

Supplementary Council Agenda



**Epping Forest
District Council**

Council Thursday, 26th June, 2008

Place: Civic Offices, High Street, Epping
Room: Council Chamber
Time: 7.30 pm
Committee Secretary: Council Secretary: Ian Willett
Tel: 01992 564243 Email: iwillett@eppingforestdc.gov.uk

13. STATUTORY STATEMENT OF ACCOUNTS 2007/08 (Pages 3 - 14)

Additional report and amended pages attached.

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Supplementary Papers to Accompany the Statutory Statement of Accounts

Recommendation of the Audit and Governance Committee

1. The Audit and Governance Committee considered the draft Statutory Statement of Accounts on Monday 23 June. At that meeting Members raised a number of questions and answers were provided to all of these questions apart from one. The Audit and Governance Committee decided to recommend adoption of the Statutory Statement of Accounts subject to the provision of a reasonable explanation to the outstanding question.
2. The outstanding question relates to note 19 on Debtors and Prepayments (page 124 of the main agenda), and is why has the figure for Sundry Debtors increased from £2.9 million to £5.6 million. This increase was caused in part by a mis-classification and £1.68 million needs to be re-classified within note 19 as Government Departments and Other Local Authorities. This heading has now increased by £0.86 million due to the Council being owed a substantial amount from the NDR Pool as there were a couple of large rating reductions to supermarkets. This was however offset somewhat, as in 06/07 the council was owed £0.36 million in Housing Benefit Subsidy by the Department of Work and Pensions (DWP) however in 07/08 the Council owed the DWP £0.21 million. This leaves an increase of £1.18 million in Sundry Debtors due to Local Authority Business Growth Incentive Scheme (LABGI) grant relating to 2007/08 of £0.45 million remaining unpaid at 31 March, a refund of concessionary fares payments from the County Council of £0.17 million and £0.53 million within the Councils sundry debt system. The increase in sundry debts relates mainly to outstanding commercial/industrial estate rents and Housing Benefit overpayments.

Amended Pages for the Statutory Statement of Accounts

1. The first page in need of amendment is page 102 on the agenda (page vii) of the accounts. Discussion at the Audit and Governance Committee made it clear that the phrase "the disabled" in the second line of that page was inappropriate and needed to be replaced with the phrase "eligible disabled people".
2. As a result of the various other changes detailed below the Balance Sheet page 113 (page 10) has been amended. The totals shown at the bottom of the Balance Sheet are unchanged but various items have moved within the headings.
3. Due to the requirements of the Financial Reporting Standard 26 money owed to the Council in investment interest now has to be added to the value of the related investment and not shown within debtors. This has the effect of increasing the value of long term investments shown in note 16 page 123 (page 20) by £0.28 million and the value of short term investments shown on the face of the Balance Sheet by £0.62 million. The value of Debtors Note 19 page 124 (page 21) has, as a result of this, reduced by £0.9 million and the penultimate line within the note has therefore been deleted.

4. The value of Debtors Note 19 page 124 (page 21) has reduced by £0.78 million, due in part to the reclassification of investments highlighted in paragraph 3 above but also an addition from creditors of £0.12 million.
5. The value of Creditors Note 20 page 124 (page 21) has increased by £0.12 million due to an item that should have been included in Debtors being wrongly set against accruals within the aforementioned Creditors note.
6. A number of accounting changes have been introduced with the introduction of the Revaluation Reserve. The purpose of the Revaluation Reserve is to hold the net revaluation differences between the asset values in the Balance Sheet at 31 March 2007 and those at 31 March 2008. The final entry moving the difference between the depreciation based on the Balance Sheet value and that based on historic cost to the Capital Adjustment Account had not been made. The effect of this is to reduce the Revaluation Reserve Note 25 page 126 (page 23) by £0.68 million and increase the Capital Adjustment Account Note 27 page 127 (page 24) by the same amount. This change also affects the Movement on Reserves Note 39 page 133 (page 30) line 1 and 2.
7. There have been some changes to the way financial instruments are accounted for and a large number of additional disclosures as a result. The only items this authority has that fall within the definition of financial instruments are loans and receivables more specifically investments made with financial institutions. All these have to be shown in the Balance Sheet at amortised cost which is defined as the value of the investment plus accrued interest. There is however a requirement to disclose the 'fair value' of those assets which is determined by reference to the Public Works Loan Board (PWLB) redemption rules. This provides a good approximation for the fair value of a financial instrument. An additional paragraph has been added to Financial instruments Note 40 page 134 (page 31) to reflect this.
8. The timetable for the production and publication of the Statutory Statement of Accounts makes it difficult to complete all the necessary checking prior to publication. This position is made worse where accounting and disclosure requirements have changed during the year. Several of the changes set out above are of a minor nature but it is important that the best possible set of accounts are approved by Council and presented for audit. If the external auditor was left to recommend the changes set out above there could be an adverse impact on the Council's use of Resources assessment.

Another major change in service took place with concessionary fares from 1 April 2008. From this date the restriction on travel outside the district or scheme boundaries was lifted so that people over 60 and eligible disabled people are able to travel free on any local bus across England. The Government has announced specific grants throughout the CSR which they claim in total are adequate to fund these changes. However, it appears that there are winners and losers from this system and a major campaign is under way to persuade the Government to re-examine this issue.

The change to concessionary fares also represents a challenge for bus operators and it is anticipated that there will be many appeals against the funding offered by Local Authorities. In fact some appeals relating to the previous change, to free travel instead of half fare introduced on 1 April 2006, have still to be settled.

Given the above, it is clear that whilst the General Fund revenue balances are higher than anticipated they still need careful management. The current policy stipulates that the balances should not go below 25% of net budget requirement. This would allow the balances to fall to approximately £4.5 million if budget projections are to increase in line with expectations: the net budget requirement is expected to have reached £18 million by 2011/12. The current balance stands at £7.46 million. As part of the budget setting process Members considered an updated four-year strategy for the General Fund that included deficit budgets from 2009/10 onwards. This strategy suggested that the General Fund revenue balance would still exceed the required amount by the end of 2011/12. However, the implementation of the four-year strategy does require savings of £200,000 from the Continuing Services Budget in each year from 2009/10 onwards. Preliminary work has already commenced on the savings required by this strategy and the strategy will form the basis for discussions on the budget for 2009/10 and subsequent years.

Cabinet approved an updated five-year forecast for the Housing Revenue Account on 10 March 2008. Members agreed that HRA balances should be maintained within the range of £3 to £4 million, which is significantly lower than their current level of £6.2 million. In order to achieve the desired reduction additional revenue contributions to capital outlay have been planned. There is still a considerable capital programme for the HRA and the next four years will see a spend in excess of £24 million, inclusive of amounts carried forward from 2007/08. It is anticipated that the financial strength of the HRA should allow the Decent Homes Standard to be achieved ahead of the Government target of 2010.

The four-year programme of non-housing capital investment totals nearly £15 million, again inclusive of amounts carried forward from 2007/08. Corporate Support Services and ICT have the largest programme, with some £4.5 million being spent. Of which £2.2 million is available for the Customer Services Transformation Programme and £1.5 million for IT projects. The other major projects in the programme include £2 million for the Loughton Broadway town centre enhancement and £0.7 million for parking and traffic schemes.

The Council's financial strength meant it was able to deal with the collapse of the waste management contractor and the expensive interim arrangements without having to cut other services. This foreword has highlighted that despite the difficulties encountered in 2007/08 the Council has increased the considerable revenue and capital resources at its disposal. However, there has been a poor grant settlement and financial pressures could still arise from waste management, concessionary fares and other priority areas. Having put in place the updated four-year financial strategy, the savings targets for future years must be achieved to ensure the Council remains in a sound financial position.

Robert Palmer BA ACA
Director of Finance & ICT

BALANCE SHEET

	Note	31 March 2008		31 March 2007	
		£000	£000	£000	£000
LONG TERM ASSETS					
Fixed Assets	13		691,324		648,277
Intangible Assets	14		366		0
Investments	16		10,403		13,401
Long Term Debtors	17		2,161		2,009
TOTAL LONG TERM ASSETS			704,254		663,687
Current Assets					
Stocks and Work in progress	18	281		311	
Debtors	19	6,864		5,092	
Short Term Temporary Investments		47,873		40,557	
Cash at Bank and in Hand		2,375	57,393	1,686	47,646
Current Liabilities					
Creditors and Prepayments	20	(10,784)		(8,500)	
Bank Overdraft		(188)	(10,972)	(502)	(9,002)
TOTAL ASSETS LESS CURRENT LIABILITIES			750,675		702,331
Deferred Revenue Income	22		(544)		(861)
Pensions Liability	36		(43,416)		(28,702)
Capital Contributions Deferred	23		(165)		(377)
Government Grants Deferred	24		(4,000)		(3,686)
TOTAL ASSETS LESS LIABILITIES			702,550		668,705
RESERVES					
Revaluation Reserve	25		43,290		0
Capital Adjustment Account	27		642,952		643,144
Usable Capital Receipts	28		26,823		26,425
Pensions Reserve			(43,416)		(28,702)
Major Repairs Reserve	9(HRA)		7,290		5,655
Earmarked Reserves	29		10,311		8,648
Revenue Balances	30		13,699		12,444
Deferred Capital Receipts	31		1,601		1,091
			702,550		668,705

I certify that the Statement of Accounts presents fairly the financial position of Epping Forest District Council as at 31 March 2008, and its income and expenditure for the year ended as at that date.

ROBERT PALMER BA ACA
DIRECTOR OF FINANCE AND ICT

26 June 2008

NOTES TO THE CORE FINANCIAL STATEMENTS

14. INTANGIBLE ASSETS

Intangible assets are identifiable assets with no physical substance which are expected to yield future economic benefits to the Council. All expenditure relates to the purchase of software licences. Previous practice was to write these off in the year of purchase. From 2007/08 it is Council policy to write intangible assets off over their useful economic life, as a result, there is no charge in the current year. Amortisation of these assets will take place over five years following the year of purchase.

	31 March	
	2008 £000	2007 £000
Balance as at 1 April	0	0
Amounts amortised to Revenue	0	(142)
Expenditure	366	142
Balance as at 31 March	366	0

15. DEFERRED CHARGES & OTHER DELETIONS

Deferred charges are expenditure items of a capital nature where the Council does not control the economic benefits arising from payment. The Council's expenditure on deferred charges is in respect of private sector renewal grants and a housing association grant to enable the refurbishment of former Council owned sheltered units and some other minor non-Council asset creation.

The movements in the accounts during 2007/08 are summarised below.

	31 March	
	2008 £000	2007 £000
Balance as at 1 April	0	0
Expenditure		
Private Sector Housing Grants	435	521
Affordable Housing Grant	745	0
Other General Fund Expenditure	68	130
Other HRA Expenditure	2	966
Capital Grants Applied	(188)	(126)
Amounts amortised to Revenue	(1,062)	(1,491)
Balance as at 31 March	0	0

16. INVESTMENTS

The Council's cash investments are fixed term deposits through the money market, and are classified as loans and receivables.

	31 March	
	2008 £000	2007 £000
Long term cash investments	10,000	13,000
Accrued Interest	279	277
Local Government Association Debenture	120	120
Central Government War and Insurance Stock	4	4
Total Long Term Investments	10,403	13,401

NOTES TO THE CORE FINANCIAL STATEMENTS

17. LONG TERM DEBTORS

	31 March	
	2008 £000	2007 £000
Mortgages	134	202
Rents to Mortgages	1,467	890
Central Government	1	333
Other Local Authorities - Transferred Debt	559	584
Total Long Term Debtors	2,161	2,009

18. STOCKS AND WORK IN PROGRESS

	31 March	
	2008 £000	2007 £000
Work in Progress	123	110
Stocks	158	201
Total Stocks	281	311

19. DEBTORS AND PREPAYMENTS

	31 March	
	2008 £000	2007 £000
Amounts falling due in one year		
Government Departments and Other Local Authorities	2,233	1,371
Council Tax Arrears	2,904	2,683
Non Domestic Ratepayers Arrears	726	624
Housing Rent Arrears	855	890
Sundry Debtors	4,061	2,880
Prepayments	243	332
Others	4	7
	11,026	8,787
Less Provision for Bad and Doubtful Debts	(4,162)	(3,733)
	6,864	5,054
Amounts falling due after one year	0	38
Total Current Debtors	6,864	5,092

20. CREDITORS

	31 March	
	2008 £000	2007 £000
Government Departments and Other Local Authorities	1,211	1,544
Council Tax	980	930
Non Domestic Ratepayers	242	446
Housing Rents	192	138
Deferred Income	745	812
Sundry Creditors	3,310	3,325
Accruals	4,104	1,305
Total Creditors	10,784	8,500

Included within creditors is £3,000 (£3,000 in 2006/07) relating to Waltham Abbey Tourist Information Centre and £5,106 (£5,106 in 2006/07) relating to Essex Wildlife Trust, both of which fall within the definition of related parties.

NOTES TO THE CORE FINANCIAL STATEMENTS

25. REVALUATION RESERVE

The Balance Sheet figures as at 31 March 2007 have been adjusted from those included in the 2006/07 Statement of Accounts to accommodate the implementation of the Revaluation Reserve (see accounting Policies note 9). The Revaluation Reserve replaces the Fixed Asset Restatement Account (FARA). A credit balance of £566m existed on the FARA, this has been transferred on 31 March 2007 to the newly formed Capital Adjustment Account. The Revaluation Reserve has therefore been included in the Balance Sheet with a zero opening balance. The closing position on the Reserve as at 31 March 2008 only shows revaluation gains that have occurred since 1 April 2007, the reserve also has to show only the net value of asset revaluations, therefore an additional net entry between this account and the Capital Adjustment Account needs to be made for the difference between depreciation charged on the revalued assets and that charge which would have applied if the revaluation had not taken place.

The movements on the Revaluation Reserve in this year are shown below:

	31 March	
	2008 £000	2007 £000
Balance as at 1 April	0	0
Revaluations during the year (see also note 13)	53,439	0
Disposal of Fixed Assets (see also note 13)	(9,474)	0
Difference between historic cost and current value depreciation	(675)	0
Creation of Reserve	0	0
Balance as at 31 March	43,290	0

26. FIXED ASSET RESTATEMENT ACCOUNT

This account was closed on 31 March 2007 when the Revaluation Reserve and the Capital Adjustment Account was created. The balance that existed on the Fixed Asset Restatement Account was transferred to the Capital Adjustment Account on that date.

	31 March	
	2008 £000	2007 £000
Balance as at 1 April	0	553,565
Revaluations during the year (see also note 13)	0	22,290
Restatements during the year (see also note 13)	0	6,281
Disposal of Fixed Assets (see also note 13)	0	(15,301)
Transfer to Capital Adjustment Account	0	(566,835)
Balance as at 31 March	0	0

NOTES TO THE CORE FINANCIAL STATEMENTS

27. CAPITAL ADJUSTMENT ACCOUNT

The Capital Financing Account became the Capital Adjustment Account on 31 March 2007. The credit balance on the Fixed Asset Restatement Account (FARA) was transferred here on closure and the account name was amended at that point in time. The Account also contains the amounts that are required by statute to be set aside from capital receipts for the repayment of external loans and the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to the revenue accounts to repay the principal element of external loans.

The movements on the Capital Adjustment Account are shown below:

	31 March	
	2008	2007
	£000	£000
Balance as at 1 April	643,144	77,112
Minimum Revenue Provision Adjustment:		
Deferred Grants	119	252
Depreciation	(9,900)	(8,878)
Deferred Charges etc written off in Year (Net)	(1,250)	(1,633)
Capital Financing		
Capital Receipts Applied	4,064	4,735
Revenue Contributions Applied	2,628	2,388
Major Repairs Reserve Applied	2,968	2,184
Difference between historic cost and current value depreciation	675	0
Other	504	149
Transfer from former Fixed Asset Restatement	0	566,835
Balance as at 31 March	642,952	643,144

28. USABLE CAPITAL RECEIPTS UNAPPLIED

	31 March	
	2008	2007
	£000	£000
Balance as at 1 April	26,425	20,073
Usable Capital Receipts arising in year	9,550	14,048
Usable Capital Receipts applied in year	(4,064)	(4,735)
Transfer to Pension Deficit Reserve	(2,500)	0
Capital Receipts Pooled	(2,588)	(2,961)
Balance as at 31 March	26,823	26,425

These are capital receipts that have not yet been used to finance expenditure or repay debt.

29. EARMARKED RESERVES

A summary of balances on earmarked reserves is set out below.

	1 April 2007	Transfers in	Transfers	31 March
	£000	£000	Out	2008
			£000	£000
Housing Repairs Reserve	3,248	5,700	(5,240)	3,708
District Development Fund	3,181	1,876	(2,141)	2,916
Pension Deficit Reserve	1,145	2,500	(998)	2,647
Insurance Reserve	981			981
Debenture Reserve	120			120
Building Control Charging A/C	15		(30)	(15)
On Street Parking	(51)		(6)	(57)
Museum Fund	4	1		5
Small Loans Fund	5	1		6
Total Earmarked Reserves	8,648	10,078	(8,415)	10,311

NOTES TO THE CORE FINANCIAL STATEMENTS

39. MOVEMENT ON RESERVES

The Council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory purposes.

	Balance 1 April 2007 £000	Net Movement in Year £000	Balance 31 March 2008 £000	Purpose of Reserve	Further Details of Movements
Revaluation Reserve	0	43,290	43,290	Store of gains on revaluation of fixed assets	Note 25 above
Capital Adjustment Account	643,144	(192)	642,952	Store of Capital resources set aside to meet past expenditure	Note 27 above
Major Repairs Reserve	5,655	1,635	7,290	Resources available to meet future running costs for council houses	HRA Statements Note 9
Usable Capital Receipts	26,425	398	26,823	Proceeds of fixed asset sales available to meet future capital investment	Note 28 above
General Fund	6,761	701	7,462	Resources available to meet future running costs for non-housing services	Statement of Movement on General Fund Balance
Collection Fund	51	(15)	36	The net surplus/(deficit) retained from Council Tax receipts	The Collection Fund Statement
Pensions Reserve	(28,702)	(14,714)	(43,416)	Balancing account to allow inclusion of Pensions Liability in Balance Sheet	Note 36 above
Housing Revenue Account	5,632	569	6,201	Resources available to meet future running costs for council houses	Statement of movement on Housing Revenue Account Balance
Deferred Credits	1,091	510	1,601	Capital resources that should be received in subsequent periods.	Note 31 above
Other Reserves	8,648	1,663	10,311	Additional reserves allocated for specific purposes.	Note 29above
Total	668,705	33,845	702,550		

NOTES TO THE CORE FINANCIAL STATEMENTS

40. FINANCIAL INSTRUMENTS

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long term		Current	
	31 March 2008 £'000's	31 March 2007 £'000's	31 March 2008 £'000's	31 March 2007 £'000's
Financial liabilities (principal amount)	0	0	0	0
Categorised as:				
Financial liabilities at amortised cost	0	0	0	0
Financial liabilities at fair value in the I&E	0	0	0	0
Total debt	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Financial assets (principal amount)	10,403	13,401	47,873	40,557
Categorised as:				
Loans and receivables	10,403	13,401	47,873	40,557
Available for sale	0	0	0	0
Equity investments	0	0	0	0
Total investments	<u>10,403</u>	<u>13,401</u>	<u>47,873</u>	<u>40,557</u>

The Council has £10,279,000 (£13,277,000 in 2006/07) invested in UK banks for a period in excess of one year. The fair value of these assets at 31 March 2008 based on the PWLB premium/discount method is £10,276,000 (£13,116,000 in 2006/07).

41. CREDIT RISK

The following analysis summarises the Council's maximum potential exposure to credit risk, based on

	Amount at 31 March 2008	Historical Experience of default	Default risk judged as at 31 March 2008	Estimated maximum default
	£'000	%	%	£'000
Investments in banks and building societies (original term 1 - 5 years)				
AAA rated counterparty	5,000	0.004	0.004	0.20
AA rated counterparties	5,000	0.080	0.080	4.00
	<u>10,000</u>			<u>4.20</u>
Investments in banks and building societies (original term up to 1 year)				
AA rated counterparties	5,000	0.000	0.000	0.00
A rated counterparties	22,500	0.007	0.007	1.58
Unrated building societies	19,750	0.106	0.106	20.94
	<u>47,250</u>			<u>30.92</u>
Cash at banks				
AAA rated counterparty	2,250	0.000	0.000	0.00
AA rated counterparty	120	0.000	0.000	0.00
	<u>2,370</u>			<u>0.00</u>
Accrued interest on investments	903	0.030	0.030	0.27
Sundry debtors	3,948	20.090	20.090	793.15
Housing arrears	855	4.100	4.100	35.06
Local taxation debtors	3,630	1.760	1.760	63.89
Total	<u>68,956</u>			<u>927.49</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

No breaches of the Council's counterparty criteria occurred during the reporting period, and the Council does not expect to suffer any financial losses from default on its financial instruments.

The investments, cash at bank and accrued interest are not yet due for repayment. The sundry debtors figure of £3.948m contains £2.677m of invoiced debtors. The Council allows thirty days' credit for its invoiced debtors, meaning that £1.484m of these debtors are judged to be overdue. These can be analysed by age as follows;

	£'000
31 to 60 days	120.76
61 to 180 days	196.75
6 to 12 months	224.86
Over one year old	941.79
Total	<u>1,484.16</u>

42. LIQUIDITY RISK

The Council intends to remain debt-free for the foreseeable future. However, if the need arises, the Council has access to the money markets for short-term debt to cover revenue expenditure, and to the PWLB for longer term borrowing. The Council's short and medium term cash forecasting procedures are aimed at ensuring that sufficient funds mature at the right time to cover expenditure.

43. REFINANCING AND MATURITY RISK

The Council maintains a significant investment portfolio. Whilst the cashflow procedures cover the short and medium term cash needs, the risk in the longer term relates to the danger of having to replace a maturing long term investment at disadvantageous rates. The prudential indicator limiting the amount of funds placed in investments for terms exceeding one year is the key factor limiting this risk.

All trade creditors and debtors are due to be settled within one year. The long-term debtors comprise amounts owed by central Government, transferred debt owed by two local authorities and payments due under Council mortgages. These are considered to be low-risk payments, as central Government and local authorities are traditionally accorded low risk of default on payments, while the mortgages are secured by first charges on the proceeds of the sale of the property concerned.

44. MARKET RISK

Interest Rate Risk - The Council is exposed to interest rate movements on its investments, and has a number of strategies for managing interest rate risk. The annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. As part of this Strategy, the Council sets the prudential indicators which provides maximum and minimum limits for fixed and variable interest rate exposure.

The in-house Treasury team will monitor market and forecast interest rate movements, and will choose the most advantageous investments allowed within the limits of the Council's Treasury policies. As part of this consideration, only one investment (of £1m principal) has been invested in a variable rate deal; this is fixed at quarterly intervals to a margin over 3 month LIBOR, a rate close to the Council's benchmark rate (7 day LIBID). A 0.1% variance in this rate on one quarterly setting would result in a loss of £249 in interest - less than 0.01% of the Council's total investment income.

Price risk - The Council does not invest in equity holdings or in financial instruments whose capital value is subject to market fluctuations. It therefore has no exposure to losses arising through price variations.

Foreign exchange risk - The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

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