

**GOVERNANCE AND AUDIT COMMITTEE**  
**29 JUNE 2010**

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**STATEMENT OF ACCOUNTS 2009/10**  
**(Borough Treasurer)**

**1 INTRODUCTION**

- 1.1 The Council's Statement of Accounts for 2009/10, enclosed separately, must be approved by a resolution of the Council by 30 June 2010. 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 2009/10;**
- 2.2 **Notes the out-turn expenditure for the year and approves the provisions (£0.197m per section 4.2) and earmarked reserves (£9.247m 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 2009/10 Statement of Accounts to be formally approved by Members (a Committee or Council) and signed by the Chairman/Mayor by 30 June 2010.

Borough Treasurer

- 3.2 The Statement of Accounts is a published document setting out the Council's financial position during 2009/10. 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 Outturn Expenditure 2009/10**

4.1.1 The Council, at its meeting on 25 February 2009, approved a revenue budget for 2009/10 of £74.218m. The actual outturn for the General Fund is within budget with an underspend of £0.712m. This is the twelfth consecutive year the Council has managed to spend within its budget. In fact the Council had planned to use £2.242m from General Balances to support the 2009/10 budget. Taking this underspend into account the Council actually withdrew £1.530m from reserves. During the course of 2009/10 the Council identified a potential overspend on its revenue budget and implemented an in year savings package of £1.639m in order to bring spending back into line with budget. The outturn expenditure demonstrates that the actions taken during 2009/10 have been effective. The Council is facing a challenging future in financial terms requiring savings to be made in year and to balance future year's budgets. A full report on the commitment budget and 2011/12 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 7 of the Statement of Accounts.

4.1.3 The Statement of Accounts for 2009/10 includes two significant items, details of which are summarised below:

- Changes in VAT legislation resulted in a number of services being reclassified from standard rated to exempt for VAT purposes. Initially the Council was only able to reclaim overpaid tax for the previous 3 years but this 3 year cap was successfully challenged in court cases collectively known as Conde Nast/Fleming. As a result a number of claims were submitted to try and claim back overpaid VAT plus interest for earlier years (going back to 1973 when VAT was introduced). The majority of claims have now been settled and as a consequence the Council received the sum of £2.583m (including interest but after fees) in 2009/10. The VAT repayments have been treated as an exceptional item in the Income and Expenditure Account on page 46 of the Statement of Accounts.

The Council has taken the opportunity provided by the fortuitous receipt to take a prudent approach to the risks associated with the Council's investments in Icelandic Banks.

- The position regarding Icelandic banks remains uncertain, particularly as a result of actions taken by certain creditors in the Icelandic courts regarding deposits held in Glitnir Bank. The accounts have been closed on the basis of the latest professional guidance and Bracknell Forest has again taken advantage of the Capital Finance Regulations to defer the impact of the accounting adjustments on the General Fund until 2010/11. In the worst case the Council's loss is estimated to be £2.575m and it was therefore felt prudent to set this sum aside in an earmarked reserve. Should the action in the Icelandic courts result in the Council achieving a settlement better than this worst case scenario, any surplus can be released back into balances in the future. It must be stressed that at this stage independent advice to the

Council is that it will see the return of over 90% of its investments. Full details are included in the note on Financial Instruments, commencing on page 78.

4.1.4 There have been a number of changes to the Statement of Accounts for 2009/10 in line with changes to the Code of Practice on Local Authority Accounting: Statement of Recommended Practice (the "SORP"). The main changes are:

- The assets associated with the Council's Waste PFI agreement are now recorded on the Balance Sheet together with a corresponding liability. The assets are now treated like any other asset and the associated annual capital charge is included in the Income and Expenditure Account.
- The collection of Council Tax is now accounted for on an agency basis as the Council collects and distributes Council Tax income on behalf of the major preceptors and itself. Under an agency basis, the cash collected by the Council belongs proportionately to the Council and the major preceptors – the Thames Valley Police Authority and the Royal Berkshire Fire Authority. An end of year creditor or debtor is now included in the Council's Balance Sheet for each major preceptor to recognise the difference between the net cash paid to each major preceptor and its share of the cash collected from Council Tax payers.
- National Non Domestic Rates (NNDR) are now also accounted for on an agency basis as the Council acts on behalf of the Government. Under an agency arrangement amounts owed by, or to, taxpayers are not assets and liabilities of the Council and are no longer recognised in the Balance Sheet. The amount owed by, or to, the Government is however included in the Council's Balance Sheet as a debtor or creditor.
- Further disclosures have been included in the Notes to the Core Financial Statements, notably the remuneration of senior employees on pages 58 and 59.

The changes arising from the inclusion of the Waste PFI on the Council's Balance Sheet and the treatment of both the collection of Council Tax and National Non Domestic rates on an agency basis has resulted in the 2008/09 figures being restated. Details of these prior year adjustments are set out in note 3 of the Notes to the Core Financial Statements commencing on page 52.

4.1.5 The Income and Expenditure Account shows a deficit of £25.938m. However, the overall financial position is much better than this as explained in the reconciliation statement and notes on pages 47 and 48 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.

## **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 total £0.126m. 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 £0.010m S106 monies (making a total of £0.071m) 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.

### 4.3 Revenue Reserves

- 4.3.1 These are the reserves of the authority at 31 March 2010, consisting of Earmarked Reserves, the General Reserve and other Revenue Reserves (e.g. Pension Reserve).
- 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 £9.247m, an increase of £2.143m on last year's figure, are proposed and are detailed in Table 1.

Table 1: Earmarked Reserves

	31 March 2010 £'000	31 March 2009 £'000	Change £'000
Insurance & Uninsured Claims	2,092	2,079	13
Budget Carry Forwards	101	549	(448)
Costs of Structural Change	1,000	1,396	(396)
Performance Improvement	0	73	(73)
Regeneration of Bracknell	294	0	294
Schools' Balances	2,064	2,543	(479)
Education Library Service	127	119	8
Repairs & Renewals	24	2	22
Building Regulations Chargeable Account	0	(20)	20
Landfill Allowances Trading Scheme unused allowances (LATS)	76	0	76
LPSA2 Grant**	665	329	336
Local Economy Steering Group	29	34	(5)
Capital Feasibility Studies	200	0	200
Icelandic Banks	2,575	0	2,575
<b>Total</b>	<b>9,247</b>	<b>7,104</b>	<b>2,143</b>

\*\*Some of this reserve is currently at risk. The Council is seeking clarification from GOSE on whether this grant will be subject to review as part of the government's in year grant reductions.

- 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 2009/10 Report on 15 June 2010. The Council's Reserves and Balances Policy Statement which sets out the purpose of each reserve is attached at Annex A.
- 4.3.4 The Pension Reserve, created to comply with the requirement of Financial Reporting Standard 17, is showing a net liability of £142,991m. This is an increase of £74.552m on last year. Due to the valuation methodology and the derivation of the

main financial assumptions required by FRS17, the numbers produced year on year can be extremely volatile, hence the deficit on the Pension Reserve has increased despite a positive return on assets during the year. The main reason for this is that the value of liabilities is dependent upon real corporate bond yields i.e. the yield from corporate bonds less the assumption about future inflation. The significant reductions in corporate bond yields during 2009/10 have, therefore, resulted in a major increase in the value of liabilities.

- 4.3.5 The Collection Fund Adjustment Account has been set up in 2009/10 to reflect the changes included in the revised SORP (see paragraph 4.1.4 above). The balance represents the difference between the Council Tax income included in the Income and Expenditure Account and the amount required by regulation to be credited to the General Fund.
- 4.3.6 The Financial Instrument Adjustment Account arises from the failure of the Icelandic banks and represents the amount of the deferred charge to the General Fund (£0.378m). 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

- 4.3.7 The General Fund reserve now stands at £8.845m. The 2010/11 budget includes plans to spend £0.557m of this reserve.

#### **4.4 Other Balance Sheet Issues**

- 4.4.1 The balance sheet shows that the Council holds fixed assets valued at £480.585m (excluding pension assets), with other land and buildings at £374.461m representing the most significant category of fixed asset. The overall value has increased by £88.376m on previous years. This arises, in part, from the revaluation of assets during the year and the inclusion of the new Garth Hill College as an asset under construction.
- 4.4.2 The level of current investments stands at £44.981m, a decrease of £13.478m. This is principally due to the construction of Garth Hill College, with the grant payments received in advance from the Government having been spent during the year.
- 4.4.3 The amount owed to the Council by its debtors has increased by £2.391m. £1.850m of this increase relates to the deferred payment of business rates.
- 4.4.4 The amount the Council owes to its creditors has decreased by £9.990m. The main reason for the decrease is again Garth Hill College. The amount of Government grant received in advance has reduced by £9.247m, which has also impacted upon the level of investments held by the Council on 31 March 2010.

#### Capital Financing Requirement

- 4.4.5 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 £12.683m at 31 March 2010. 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 3 March 2010.

#### **4.5 Annual Governance Statement**

- 4.5.1 The Annual Governance Statement was approved by the Committee earlier in the meeting and is incorporated within the Statement of Accounts at pages 14 to 27.

#### **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 2009/10 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 2009/10 once the accounts have been signed off by the District Auditor in September.

#### Contact for further information

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#### Doc. Ref

Statement of Accounts Report