Report to the Council

Subject: Statutory Statement of Accounts 2007/08 Date: 26 June 2008

Report of: Director of Finance and ICT Item: 13

Explanatory Comments on the Statutory Statement of Accounts

In recent years a paper has been written to accompany the Statutory Statement of Accounts to make them more accessible, aid interpretation and highlight key issues. This year is the second year of the Accounts being presented in a very different format to that with which Members had become familiar, so part of the information below repeats the description of the changes from last year's paper. Detailed reports on the Revenue and Capital Outturns have already been made to the Finance and Performance Management Cabinet Committee and Scrutiny Panel on 16 and 17 June respectively, and Members' attention is also drawn to these reports. The Audit and Governance Committee will consider the Statutory Statement of Accounts on 23 June and any comments or issues arising will be reported separately.

The Chartered Institute of Public Finance and Accountancy (CIPFA) publishes a Statement of Recommended Practice (SORP) every year that local authorities are required to follow in producing their financial statements. Before the SORP is published the Accounting Standards Board (ASB) approves the document. In recent years the ASB has insisted that the SORP moves closer to Generally Agreed Accounting Practices (GAAP), so that public sector financial statements more closely resemble those prepared in the private sector.

In previous years the focus of the Statement of Accounts has been the Consolidated Revenue Account, which had the dual role of setting out the authority's financial performance and determining the net expenditure to be charged against council tax in the year. The new statements now required by the SORP disaggregate the Consolidated Revenue Account (and the old Statement of Total Movements on Reserves) to produce a set of statements which each have a single clear objective:

- Income and Expenditure Account – a summary of the resources generated and consumed by the authority in the year.

- Statement of the Movement on the General Fund Balance – a reconciliation showing how the balance of resources generated/consumed in the year links in with the statutory requirements for raising council tax.

- Statement of Total Recognised Gains and Losses – demonstration of how the movement in net worth in the Balance Sheet is identified to the Income and Expenditure Account surplus/deficit and to other unrealised gains and losses.

The above are described as core financial statements as all local authorities are required to produce them. There are two other core statements, the Balance Sheet and the Cashflow Statement. The Balance Sheet lists what the Council owns, what is owed to the Council and what the Council owes to others. The Cashflow Statement summarises the movements in assets, liabilities and capital that have taken place during the year and their effect on the Council's holdings of cash. Neither the Balance Sheet nor the Cashflow Statement required direct amendment to comply with the SORP.

Introduction and Explanatory Foreword (pages i to vii)

The introduction considers the Council's financial position, picks up the main variances from the outturn reports and comments on some future issues.

Key Issues

- The Government announced the results of their Comprehensive Spending Review and EFDC will only get grant increases of 1% (2008/09) and 0.5% (2009/10 and 2010/11).
- The Council has remained debt free and has substantial capital reserves, so there should be no need to borrow in the medium term.
- Revenue accounts achieved higher surpluses than had been anticipated.
- Some capital projects have been subject to delay and the resources carried forward to the next financial year.
- There was a significant capital receipt in the year from the sale of the T11 site.
- Items that will impact on the Council in the future include:
    a) Low grant increases;
    b) Safer, Cleaner, Greener initiative and possible changes to waste/recycling services;
    c) Changes to concessionary fares schemes; and
    d) Review of customer contact arrangements.

Statement of Accounting Policies (pages 1 to 6)

This statement sets out how the figures in the accounts have been arrived at. There have been some changes this year and the changes are explained both in this statement and in the accounts where the changes have impacted on the figures reported.

Income and Expenditure Account (page 7)

This account is a summary of the resources generated and consumed by the authority in the year. As stated above, this is only the second time this statement has been produced. Whilst not wishing to underplay the importance of this statement, it is vital that anyone looking at it does not concentrate on the reported deficit and jump to any conclusions. The actual impact on reserves of the year's income and expenditure is set out in the next statement.

Key Issues

- The Net Cost of Services for the year was £24.6 million, an increase of 5% on 2006/07.
- Total Net Operating Expenditure for the year was £25.5

- million, a reduction of 5% on 2006/07.
- The Deficit for the year was £5.6 million, a reduction of 27% on 2006/07.

Even though this is the second time this statement has been prepared it is still more useful for those analysing the figures from a theoretical view than a practical one. Comparisons between the two years will be more helpful to readers of the accounts than examining the deficit resulting from the requirements of private sector accounting policies that are ultimately reversed.

Statement of Movement on General Fund Balance (page 8)

This is a reconciliation showing how the balance of resources generated/ consumed in the year links with the statutory requirements for raising council tax. As such it is effectively what brings the output from the Income and Expenditure Account back to reality. Several of the figures in the Income and Expenditure Account are prepared on a different basis to that required to get to amounts that are actually chargeable to the council tax, a total of all the individual adjustments is given by the net additional credits figure of £6.3 million.

Key Issues

- A surplus of £701,000 was generated in the year and this has been added to the General Fund Balance.
- The outturn on the General Fund was £585,000 better than anticipated in the revised estimates.

Statement of Total Recognised Gains and Losses (page 9)

This statement is a demonstration of how the movement in net worth in the Balance Sheet is identified to the Income and Expenditure Account surplus/deficit and to other unrealised gains and losses. Or more simply, the statement shows the movement between the two balance sheet totals.

Key Issues

- The net worth (balance sheet total) has increased by £33.8 million.
- The increase arises from a surplus on the revaluation of fixed assets of £53.4 million, with this figure being partially offset by the deficit on the Income and Expenditure Account of £5.6 million and an increase of £14.6 million in pension liabilities.

Balance Sheet (page 10)

This lists what the Council owns, what is owed to the Council and what the Council owes to others as at 31 March 2008. This produces a figure known as Total Assets less Liabilities, which is matched by the amounts shown as Reserves.

Key Issues

- The biggest figure on the balance sheet is fixed assets, which has increased from £648 million as at 31 March 2007 to £691 million as at 31 March 2008. This increase is due to revaluations of £53.4 million on some of the Council's properties. During the year £8.9 million was spent on additions to fixed assets and £9.5 million of fixed assets were sold.

- The next largest asset is investments (both long and short term), this is money invested with selected financial institutions. Total investments at the year-end were £57.4 million, an increase of £4.25 million.
- Debtors have increased from £5.9 million to £7.6 million; and there is concern that with the general economic downturn it will become more difficult to maintain good collection rates.
- The largest liability on the balance sheet is the Pensions Liability of £43.4 million. This shows the extent of the Council's liability if the pension fund was to close on 31 March 2008. The increase in the year of £14.7 million is due to lower than expected investment returns and an increase in pensioner's life expectancy. It does not mean that this full liability will have to be paid over in the near future.
- Creditors have increased from £8.5 million to £10.7 million; this is due to an increase of £2.6 milion in accruals. This increase was caused mostly by delays in agreeing payments due to the waste management contractors.
- The Council has substantial revenue reserves on both the General Fund (£7.5 million) and the Housing Revenue Account (£6.2 million).

Cash Flow Statement (page 11)

This summarises the movements in assets, liabilities and capital that have taken place during the year and their effect on the Council's holdings of cash.

Key Issues

- During the year cash balances increased by £1,003,000.
- The largest payments out of cash in the year were £66.2 million in precepts and £26.7 million to the National Non-Domestic Rate Pool.
- The largest receipts of cash in the year were £66.3 million of Council Tax and £33.8 million from the Department for Work and Pensions to fund benefit payments.

Notes to the Core Financial Statements (pages 12 to 34)

In previous years the notes for a particular statement had immediately followed that statement. Since last year all of the Core Statements have been presented together followed by all of the notes. The additional information contained in the notes has been cross-referenced on the face of each Core Statement.

Housing Revenue Income and Expenditure Account and Notes (pages 35 to 40)

The Council is required to keep a separate account of all income and expenditure that relates to the provision of council housing. In common with the main Income and Expenditure Account comparisons can now be made between the financial years, although care needs to be exercised when looking at the deficit. The HRA also has a Statement on the Movement on HRA Balance to link the theoretical figures of the Income and Expenditure Account back to the practical movement on the balance.

Key Issues

- For the financial year 2007/08 the Income and Expenditure Account shows a deficit of £0.6 million.
- Despite the deficit mentioned above the HRA actually had a surplus of £0.6 million, with the outturn being very close to the revised estimate.
- There were 28 sales during the year but there are still 6,599 dwellings managed by the Council.

Collection Fund and Notes (pages 41 to 43)

This shows the income and expenditure for the 2007/08 financial year of the Council as a billing authority in relation to the collection and distribution of the Council Tax and Non Domestic Rates. The Council Tax paid by the residents of the Epping Forest District is shared between a number of different organisations:

Essex County Council	73.2%
Epping Forest District Council	10.1%
Essex Police Authority	8.5%
Essex Fire Authority	4.4%
Parish/Town Councils	3.8%

Key Issues

- Collection rates for both Council Tax (98.07%) and Non Domestic Rates (98.41%) were down slightly (previously 98.20% and 99.01% respectively), although given the worsening economic climate this was not surprising.
- Council Tax income was £74.1 million, of which £7.5 million was retained by EFDC and £2.8 million passed on to Town and Parish Councils.
- Non Domestic Rate income was £26.9 million. EFDC was allowed to retain £171,000 to help pay for the costs of collection and received £7.8 million of funding back from the National NDR Pool.