

EAST HERTS COUNCIL

AUDIT COMMITTEE – 29 JUNE 2009  
COUNCIL - 30 JUNE 2009

REPORT BY THE EXECUTIVE MEMBER FOR RESOURCES AND  
INTERNAL SUPPORT

6. STATEMENT OF ACCOUNTS 2008/09

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 2009.

FOR DECISION BY COUNCIL:

'D' RECOMMENDATION - that (A) Council receives the following comments of the Audit Committee of 29 June 2009 regarding the Statement of Accounts for the financial year ended 31 March 2009; and

(B) the Statement of Accounts (as amended) for the financial year 2008/09 be approved and signed by the Chairman at the conclusion of the meeting.

---

1.0 Purpose of Report

1.1 This report sets out the background to the requirement for Members to consider and approve the Statement of Accounts. Supporting comments are made 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 (as amended) 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 considered and approved either by a committee or by the whole Council (and this Council's constitution identifies the whole Council) by 30 June following the relevant accounting year end. The person presiding at the meeting at which approval is given must 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 2008 SORP have been agreed by the Council's Director of Internal Services (as 151 Officer) for submission to Members. The Statement of Accounts was authorised for issue on 19 June 2009 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 29 June 2009 is invited to submit its comments to the Council meeting on 30 June 2009.
- 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 6.11 - 6.60) 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 consulted regarding key issues as they have arisen throughout the closedown process in order to agree the appropriate accounting treatment to be adopted. They have also been provided with a draft copy of the Accounting Statements in order that any significant issues recognised

immediately can be raised in advance of the approval by Members. Any comments received will be reported at the meeting.

- 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 Director of Internal Services or 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 2008/09, which is reflected in the accounts presented, will be reported in depth to the Executive on 28 July 2009. The Audit Committee should note, however, that the Accounts have been prepared in line with proposals for Reserves/ Balances which have been agreed by the Executive/Council as part of either the Budget or “Healthcheck” processes.

### Capital

For information and to facilitate Members’ interpretation of the Accounts presented it should be noted that the Capital Outturn resulted in a performance of 59% of original budget being achieved. The reasons for this significant slippage will be set out in the report to the Executive noted above.

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 £11.25M at 31 March 2009.

### Revenue

The revenue outturn for the year resulted in an underspend of £1.736M against the original estimate.

Members will be aware that the position arose principally due to

- significant additional interest earnings (£1.03M) as a result of excellent returns being achieved by the Council’s Fund Managers,
- additional Government grant Income in respect of Business Growth (£132k) and

- underspending resulting from the reprofiling of the introduction of the planned Alternate Refuse Collection (ARC) arrangement (£128k).

Other variances (both over and underspends) have been reported to Members throughout the year as part of the Council's Healthcheck process. Taking into account the planned use of balances originally budgeted for the final outturn resulted in just over £1.6M being added to the Council's overall Reserves.

The Accounts reflect proposals to transfer £128k into an ARC Reserve, and increase the Interest equalisation Reserve by £1.03M. Some £0.4M will be added to the General Reserve Balance. Service requests to carry forward some of this under spending will be considered in the light of the budgetary position in 2009/10.

- 4.6 Members will recall that both the 2006 and 2007 SORP (Statements 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 2008 (statutory) Accounting Code of Practice has introduced a number of further changes to the accounting requirements. These changes are less significant than in 2007 and the principal ones affecting this Council are summarised below.

(i) Impact of Economic Climate

Tangible Fixed Assets are required to be carried in the Balance Sheet at current value and revalued at intervals of not more than five years. There is a presumption that values would generally not change materially over a five year period.

The volatility of asset values in the current economic climate gave rise to recommendations that a comprehensive review of values should be undertaken.

The Council's Asset and Valuation staff have undertaken appropriate reviews which has resulted in significant impairment of values (£7.74M). [ This excludes the bringing on to the Balance Sheet of the Causeway property with an impairment charge of £5.9M]

This has had a significant presentational impact on the Accounting Statements (see note on the I & E Account).

(ii) Pension Fund Accounting Arrangements (FRS17)

The 2008 SORP incorporates further changes to FRS 17 which brings it into line with International Financial Reporting Standards (IFRS). In the main changes relate to the basis by which assets are to be valued.

Investments are now required to be valued on a fair value basis. For Investments the bid price is usually the appropriate quoted market price. (Prior to 2008 the mid market price was used)

This is shown as a change in accounting policy and the SORP has required restatement of comparative information (unless transitional provisions allow otherwise).

Pension disclosure requirements are significantly affected by the changes.

(iii) Basis of Valuation - Specialised Properties

The 2008 SORP has introduced a change in the basis of valuation to be used for specialised properties - these being where because of the specialised nature of the asset there is unlikely to be sufficient market evidence to support a valuation on the Existing Use basis.

Accordingly a Depreciated Replacement Cost (DRC) valuation basis has been applied.

Council assets affected include Multi Storey Car Park, Swimming Pools and Community Halls.

(iv) Financial Instruments - Presentation

Following the requirement in 2007/08 regarding disclosure of information in respect of financial instruments the 2008 SORP has recommended the inclusion of additional or enhanced disclosures in order to improve the information presented.

In particular enhancements are recommended in relation to the Council's broader Treasury Management Policies as well as the disclosure of information about a Council's risk exposure.

(v) Revenue Expenditure Funded From Capital Under Statute (REFCUS)

This new category of expenditure has replaced what were (formerly) known as deferred charges. The accounting change (representing a change in policy) sees expenditure charged to the service revenue account rather than to the balance sheet and then amortised to revenue.

The change means that the (former) balance sheet note on deferred charges is no longer required. The cash flow statement also reflects the change with the transactions now being included within Revenue activity. A restatement of prior year comparatives has been required.

The following comments summarise 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.

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 2008/09 the Council has adopted new accounting policies relating to Pensions accounting, Revenue Expenditure funded from Capital Under Statute and asset valuations. The Council has also reviewed its Policy on Finance Leases and has re-categorised The Causeway as a Finance Lease at 31 March 2009.

#### 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 2008/09 the Council's Income and Expenditure Account shows a net deficit of £15.5M. A significant proportion of the deficit shown in 2008/09 is attributable to the impairment of

assets (£13.6M). This includes £5.9M impairment relating to The Causeway Finance lease which has been treated as an exceptional item within the 2008/09 accounts.(see also para 4.6(i) above).

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 (including impairment), the net gain on asset disposals and transfers to/from Earmarked Reserves.

#### 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 changes introduced in 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 decreased by some £4.6M over the year reflecting new Capital Investment, disposals and a revaluation of assets (principally impairment) during the year and the inclusion of The Causeway building as a finance lease at 31 March 2009.

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 reduced by just over £1.66M in the main relating to Government Grant owed to the Council for National Non Domestic Rates.

Usable capital receipts have reduced by £2.6M reflecting the funding of the Capital Programme (£3.46M) offset by new in-year receipts of £0.86M.

The Pensions liability (assessed under FRS 17) has increased from £5.6M to just over £19M due to the much lower investment returns achieved during the year.



Revenue reserves and balances have increased by just over £1.6M principally due to the 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 £1.0M at 31 March 2009) is attributable to the main precepting authorities in proportion to the precepts levied. This Council's proportion is £147k which will need to be met from Council Tax in 2009/10 and 2010/11.

In line with the 2007 SORP the proportions of the deficit attributable to the County Council and Police Authority are now included within the Council's debtors 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 2009, to be signed by the Chairman following the meeting.

## Background Papers

Final Accounts Working Papers 2008/09

Contact Member: Councillor Mike Tindale, Executive Member for Resources and Internal Support

Contact Officers: Alan Madin, Director of Internal Services - Ext 1401  
Simon Chancellor, Head of Financial Support Services  
Ext 2050

Report Author: Simon Chancellor, Head of Financial Support Services