
STATEMENT OF ACCOUNTS 2009-10

SUMMARY REPORT

Purpose of Report

1. This report seeks approval of the Council's draft Statement of Accounts for 2009-10 prior to audit by the Council's appointed auditor, PricewaterhouseCooper (PwC).

Summary

2. The Accounts and Audit Regulations 2003 require local authorities to approve their 2009-10 Statement of Accounts (SoA) by 30th June 2010. The Council's Constitution requires that approval be made by the Audit Committee. Following approval the accounts will be subject to examination by the Council's auditors, commencing in July with their Opinion expected by the end of September.
3. The draft SoA is attached at **Appendix 1**. It is presented in the format prescribed under the Regulations, which differs in several respects from the format used for internal financial management purposes. The Council's provisional financial results for 2009-10 will be reported to Cabinet on 13th July 2010.

Recommendation

4. The Audit Committee is requested to approve the attached draft Statement of Accounts for the 2009-10 financial year.

Reasons

5. The recommendation is supported as it comprises part of the Council's corporate governance arrangements

Paul Wildsmith
Director of Corporate Services

Background Papers

- 1 Budget 2009-10
- 2 Council's accounts 2009-10
- 3 MTFP 2010-14

Peter Carrick: Extension 2326

S17 Crime and Disorder	There are no specific issues which relate to crime and disorder.
Health and Well Being	There is no specific health and well being impact.
Sustainability	There is no specific sustainability impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond the report comprising part of the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.

MAIN REPORT

6. The main accounts contained within the overall SoA and the key issues to be brought to Members' attention in the 2009-10 SoA are explained in the following paragraphs.
7. The *Explanatory Foreword* (pages 2- 7) offers interested parties a guide to the most significant matters reported in the accounts. It provides an explanation in overall terms of the authority's financial position, and assists in the interpretation of the accounting statements. It contains a commentary on the major influences affecting the authority's income and expenditure and cash flow, and information on the financial needs and resources of the authority. It shows the amount and relative proportions of government grants, Council Tax and service income. The presentation of spending in the summary uses the definitions of services that are set out under regulations, not all of which may be readily meaningful to readers. Some explanation has, therefore, been added to the summary.
8. The *Income and Expenditure Account* (I&E) (page 18) reports the net cost for the year of all the functions for which the authority is responsible, income from general government grants and income from local taxpayers. It contains three distinct sections:-
 - (a) The Net Cost of Services summarises the resources that have been used to provide services and manage the Council during the year. It includes day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year. The reason for including these charges in the net cost of services is to help to enable like-for-like comparisons between different authorities' service costs, which is also why the standard format is used as set out in the Best Value Accounting Code of Practice (BVACOP). The service classifications, the mandatory divisions of service that make up each service and the methodology for calculating total cost are all detailed in the BVACOP.
 - (b) The Net Operating Expenditure section includes income and expenditure which relates to the authority as a whole and is not charged to the cost of individual services. The most substantial entries relate to borrowing and investments. Notional pension costs are replaced with the actual costs in the second part of the I&E Account to show the Council's Net Operating Expenditure for the year. This part of the I&E also contains adjustments for Housing capital receipts paid into the national pool, interest and investment income received and the surplus made on in-house trading undertakings. These adjustments are all required under the regulations.
 - (c) The final part of the I&E Account is the Net General Fund Surplus or Deficit for the year. This shows the amount of general government grants and Council Tax paid in to the I&E Account for the year and the overall net surplus or deficit, calculated in accordance with accounting regulations.
9. At 31 March 2010, the Council had reserves of £12.890M available to fund future expenditure, including £0.675M earmarked to fund the Collection Fund deficit; there is also £0.298M of earmarked departmentally managed reserves. The MTFP approved by Council in February 2010 assumed reserves of £11.560M and includes the planned use of £1.122M of reserves over the next four years to 2013-14. The financial results for 2009-10 mean that implementation of the MTFP remains on track.

10. The ***Statement of Movement on the General Fund Balance*** (page 19 - 20) shows the increase in the General Fund balance during the year and what the balance is at the year-end. The Income and Expenditure Account summarises all of the resources that the authority has generated, consumed or set aside in providing services during the year. However, the statutory accounting basis is currently out of line with the statutory calculation of the net expenditure that authorities need to take into account when setting local taxes. To give a full presentation of the financial performance of the Council the outturn on the I&E Account needs to be reconciled to the balance established by the relevant statutory powers. The Statement of Movement on the General Fund Balance provides the reconciliation.
11. The General Fund Reserve is available to pay for future expenditure. It is, therefore, a key indicator of the Council's overall financial health. It should not be so low as to put future service provision at risk, nor so high as to suggest that funds should have been used to enhance previous service provision or reduce taxation levels. The Council has approved a policy to determine appropriate minimum levels of reserves. The level of reserves throughout 2009-10 was in accordance with the approved policy. Annual contributions to and from reserves are decided in accordance with policies and procedures under the Council's Constitution (principally the Medium Term Financial Plans and Revenue Budget, approved by full Council in February each year). In March 2009, Council approved a contribution from reserves of £1.825M for 2009-10. There were no additional approvals made in accordance with the Council's Constitution during the year. Departmental underspends of £0.370M and Corporate underspends of £4.491M are being returned to general reserves giving a working balance of £12.215M available to fund general revenue expenditure.
12. The ***Statement of Total Recognised Gains and Losses (STRGL)*** (page 21) brings together all of the gains and losses of the council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the I&E Account, it includes gains and losses relating to the revaluation of fixed assets, available-for-sale financial assets and pension actuarial gains and losses that are excluded from the I&E as they are treated under Generally Accepted Accounting Practice (UK GAAP). The STRGL is the statement that brings these other gains and losses together with the outturn on the I&E Account to show the total movement in an authority's net worth for the year.
13. The ***Balance Sheet (BS)*** (page 22) is fundamental to the understanding of an authority's financial position at the year-end. It shows its balances and reserves and its long-term indebtedness, and the fixed and current assets employed in its operations, together with summarised information on the fixed assets held. It brings together all of the assets and liabilities that the Council had at 31 March 2010, valued in accordance with statutory requirements and proper accounting practice. Fixed assets (housing stock, other land and buildings, roads, parks and vehicles) are valued at £442.322M. The overwhelming majority of these assets are used to deliver essential public services and could not, therefore, be readily sold. The Council does, however, keep its assets under continuous review to ensure that they remain fit for purpose and appropriate to services. Assets that become surplus to service requirements can be sold. During 2009-10 £0.273M worth of assets were sold and the proceeds reinvested to help provide better facilities for on-going service delivery.

14. The **Cash Flow Statement** (page 23) summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand and deposits repayable on demand less overdrafts and loans repayable on demand.
15. All of the above are defined as “core” financial statements and are required to be grouped together in a specified order, to be followed by a consolidated set of notes to the accounts covering all of the core statements. Supplementary statements are presented after the notes on the core statements and are as follows:
16. The **Housing Revenue Account** (HRA) (page 49) contains all transactions relating to the Council’s own housing stock. This account and its specific reserve (sometimes called the “working balance”) are statutorily ring-fenced. This means that neither Council Tax nor general government grant can be used to pay for the services relating to this account. The HRA reserve at 31 March 2010 is £0.842M, which is equivalent to 5% of the annual budget for the HRA. This is a reasonable level and is in line with approved plans.
17. The **Collection Fund Account** (page 54) contains all transactions relating to Council Tax and non-domestic rates (sometimes called “business rates”). As well as collecting Council Tax to pay for its own services this Council collects Council Tax on behalf of the Police and Fire authorities and parish councils. The total income on this account in 2009-10 was £78.298M. Surpluses and deficits arise on this account as a result of variances between estimated and actual Council Tax liability and collection. At 31 March 2010 the accumulated deficit on this account was £0.815M, equivalent to 1.71% of Council Tax income. This deficit is the responsibility of the Council, Durham Police Authority and County Durham and Darlington Fire and Rescue Authority.
18. The Council also has current assets in the form of debtors and investments. At 31 March 2010 the Council was owed £8.242M by debtors for services that had been provided and for Council Tax and business ratepayers. The Government owed the Council £6.522M worth of grants. Whilst these may seem to be large sums, the majority of this will be collected within a short time under the Council’s routine collection procedures. The Council has a good record of income collection with approximately 99% of Council Tax and business rates and sundry debts being collected. Income that has been collected in advance of being needed is invested in accordance with prudential procedures to achieve interest income without undue risk. At 31 March 2010 the Council held £15.290M of investments and received £0.642M of investment interest during 2009-10.
19. Other key issues relevant to the 2009-10 accounts are:
 - (a) The Council is planning to spend £78M on continuing service provision in 2010-11 and has identified the necessary resources to pay for this. It is also planning to spend over £44M on capital projects during 2010-11 (£143M over the four year capital MTFP) and has also identified resources to pay for this.
 - (b) The Council’s financial health at 31 March 2010 as indicated by its planning, record of delivery against financial plans and its level of reserves was good. There are no known events that have occurred or become known since the end of 2009-10 that materially change that position.

- (c) Under IFRS the Council was obliged to re-assess its PFI contract and concluded it needed to come back 'on balance sheet'. This means that the 'Education Village' is now shown as an asset under 'Other Land and Buildings' with an equivalent liability shown under 'Deferred liabilities'.
- (d) The Council has fully complied with the 'Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice' (SORP) and implemented the requirement to collate its interests in companies. The Council has identified those companies that are subsidiaries, associates or joint ventures in accordance with the guidance detailed in the SORP, the provisions of FRS2 "Accounting for Subsidiary Undertakings" and the provisions of FRS9 "Associates and joint ventures". This exercise identified that we don't have any material interests in respect to the Accounts and therefore no Group Accounts have been prepared.

Outcome of Consultation

- 20. The content of this report was not subject to consultation. In accordance with developing best practice, the Council publishes summary accounts, which aim to provide more readily accessible and understandable financial information to the public and other stakeholders. The Local Strategic Partnership (LSP) and Resources Scrutiny Committee have previously been consulted regarding summary accounts and have provided feedback that has been used to make improvements. In addition, published financial information provides contact points and invites feedback from readers.