TO: GOVERNANCE AND AUDIT COMMITTEE
29 SEPTEMBER 2011

STATEMENT OF ACCOUNTS 2010/11
Borough Treasurer

1 PURPOSE OF REPORT

1.1 In accordance with the Accounts and Audit (England) Regulations 2011 the Borough Treasurer signed the draft 2010/11 Statement of Accounts on 28 June 2011. Copies of the draft Statement of Accounts were subsequently circulated to all Council Members. The accounts were then subjected to audit by the District Auditor. This report summarises for Committee Members the key elements within the accounts, presentational changes, the findings of the audit and highlights the key changes made to the Statement of Accounts - a revised set of which are attached.

1.2 It should be noted that none of the changes made as a result of the external audit have a detrimental impact on the Council's overall financial position.

2 RECOMMENDATIONS

That the Committee:

2.1 Approves the Statement of Accounts 2010/11 (attached);

2.2 Notes the out-turn expenditure for the year and approves the provisions (£1.722m per section 5.3) and earmarked reserves (£11.320m per section 5.4);

2.3 Authorises the Chairman of the meeting to sign and date the Statement of Accounts on behalf of the Committee;

2.4 Approves the Draft Letter of Representation set out in Appendix 4 of the District Auditor's Annual Governance Report.

3 REASONS FOR RECOMMENDATIONS

3.1 The Accounts and Audit (England) Regulations 2011 require the accounts to be approved by Council (or Committee of the Council) and the Chairman of the meeting to formally sign the accounts to certify that this has been undertaken.

4 ALTERNATIVE OPTIONS CONSIDERED

4.1 None.

5 SUPPORTING INFORMATION

5.1 Outturn Expenditure 2010/11

5.1.1 The Council, at its meeting on 3 March 2010, approved a revenue budget for 2010/11 of £74.587m. The actual outturn for the General Fund is within budget with an under spend of £1.682m. This is the thirteenth consecutive year the Council has managed to spend within its budget. In fact the Council had planned to use £0.557m from General Balances to support the 2010/11 budget. Taking this under spend into account the Council actually returned £1.125m to reserves. The most significant variance was an under spend of £1.5m on People with Learning Disabilities. 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.

5.1.2 Three items have been treated as exceptional items in the accounts:

- 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). VAT refunds totalling £2.583m were received in 2009/10 and refunds from outstanding claims relating to adult courses and library hire charges were received in 2010/11 (£0.225m).

- A revenue reserve relating to Ufton Court and held by West Berkshire on behalf of the six Berkshire local authorities is now no longer required. This has been distributed, resulting in additional revenue funds for the Council of £0.117m.

- In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This has had the effect of reducing the Council's liabilities in the Royal County of Berkshire Pension Fund by £29.3m and has been recognised as a past service gain since the change is considered to be a change in benefit entitlement. This adjustment accounts for nearly 93% of the reduction in the Cost of Services within the Comprehensive Income and Expenditure Account between 2009/10 and 2010/11. However there is no overall impact upon the General Fund as statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards.

5.1.3 The position regarding Icelandic banks remains uncertain because the decision by the Icelandic courts in favour of the Council regarding Glitnir Bank is being appealed through the Icelandic Supreme Court. The accounts have been closed on the basis of the latest professional guidance which assumes that the preferential creditor status for the Glitnir deposit will be confirmed by the Icelandic Supreme Court. Should this not be the case the return for Glitnir would be approximately 30% rather than the assumed 100%. The Council set up an earmarked reserve in 2009/10 to guard against this possibility. If the reserve is not required in full, any surplus can be released back into balances in the future.

5.1.4 The Comprehensive Income and Expenditure Statement shows a surplus on the Provision of Services of £27.824m. This because the statement shows the cost of providing services in accordance with accounting practices, rather than the amount to be funded from taxation. The taxation position which shows the real impact on the General Fund is shown in the Movement in Reserves Statement. The Comprehensive Income and Expenditure Statement also includes gains arising from surpluses on the Revaluation Reserve and reductions in pension liabilities. The total figure of £93.275m explains the change in the net assets of the Council presented in the Balance Sheet.

5.2 International Financial Reporting Standards and revised Accounting Policies

5.2.1 The 2010/11 accounts have been based on International Financial Reporting Standards (IFRS), as interpreted for local authorities in the Code of Practice on Local Authority Accounting 2010/11 (the Code). The main reason for adopting IFRS was to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice. The date for transition to the Code is 1 April 2009. An opening balance sheet has been prepared at this date and the 2009/10 accounts have been restated on an IFRS basis. The majority of transactions have been retrospectively adjusted as required on first time adoption of the Code. An explanation of how the transition to IFRS has affected the Balance Sheet and Comprehensive Income and Expenditure Statement is detailed in Note 47.

5.2.2 The transition from accounts based on the SORP to those based on the Code has required significant changes to the Council's Accounting Policies which were approved by the Governance and Audit Committee in March. The revised accounting policies are included in Note 1 to the accounts. The main changes are summarised below.

- Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Previously only fundamental errors (one that is of such significance as to destroy the validity of the financial statements) required adjustment. This will make it much more likely that prior period adjustments will be required. Where an adjustment is required, three balance sheets will now need to be included in the accounts. For example, for 2010/11 balance sheets have been included for 2008/09, 2009/10 and 2010/11.

- Investment property is now specifically defined to refer to land and buildings held solely to earn rentals and/or for capital appreciation. Investment properties will also, in future, be shown as a separate category of asset on the Balance Sheet. Any annual changes to the value of investment properties will also need to be recognised through the Comprehensive Income and Expenditure Statement rather than initially through the Revaluation Reserve.

- A non-current asset held for sale is an asset where there is an expectation that the amount included in the Balance Sheet will be recovered through a sale transaction within the next 12 months rather than through the continuing use of the asset. Strict criteria apply before an asset can be classified as held for sale and Investment Property are excluded. Under the Code non-current assets held for sale are shown separately on the Balance Sheet within current assets.

- Leases will still need to be classified as either finance leases or operating leases. Previously the lease of land and buildings were considered together for the purposes of the accounts. Under the Code, the land and building elements will need to be considered separately for classification. Unless title is expected to pass to the lessee at the end of the lease term, the Council will be treating the lease of land as an operating lease.

- Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for as a lease where fulfilment of the arrangement is dependent on the use of specific assets. For example, the refuse collection contract is dependant on the use of specific refuse vehicles and due to the nature of the contract a finance lease is deemed to exist.

- Under the Code, cash equivalents are defined as short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The revised accounting policies define short term as those maturing within 3 months from the date of acquisition. All the Council's investments in Money Market Funds will in future be classified as cash equivalents rather than short term investments in the Balance Sheet.

- The Council will need to accrue for annual leave and flexi-time which has been earned by staff at the reporting date but not yet taken.

- In future grants and contributions relating to capital and revenue expenditure will be recognised immediately in the Comprehensive Income and Expenditure Account, except to the extent that the grant or contribution has a condition(s) attached to it that the Council has not satisfied. Previously capital grants and contributions were amortised to the Income and Expenditure Account over the life of the asset that they financed and revenue grants and contributions were matched to the pattern of the associated expenditure.

- The Code places a much greater emphasis on componentisation. Where an asset comprises two or more major components with substantially different useful economic lives, each component is accounted for separately for depreciation purposes and depreciated over its individual useful life. The requirement for componentisation for depreciation purposes is only applicable to enhancement, purchases, or revaluations after 1 April 2010.

5.3 Provisions

5.3.1 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.

5.3.2 The Council has acquired a number of properties in Market Square to support the regeneration of the town centre. A compulsory purchase order process was used to acquire the properties and as at 31 March 2011 the cost of the purchases was still subject to negotiation. A provision of £1.7m has been included in the accounts for the potential cost of the purchases.

5.3.3 A provision of £0.022m was created in 2010/11 for redundancy payments where redundancies have been agreed but the payments will not be made until 2011/12.

5.3.4 As part of the transition to IFRS the Council provided for an onerous lease obligation relating to Enid Wood House. The Council terminated the lease in 2010 and used the provision during the financial year to meet termination costs.

5.4 Revenue Reserves

5.4.1 These are the reserves of the authority at 31 March 2011, consisting of Earmarked Reserves, the General Reserve and other Revenue Reserves (e.g. Pension Reserve).

5.4.2 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 £11.320m, an increase of £1.886m on last year's figure, are proposed and are detailed in Table 1.

Table 1: Earmarked Reserves

	31 March 2011 £000	31 March 2010 £000	Change £000
Schools' Balances Held Under a Scheme of Delegation	2,776	1,616	1,160
Other Schools' Balances	838	448	390
Repairs and Renewals	35	24	11
Budget Carry Forwards	410	101	309
Insurance & Uninsured Claims	2,119	2,092	27
Cost of Structural Change	1,594	1,000	594
Regeneration of Bracknell Town Centre	235	294	-59
Education Library Service	100	127	-27
Landfill Allowances Trading Scheme (LATS) unused allowances	0	76	-76
LPSA2 Grant	0	665	-665
Commuted Maintenance of Land	142	127	15
S106 and Travel Plan Monitoring	71	60	11
Local Economy Steering Group	6	29	-23
Capital Feasibility Studies	191	200	-9
Icelandic Banks	2,341	2,575	-234
Social Care Winter Pressures	212	0	212
Education Initiatives	150	0	150
Financial Systems Upgrade	100	0	100
Total	**11,320**	**9,434**	**1,886**

5.4.3 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 2010/11 Report on 7 June 2011. The Council's Reserves and Balances Policy Statement which sets out the purpose of each reserve is attached at Annex A.

5.4.4 The Pension Reserve, created to comply with the requirement of International Accounting Standard 19 – Employee Benefits (IAS19), is showing a net liability of £73.812m. This is a decrease of £69.179m on last year. Due to the valuation methodology and the derivation of the main financial assumptions required by IAS19, the numbers produced year on year can be extremely volatile. Asset returns have been better than expected and liabilities have decreased significantly. The latter is partly due to the decision to base future pension increases on the Consumer Price Index (CPI) rather than the Retail Price Index (RPI).

5.4.5 The Collection Fund Adjustment Account (£0.249m) is an unusable reserve which represents the difference between the Council Tax income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund.

5.4.6 The Accumulated Absences Account is an unusable reserve which absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year (e.g. annual leave and flexi-time entitlement carried forward at 31 March). Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from this Account (£4.535m).

General Reserves

5.4.7 The General Fund Balance now stands at £9.970m. The 2011/12 budget includes plans to spend £1.590m of this reserve.

5.5 Other Balance Sheet Issues

5.5.1 The Balance Sheet shows that the Council holds long term assets valued at £508.446m (excluding pension assets), with Other Land and Buildings at £413.509m representing the most significant category. The overall value has increased by £25.462m compared to 2009/10. This arises, in part, from the revaluation of assets during the year, the capitalisation of £36.9m of expenditure and the impact of annual depreciation. The completion of Garth Hill College and other assets resulted in £36.1m being reclassified from Assets under Construction to Other Land and Buildings.

5.5.2 The level of short term investments stands at £10.496m, an increase of £10.101m. This figure now includes the majority of the Council's Icelandic Bank deposits as the repayments are expected to be made in the next 12 months. It also includes an investment of £7m with Barclays Bank for a period of 9 months. The reduction in Cash and Cash Equivalents (£13.021m) reflects the investment of cash balances for over three months (which are therefore classified as Short Term Investments rather than Cash Equivalents) combined with a reduction in overall cash balances.

Capital Financing Requirement

5.5.3 The Council's Capital Financing Requirement (CFR) increased during the year by £8.2m to £32.5m as at 31 March 2011. This is a measure of the capital expenditure incurred historically by the Council that has yet to be financed and represents the underlying need to borrow. However, overall the Council was debt free at 31 March 2011 and did not need to borrow externally to finance capital expenditure. A charge is made each year to revenue known as the Minimum Revenue Provision which writes down the balance of the CFR over time. The charge is based on the asset life for unsupported borrowing, 4% of the outstanding balance at the end of the previous financial year for supported borrowing and is equal to the principal element of the annual repayments for finance leases and the Waste PFI arrangement. Further details can be found in Note 19 and Note 25.

5.6 Audit of Accounts

5.6.1 Since the draft accounts were signed by the Borough Treasurer in June, they have been subject to scrutiny by the Council's external auditor. Following the audit of the accounts a number of changes have been made to the Statement of Accounts as set out below.

Pension increases linked to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI).

5.6.2 Although the impact of this change had been adequately explained in the Explanatory Foreword and the notes, additional prominence has now been given to the change by including the prior service gain (-£29.3m) within Exceptional Items in the Comprehensive Income and Expenditure Statement rather than in Non Distributed Costs.

Other Presentational Changes

5.6.3 A number of numerical and typographical errors have been corrected the most significant being:

- The income and expenditure split within Central Services to the Public has been amended by £0.310m for 2010/11 in the Comprehensive Income and Expenditure Statement;

- Tax, National Insurance, superannuation and VAT debtors and creditors do not arise from contracts and are therefore not Financial Instruments. The short term debtor and creditor balances have therefore been reduced in Note 42 by £1.0m and £3.3m respectively for 2010/11 (£1.4m and £3.4m for the 2009/10 comparatives).

- The Cash Flow Statement comparatives for 2009/10 were corrected due to the incorrect classification of certain items and the double counting of loans granted. The net effect of these corrections was an increase of £0.188m in the Net Cash Flow from Operating Activities, a decrease of £0.208m in the Net Cash Flow from Investing Activities and an increase of £0.020m in the Net Cash Flow from Financing Activities.

Unadjusted items

5.6.4 A number of errors were identified in the accounts which on the grounds of materiality or the fact that they relate to estimates have not been adjusted in the attached Statement of Accounts. These are set out in Appendix 3 of the District Auditor's Annual Governance Report.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

6.1 The Accounts and Audit (England) Regulations 2011 require the 2010/11 Statement of Accounts to be formally approved by Members (a Committee or Council) and signed by the Chairman / Mayor by 30 September 2011 and for the accounts to be signed by the appointed auditor by 30 September 2011.

Borough Treasurer

6.2 The Statement of Accounts is the published document including the Movement in Reserves Statement, Comprehensive Income & Expenditure Statement, Balance Sheet, Cash Flow Statement and Collection Fund together with notes which expand and explain the information in these statements.

Equalities Impact Assessment

6.3 None required.

Strategic Risk Management Issues

6.4 There are none arising directly from this report.

7 CONSULTATION

Not applicable.

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