

REPORT TO	DATE OF MEETING
GOVERNANCE COMMITTEE	28 JUNE 2011

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SUBJECT	PORTFOLIO	AUTHOR	ITEM
CORE FINANCIAL STATEMENTS 2010/11	FINANCE AND RESOURCES	S GUINNESS	6(b)

SUMMARY AND LINK TO CORPORATE PRIORITIES

1. To report a draft summary of the Core Financial Statements plus key messages that will form part of the Council's year end Statutory Statement of Accounts (SOA) for 2010/11 for information purposes.

It links to the Council's corporate priorities in the delivery of excellent services.

RECOMMENDATIONS

2. Members are asked to note the report.

DETAILS AND REASONING

3. This is the first year in which these statements have been produced in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11, (The Code), which is based on International Financial Reporting Standards. This has resulted in some significant changes in both the approval process and format:-

- In previous years the Governance Committee was required to approve the SOA before 30th June before it was inspected by external auditors to be returned back to the committee for final approval prior to 30th September.
- This year the Chief Financial Officer approves the SOA prior to 30th June and the Governance Committee Members approve the document after the external inspection by 30th September. The SOA will to be made available to members for comment during the period of inspection.
- There will also be changes to the appearance and format of the statements and notes. It has meant that the statements for the previous year have had to be restated in order to enable a consistent comparison to be made between the years.

4. The main changes in the figures are summaries below:-

- the inclusion of an accrual of £157k for holiday entitlement outstanding at 31/3/2011.
- the reclassification of a single lease as a finance lease (negligible impact on the revenue account, but it has resulted in the deletion of a fixed asset and the introduction of a long term debtor)
- government grants and other contributions towards capital expenditure, totalling £1.186m in 2010/11 and £1.980m in 2009/10, now appear directly in the Comprehensive Income and Expenditure Statement in the year of receipt. Previously these amounts were released as income, over time, as assets were depreciated.
- Revaluation gains on investment properties, £0.442m loss in 2010/11 and £1.063m gain in 2009/10, have been credited to revenue. Previously they were posted to the Revaluation Reserve.
- It is important to note that these changes do not impact on the charges to council tax payers. Regulations require compensating adjustments to be made.

5. The Code of Practice on Local Authority Accounting in the United Kingdom (the code) specifies the principles and practices of accounting required to give a “true and fair” view of the financial position and transactions of the Council and required by the Local Government Act 2003.
6. The Core Financial Statements are set out in Appendix One and consist of the following:-
- Movement in Reserves Statement
 - Comprehensive Income and Expenditure Statement
 - The Balance Sheet
 - Cash Flow Statement
 - Collection Fund Account
 - Annual Governance Statement
 - Notes to the Main Financial Statements
 - Statement of Responsibilities for the Statement of Accounts
7. The financial data contained in the statement above relate directly to the information reported within the Budget Out-turn Report 2010/11 and reconciling figures are highlighted within the salient points with each statement. The actual net revenue expenditure of the Council for 2010/11 was £14.538 million, this gives a surplus to be transferred to general reserves of £0.711 million. The expected financial position at year end previously reported to Members was an expected surplus to be transferred to general reserves of £0.093 million. This equates to an improvement in performance of £0.619 million and is principally due to a one-off saving in Transport costs due to slippage in the vehicle replacement programme (£0.130 million), a higher amount of Housing Benefit Subsidy income (£0.267 million) than anticipated, other additional income achieved (£0.139 million). The final position for 2010/11 has also allowed for a revision of the contributions to specific reserves in line with the Council’s financial strategy and this will have the effect of strengthening the medium term financial planning process for 2011/12 and subsequent years.

WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

FINANCIAL	As set out in the report and its appendices.
LEGAL	Compliance with various Regulations and Statutory Codes of Practice.
RISK	The Statement of Accounts (SOAS) is designed to comply with the Council’s statutory obligations.

OTHER (see below)			
<i>Asset Management</i>	<i>Corporate Plans and Policies</i>	<i>Crime and Disorder</i>	<i>Efficiency Savings/Value for Money</i>
<i>Equality, Diversity and Community Cohesion</i>	<i>Freedom of Information/ Data Protection</i>	<i>Health and Safety</i>	<i>Health Inequalities</i>
<i>Human Rights Act 1998</i>	<i>Implementing Electronic Government</i>	<i>Staffing, Training and Development</i>	<i>Sustainability</i>

BACKGROUND DOCUMENTS

Cabinet Report – Financial Strategy, Budget and Council tax 2010/11	10/02/10
Cabinet Report – Financial Strategy, Budget and Council tax 2011/12	16/02/11

DRAFT SUMMARY CORE FINANCIAL STATEMENTS**Movement in Reserves Statement**

The statement shows the levels of reserves, and movements therein. They indicate the underlying financial strength of the Council.

This statement distinguishes usable from unusable reserves. "Usable" are available to fund expenditure or reduce local taxation. Unusable includes the Revaluation Reserve (holding unrealised gains in property values), and other reserves holding amounts arising from differences between the accounting basis used in compiling the Comprehensive Income and Expenditure Statement and the statutory basis prescribed for taxation purposes.

The statement starts by showing the surplus or deficit arising in the year on the Provision of Service. This is the true economic cost of providing the authority's services (as detailed in the Comprehensive Income and Expenditure Statement). For the purposes of council tax setting however, a series of statutory adjustments are then made, resulting in a line entitled "Net Increase/Decrease before transfers to Earmarked Reserves". The final line shows any such discretionary transfers to or from earmarked reserves.

	Useable Reserves					Unusable Reserves £'000	TOTAL RESERVES £'000
	General Fund £'000	Earmarked Reserves £'000	Capital Receipts Reserve £'000	Capital Grants & Contributions £'000	Total Useable Reserves £'000		
Balance 31 March 2009	(3,427)	(7,472)	(3,070)	(2,183)	(16,152)	(15,242)	(31,394)
<u>Movement in 2009/10</u>							
Surplus on provision of service	(243)	0	0	0	(243)		(243)
Other comprehensive income & expenditure	0	0	0	0		8,102	8,102
Total Comprehensive Income & Expenditure	(243)	0	0	0	(243)	8,102	7,859
Adjustments between accounting basis & funding basis	(22)	0	6	(24)	(40)	41	1
Net change before transfers to/(from) earmarked reserves	(265)	0	6	(24)	(283)	8,143	7,860
Transfers to/(from) earmarked reserves	355	(355)	0	0	0	0	0
(Increase)/Decrease in year	90	(355)	6	(24)	(283)	8,143	7,860
Balance 31 March 2010	(3,337)	(7,827)	(3,064)	(2,207)	(16,435)	(7,099)	(23,534)

	Useable Reserves					Unusable Reserves £'000	TOTAL RESERVES £'000
	General Fund £'000	Earmarked Reserves £'000	Capital Receipts Reserve £'000	Capital Grants & Contributions £'000	Total Useable Reserves £'000		
<i>Movement in 2010/11</i>							
Surplus on provision of service	(329)	0	0	0	(329)	0	(329)
Other comprehensive income & expenditure	0	0	0	0	0	(6,403)	(6,403)
Total Comprehensive Income & Expenditure	(329)	0	0	0	(329)	(6,403)	(6,732)
Adjustments between accounting basis & funding basis	(5)	0	784	(434)	345	(345)	0
Net change before transfers to/(from) earmarked reserves	(334)	0	784	(434)	16	(6,748)	(6,732)
Transfers to/(from) earmarked reserves	(377)	377	0	0	0	0	0
(Increase)/Decrease in year	(711)	377	784	(434)	16	(6,748)	(6,732)
Balance 31 March 2011	(4,048)	(7,450)	(2,280)	(2,641)	(16,419)	(13,847)	(30,266)

The salient points to note are:

- There was a surplus in the year, calculated according to Generally Accepted Accounting Practice of £329k. After making the adjustments required for the purposes of calculating local taxes this increased to £334k.
- The balance on the General Fund was further increased by a net transfer of £377k from earmarked reserves. This leaves a balance on the general Fund at the year end slightly above £4m
- This increase was offset by falls of £350k in those reserves only available for capital purposes.
- General Fund increase of (£0.712m) can be identified in Appendix A of the Budget Out-turn Report 2010/11 (Budget Savings (£0.619m) plus Budgeted Increase in General Fund Balance (£0.093m)).

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices. This statement incorporates gains and losses which would have been shown in previous years in the Statement of Total Recognised Gains and Losses. The final line in the statement, "Total Comprehensive Income", reconciles to the movements in the year in Total Reserves of the Authority, as shown in the Balance Sheet.

2009/10				2010/11		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
28,102	(25,652)	2,450	Central services to the public	29,546	(27,247)	2,299
14,142	(4,991)	9,151	Cultural, environmental, regulatory & planning services	16,427	(3,521)	12,906
2,553	(1,404)	1,149	Highways & transport services	2,191	(1,277)	914
2,687	(199)	2,488	Other housing services	1,652	(871)	781
1,082	(5)	1,077	Corporate democratic core	1,007	(4)	1,003
1,943	(2,040)	(97)	Non distributed costs	(3,064)	(915)	(3,979)
50,509	(34,291)	16,218	Cost of Services	47,759	(33,835)	13,924
238	0	238	Other operating expenditure	239	(18)	221
6,400	(5,886)	514	Financing & investment income & expenditure	6,866	(4,837)	2,029
0	0	0	Surplus or deficit of discounted operations	0	0	0
0	(17,213)	(17,213)	Taxation & non-specific grant income	0	(16,503)	(16,503)
		(243)	(Surplus)/Deficit on provision of services			(329)
		(192)	(Surplus)/deficit on revaluation of property, plant & equipment assets			(855)
		8,294	Actuarial (gains)/losses on pension assets & liabilities			(5,548)
		8,102	Other Comprehensive Income & Expenditure			(6,403)
		7,859	TOTAL Comprehensive Income & Expenditure			(6,732)

The salient points to note are:

- Improvements in the finances of the Local Government Pension Scheme have caused the two largest changes between the years. Non Distributed Costs has been credited with £4.5m, being a reduction in liabilities to the pension fund. It is the result of the change in the basis for calculating future inflation, the measure now being CPI rather than RPI. Actuarial Gains of £5.5m have also been included. These two changes have contributed to the reduction in the Pension Fund Deficit from £30m to £21m as shown in the Balance Sheet.
- Other significant fluctuations between years are caused, for the most part, by the incidence of capital charges. These do not figure in the budget because they do not impact on the charge to tax payers.

The Balance Sheet

The Balance Sheet demonstrates the value of the assets and liabilities recognised by the Council. The total of these, the Net Assets, is matched by the authority's reserves, as shown in the lower part of the Balance Sheet.

1 April 2009	31 March 2010		31 March 2011
£'000	£'000		£'000
30,485	30,049	Property, plant & equipment	28,555
11,635	11,665	Investment property	11,697
325	291	Intangible assets	373
330	0	Assets held for sale	0
3,353	0	Long term investments	0
105	96	Long term debtors	92
46,233	42,101	Total Long Term Assets	40,717
3,813	6,860	Short term investments	7,188
0	330	Assets held for sale	330
155	140	Inventories	152
3,873	6,922	Short term debtors	4,284
6,838	3,195	Cash and cash equivalents	3,933
14,679	17,447	Total Current Assets	15,887
0	(475)	Short term borrowing	0
(3,691)	(4,073)	Short term creditors	(3,456)
0	0	Provisions	0
0	0	Liabilities in disposal groups	0
(3,691)	(4,548)	Total Current Liabilities	(3,456)

1 April 2009 £'000	31 March 2010 £'000		31 March 2011 £'000
0	0	Long term creditors	0
0	0	Provisions	0
(3,332)	0	Long term borrowing	0
(1,864)	(1,423)	Other long term liabilities	(1,708)
(20,631)	(30,043)	Net pension liability	(21,090)
0	0	Donated assets account	0
0	0	Capital grants receipts in advance	(84)
(25,827)	(31,466)	Total Long Term Liabilities	(22,882)
31,394	23,534	NET ASSETS	30,266
(16,152)	(16,435)	Usable Reserves	(16,419)
(15,242)	(7,099)	Unusable Reserves	(13,847)
(31,394)	(23,534)	TOTAL RESERVES	(30,266)

The salient points to note are:

- The Pension Liability has reduced by £9m, as previously explained
- Debtors have reduced significantly. The largest single item being a fall of £1.6m in the amount owed by the DCLG in respect of NNDR

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents during the reporting period. It shows how cash and cash equivalents are generated and used by classifying cash flows into operating, investment and financing activities.

2009/10 £'000		2010/11 £'000
243	Net surplus or (deficit) on provision of services	329
117,015	Adjustments to net surplus or deficit on the provision of services for non cash movements	34,235
(115,535)	Adjustments for items reported separately on the cash flow statements	(32,904)
1,723	Net cash flows from Operating Activities	1,660
529	Investing activities	(1,683)
(5,895)	Financing activities	761
(3,643)	Net increase or (decrease) in cash & cash equivalents	738
6,838	Cash & cash equivalents at the beginning of the reporting period	3,195
3,195	Cash & cash equivalents at the end of the reporting period	3,933

The salient point to note is:

- Financing Activity consists of borrowing transactions and dealings with the Government and Precepting Councils in respect of NNDR and Council Tax. The large cash outflow in 2009/10 was caused by significant loan repayments and amounts owing to the Council in respect of NNDR and precepts. By comparison these figures were minimal in 2010/11

Collection Fund Account

This statement is relevant to organisations that act as collecting agent for other authorities, for example, police fire and county council. Its purpose is to reflect the statutory obligation for billing authorities to record transactions relating to the collection of Council Tax and Non-Domestic Rates, and their distribution to precepting authorities, the Government, and the Council itself.

2009/10			2010/11	
£'000	£'000		£'000	£'000
	50,549	INCOME		
		Income from Council Tax		50,846
		<u>Transfers from General Fund</u>		
5,991		Council Tax Benefits	6,119	
(2)		Transitional Relief	(1)	
	5,989			6,118
	29,549	Income Collectable from Business Ratepayers		31,030
	86,087	TOTAL INCOME		87,994
		EXPENDITURE		
		<u>Precepts and Demands</u>		
41,155		Lancashire County Council	41,135	
7,787		South Ribble Borough Council	7,784	
5,276		Lancashire Police Authority	5,429	
2,318		Combined Fire Authority	2,363	
	56,536			56,711
		<u>Distribution of Collection Fund Surplus/(Deficit)</u>		
(358)		Lancashire County Council	(178)	
(68)		South Ribble Borough Council	(33)	
(45)		Lancashire Police Authority	(23)	
(20)		Combined Fire Authority	(10)	
	(491)			(244)

2009/10			2010/11	
£'000	£'000		£'000	£'000
	0	<u>Adjustment to previous years Community Charge</u>		0
		<u>Business Rates</u>		
29,425		Payment to National Pool	30,906	
124		Cost of Collection Allowance	124	31,030
	29,549			
		<u>Bad and Doubtful Debts/Appeals</u>		
167		Write Offs	121	
133		Provisions	138	259
	300			
	85,894	TOTAL EXPENDITURE		87,756
	193	Surplus/(Deficit) for the Year		238
	33	Surplus/(Deficit) at 1 April		33
	(27)	Transfer to/(from) Collection Fund Adjustment Account		(33)
	(166)	Net Transfer to Major Precept Debtor		(205)
	33	Surplus/(Deficit) at 31 March		33

The salient points to note are:

- The Collection Fund surpluses of the last two years have virtually eliminated the deficit previously accrued.
- The surplus of £33k carried forward at 31 March 2011, is Community Charge income available to the Council.

Other Statements

Annual Governance Statement – reported to committee within another item on the agenda.

Notes to the Main Financial Statements and the **Statement of Responsibilities** – to be contained in the Statement of Accounts for approval by the Chief Financial Officer and available for member comment during the period of external inspection.