

GOVERNANCE AND AUDIT COMMITTEE
29 JUNE 2009

STATEMENT OF ACCOUNTS 2008/09
(Borough Treasurer)

1 INTRODUCTION

- 1.1 The Council's Statement of Accounts for 2008/09, attached at Annex A, must be approved by a resolution of the Council by 30 June 2009. Bracknell Forest Council has determined to delegate this task to the Governance and Audit Committee. The Accounts are then subject to audit by the Council's external auditor, the District Auditor, appointed by the Audit Commission. This report summarises for Committee Members the key elements within the accounts and highlights key changes to the presentation and contents of the accounts.

2 RECOMMENDATIONS

That the Committee:

- 2.1 **Approves the Draft Statement of Accounts 2008/09;**
- 2.2 **Notes the out-turn expenditure for the year and approves the provisions (£0.074m per section 4.2) and earmarked reserves (£7.105m per section 4.3).**
- 2.3 **Authorises the Chairman of the meeting to sign and date the Statement of Accounts on behalf of the Committee.**

3 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 3.1 The Accounts and Audit Regulations 2003 require the 2008/09 Statement of Accounts to be formally approved by Members (a Committee or Council) and signed by the Chairman/Mayor by 30 June 2009.

Borough Treasurer

- 3.2 The Statement of Accounts is a published document setting out the Council's financial position during 2008/09. It includes the balance sheet, revenue accounts, cash flow statement and notes to the accounts, which expand and explain the information in these statements.

Equalities Impact Assessment

- 3.3 None required.

Strategic Risk Management Issues

- 3.4 There are none arising directly from this report.

4 SUPPORTING INFORMATION

4.1 Out-turn Expenditure 2008/09

- 4.1.1 The Council, at its meeting on 27 February 2008, approved a revenue budget for 2008/09 of £71.253m. The actual out-turn for the General Fund is within budget with an underspend of £1.882m. This is the eleventh consecutive year the Council has managed to spend within its budget. In fact the Council had planned to use £2.100m from General Balances to support the 2008/09 budget. Taking this underspend into account the Council actually withdrew £0.218m from reserves. The Council is facing a challenging future in financial terms requiring savings to be made in order to balance the budget. A full report on the commitment budget and 2010/11 budget strategy will be presented to the Executive in July.
- 4.1.2 A detailed comparison of the outturn and estimated expenditure is provided in the Explanatory Foreword on pages 2 to 6 of the Statement of Accounts.
- 4.1.3 The Statement of Accounts for 2008/09 includes two significant items, details of which are summarised below:
- Two years ago £1.3m of expenditure was capitalised in connection with the regeneration of the town centre, followed by an additional £0.3m in 2007/08. The current economic climate has had a significant impact on the timing of the development. Therefore, until there is significantly more certainty around the town centre redevelopment, it would be prudent to reverse the transactions that were capitalised and meet the £1.6m from revenue. This can be reviewed at future date if circumstances change. This expenditure has been partly funded by the utilisation of the balance on the earmarked reserve set up for the regeneration of the town centre.
 - The failure of the Icelandic banking system had a major impact on local authority investments. The Council has £2m of investments with Heritable and £3m invested with Glitnir which is still at risk. At this point in time recovery rates have not been fully disclosed by the respective institutions, although early indications suggest up to an 80% recovery for Heritable and something approaching full recovery for Glitnir. For Glitnir the recovery rate assumes that local authority deposits will be treated as priority deposits. Recovery rates would be significantly lower if this were to prove not to be the case. Guidance has been received from CIPFA's Local Authority Accounting Panel on how to show the impairment of these financial assets in the final accounts. These technical adjustments do not affect the outturn position as Bracknell Forest has taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund. The impairment will not impact on the accounts until 2010/11 when part of the impairment will need to be charged to the General Fund. Full details are included in the note on Financial Instruments, commencing on page 62.
- 4.1.4 There have been a number of changes to the Statement of Accounts for 2008/09 in line with changes to the Code of Practice on Local Authority Accounting: Statement of Recommended Practice (the "SORP"). The main changes are:
- Quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid-market value.

- Introduction of the non-ring fenced Area Based Grant. This is a general grant totalling £4.541m which is available to fund Council services and replaces a range of specific grants.
- Introduction of a new category of expenditure, Revenue Expenditure Funded from Capital under Statute which effectively replaces Deferred Charges. This is capital expenditure which does not result in the creation of a Council owned asset e.g. disabled facilities grants.

The Income and Expenditure Account shows a deficit of £38.708m. However, the overall financial position is much better than this as explained in the reconciliation statement and notes on pages 40 and 41 of the Statement of Accounts. The principal reason for the deficit is that the Income & Expenditure Account reflects the annual depreciation charge, FR17 pension charges and impairment charges which are made to services but are reversed out for Council Tax purposes. In 2008/09 the recession and credit crunch had a significant impact on the value of assets held by the Council. An impairment review was, therefore, undertaken by the Council's Principal Valuation Surveyor, which resulted in the value of land and buildings being written down by £14.1m.

4.2 Provisions

- 4.2.1 The Council's balances contain specific provisions for known liabilities where the timing or amount of the liability is uncertain. These are considered each year as part of the budget cycle to ensure adequacy and need, and are again reviewed at the year end, in considering the annual accounts.
- 4.2.2 The Council's accounts include a provision for the maintenance of land under Section 106 agreements, which totals £0.013m. This represents cash transferred to the Council when it takes responsibility for a package of land, and is designed to cover the maintenance costs for up to the first five years of ownership by the Council.
- 4.2.3 In addition the Council received a further £0.026m S106 monies (making a total of £0.061m) to cover the Council's costs of monitoring a developer's compliance with the S106 agreement negotiated including travel plan requirements. These will be released to revenue as and when costs are incurred.
- 4.2.4 The provision relating to potential liabilities arising from Mental Health S117 claims has now been released to revenue as the likelihood of the Council having to make any payments is considered to be remote. If any claims subsequently arise they will be funded from the uninsured losses reserve.

4.3 Revenue Reserves

- 4.3.1 These are the reserves of the authority at 31 March 2009, consisting of Earmarked Reserves, the General Reserve and other Revenue Reserves (Pension Reserve and Collection Fund balance).
- 4.3.2 Earmarked Reserves are sums of money which have been set aside for specific purposes. These are excluded from general balances available to support revenue or capital expenditure. Earmarked Reserves totalling £7.105m, a decrease of £0.701m on last year's figure, are proposed and are detailed in Table 1.

Table 1: Earmarked Reserves

	31 March 2009 £'000	31 March 2008 £'000	Change £'000
Insurance & Uninsured Claims	2,080	2,212	(132)
Budget Carry Forwards	549	376	173
Corporate innovations	0	206	(206)
Exceptional Environmental Conditions	0	251	(251)
Costs of Structural Change	1,396	1,396	0
Performance Improvement	73	366	(293)
Regeneration of Bracknell	0	761	(761)
Schools' Balances	2,543	1,647	896
Education Library Service	119	128	(9)
School Improvement Commitments	0	296	(296)
Repairs & Renewals	2	2	0
Building Regulations Chargeable Account	(20)	2	(22)
Landfill Allowances Trading Scheme unused allowances (LATS)	0	128	(128)
Supported Accommodation – Landlord costs	0	35	(35)
LPSA2 Grant	329	0	329
Local Economy Steering Group	34	0	34
Total	7,105	7,806	(701)

- 4.3.3 The Borough Treasurer has taken the opportunity to review earmarked reserves and adjusted them to reflect the changing risks the organisation faces and these changes were presented to the Executive in the Revenue Expenditure Outturn 2008/09 Report on 16 June 2009. The Council's Reserves and Balances Policy Statement which sets out the purpose of each reserve is attached at Annex B.
- 4.3.4 The Pension Reserve, created to comply with the requirement of Financial Reporting Standard 17, is showing a net liability of £68.439m. This is an increase of £36.024m on last year reflecting the impact of the recession and credit crunch on asset values, together with a change in accounting policy, requiring quoted securities held by defined benefit pension schemes to be valued at bid price rather than mid-market value.
- 4.3.5 The Collection Fund balance represents the surplus or deficit on the Collection Fund. This is a separate account which shows the transactions of the billing authority in relation to National Non Domestic Rates and Council Tax and the distribution to precepting bodies. The Collection Fund balance is showing a net surplus of £0.170m which will be distributed between Bracknell Forest Council, Thames Valley Police Authority and the Royal Berkshire Fire Authority in accordance with the relevant regulations.
- 4.3.5 The Financial Instrument Adjustment Account has been set up in 2008/09. This reserve arises from the failure of the Icelandic banks and represents the amount of the deferred charge to the General Fund (£0.608m). This will not impact upon the accounts until 2010/11 when this amount will begin to be charged to the General Fund unless it has been recovered from the banks.

General Reserves

- 4.3.6 The General Fund reserve now stands at £10.375m. The 2009/10 budget includes plans to spend £2.242m of the remaining reserves. Subject to the 2009/10 outturn, reserves will be around £8.1m by the end of the current financial year. Historically £4m has been considered to be the minimum prudent level, however, because of the uncertainty surrounding the recovery of Icelandic funds it would not be prudent to let the balance fall below £6.5m until there is more certainty about how much will be repaid.

4.4 Other Balance Sheet Issues

- 4.4.1 The balance sheet shows that the Council holds fixed assets valued at £386.021m (excluding pension assets), with other land and buildings at £304.352m representing the most significant category of fixed asset. The overall value has reduced by £6.209m on previous years. This arises, in part, from the revised accounting treatment of voluntary controlled schools. In 2007/08 voluntary aided schools were removed from the Council's balance sheet as legal title did not rest with the Council. During 2008/09 a review of voluntary controlled schools was undertaken and only those land and buildings to which the Council has legal title have been left on the balance sheet. This resulted in an impairment of £5.8m.
- 4.4.2 The amount owed to the Council by its debtors has increased by £2.106m. £1.5m of this increase relates to the clawback of capital receipts from Bracknell Forest Homes arising from Right to Buy Sales. The amount has subsequently been paid.
- 4.4.3 The amount the Council owes to its creditors has decreased by £12.856m. At the 31 March 2008, the Council held £22.6m under the VAT Shelter arrangement, approved by HM Revenue and Customs, following the transfer of the housing stock to Bracknell Forest Homes. This arrangement enables the VAT on works carried out to houses transferred to Bracknell Forest Homes to be recovered. This amount has now been repaid to HM Revenue and Customs, which also explains why the level of Council investments has decreased by £21.252m.

Capital Financing Requirement

- 4.4.6 The Council is required to calculate at the end of each year its Capital Financing Requirement (CFR) under the CIPFA Prudential Code. This calculation is broadly the difference between the Council's fixed assets and the level of resources to finance expenditure on them which equates to the underlying borrowing requirement. The calculated borrowing requirement is £3.456m at 31 March 2009. The Council will need to make provision for the repayment of this amount in its revenue budget in accordance with the Minimum Revenue Provision (MRP) Policy Statement agreed by Full Council on 25 February 2009. As the Council has no actual debt this is an internal transaction.

4.5 Annual Governance Statement

- 4.5.1 The Annual Governance Statement was approved by the Committee under Agenda Item 10 and is incorporated within the Statement of Accounts at pages 13 to 23.

4.6 Approval of the Statement of Accounts

- 4.6.1 Each year the Council's Section 151 Officer (the Borough Treasurer) must formally sign off the accounts prior to audit. Following consideration by the Governance and Audit Committee, the Annual Governance Statement must be signed by the Leader and Chief Executive, on behalf of the Members and Officers of the Council. In addition, the Accounts and Audit Regulations 2003 require the Chairman of the meeting that formally approves the accounts to sign and date them.

4.7 Audit of Accounts

- 4.7.1 The Council's external auditor, the District Auditor, will start work on the final audit of the 2008/09 accounts in early July. Any significant changes that are required to be made to the accounts resulting from the audit will be reported to the Governance and Audit Committee in September.

4.8 Summarised Accounts

- 4.8.1 The full annual statement of accounts is a technical document which contains complex issues which can be difficult for readers to understand. Best practice is to summarise this information for key stakeholders. The Council will make available through the website a summarised set of accounts for 2008/09 once the accounts have been signed off by the District Auditor in September.

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