

**Hampshire Fire and Rescue Authority**

**Governance Committee**

**Item 9**

**29 June 2010**

**Draft Statement of Accounts 2009/10**

**Report of the Treasurer**

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**1 Introduction**

- 1.1 The Accounts and Audit Regulations 2003 require the Authority's Statement of Accounts to be approved by the 30 June following the year end. The Authority has delegated responsibility for the approval of the draft statement of accounts to the Governance Committee.
- 1.2 A report on the final accounts for 2009/10 was submitted to the Finance and General Purposes Committee on 24 June, and the draft Statement of Accounts is consistent with that report. A net underspending of £2m has been achieved in 2009/10 which has been added to balances.

**2 Recommendations**

- 2.1 That the Statement of Accounts for 2009/10 be approved.

**3 Code of Practice on Local Authority Accounting**

- 3.1 The draft Statement of Accounts has been drawn up in the form prescribed by the 2009 Code of Practice on Local Authority Accounting in the United Kingdom, which constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. The Code is updated each year to take account of changes in accounting standards and other new developments. Some significant changes have been made to the format of the accounting statements over the last three years to separate the income and expenditure recorded in accordance with UK generally accepted accounting practice (UK GAAP) from the adjustments to those standards applicable in Local Government for the purposes of setting council tax.
- 3.2 There are four main changes in the Code of Practice which come into effect for 2009/10's accounts three of which affect the presentation of the accounting statements for this Authority:

- The basis of accounting for the collection of council tax has changed. Previously each billing authority maintained a Collection Fund Account which recorded income received and the payments to each of the precepting authorities on the basis of budget estimates. The Collection Fund Account recorded any surplus or deficit against the budget estimate and any debtors and creditors were included in the billing authority's balance sheet. The 2009 SORP recognizes the Collection Fund Account as an agency account managed by the billing authority on behalf of the precepting authorities and requires any council tax surplus or deficit and any debtors and creditors to be accounted for by the precepting authorities on a proportionate basis. This change in practice to reflect the requirements of UK GAAP has no effect on the actual council tax received by the Authority as the government has regulated so that any difference between the budgeted and actual council tax income is transferred to a council tax adjustment account. The additional 'income' in 2009/10 is estimated at £124,000.
- The move towards greater transparency about the pay of more senior staff in the public sector is reflected in new regulations on the disclosure of remuneration in local authority accounts. In addition to the existing requirement to disclose the numbers of staff earning more than £50,000 per annum, from 2009/10 in bands of £5,000 rather than £10,000, a new senior employee remuneration statement is now required. For this Authority this covers the Directors.
- In view of the tendency for accounting disclosures required by the accounting standards to become ever more voluminous, a review was carried out in 2009 of the various disclosures required by the SORP which were not requirements of UK GAAP. These were generally the result of legislation requiring local authorities to account separately for particular types of expenditure or income but it was not a statutory requirement to incorporate this information in the Statement of Accounts. As a result, the 2009 SORP removes the requirement to disclose in the Statement of Accounts expenditure on publicity and income under the Local Authorities Goods and Services Act (cross border charges for this Authority).

#### **4 Statement of Accounts**

- 4.1 The Statement of Accounts comprises a number of separate statements, the key features of which are summarised in this paragraph.

## **Statement of Accounting Policies**

- 4.2 This sets out the policies adopted by the Authority in preparing its accounts, which are largely determined by the Code of Practice.

## **Annual Governance Statement**

- 4.3 The Accounts and Audit (Amendment) (England) Regulations 2006 require local authorities to conduct a review at least once a year of the effectiveness of the system of internal control and to include, with the Statement of Accounts, a Statement of Internal Control, prepared in accordance with proper practices in relation to internal control. Based on revised guidance, this now takes the form of an Annual Governance Statement. The Authority's Statement has been submitted for approval earlier on the agenda for this meeting and requires the approval and signature of the Chief Officer and Chairman. There are some changes concerning the role of the Chief Financial Officer and these have been incorporated.

## **Statement of Responsibilities for the Statement of Accounts**

- 4.4 This statement records the responsibility:
- of the local authority to appoint an officer with responsibility for the proper administration of its financial affairs, the Treasurer within this Authority
  - of the Treasurer to prepare the accounts in accordance with proper practices as set out in the Code of Practice, and to certify that the accounts present a true and fair view of the Authority
  - of the Chairman of this Committee to confirm that the accounts have been considered and approved by the Committee.

## **Income and Expenditure Account**

- 4.5 The income and expenditure account reports the net cost for the year of all the functions for which the authority is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers. The expenditure recorded reflects the value of fixed assets consumed and the projected value of retirement benefits earned by employees in the year.
- 4.6 The account is divided into three categories:
- the net cost of services recording the costs allocated to a standard classification of services, net of specific grants and income from fees and charges

- items of income and expenditure relating to the local authority as a whole – such as interest payable and receivable, pensions interest cost and return on pension assets and the gain or loss on the disposal of assets. Added to the net cost of services, this provides the authority's net operating expenditure
- the income from local taxation and general government grants in the period. Deducting net operating expenditure from this income provides a net deficit or surplus for the year.

4.7 In practice a surplus would not be recorded especially by this Authority, as the statutory requirements for setting the council tax do not require some of the costs recorded in the Income and Expenditure Account to be taken into account. These are set out in paragraph 4.11. The guiding principles in determining the form of the Income and Expenditure Account is that it should measure net operating costs in accordance with UK GAAP, using essentially the conventions that would be applied to a company's audited annual financial statements. The main reason that the statutory requirements for setting council tax do not follow UK GAAP is because costs arising from the depreciation of assets and the earning of retirement benefits do not necessarily give rise to cash flows in the short and medium term. It is therefore a matter of equity between current and future taxpayers as to the extent to which taxes should be levied currently to meet costs that will crystallise in the future.

### **Statement of Movement on the General Fund Balance**

4.8 This statement discloses the adjustments necessary to a UK GAAP compliant Income and Expenditure account in order to determine the movement in the General Fund balance for council tax setting purposes (commonly described as the Authority's general balance). The inclusion of this statement reflects the importance in a local authority context of the movement in general fund balance as an aspect of the Authority's financial stewardship. The adjustments summarised in this statement are either determined by statute or reflect non-statutory proper accounting practices.

4.9 The adjustments can be summarised as follows:

- to allow for capital investment to be accounted for as it is financed, rather than when the fixed assets are consumed. Revenue contributions to the financing of capital expenditure and the statutory provision for the repayment of debt are substituted for depreciation and impairment charges in the income and expenditure account. The effect is to reduce expenditure in 2009/10 by approximately £2.6m, and thus increase the general fund balance

- to account for retirement benefits as payments become payable to pension funds and pensioners, rather than as future benefits are earned as required by Financial Reporting Standard 17 (FRS17). This is by far the biggest adjustment in the accounts and is due to the fact that the firefighter pension schemes are unfunded. These adjustments reduce expenditure by approximately £26.6m and this also increases the general fund balance
- to reverse the surplus or deficit on the disposal of assets, reflected in the income and expenditure account to comply with UK GAAP, as local authorities are not permitted to apply any part of a capital receipt for revenue purposes. The position in 2009/10 is very close to break even with an adjustment of just £55,000.
- to allow for transfers to and from the general fund to earmarked reserves. Net transfers from earmarked reserves to the general fund total approximately £2.1m in 2009/10
- To adjust council tax income actually received in the year to match the income actually precepted on each billing authority, by means of a transfer to the council tax adjustment account. The adjustment required in 2009/10 is £124,000.

### **Statement of Total Recognised Gains and Losses**

- 4.10 This statement brings together all the gains and losses that affect the Authority's net worth, including the gains and losses from the revaluation of assets and the actuarial valuation of the pension fund which do not pass through the Income and Expenditure Account.

### **Balance sheet**

- 4.11 The balance sheet is presented in a fairly standard format separating fixed assets from current assets and long-term liabilities from current liabilities in arriving at total net assets. Total net worth represents the reserve balances which match net assets.
- 4.12 The key distinction is between cash-backed and non cash-backed reserves. The Authority's management reporting gives greater prominence to the level of cash-backed reserves in the form of the general fund balance and earmarked reserves which are potentially useable to finance revenue and capital spending. The majority of the Authority's net assets are however tied up in the value of its fixed assets, primarily the replacement value of land and buildings, which to the extent that it exceeds outstanding borrowing is reflected in the value of the Revaluation Reserve and the Capital Adjustment account. This value would only become useable if the Authority was to dispose of all its fixed assets at their balance sheet value.

- 4.13 The pension accounting arrangements also introduced a negative reserve as a mechanism for recognising in the balance sheet the Authority's actuarially assessed pension liability as measured under FRS17, without requiring the liability to be recognised in setting council tax. The Authority's pension liability has increased during 2009/10, from £385m to £502m mainly as a result of lower corporate bond rates which provide the basis valuing future liabilities. This liability is larger than the Authority's assets, producing a negative balance sheet.

#### **Cash Flow Statement**

- 4.14 The Cash Flow Statement is designed to demonstrate the changes that have taken place in the Authority's cash position over the year and to highlight the causes of that change.
- 4.15 Income from Government grant, national business rates and council tax covers revenue activities, servicing of finance and capital activities, but cannot be readily analysed between the categories, and is therefore shown as an inflow relating to revenue activities. The cash flow statement is therefore always likely to show an inflow in respect of revenue activities, offset by outflows relating to the servicing of finance and capital activities. The final section of the Statement headed 'financing' shows the impact of borrowing decisions in the year on the cash position.

#### **Pension Fund Account**

- 4.16 All Fire Authorities are required by legislation to operate a Pension Fund Account and the amounts paid into and out of it are specified by regulation. They are the accounting requirements following the new financing arrangements.
- 4.17 Members will be aware that the Authority does no longer meet the pensions outgoings directly, instead it pays an employer's pension contribution based on a percentage of pay into the pension fund account. The Account is balanced to each year to nil by receiving cash in the form of a pension top-up grant from the Government equal to the amount by which the amount payable from the Account exceeded the amount receivable. This percentage is agreed on an annual basis and for 2009/10 was 100%.

### **5 Next Steps**

- 5.1 The Audit Commission will present a report to this Committee in September on the audit of the 2009/10 accounts, prior to the issue of an audit opinion on the accounts and their publication.
- 5.2 A set of summary accounts will also be produced and made available to the public condensing the information contained in the full statement of accounts.

## **6 Risk analysis**

- 6.1 The statement of accounts is an important element of the Authority's corporate governance arrangements. It has been prepared in accordance with the appropriate statutory code. Together with the Budget Book and the report on the final accounts for 2009/10, it provides some evidence to the public that the Authority's financial affairs are being properly managed and in accordance with proper accounting practice.

## **7 People Impact assessment**

- 7.1 The proposals in this report are considered compatible with the provisions of the European Convention on Human Rights, the Human Rights Act 1998 and the Race Relations (Amendment) Act 2000.

## **8 Resource implications**

- 8.1 The cost of preparing the statement and for auditing it are provided for in the Authority's revenue budget.

## **9 Impact assessment**

- 9.1 This report contains a draft statement of accounts prepared in accordance with a statutory code. Compliance with code is not considered to be discriminatory.

## **Section 100 D - :Local Government Act 1972 – background documents**

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report.

NB: the list excludes:

1. Published works
2. Documents which disclose exempt or confidential information as defined in the Act.

None.

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