Key issues within the 2009/10 Statement of Accounts

The council has reviewed its accounting policies during the year and revised them in accordance with the 2009 Statement of Recommended Practice (SORP). There have been changes to the requirements of the SORP for 2009/10 to ensure the presentation of the Statement of Accounts meets UK GAAP (Generally Accepted Accounting Practice) compliance.

The explanatory foreword now consists of 19 pages, providing meaningful information about the council's activities, including performance management and performance highlights from 2009/10. This may assist in putting some of the financial information within the statements into context.

The main changes to the presentation of the financial statements include:

- The table "Where the Money Went", shown on page 10 in the explanatory foreword, summarises general fund expenditure in 2009/10, based on the Council's new key priorities outlined in its 2010 Business Plan. Significant expenditure against each of these priorities is also highlighted on page 11 to the Statement of Accounts.

- The explanatory foreword includes details of the future plans of the council (pages 15-17), including:-

  Civic Pride
  Bridging the Gap
  Art Gallery & Museum redevelopment
  St Pauls Regeneration
  Flood Relief
  Everyman Theatre
  Gloucestershire Airport runway project

- The current situation concerning Icelandic Banks and the treatment of investment impairment losses in 2009/10 are included in the Statement on pages 54 to 57. Full details are also provided in section 7 of the Financial Outturn 2009/10 Report.

- The removal of the collection fund balance and the county council and police authority's respective shares of council tax arrears and overpayments from the council's balance sheet. This is to reflect the fact that that the council acts as the agent of the county council and police authority in collecting their shares of council tax, so the arrears and overpayments correctly belong on their balance sheets rather than the borough council's.

  Differences between the rate at which collection fund surpluses or deficits are released to the council's general fund balance according to proper accounting practice and by statute are reflected in a new account, the collection fund adjustment account.

- Similarly, the removal of the arrears and overpayments of National Non-Domestic Rates (NNDR) from the council's balance sheet, to reflect the fact that the council acts as the agent of the government in collecting the tax. The only remaining debtor or creditor relating to NNDR on the council's balance sheet is that representing the cash collected but not yet paid to the government, or overpaid to the government, at the balance sheet date.

- The inclusion of any amount of long term borrowing, including interest, due to be settled within 12 months of the balance sheet in current liabilities, rather than in long term liabilities.

- The removal of the notes on section 137 expenditure, the building control account, Business Improvement District schemes, and income under the Local Government Goods and Services Act, since none of these disclosures are required by accounting standards or legislation. The information provided by these notes is still available, however, and can be supplied on request to Financial Services.

- The disclosure note for senior officers pay has been remodelled to comply with new government regulations (note 8 pages 42-44). Additional information provides full details of total remuneration paid, including employers pension contributions, for all officers earning a basic pay in excess of £50,000 per annum in 2008/09 and 2009/10.

- The sundry debts bad debt provision includes a provision for 10% of outstanding sundry debtors invoices raised during 2009/10 to reflect the possibility of an increase in bad debts during 2010/11, as a result of the current economic situation. Previously no provision has been made for debts raised during the most recent financial year.

The key financial messages within the accounts are summarised as follows:

- Services have been delivered within the 2009/10 revised revenue budgets, resulting in a budget underspend of £9k. The council is asked to approve the transfer of this underspend to general balances, as detailed in the recommendations to the Financial outturn 2009/10 and budget monitoring to May 2010 Report, paragraph 1.3.2.

  There is a net reduction in the general fund balance of £271k in 2009/10, which is reported as part of the Income and Expenditure Account within the Statement of Accounts due to one off staffing and other costs. There is a £9k net underspend detailed in the council's management accounts, as adjusted for standardised accounting entries for the production of the Income and Expenditure Account. These adjustments are necessary to ensure the Statement of Accounts are consistent to all Local Authorities and are UK GAAP compliant. The entries are reversed as part of the Statement of Movement on the General Fund Balance and therefore have no impact on the council tax payer in 2009/10.

  The following table is a reconciliation between the deficit for the year as presented within the Income and Expenditure Account on page 33 with the underspend reported within the management accounts as part of the outturn report.

	£000's
Income & Expenditure Account deficit for year	**31,937**
Less: Impairment Losses – land and buildings	(18,449)
Less: Revenue expenditure funded from capital under statute	(337)
Less: Housing capital receipts	(238)
Less: Capital Charges	(1,694)
Add: Gain on disposal of fixed assets	87
Less: FRS17 pension adjustment	(1,227)
Less: Housing Revenue Account deficit for the year	(7,185)
Less: Icelandic Banks net interest	(145)
Transfer to collection fund adjustment account	(12)
Transfers to/(from) earmarked reserves	(2,746)
General Fund Underspend as reported in Outturn Report (Management accounts)	**(9)**

- The overall treasury management position (external borrowing less external investments) was such that the council was a net borrower to the sum of £28.4m, compared with £23.9m at the end of the 2008/09 financial year. The overall interest receivable and payable for the general fund in 2009/10 was a shortfall against budget of £132,695. However, when taking into account the accounting transactions required in respect of Icelandic investments, the overall treasury management position for 2009/10 is favourable to the council's general fund by £21,801 when compared to the 2009/10 revised budget.

- The Income & Expenditure Account includes an exceptional item for the cost of the implementation of single status, being £41k in 2009/10. This has now been implemented with effect from 1st September 2008. The total cost of the implementation was £424k to 31st March 2010.

  Claims have been lodged by two employees in respect of equal pay back pay. Discussion and legal advice regarding these claims is ongoing and it is estimated that the maximum back pay that may be awarded, should the claims be proven successful, is £75,000, plus any legal costs incurred. This is included in the accounts as a contingent liability and, if settled, would be met from the single status reserve, earmarked for this purpose. Details of single status are included on page 18 of the accounts.

- The Income & Expenditure Account includes an extraordinary item for the costs associated with the dispute with the former Managing Director, Mrs Laird. This cost is £187k in 2009/10, including £95k for the cost of the KPMG independent public enquiry report published in 2009. £150k has been paid to Mrs Laird towards the costs awarded to her as a result of the court case, which has been offset against the £520k provision set aside as part of the 2008/09 accounts. Details of the expenditure are included on page 18 of the accounts.

- Assets included in the Balance Sheet at current value are re-valued where there have been material changes in the value, but as a minimum every five years, by the Head of Property & Asset Management. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

A revaluation of council dwellings was completed during 2005/06. A formal revaluation of other fixed assets, which are included in the balance sheet at current value, was carried out during 2009/10 with an effective valuation date of 1st April 2009. The changes in market conditions during the last 5 years has led to a decrease in the value of fixed assets of £55.3m, and results in impairment (downwards revaluation) losses in year.

- The council's net pension liability has increased by £33.3m during 2009/10. This is principally due to the fact that the financial assumptions as at 31st March 2010 are less favourable than they were at 31st March 2009, and the mortality assumptions have been strengthened to reflect improvements in life expectancy. 2009/10 has seen higher than expected investment returns but this positive impact is outweighed by the significant negative impact on the liability side of the balance sheet.

  Whilst this liability represents a snap-shot in time, the council has to disclose its share of assets and liabilities related to pension schemes for its employees. Although these benefits will not actually be payable until employees retire, the council has a commitment to make payments that need to be disclosed at the time that employees earn their future entitlement.

  The financial assumptions used to calculate this liability include a forecast increase in pay inflation of 5.3%, being 1.5% above the assumed general inflation rate of 3.8%. This appears high, given the public sector pay freeze announced as part of the new coalition government's budget on 22nd June 2010 and Financial Services are in the process of challenging this assumption with the council's appointed actuary, Hymans Robertson LLP.

- The net worth of the council has reduced by £89.7m in 2009/10 including the increase in the pensions liability of £33.3m and the decrease in the value of fixed assets of £55.3m, as detailed above.

- The council spent £6.45m on capital projects and grants in 2009/10, compared to £10.754m in 2008/09.

- The council's Capital Financing Requirement (CFR), which measures the authority's underlying need to borrow for capital purposes, has increased by £4.0m in 2009/10, made up of £4.4m to cover the Icelandic banks losses, offset by £0.4m minimum revenue position.

- The council utilised £0.353m worth of developer contributions (S106 monies) during 2009/10. As at 31st March 2010, the council has £0.279m worth of useable S106 monies.

- Cheltenham Borough Homes made a trading profit of £38,248 in 2009/10 (£62,363 retained loss in 2008/09) which has been incorporated into the Group Accounts. This takes account of the FRS17 pension requirements.

- Gloucestershire Airport made an after tax operating loss of £120,386 to 31st March 2010 (profit of £62,646 to 31st March 2009), of which 50% is represented within the Group Accounts. The company paid dividends of £50,000 for the year to 31st March 2010, of which the council received £25,000.. Equity dividends paid are dealt with as a movement on retained profits.