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## Statement of Accounts 2011 to 2012

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# Explanatory Foreword

## Introduction

The purpose of this foreword is to provide the reader with an understanding of the accounting statements, a review of the Council's financial performance in 2011/12 and an explanation of the overall financial position.

## Accounting Statements

The accounts have been prepared in accordance with the Accounts and Audit Regulations and the Code of Practice and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The accounting policies adopted by the Council are outlined in this document and have been fairly and consistently applied.

The statements comprise:

## The Core Statements

**Movement in Reserves Statement** - This Statement shows the movement in the year on the different reserves held by the authority, analysed into "usable" reserves (those that can be applied to fund expenditure or reduce local taxation) and other reserves. The "Surplus or (Deficit) on provision of services" line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund balance and Housing Revenue Account (HRA) for Council Tax setting and dwellings rent setting purposes. The "Net increase/decrease before transfers to Earmarked Reserves" line shows the statutory General Fund balance and HRA balance before any discretionary transfers to or from Earmarked Reserves undertaken by the Council.

**Comprehensive Income and Expenditure Statement** – This statement shows the economic cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

**Balance Sheet** – This statement shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, ie those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line “Adjustments between accounting basis and funding basis under regulations”.

**Cash Flow Statement** – This Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority’s future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

**Notes to the Core Financial Statements** – These are set out after the above core statements. They provide further information and interpretation of the content of the individual statements.

## **The Supplementary Financial Statements**

**Housing Revenue Account** – The Council is required by law to account separately for the provision of housing. This account shows the expenditure on managing, maintaining and providing the Council’s housing stock and how this is financed by rents and other income.

**Collection Fund Statement** – The Collection Fund is an agent’s statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

## **Context for the 2011/12 Accounts**

### **Current Economic Climate**

The current economic climate and that of recent years has had considerable impact on the Council, particularly due to its strong reliance on revenue from interest on reserves and fees and charges. The Council has continued to see reduced investment receipts following a prolonged suppression in the Bank of England base rate to an historic low of 0.5%. A number of income streams have also continued to be affected by the economic downturn, particularly planning fees, building control and land charge income, car parking and green waste income.

The Council has also seen a reduction in its area based and specific grant streams and is facing significant cuts in its Formula Grant, the likes of which have never been seen before by this council. The Council’s cut in Formula Grant for 2011/12 was 5.3% (after receipt of transitional grant) and there will be a further cut of 16.9% in 2012/13.

A range of saving options has been developed to try to mitigate the impact of these cuts and enable the Council to deliver a balanced budget. These include a corporate restructure which has resulted in savings of £1m whilst also addressing the migration of substantial numbers of staff into shared services; working with neighbouring authorities via shared services across a number of service areas to deliver savings through mass economies of scale, whilst enabling best practice to be shared; and service efficiencies and reductions, particularly within non-priority services.

The Council has reviewed its level of reserves, taking account of the financial risks that could pose a threat to the authority over the medium term and also in light of the cuts in future funding. The Council has set its optimal level of general reserves at 11% of the net revenue budget. The general reserves as at 31 March 2012 are £2.177m (11% of the 2011/12 net revenue budget) and are therefore in line with the Council's optimal reserve level. In addition to the general reserve, a number of earmarked reserves exist. These are sums set aside for specific purposes and essentially allow funds to be saved over a number of years for large and often one-off items of expenditure, thereby smoothing the impact on Council Tax. The need for these reserves is reviewed regularly. The outturn for 2011/12 has enabled a number of contributions to be made to Earmarked Reserves as outlined later in the Explanatory Foreword.

Also severely affected by the current economic climate are asset disposals. Selling assets does not necessarily represent value for money for the taxpayer at this point in time and so the Council's ability to generate funds from releasing capital resources has been severely limited to the detriment of the Council's capital programme. Only the most important capital projects are now selected for inclusion within the programme which means that the programme is now driven predominately in response to health and safety issues.

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