

EAST HERTS COUNCIL

AUDIT COMMITTEE – 24 JUNE 2008  
COUNCIL - 25 JUNE 2008

REPORT BY THE EXECUTIVE MEMBER FOR RESOURCES AND  
INTERNAL SUPPORT

STATEMENT OF ACCOUNTS 2007/08

WARD(S) AFFECTED: None specific

FOR DECISION BY AUDIT COMMITTEE:

'D' RECOMMENDATION - that the following comments be referred to  
Council regarding the Statement of Accounts for the financial year  
ended 31 March 2008.

FOR DECISION BY COUNCIL:

'D' RECOMMENDATION - that (A) Council receives the following  
comments of the Audit Committee of 24 June 2008 regarding the  
Statement of Accounts for the financial year ended 31 March 2008;  
and

(B) the Statement of Accounts (as amended) for the financial  
year 2007/08 be approved and signed by the Chairman at the  
conclusion of the meeting.

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1.0 Purpose of Report

1.1 This report sets out the background to the requirement for Members  
to approve the Statement of Accounts together with some supporting  
comments on each of the main statements.

2.0 Contribution to the Council's Corporate Objectives

2.1 The approval of the Council's Accounts is a statutory requirement and  
as such contributes to objectives under the priority to deliver

customer focussed services and developing a well managed and publicly accountable organisation.

### 3.0 Background

- 3.1 The Accounts and Audit Regulations 2003 set out the requirements for the production and publication of a Council's annual Statement of Accounts.
- 3.2 The Regulations require the Accounts to be approved by a relevant body of the Council (as defined within the Regulations) by 30 June following the relevant accounting year end. The relevant body under the Council's current constitution is full Council. There is also a requirement for the person presiding at the meeting at which approval is given to sign the accounts at the end of the meeting.
- 3.3 The Council's Chief Finance Officer (S151 Officer) has statutory responsibility for the preparation of the Statement of Accounts. The Accounts, accounting policies and compliance with the 2007 SORP have been agreed by the Council's Deputy Interim Section 151 Officer who has signed the accounts off for submission to Members. The Statement of Accounts was authorised for issue on 18 June 2008 and this is the date up to which events after the balance sheet date have been considered.
- 3.4 The Audit Committee as part of its terms of reference provides the opportunity for a smaller Group of Members to scrutinise the accounts in depth prior to the final formal approval stage. The Audit Committee meeting of 24 June 2008 is invited to submit its comments to the Council meeting on 25 June 2008.
- 3.5 A separate report elsewhere on the Audit Committee agenda deals with requirements for the consideration and approval of the Council's Annual Governance Statement, which is required to be included within the Council's overall annual accounts.

### 4.0 Report

- 4.1 The Statement of Accounts is attached at Appendix 'A' (Pages 10 - 56) to the report.
- 4.2 Given the earlier statutory deadline for approval of the Accounts now required the formal External Audit of the Accounts has not yet commenced. The Council's Auditors have, however, been provided with a draft copy of the Accounting Statements in order that any

significant issues can be raised in advance of the approval by Members. No significant issues have been notified to officers at this stage.

- 4.3 The Statement of Accounts is produced in accordance with appropriate Regulations, guidance notes and “Codes of Practice” and there is a high level of prescription with regard to their form and content.
- 4.4 This item is technical by nature and it would be of assistance if any questions that Committee Members may have of a detailed nature could be referred to the Head of Financial Support Services in advance of the meeting in order that officers have time to research any particular issues.
- 4.5 The Council’s financial performance for 2007/08, which is reflected in the accounts presented, will be reported in depth to the Executive on 1 July 2008. The Audit Committee should note, however, that the Accounts have been prepared in line with proposals for Reserves/ Balances which the Executive will be asked to approve. A copy of the Revenue Outturn report is included elsewhere on the Audit Committee agenda for consideration.

For information and to facilitate Members’ interpretation of the Accounts presented it should be noted that the Capital Outturn resulted in a performance of 78% of original budget being achieved which is just below the Council’s local performance indicator of 85%.

Some £3.5 of Capital Receipts have been applied during the year to fund the Capital Programme. Allowing for additional receipts generated during the year the balance of usable receipts stands at £13.8M at 31 March 2008.

The revenue outturn for the year resulted in an underspend of £2.714M against the original estimate and Members will be aware that the position arose principally due to significant additional interest earnings (£1.4M) following the recent “Credit Squeeze” and liquidity position in the financial markets and additional Government grant Income in respect of Business Growth and Planning performance (£406k). Taking into account the planned use of balances originally budgeted for the final outturn resulted in just under £2.4M being added to the Council’s overall Reserves.

The Accounts reflect proposals to establish a Service Improvement Reserve of £1.0M, and increase the Interest equalisation Reserve by

£0.8M with the balance of just under £0.6M going into the General Reserve.

- 4.6 Members will recall that the 2006 SORP (Statement of Recommended Practice) introduced some significant changes to the Council's accounting statements in line with moves towards UK GAAP (Generally Accepted Accounting Practice)

The 2007 (statutory) Accounting Code of Practice has introduced a number of further changes to the accounting requirements. The principal ones affecting this Council are summarised below.

- (i) the former Fixed Asset Restatement Account (FARA) and Capital Financing Account have been replaced by a Revaluation Reserve and Capital Adjustment Account. The SORP provides that for balance sheet purposes the balance on the new Revaluation Reserve should be shown as nil at 31.03.07. The balance on the new Capital Adjustment Account is shown as the combined total of the (former) FARA and Capital Financing Account.

In future the balance on the Revaluation Reserve will need to be identifiable to individual assets thereby providing a history of revaluations. This is likely to require more detailed record keeping for assets and officers are considering appropriate arrangements.

From 1 April 2007 the change means that any revaluation decreases are only permitted to be written off to the Revaluation Reserve where there is a balance on the Reserve in relation to the specific asset. Where there is no such balance, or the decrease exceeds the balance, then the difference needs to be charged against the Income and Expenditure Account (I&E). This has had an impact on the Council's accounts I&E account for 2007/08 with the net gain on disposals reflecting valuation reductions.

- (ii) significant changes have been introduced in respect of the recognition, measurement, disclosure and presentation of financial Instruments within Accounting Statements.

Financial Instruments are now required to be measured at fair value, and where necessary adjusted for transaction costs. Fair value is generally regarded as the price which could be exchanged in an "arm's length" transaction, and would therefore

have regard to the nature of the instrument and interest rate applicable.

Financial Instruments includes the Council's debt and investments and could also include debtors where the duration for repayment was greater than one year.

In line with the new requirements the Council's balance sheet now shows accrued interest associated with loan debt as part of the carrying value of the loan (previously the interest was shown within the current liabilities section of the balance sheet).

In respect of Instruments used by the Council's Fund Managers (Gilts and Certificates of Deposit) these are considered to be held to balance portfolio risk and classed as "available for sale" under the new SORP. Gains or Losses arising from changes in value are recognised through the Statement of Recognised Gains and Losses (STRGL). Where the value is considered to be impaired this will be taken to the Income and Expenditure account in the year.

Members will have noted a number of new disclosures to the accounts in line with the new arrangements.

The following comments are also aimed at summarising the purposes of the main Statements as well as highlighting any key issues.

#### 4.6.1 Explanatory Foreword

The purpose of the foreword is to offer interested parties a guide to the Authority's overall financial position. An overview of Income sources, how the money is spent and spend against each main service area is given in the form of the pie-chart diagrams.

Details of Actual spend compared to the original budget is set out for both Revenue and Capital activities together with comments on significant variances.

Given the further changes required to the accounts under the 2007 Accountancy Code of Practice this year's foreword also provides information on these changes.

#### 4.6.2 Statement of Accounting Policies

The purpose of the Statement is to set out the basis for recognition, measurement and disclosure of transactions and other events in the Accounts.

In line with changes to the Accountancy requirements for 2007/08 the Council has adopted new accounting policies relating to financial instruments.

#### 4.6.3 The Income and Expenditure Account Statement of Movement on the General Fund Balance and Statement of Recognised Gains and Losses

Members will recall that these three new financial statements were introduced with effect from the 2006/07 Accounts.

The Income and Expenditure Account is a summary of the resources generated and used by the authority in the year;

The Statement of the Movement on the General Fund Balance provides a reconciliation of how the resources generated and used links to the statutory requirements for raising Council Tax; and

The Statement of Recognised Gains and Losses demonstrates how the net worth in the Balance Sheet relates to the Income and Expenditure Account deficit and to other unrealised gains and losses.

The Income and Expenditure Account is fundamental to the understanding of the Council's activities, in that it reports the net cost for the year of all the functions for which the Council is responsible. It also demonstrates how the cost has been financed from Government Grants and Local Taxpayers.

It comprises of three separate sections.

The first section gives information on the cost of the Council's services net of specific grants and income from fees and charges. This section identifies what is known as the net cost of services.

The second section comprises income and expenditure relating to the Council as a whole. When added to the net

cost of services it gives the Council's net operating expenditure.

The third section shows the income from local taxation and general government grants to give the net surplus or deficit for the year.

For 2007/08 the Council's Income and Expenditure Account shows a net deficit of £0.9M.

A note to the accounts shows a reconciliation of this deficit to the movement on the General Fund balance.

The difference relates primarily to capital related charges, the net gain on asset disposals and pension contributions.

#### 4.6.4 The Balance Sheet

The Consolidated Balance Sheet includes the assets and liabilities of all activities of the Authority. It shows the balances and reserves at the Authority's disposal and its long term indebtedness together with the fixed and net current assets which are employed by the Council in delivering its services.

In line with the 2007 Code of Practice the value of Loans now includes accrued interest which was previously shown within current Liabilities.

The value of Fixed assets has increased by some £1.95M over the year reflecting new Capital Investment, disposals and a revaluation of assets during the year.

There has been no change to Long Term borrowing during the year and no material change in the net current assets. Members should note that debtors have increased by just over £2.5M in the main relating to Government Grant owed to the Council for National Non Domestic Rates.

Usable capital receipts have reduced by £0.27M reflecting disposals during the year and the funding of the Capital Programme.

Revenue reserves and balances have increased by £2.4M subsequent to underspend in the year.

#### 4.6.5 Collection Fund

This account reflects the statutory requirement for the Council as a billing authority to maintain a separate Collection Fund which shows the transactions in relation to both Non-Domestic Rates and Council Tax.

The balance on the fund (deficit of £246k at 31 March 2008) is attributable to the main precepting authorities in proportion to the precepts levied. This Council's proportion is £36k which will need to be met from Council Tax in future years.

In line with the 2007 SORP the proportions of the surplus attributable to the County Council and Police Authority are now included within the Council's creditors in the Balance Sheet.

#### 4.6.6 Cash Flow Statement

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

#### 4.6.7 Annual Governance Statement

This Statement is included within the Council's overall Statement of Accounts. See separate report on the Agenda.

### 5.0 Consultation

5.1 None

### 6.0 Legal Implications

6.1 The legal implications are contained in section 3 of the report.

### 7.0 Financial Implications

7.1 As stated in the report.

### 8.0 Human Resource Implications

8.1 None

## 9.0 Risk Management Implications

9.1 Any issues arising through the External Audit process may require further reporting arrangements.

## 10.0 Recommendation

10.1 Audit Committee is requested to consider the Statement of Accounts and submit comments to Council for consideration. Council is requested to receive any comments and approve the Statement of Accounts for the financial year ended 31 March 2008, to be signed by the Chairman following the meeting.

### Background Papers

#### Final Accounts Working Papers 2007/08

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