. For this reason it may be necessary to present changes to the statements verbally at the meeting of this committee.

1.4 Whilst not forming part of the final accounts, the Quarterly Financial Digest sits beside the formal accounts and provides members with a more understandable guide to the financial events which took place in the year as they relate to the provision of the Council's services.

## 2 Recommendations/for decision

2.1 That the outturn position be noted

2.2 That the Statement of Accounts be approved prior to their inspection by External Audit.

## 3 Supporting information

3.1 The year end position included within the statutory accounts contains transactions which are required by the accounting regulations. These transactions are intended to provide the reader with a complete picture of the Authority's financial affairs during the course of the year, but not all of them impact upon the cost of services to the Council Tax payer

3.2 For this reason it is difficult to reconcile the statutory accounts with the figures included within the Quarterly Financial Digest.

3.3 The Digest effectively represents management information and is designed to explain significant financial events which occurred during the year by comparing them with the expected or budgeted equivalent figures.

3.4 The statutory accounts only present actual spend and income without reference to the budgeted levels. Therefore, whilst the accounts present the definitive position in terms of explaining what the Authority has by way of financial resources, it does not inform the reader as to whether this was the position which was either planned or expected.

3.5 It is therefore recommended that the two documents are read in conjunction.

**Main Points contained within the Digest**

3.6 The final overspend on the year was £247,355 and this is £52,645 less than the £300,000 predicted in the Medium Term Financial Plan (MTFP) for the year. In practice this position comprises a number of ups and downs against individual services. In broad terms individual services overspent but this was offset by some year end technical adjustments.

3.7 In total the Authority used £670,000 of General Fund working balances during the year. This position is set out in the table below;

| ***Year End Statement of Working Balances*** | | | |
|---|---|---|---|
| | **Budget** | **Actual** | **Variance** |
| | **£** | **£** | **£** |
| General Fund Balance Brought Forward from 2007/08 | **(3,701,000)** | **(3,701,000)** | **0** |
| Expected Use of Tolerance | 160,000 | 85,500 | -74,500 |
| Planned Use of Balances | 430,000 | 430,000 | 0 |
| Overspend Assumption from MTFP | 300,000 | 247,355 | -52,645 |
| VAT Refund relating to previous years | 0 | (92,492) | -92,492 |
| Total Use of Balances during 2008/09 | **890,000** | **670,363** | **219,637** |
| | | | |
| Year End Working Balance Carried Forward into 2009/10 | **(2,811,000)** | **(3,030,637)** | **-219,637** |

3.8 The budget for 2008/09 showed an overspend for the first time in a number of years. In practice this outcome was forecast early in the financial year as it became apparent that the Country was heading into a recession and the impact on services, particularly those relating to housing and house building, began to be realised.

3.9 An estimated overspend of £300,000 was consequently built into the Medium Term Financial Plan back in October / November 2008

3.10 As previously stated the main areas where net costs exceeded budgets during the year were largely attributed to the recession with those services which are related to the housing or house building sectors suffering as a result of the collapse in demand for such services. These areas included lower demand for Land Charge searches where income fell short of targets by £236,000 and lower numbers of Development Control applications where income fell short of target by £147,000. Additionally, the global recession impacted on other areas of the Council's business in ways not obviously apparent. For example lower demand for products in the US reduced both demand and prices for recycled materials collected kerbside here in Aylesbury Vale. As a consequence income from the sale of recycled materials fell short of target by £177,000 during in 2008/09.

3.11 Higher energy costs were also a factor in the early part of the year and impacted on some services such as the Civic Centre where higher operating costs and lower income from events resulted in an increased net cost of £225,000.

3.12 Higher costs and lower income in some areas was partially offset by savings and higher income in others. Court Cost income is one area which saw an increase in income. The Council also undertook a number of significant restructuring exercises during 2008/09 including one amongst senior management and this saved substantial sums which partly benefited in year.

3.13 The overspend is also lower by virtue of a refund of £92,492 from Her Majesty's Customs and Revenues relating to VAT on car parking excess charges going back many years

**Transfers to and From Reserves**

3.14 Within the outturn position are transfers from reserves equal to £3.6 million and transfers to reserves of £5.5 million. This equates to a net transfer to reserves of £1.9 million during 2008/09.

3.15 The largest single transfer to a reserve was £3.8 million into the equalisation account. This was largely the result of considerably higher than expected interest income earnings on our investments. The reasons for this were two fold; firstly a large element of our investments were invested before interest rates collapsed and are therefore still earning between 6% - 7%. The second factor is that the capital programme was spent more slowly than expected and as a consequence significantly higher balances were available to invest.

3.16 The net result is a higher than expected balance on the interest equalisation account and this gives added protection to the General Fund against the dramatic reduction in base rates recently experienced. In addition, if we are eventually required to write off any of our Icelandic investments then we can do so against this reserve without unduly affecting our planned usage of the reserve in support of the General Fund.

**Main Points Contained within the Draft Statement of Accounts**

3.17 The Statement of Accounts contains the same spend and income information as contained within the Digest but is presented in a different way.

3.18 The Table below reconciles the Use of Balance referred to above with that shown in Statement of Balances appearing on page 10 of the Statement of Accounts.

| ***Reconciliation of the General Fund Outturn to the Statement of Accounts*** | | | |
|---|---|---|---|
| | **(Digest) Use of General Fund Balance** | **Use of Residual HRA Balance** | **(Statement of Accounts) Use of Balances** |
| | **£** | **£** | **£** |
| Balance Brought Forward from 2007/08 | **(3,701,296)** | **(1,630,086)** | **(5,331,382)** |
| Expected Use of Tolerance | 85,500 | 0 | 85,500 |
| Planned Use of Balances | 430,000 | 418,262 | 848,262 |
| Overspend / (Under-spend) | 247,355 | 0 | 247,355 |
| VAT Refund relating to previous years | (92,492) | 0 | (92,492) |

| | | | |
|---|---|---|---|
| Total Use of Balances during 2008/09 | **670,363** | **418,262** | **1,088,625** |
| | | | |
| Balance Carried Forward into 2009/10 | **(3,030,933)** | **(1,211,824)** | **(4,242,757)** |

3.19 The main issues reflected in this year's accounts are largely associated with the impact of the recession on the Council's finances.

3.20 The impacts on the net cost of providing services is discussed in more detail within the digest and are summarised above.

3.21 Beyond this there are three significant issues which affect the value of the assets in the Council's ownership. These being;

- The recession has caused a sudden and significant drop in property prices. The fall in prices has not just been isolated to housing. With a few exceptions all property has decreased sharply in value. A full valuation exercise was commissioned to ascertain the extent of this reduction on the Council's assets. This identified a reduction of approximately 1/3 across all assets equal to £40 million. In accordance with proper accounting practice the majority of this reduction in value has been charged to the Income and Expenditure Account as a loss in year. Whilst the Council continues to use these assets to provide services this reduction has little consequence. The real impact only becomes apparent at the point the Council chooses to sell or transfer ownership of the assets, such as with the Property Strategy project.

- At the point the Icelandic banking system collapsed in October 2008 the Council had two investments totalling £3 million with Icelandic banks. The Authority is continuing to make every effort to recover these sums, but in accordance with proper accounting practices it has had to make an assessment of the element which it may not recover in time, including lost interest. Accounting convention requires this potential loss to be charged to the Income and Expenditure Account in the year it is recognised and this appears in our accounts accordingly. However, the Government enacted legislation to defer the impact of this potential loss on the Council's bottom line until 2009/10, at which point it is expected that greater clarity will exist over the prospects for recovery. The Council has taken advantage of this piece of legislation and put an entry into the accounts deferring the potential loss until 2009/10.

- The impact of the global financial turmoil has also had a significant impact on the financial markets and share prices have reduced sharply. This combined with interest rate reductions and falls in property prices has had an impact on the value of the Council's pension fund as managed by Bucks County Council. At the end of 2008/09 the County Council's pension fund valuer estimated that our share of the pension fund investments had reduced in value by £1.8 million. This combined with a revised assessment of future liabilities mean that our pension fund is now only 57% funded. This valuation is an interim valuation for the purposes of completing the accounts and differs in material regards to the formal triennial valuation. The next formal valuation takes place at the end of this financial year at which point it is hoped that there will have been some recovery in values.

3.22 The published accounts are produced in accordance with a prescribed format which we are required to follow. It is recognised that this is often difficult to understand.

3.23 Therefore, to assist with interpreting the accounts attached as appendix A is a simplified explanation of the main statements and of the significant changes included within them.

## 4 Reasons for Recommendation

4.1 The Accounts and Audit Regulations require formal consideration of the accounts to be presented for External Audit and for the Chairperson of that committee and the Head of Finance to sign them as a true record of the Authority's financial affairs and control.

4.2 Additionally , within the Comprehensive Area Assessment Use of Resources judgement there is an expectation that members should consider and critically review the accounts of the Council and have a 'robust debate' before they are submitted for External Audit

## 5 Resource implications

5.1 These are covered within the body of this report.

## 6 Response to Key Aims and Objectives

6.1 None directly although proper financial reporting and management will help with the delivery of the Authority's Key Aims and Outcomes.

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| Background Documents | Draft Statement of Accounts 2008/09 |