

## ITEM NO:10

<b>DECISION-MAKER:</b>	AUDIT COMMITTEE STANDARDS AND GOVERNANCE COMMITTEE		
<b>SUBJECT:</b>	STATEMENT OF ACCOUNTS 2007/08		
<b>DATE OF DECISION:</b>	AUDIT COMMITTEE (25 <sup>th</sup> JUNE 2008) STANDARDS AND GOVERNANCE (26 <sup>th</sup> JUNE 2008)		
<b>REPORT OF:</b>	EXECUTIVE DIRECTOR OF RESOURCES		
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### STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

### SUMMARY

In accordance with the Accounts and Audit Regulations 2003 the Statement of Accounts 2007/08 is submitted for approval. The statutory deadline for approving the accounts is 30<sup>th</sup> June.

The accounts that have been submitted for approval have been subject to review by Senior Managers in the limited time that has been available. However this process will continue up to the date of the meeting and any major issues will be reported at the meeting.

Under 5.10 (3b) of the Regulations after approval the accounts must be signed and dated by the person presiding at the meeting.

Presenting the accounts at this time means that the Annual Audit, carried out by the Audit Commission, will not have been completed. Any major changes to the Statement of Accounts arising from the annual audit will be reported to the Standards and Governance Committee after the completion of the audit on 30<sup>th</sup> September 2008.

### RECOMMENDATIONS:

#### AUDIT COMMITTEE

- (i) Recommend to the Standards & Governance Committee that the 2007/08 Statement of Accounts be approved;
- (ii) Review and consider the accounting policies adopted by the authority;
- (iii) Note management's procedures for preparing the authority's accounts in Appendix 1; and
- (iv) Approve the deminimus levels for capital expenditure at £5,000 for enhancements to existing assets and £10,000 for the purchase or construction of new assets.

## **STANDARDS & GOVERNANCE COMMITTEE**

- (i) That the Statement of Accounts 2007/08 be approved and signed by the person presiding at the meeting subject to any changes required after the completion of the Audit;
- (ii) To approve, if necessary, any changes required to the draft report following the further review by officers; a schedule of which will be provided at the meeting; and
- (iii) Note that the final version submitted to the Audit Commission will be sent to all members of Standards & Governance and Audit Committee for information.

## **REASONS FOR REPORT RECOMMENDATIONS**

1. It is a legal requirement to approve the Statement of Accounts by 30<sup>th</sup> June 2008.

## **CONSULTATION**

2. Not Applicable.

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

3. It is a legal requirement to approve the Statement of Accounts by 30<sup>th</sup> June 2008.

## **DETAIL**

4. The Statement of Accounts is a complex document with the layout and information provided being defined by statutory requirements. The key issues that should be drawn to the committee's attention are detailed below.

### **CHANGES TO THE 2007/08 ACCOUNTS**

5. There have been a number of changes to local authority accounting regulations in 2007/08. The key changes are:
  - Implementing new provisions for accounting for financial instruments (eg. loans and investments)
  - New disclosure notes on financial instruments (eg. how the authority manages risks associated with its loans and investments)
  - Changes in the way we account for the value of the authority's fixed assets
6. The objectives of the financial instruments provisions are to present investments and borrowings on the Balance Sheet at their true cost or value to the authority and to charge the Income and Expenditure Account with the real underlying costs/benefits arising from holding an instrument in any year. However, there are associated statutory provisions in order to minimise any impact on the Council Tax. For Southampton City Council these new provisions have had no real impact on the General Fund balances.
7. The changes in the way we account for the value of the authority's fixed assets have been introduced to continue the convergence of local authority accounting towards UK GAAP compliance (i.e. making local authority accounts more similar to the commercial sector). The significant changes are:

- Implementation of the Revaluation Reserve. Revaluation Reserve accounting has been introduced from 2007/08. The Reserve is created with a zero balance from 1 April 2007.
- Recording and maintaining the depreciated historic cost and the current value for individual assets.

These changes have had no effect on the General Fund balances available to the authority.

### **REVENUE EXPENDITURE AND INCOME**

8. The Statement of Accounts presents the Income & Expenditure Account in a statutory format which includes notional costs that have no impact on the Council Tax charge.

The table on page 4 of the Statement of Accounts presents the Council's revenue and income in a format that shows the net impact on the General Fund Balance, compared to budget. This shows that compared to the original budget the contribution from reserves has reduced by £3.0M.

However, during the year, the Council has made changes to the budgets which were reported to Cabinet in October 2007. Compared to this revised budget, the Council has underspent by £4.8M, which is made up as follows:

	<b>£M</b>
Reductions in Portfolio spending	3.5
Additional Investment Income	2.1
Other Variations	(0.8)
<b>Total</b>	<b>4.8</b>

9. Against this underspend are requests for carry forward of budget of £2.3M which are subject to review before being submitted to Cabinet for consideration.

### **GENERAL FUND BALANCES**

10. The General Fund balance stands at £12.3M and is used as a working balance and to support future spending plans. This compares to a balance of £10.9M at the end of 2006/07.

### **CAPITAL EXPENDITURE**

11. In 2007/08 the Council spent £57M on capital projects. This was £12M less than the approved estimates, principally due to slippage of expenditure which will now be incurred in 2008/09.

### **THE COLLECTION FUND**

12. The Collection Fund had a deficit for the year of £401k. There was a surplus brought forward from 2006/07 of £588k, to give a net surplus to be carried forward of £187k. The 2008/09 budget assumed a zero surplus. Therefore there will be a surplus of £187k to be taken into account when setting the 2009/10 budget.

13. **PENSIONS**

In 2007/08 the Council paid an employer's contribution of £21.2M into Hampshire County Council's Pension Fund. The employer's rate in 2007/08 was 17.7% of employees' pay. The rate set for 2008/09 is 18.1%.

14. The Council's share of the assets in the Hampshire County Council pension fund at 31 March 2008 was £374M, compared to its estimated liabilities of £538M, giving an estimated deficit on the Fund of £164M. The deficit will be made good by increased contributions at a level assessed by the scheme actuary.

15. **ACCOUNTING POLICIES**

The Council's accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain, which is recognised by statute as representing proper accounting practices and meets the requirements of the Accounts and Audit regulations 2003.

16. The Accounting Policies are described in detail on pages 7 to 16 of the Statement of Accounts and cover such items as:

- Fixed assets
- Depreciation
- Pensions
- Accruals
- PFI contracts
- VAT
- Leasing

The Audit Committee are asked to review the policies adopted and note the new policies adopted for 2007/08 under 'Accounting Issues and Developments' on page 5. However, it should be borne in mind that the majority of the accounting policies adopted by the Council are in line with CIPFA's Statement of Recommended Practice (the SORP) and the Audit Committee is more likely to be interested if the Council were to depart from the recognised practice.

17. **MANAGEMENT PROCEDURES FOR PREPARING THE ACCOUNTS**

Appendix 1 describes the procedures for the preparation of the Statement of Accounts. The Audit Committee are asked to review these procedures.

18. **DE MINIMIS LIMITS FOR CAPITAL EXPENDITURE**

The Council has set deminimus limits for capital expenditure, below which items should be charged to revenue. The Statement of Recommended Practice (SORP) permits local authorities to determine for themselves at which level they choose to set this. Southampton City Council has set this limit at £5,000 for enhancements to existing assets and £10,000 for the acquisition or construction of new assets. However, these limits have never been formally approved by an appropriate body of the Council. A recent report by Internal Audit recommended that these limits be formally approved. Therefore, the Audit Committee are asked to approve the deminimus limits for capital expenditure.

**FINANCIAL/RESOURCE IMPLICATIONS**

### **Capital**

19. The capital implications are considered as part of the Capital Outturn reports that will be presented to Council on 16<sup>th</sup> July 2008.

### **Revenue**

20. The revenue implications are considered as part of the Revenue Outturn reports that will be presented to Council on 16<sup>th</sup> July 2008.

### **Property**

21. There are no specific property implications arising from this report.

### **Other**

22. N/A

### **LEGAL IMPLICATIONS**

#### **Statutory power to undertake proposals in the report:**

23. Accounts and Audit Regulations 2003.

#### **Other Legal Implications:**

24. N/A

### **POLICY FRAMEWORK IMPLICATIONS**

25. None. It should be noted that the Statement of Accounts is prepared in accordance with CIPFA's code of Practice on Local Authority Accounting in the UK.

**SUPPORTING DOCUMENTATION**

**Appendices**

1.	Management Procedures for Preparing Accounts
2.	Statement of Accounts 2007/08

**Documents In Members' Rooms**

1.	None
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**Background Documents**

Title of Background Paper(s)

Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	None	
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**Background documents available for inspection at:** N/a

**FORWARD PLAN No:** N/A

**KEY DECISION?** NO

**WARDS/COMMUNITIES AFFECTED:** NOT APPLICABLE