WILTSHIRE COUNTY COUNCIL **AGENDA ITEM NO. 10**

FINAL ACCOUNTS AND AUDIT COMMITTEE
30 JUNE 2008

STATEMENT OF ACCOUNTS 2007/08

Executive Summary

The Statement of Accounts for 2007/08 is presented for Members for approval.

Members are encouraged to seek explanation or assurances of any figures in the Accounts. This paper sets out key issues for Members to consider.

Proposal

To ask Members for any comments, questions or requests for further information in relation to the Statement of Accounts for 2007/08.

To approve the Statement of Accounts, subject to audit, for the year ended 31 March 2008.

To agree that the Chairman of the Final Accounts and Audit Committee can sign the unaudited Statement of Accounts for 2007/08.

Reasons for Proposals

The proposals in the report arise from the statutory requirements of the Accounts and Audit Regulations 2003.

Sandra Farrington
Chief Financial Officer

FINAL ACCOUNTS AND AUDIT COMMITTEE
30 JUNE 2008

STATEMENT OF ACCOUNTS 2007/08

Purpose of the Report

1. The County Council is required to produce and approve an annual Statement of Accounts.

Background

2. Under the Accounts and Audit Regulations 2003 the County Council or an appropriate committee, must approve the Statement of Accounts, by 30 June following the end of the financial year.

3. The Regulations require the Statement of Accounts to be published, following completion of the external audit, by 30 September.

Main Considerations for the Committee

4. The Statement of Accounts is intended to give electors, those subject to locally levied taxes and charges, Members, employees and other interested parties clear information about Wiltshire County Council's finances. It is intended to answer questions such as:

   - What did services cost this year?
   - Where did the money come from?
   - What are the assets and liabilities at the year end?

5. The format and content of the Statement of Accounts are closely specified by the CIPFA Accounting Code of Practice. The need to comply with this Code and the complexity of some of the balance sheet transactions reported, mean that some of the Statement could appear obscure to those who are not familiar with local authority accounts.

6. In approving the Statement of Accounts, Members are encouraged to seek explanation or assurances of any figures in the Accounts and this paper sets out the key issues for consideration.

Audit of the Statement of Accounts

7. KPMG will commence the audit of the Accounts on 14 July 2008. The audit will be complete when the Statement of Accounts is brought back to this Committee for final approval on the 30 September 2008.

Explanatory Notes

8. The Statement of Accounts presents the financial transactions of Wiltshire County Council for the financial year 2007/08. The decision to approve these Accounts for audit has no impact on future financial planning decisions for the County Council, but is an historic view of the transactions and balance sheet for the year.

9. The regulations require that the Annual Governance Statement is presented and approved together with the Statement of Accounts. This requires the Chief Executive and the Leader of the Council to confirm that the systems and procedures in place are sufficient to ensure that assets are safeguarded. This has been presented as a separate item on this agenda.

10. The full Statement of Accounts for the Wiltshire Pension Fund for 2007/08 is published separately, as part of the Pension Fund Annual Report. However, a summary can be found within the County Council's Statement of Accounts.

11. The Accounts will be made available for public inspection and comment on the 10 August 2008 in accordance with the Audit Commission Act 1998.

12. The Accounts include an income and expenditure account summary, the balance sheet, a cashflow statement (to follow), a statement of the movement on the general fund balance, a statement of total recognised gains and losses (STRGL), accounting policies and a series of notes.

13. This report provides further explanation and background information to the component parts of the Statement of Accounts to aid understanding. In addition to this report your attention is drawn to the fact that the Statement of Accounts also contains a glossary to assist readers with understanding specific terms and a statement of accounting policies which provides a useful introduction to the policies adopted and why certain things are accounted for in the way that they are.

14. The Statement of Accounts also contains a series of detailed notes and the key Statements are annotated to refer the reader to the relevant note.

15. The Cashflow Statement and Notes to the Cashflow Statement have not been finalised at time of going to print and will follow separately with any necessary explanations.

Key Issues

Explanatory Foreword

16. This provides a summary of the Statement of Accounts and introduces the key issues which will follow. Key points to note are that this foreword presents:

- An introduction to the main elements of the Statement of Accounts.

- A summary of the year's financial position showing that the authority underspent by £3.266 million in the year. This is consistent to the Final Outturn Report presented to Cabinet on 24 June 2008 where a more detailed analysis of spending against budget is presented across service areas including service standard analysis showing key volume and price information.

- The County Fund balances (general non-earmarked revenue reserves) at the year end are £10.473 million although any rollover of underspend to meet costs within 2008/09 will reduce this. At the time of going to press, Cabinet had not met to agree rollovers but requests of £2.969 million were presented for consideration. If these are agreed by Cabinet the County Fund balance will be £7.503 million in 2008/09.

- The Pension Fund figures included in the Statement of Accounts do not reflect actual payments in the year and actual assets or liabilities held in cash terms but reflect figures calculated by an actuary in accordance with agreed accounting practice (Financial Reporting Standard 17 "Retirement Benefits"). The Pension Fund liability as at 31 March 2008 on this basis was £129.208 million.

- Capital expenditure in the year totalled £62.6 million funded by external borrowing (£23.8 million), capital grants and contributions (£32.1 million) and capital receipts (£4.8 million). The expenditure in the year was £0.381 million more than budgeted due to reprogrammed expenditure from future years into 2007/08 (£0.530 million), underspending on project costs (£0.101 million) and certain schemes being unable to proceed (£48,000). This is consistent to the Financial Capital Outturn report being presented to Cabinet on 24 June 2008 which provides more detailed analysis of the variations from budget across service directorates and within these key projects.

Income and Expenditure Account

17. This shows the total money received and spent on the council activities relating to 2007/08. It is prepared in accordance with the regulatory requirements set out in the Statement of Recommended Practice (SORP). This means that the format is determined and spending and income is analysed across Best Value Accounting Code of Practice standard service headings rather than the service areas used within the authority for management purposes (which reflect service director and operational organisation structures). A key difference is also that total cost allocation is required within the Income and Expenditure account which means that all central support costs and overheads are allocated to direct service headings whereas for management purposes these are often held centrally (for example the cost of finance, ICT or HR).

18. Applying the SORP also means that the income and expenditure shows a deficit for the year of £23.040 million. This should not be confused with

demands on council tax or a cash deficit in the year which needs to be addressed by raising council tax. The impact on council tax of spending in the year is better represented by the outturn position discussed above of £3.266 million. The difference between this and the deficit shown in the Income and Expenditure is largely due to adjustments required for accounting purposes but which then have to be reversed out of general balances because statute states that they cannot be included in calculating the authority's budget requirement and the raising of council tax. The largest adjustment relates to a loss on revaluation of fixed assets discussed below. A full analysis of such adjustments is presented within the Statement of Movement of General Fund Balances.

19. Key points to note on movements in spending in 2007/08 compared to 2006/07 are:

- The significant increase on expenditure on educational services is largely due to revaluation losses where school buildings have been valued downwards in the year (£24 million).

- There have been some changes in the analysis of spending between central services to the public and corporate and democratic core in 2007/08. This has been to better reflect BVACOP analysis but distorts the year on year comparisons.

- There has been an increase in spending on Corporate and Democratic Core services in preparation for the move to One Council for Wiltshire. This includes the creation of a One Council for Wiltshire reserve as shown later in the Statement of Accounts to meet transition costs. These costs and the reserve are consistent to proposals agreed by Cabinet in February 2008.

<u>Statement of Movement on General Fund Balances (SMGFB)</u>

20. This statement provides a reconciliation of the deficit shown on the Income and Expenditure account to the actual balances held. The difference between the movement on the outturn report of an underspend of £3.266 million and the movement on the General Fund shown of £2.664 million is the treatment of the budgeted movement on reserves in 2007-08.

21. The significant adjustments are:

a) Depreciation costs and minimum revenue provisions. In the income and expenditure the annual cost of fixed assets is shown by depreciating assets over their useful life. However, for calculating the General Fund a Minimum Revenue Provision is required (currently 4% charge of capital financing requirements) and so depreciation is reversed out in the SMGFB and minimum revenue provisions added in.

b) Loss on revaluations of fixed assets. The authority is required to regularly revalue its assets and during the year such revaluations resulted in a net increase in value of £24 million. In compliance with the SORP, increases in value are taken to the revaluation reserve (£51 million) but reductions in value are charged in the income and expenditure account to the services which use those assets (£27 million). The reduction in value of certain assets does not reflect any impairment of the asset, such as damage, but simply a revised market value and is based on the valuer's assumptions/judgment at the time of valuation.

c) Deferred charges. This relates to capital expenditure incurred on assets which do not belong to the authority such as expenditure on foundation and voluntary aided schools which is charged to the income and expenditure but is capital in nature and so is not charged to the General Fund.

d) Transfers to earmarked reserves. This reflects movements from the General Fund to reserves which are earmarked for specific purposes.

Statement of Total Recognised Gains and Losses

22. This report shows that the net worth of the authority increased by £59 million in 2007/08, £23.7 million of which was due to the net revaluation of fixed assets and £14.7 million related to actuarial gains on pension fund assets and liabilities.

Balance Sheet

23. *Fixed Assets*
The authority owns fixed assets valued at £591 million. The basis of valuation is shown in the accounting policies on page13 and an analysis of movements in the year is shown in note 16.

Additions in the year totalled £46.2 million with the biggest areas of spend being on infrastructure (new roads and bridges) and school buildings. The increase in non operational assets relates to the revaluation and addition of assets which are held for investment or which are surplus to operational requirements. An addition of £2.4 million was made in the year in relation to the purchase of a business park in line with our economic development strategy.

The new intangible assets relate to the Business Management Programme and the implementation of SAP.

24. *Debtors*
An analysis of debtors is provided in note 27. There is a decrease in debt owed to the authority by government departments. This largely relates to grant income owed and does vary significantly year on year depending on the timing of grant claims and awards. The balance in 2006/07 was particularly high compared to other years. The landfill allowance debtor is no longer recognised as there is no current market value for such allowances.

25. *Creditors*

The largest movement within creditors is the increase in the amount of receipts in advance. This includes £13 million of grants and other contributions paid in relation to schools to cover expenditure for the period to August 2008. The amounts are shown as creditors and not income because if the amounts are not spent in that period the grant should be repaid.

26. *Cash Held and Overdrawn*

The accounts show a large overdraft of £8.2 million but there is also a large amount of cash held on deposit of £31.8 million and these figures should be considered together.

27. *Long Term Borrowing*

There is £8.630 million of long term loans maturing within the next year and these are shown separately to loans maturing after one year on the balance sheet. This represents a £6 million LOBO (Lender Option Borrower Option) loan that comes up for lender call on interest rate in July 2008. This means that the interest rate may be varied by the lender and we can choose to repay it. The £2.630 million is PWLB (Public Works Loan Board) loans that become repayable at various stages in 2008/09.

An analysis of the maturity of all loans is provided in note 32.

The accounting treatment of loans and premiums and discounts relating to loans (charges or rebates payable on early repayments of loans) has been changed significantly in the year. The new treatment is shown in the accounting policies note 14 and also discussed in note 32.

28. *Government Grants Deferred*

Where grants have been spent on buying fixed assets the grants are not written off to income and expenditure in the year of the asset purchase but held on the balance sheet as a deferred grant and written off over the life of the asset to which it relates. There was a significant increase in capital grants received in the year to purchase assets and therefore a similar increase in the deferred grants balance.

29. *Capital Adjustment Account*

Changes in the accounting treatment of capital expenditure and the revaluation of fixed assets have led to the cessation of the Fixed Asset Restatement Account and capital Financing Account and the creation of the revaluation reserve and capital Adjustment Account. This is shown in note 35. Other than the reclassifying of capital reserves, the other main impact is a change in what is charged to the income and expenditure in relation to revaluations and impairments.

30. *Statutory Financial Instruments Adjustment Account*

Under the transitional arrangements, the financial instruments adjustment account has been set up under separate regulations/statutory guidance put in place to ameliorate certain impacts on the General Fund Balance of restating financial instruments on the opening 2007/08 Balance Sheet in accordance with the 2007 SORP.

These have been implemented by making transfers between the General Fund Balance and the Financial Instruments Adjustment Account in accordance with the regulations/statutory guidance.

31. *Prior Year Adjustment*
A significant error of £4.5 million occurred within the 2006/07 Statement of Accounts. The error related to an incorrect figure being included for land in relation to a PFI agreement where the value of fixed assets was overstated and the Fixed Asset Restatement Account understated. This has been corrected in the comparative figures for 2006/07 in this Statement of Accounts.

Environmental Impact of the Proposal

32. None identified.

Equalities impact

33. None have been identified as arising directly from this report.

Risk Assessment

34. The Statement of Accounts quantifies, provides for or notes any potential financial risks to the Authority and, therefore, the assessment of risk is implicit throughout the document.

35. In addition, the quality and timeliness of the production of the accounts is assessed by the auditors in the use of resources criteria within the Comprehensive Performance Assessment for the Authority. By complying with prescribed timescales and accounting codes of practice the quality of the accounts is maintained.

Financial Implications

36. These are explicit in the report.

Legal Implications

37. None have been identified as arising directly from this report.

Proposal

38. To ask Members for any comments, questions or requests for further information in relation to the Statement of Accounts for 2007/08.

39. To approve the Statement of Accounts, subject to audit, for the year ended 31 March 2008.

40. To agree that the Chairman of the Final Accounts and Audit Committee can sign the unaudited Statement of Accounts for 2007/08.

Reasons for Proposals

41. The proposals in the report arise from the statutory requirements of the Accounts and Audit Regulations 2003.

SANDRA FARRINGTON
CHIEF FINANCIAL OFFICER

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Unpublished documents relied upon in the preparation of this report: NONE

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