

Explanatory note – Statement of Accounts 2009/10

The Statement of Accounts is prepared in accordance with the 2009 Code of Practice on Local Authority Accounting in Great Britain (the Statement of Recommended Practice, or SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). They comply with guidance notes issued by CIPFA on the application of accounting standards and Financial Reporting Standards. Although the SORP refers to “recommended” practice, authorities are obliged to comply unless there is a justifiable and explained reason for departure.

An explanatory foreword is included with the published Statement of Accounts. The purpose of this paper is to provide additional interpretation of the accounts, highlighting key issues for the benefit of Members.

Income and Expenditure Account (page 15)

This statement is fundamental to the understanding of the Council’s activities, in that it reports the net cost for the year of all functions for which the authority is responsible, demonstrates how that cost has been financed from general government grants and income from local taxpayers, and the net deficit or surplus for the year. It is broadly equivalent to a company profit and loss account.

There are three distinct sections of the Income and Expenditure Account:

- 1 The first shows the costs split into the major service areas giving the “Net cost of services” of £111 million for 2009/10.
- 2 The second section covers items relating to the whole Council to give “Net operating costs” of £114 million.
- 3 The final section details income from local taxation and general government grants, leading to a deficit on the Income and Expenditure account of £83 million.

The statutory accounts analyse the costs into a nationally specified structure and includes depreciation and support service costs within the net cost of services. This differs from the financial monitoring reports that are submitted quarterly to Members which focus only on direct costs and income for each service area. However, both sets of figures are taken from the prime accounting record of the Authority, the General Ledger, and reconcile in full. For 2009/10 the net cost of services includes over £80 million related to the write down of the housing stock value following the LSVT.

Statement of Movement on the General Fund Balance (pages 16 to 17)

The surplus or deficit on the income and expenditure account is subject to a number of changes in order to meet the statutory requirements set out in the SORP. These changes are made through the Statement of Movement on the General Fund Balance.

The main adjustments relate to:

- 1 Reversing out depreciation and impairment of fixed assets charges (£64 million).
- 2 Reversing out credits for write down of government grants to offset depreciation (£2.8 million).
- 3 Write down of revenue expenditure funded from capital under statute (£24 million).
- 3 Replacing the actuarial estimate of the cost of the scheme by the contributions due to the pension fund for the year (£253,000).
- 4 Provision for debt repayment charges (£1.1 million).
- 5 Transfers to/from the Housing Revenue Account and Earmarked Reserves (£186,000).

The net effect of all of these adjustments is to bring the accounting requirements into line with the regulations governing setting of council tax. After making these adjustments the deficit of £83 million on the Income and Expenditure Account becomes a net surplus for the year of £559,000 to be added to General Fund Balance.

The General Fund balance at 31st March 2010 stands at £4.048 million, which includes £1.790 million of schools' balances.

Statement of total Recognised Gains and Losses (page 18)

Not all gains and losses experienced by the Council are reflected in the Income and Expenditure Account. The Statement of total Recognised Gains and Losses brings other gains and losses, together with the net deficit or surplus on the Income and Expenditure Account to show the total movement in the authority's net worth for the year.

For Rutland there are 3 specific areas where gains and losses accrue, other than through the Income and Expenditure Account:

- 1 Revaluation of fixed assets – these are valued annually with any gain credited to the Revaluation Reserve and any loss met from Capital Adjustment Account.
- 2 Actuarial gains and losses relating to retirement benefits – an annual valuation of the assets and liabilities of the Pension Fund is made, any change being credited to or met from the net Pension Asset/Liability
- 3 The collection fund – gains or losses accrue where the number of chargeable properties for council tax differs from the estimated level and where collection rates are higher or lower than anticipated.

The total movement on the Statement of total Recognised Gains and Losses matches the movement on the Balance Sheet for the year.

Balance Sheet (page 19)

The Balance Sheet is fundamental to the understanding of the Council's financial position at the year-end. It shows Rutland's balances and reserves and long-term indebtedness, and the fixed and net current assets employed in its operations.

The main movements in 2009/10 were:

- 1 The value of fixed assets reduced by £55 million mainly related to the transfer of the housing stock.
- 2 Net current assets reduced by £1.8 million with sums due to creditors rising more than amounts due to the Council from debtors
- 3 Long-term liabilities increased by £27 million due largely to government grants received in advance for future capital schemes and an increase in the pension fund liability
- 4 Balances and Reserves reduced by £84 million

For a company the Balance Sheet would usually be balanced to shareholders' funds, the net worth of the company that is attributable to shareholders. The same concept could be applied to the local authority Balance Sheet, however in this case a number of the reserves are notional ones that do not represent resources that are available to support new investment. The true reserves for the Council are the general and earmarked reserves totalling £5.9 million at 31st March 2010.

The Cashflow Statement (page 20)

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. For the purposes of this statement, cash is defined as cash in hand and deposits repayable on demand less overdrafts repayable on demand.

Management of the Council's cash flows forms an important element of the Treasury Management strategy. The Cashflow Statement provides an indication of the underlying financial health of the Council in the same way as it is applied to company accounts.

Housing Revenue Account Income and Expenditure Account (page 52)

The Housing Revenue Account is a ring-fenced account within the General Fund, with the costs of managing and maintaining the stock being met from council rents, having no impact on the level of Council Tax. The account shows a deficit of £84 million for the year, reflecting the write down of the value of the stock to the LSVT transfer value.

The statutory accounts analyse the costs into a nationally specified structure and includes depreciation and support service costs within the net cost of services. This differs from the financial monitoring reports that are submitted quarterly to Members which focus only on direct costs and income.

Statement of Movement on the Housing Revenue Account Balance (page 52)

The surplus or deficit on the Housing Revenue Account income and expenditure account is subject to a number of changes in order to meet the statutory requirements of the Local Government and Housing Act 1989. These changes are made through the Statement of Movement on the Housing Revenue Balance.

The adjustments relate to a transfer from the Major Repairs Account to reflect the difference between the depreciation charge and the major repairs element of Housing Subsidy and a reversal of the impairment charge within the Income and Expenditure Account.

The effect of these adjustments is to bring the accounting requirements into line with the regulations governing the statutory Housing Revenue Account. After making these adjustments the surplus for the year of £6,000 is added to the Housing Revenue Account Balance.

The Housing Revenue Account balance stands at £120,000 at 31st March 2010.

Collection Fund (page 56)

The purpose of this statement is to identify transactions relating to council tax and non-domestic rates and to show the way this is distributed to Rutland County Council and other precepting authorities.

All transactions relating to non-domestic rates are accumulated and paid into a Government pool which is then redistributed through the Formula Grant system.

Council Tax transactions provide the resources from which precepts are paid to Leicestershire Police Authority and Leicester, Leicestershire and Rutland Combined Fire Authority and to meet Rutland County Council's demand which includes the requirements of Town and Parish Councils.

Any balance on the Collection Fund at the end of the financial year is shared between Rutland, the Police and Fire authorities in proportion to their precepts for the year.