

EAST HERTS COUNCIL

AUDIT COMMITTEE – 28 JUNE 2010
COUNCIL - 29 JUNE 2010

REPORT BY THE EXECUTIVE MEMBER FOR RESOURCES AND
INTERNAL SUPPORT

STATEMENT OF ACCOUNTS 2009/10

WARD(S) AFFECTED: None specific

Purpose/Summary of Report

- 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.

<u>RECOMMENDATION FOR DECISION BY AUDIT COMMITTEE :</u>	
(A)	that the following comments be referred to Council regarding the Statement of Accounts for the financial year ended 31 March 2010.
<u>RECOMMENDATION FOR DECISION BY COUNCIL:</u>	
(A)	that Council receives the following comments of the Audit Committee of 28 June 2010 regarding the Statement of Accounts for the financial year ended 31 March 2010; and
(B)	the Statement of Accounts (as amended) for the financial year 2009/10 be approved and signed by the Chairman at the conclusion of the meeting.

1.0 Background

- 1.1 The approval of the Council's Accounts is a statutory requirement. The Accounts and Audit Regulations 2003 set out the requirements for the production and publication of a Council's annual Statement of Accounts.

- 1.2 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.
- 1.3 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 2009 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 18 June 2010 and this is the date up to which events after the balance sheet date have been considered.
- 1.4 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 28 June 2010 is invited to submit its comments to the Council meeting on 29 June 2010.
- 1.5 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.
- 1.6 The government's reductions to local government funding announced on 10 June caused late adjustment to these accounts. Local Area Agreement Reward Grant receivable in respect of 2009/10 but to be paid in 2010/11 was part of the cuts. This late change occasioned a slight delay in publication.

2.0 Report

- 2.1 The Statement of Accounts is attached at Essential Reference Paper B to the report.
- 2.2 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 can be raised in advance of the approval by Members. No significant issues

have been notified to officers at this stage.

- 2.3 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.
- 2.4 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.
- 2.5 The Council’s financial performance for 2009/10, which is reflected in the accounts presented, will be reported in depth to the Executive on 13 July 2010. 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 (including MTFP) 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 90% of original budget (adjusted to reflect reprofiling of new Leisure contracts) being achieved.

Some £6.58m of Capital Receipts have been applied during the year to fund the Capital Programme. Allowing for additional receipts generated during the year (including a net accrual of £2.35m relating to The Causeway property transactions) the balance of usable receipts stands at £7.61m at 31 March 2010.

Revenue

The revenue outturn for the year resulted in an underlying underspend of £1.23m against the original estimate.

Members will be aware from the healthcheck reports that the position arose principally due to additional recycling income streams subsequent to the implementation of ARC (Alternate Refuse Collection), additional investment income, a reduction in the refuse contract costs and increased development control and land charges income.

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 £172k being drawn from the Council's overall Reserves (compared to a budgeted £1.6m use of reserves).

The Accounts reflect proposals to transfer £275k into a Waste Recycling Reserve to assist with future initiatives in support of the Council's Waste/Recycling Strategies. Release of funds will be dependent upon an appropriate business case being agreed.

In line with Council decisions on flexible and early retirements taken in 2009/10 a Pension Strain Costs Reserve has been established to meet the outstanding obligations (£158k).

The favourable return on investment income of £281k above that budgeted has enabled the planned appropriation from the Interest Equalisation Reserve to be reduced to £1.019m.

Allowing for the funding of budgets approved to be brought forward from 2008/09 a net £233k has been added to the General Reserve.

Service requests to carry forward some of the 2009/10 underspend will be considered in light of the budgetary position in 2010/11 and in particular the recent government announcements on public spending cuts.

- 2.6 Members will recall that both the 2007 and 2008 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 2009 (statutory) Accounting Code of Practice has introduced a number of further changes to the accounting requirements. The principal changes affecting this Council are summarised below.

(i) Accounting for Council Tax and Non-Domestic Rates

Following a review by CIPFA/LASAAC the accounting arrangements for Council Tax and National Non-Domestic Rates (NNDR) have been changed. The presentation now

reflects the view taken that the Council (as a billing authority) acts as agent of the major precepting authorities (Hertfordshire County Council and Hertfordshire Police Authority) in collecting Council Tax and of the Government in the collection of NNDR.

This change in accounting policy has also required the restatement of the 2008/09 comparatives.

The impact upon the Council's main accounting statements is summarised in Accounting Policy 30 (Page 13) of the Accounts. (Essential Reference Paper B)

- (ii) Amendments to the Accounts and Audit Regulations have introduced a new legal requirement to increase transparency and accountability in Local Government for reporting remuneration of senior employees.

The new provisions which came into force on 31 March 2010 (and subsequently impact on the 2009/10 accounts) requires an enhanced level of disclosure for "senior" employees as an accompanying note to the accounts. Senior employees include the Chief Executive and Directors in this context.

The following comments summarise the purposes of the main Statements as well as highlighting any key issues.

2.6.1 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.

2.6.2 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 2009/10 the Council has adopted new accounting policies relating to the accounting arrangements for Council Tax and NNDR.

2.6.3 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 2009/10 the Council's Income and Expenditure Account shows a net deficit of £5.9m. A significant proportion of the deficit shown in 2009/10 is attributable to the impairment of assets (£5.48m). The impairment relates mainly to the Council's two wholly owned Pools and Multi Storey Car Parks in Hertford. The Account reflects the impact in the year of the transactions relating to The Causeway property disposals.

A note to the accounts (Page 16) shows the reconciliation of this deficit to the movement on the General Fund balance.

The difference relates primarily to capital related transactions and adjustments for pension costs under FRS 17.

Should the deficits on the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses be of concern to members and other readers of the accounts in a year when the use of reserves was less than planned?

To the extent that the deficit arises from reductions in asset values this is probably of less concern as the assets continue to support service delivery and where there is no short term intention to dispose of them year on year fluctuations in market values can be sustained.

However, where deficits arise from pension costs and capitalising expenses of a revenue nature (although provided for by statute) this should be of more concern, These deficits represent a passing on to future tax payers of costs associated with current (or past) service delivery.

2.6.4 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.

The value of Fixed assets has decreased by some £8.5m over the year reflecting new Capital Investment, disposals (including assets at The Causeway) and a revaluation of assets (including impairment) during the year.

There has been no change to Long Term borrowing during the year. A reduction of £6.8m in current assets relates principally to reduced investments reflecting in year funding requirements.

Usable capital receipts have reduced by £3.6m reflecting the funding of the Capital Programme (£6.6m) offset by new in-year receipts of £3.0m (including £2.35 net accrued relating to The Causeway).

Members may be surprised to see entries in respect of the Causeway remaining on the balance sheet at 31 March 2010 following the in year disposal. The residual entries reflect the deferral of the exchange of cash – the receipt of £7.35m for the disposal consideration and payment of £5m to extinguish the Council's liability in respect of the lease. The deferral of the cash transactions provided a benefit to the Council with the value of the agreed rent free period providing a better return on the net cash due to the Council than the Council's fund managers expect to make.

A significant change to the Balance Sheet is the Pensions liability (assessed under FRS 17) which has increased from £17.9m to over £42m.

The change arises from the financial assumptions at 31 March 2010 being less favourable than at 31 March 2009 as well as mortality assumptions reflecting increased life expectancy. The real discount rate used by the actuary in assessing benefits has fallen from 3.7% to 1.6% due to falling corporate bond yields.

This has resulted in a significant increase in the value of liabilities (from £65m to £102m). This is offset by an increase in the fair value of fund assets of around £13m.

Revenue reserves and balances have reduced by £172k in the year.

2.6.5 Collection Fund

Further to the changes in accounting arrangements for Council Tax the account no longer features within the Council's balance sheet. There remains, however, a 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 Account is included as a Supplementary Note within the overall accounts presented. (Page 46)

The balance on the fund (deficit of £211k at 31 March 2010) is attributable to the main precepting authorities in proportion to the precepts levied. This Council's proportion is £31k which will need to be met from Council Tax in 2010/11 and 2011/12.

2.6.6 Cash Flow Statement

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

Further to the change in accounting arrangements for Council Tax and NNDR the statement now excludes precept payments to major preceptors together with their share of Council Tax receipts along with the cash collected from NNDR payers and the Council's payment to the NNDR pool.

A net increase is shown in liquid resources in respect of these overall cash movements.

2.6.7 Annual Governance Statement

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

3.0 Implications/Consultation

3.1 Information on any corporate issues and consultation associated with this report can be found within Essential Reference Paper A (Page *)

Background Papers

Final Accounts Working Papers 2009/10

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