Report to the Council

Subject: **Statutory Statement of Accounts 2009/10** **Date:** **29 June 2010**

Report of: **Director of Finance and ICT** **Item:** **13**

Recommendation of the Audit and Governance Committee

1. The Audit and Governance Committee considered the draft Statutory Statement of Accounts on Monday 21 June. At that meeting Members raised a number of questions and answers were provided to all of those questions. The wording on Note 11 Related Party Transactions was amended to make it clear that the payments listed are to the organisations detailed in the Note not to the Members associated with the organisations. The Audit and Governance Committee decided to recommend the Statutory Statement of Accounts for adoption by Council.

2. The Audit and Governance Committee also considered the draft Annual Governance Statement, which is normally presented with the Statutory Statement of Accounts. Members felt that part of the draft Statement should be re-worded, a view endorsed by the external auditor, and an amended version of the Statement presented to the next meeting of the Committee. Therefore the Committee were unable to recommend the Statement as drafted to Council and it has not been included with the Statutory Statement of Accounts at this time.

Explanatory Comments on the Statutory Statement of Accounts

3. This paper accompanies the Statutory Statement of Accounts to make them more accessible, aid interpretation and highlight key issues. Detailed reports on the Revenue and Capital Outturns have already been made to the Finance and Performance Management Scrutiny Panel and Cabinet Committee on 10 and 14 June, and Member's attention is also drawn to these reports.

4. The Chartered Institute of Public Finance and Accountancy (CIPFA) publish 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.

5. In previous years the Statement of Accounts included a 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 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.

6. 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.

<u>Introduction and Explanatory Foreword (pages i to ix)</u>

7. 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

- There are some signs of a limited recovery in the economy:
  a) increases in income, some from property related activities;
  b) increases in the value of housing assets; and
  c) improved predicted return on the money held as part of the administration of the Heritable Bank.
- The Council has remained debt free and has substantial capital reserves, so there should be no need to borrow in the medium term.
- The General Fund Revenue Account achieved a lower deficit than had been anticipated and the Housing Revenue Account returned a small surplus instead of the estimated small deficit.
- Some non-housing capital projects have been subject to delay and the resources carried forward to the next financial year. Where there was anticipated slippage on the housing programme other schemes were accelerated to balance the housing programme overall.
- There were no surplus land disposals but some proposals for development have emerged. Thus there were no significant capital receipts in the year and council house sales increased slightly to 9, from 7 in 2008/09.
- Items that will impact on the Council in the future include:
  a) the overall state of the pubic finances will lead to significant reductions in Government grant;
  b) the next Comprehensive Spending Review (2011/12 to 2014/15) will move the responsibility for concessionary fares and in so doing necessitate major changes to the grant formulae.
  c) the HRA subsidy system may change and the Council

could be forced to take on £200 million of debt; and

d) reform of the Local Government Pension scheme.

8. The creditor progress report issued by the Heritable administrators (Ernst & Young) on 28 January 2010 projected an increase in the return to creditors from 80p to 85p in the £. Therefore, the accounts include an impairment based on recovering 85p in the £. In normal circumstances the impairment would be charged to the Income and Expenditure Account and impact on the General Fund Balance. However, in view of the overall uncertainty about the timing and ultimate levels of recovery from the various administrations, the previous government encouraged authorities to postpone until 2010/11 the impact on budget calculations of the impairments. The necessary adjustments to account for the impairment have been included in the 2010/11 budget.

Statement of Accounting Policies (pages 2 to 7)

9. This statement sets out how the figures in the accounts have been arrived at. There have been few changes this year and where a change has occurred the changes are explained both in this statement and in the accounts where they have impacted on the figures reported.

Income and Expenditure Account (page 8)

10. This account is a summary of the resources generated and consumed by the authority in the year. 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 £20.5 million, less than half the £57.0 million for 2008/09.
- Total Net Operating Expenditure for the year was £24.2 million, again less than half the £60.6 million for 2008/09.
- The Deficit for the year was £3.9 million, less than a tenth of the 2008/09 deficit of £40.4 million.

11. Even though this is the fourth time this statement has been prepared it is still more useful for those analysing the figures from a theoretical view than a practical one. Previously I have stated that 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, and so have no effect on the Council Tax. However, even that aspect was limited for 2008/09 as the ability to compare was reduced by the effect of charging £32.2 million to the account as part of the process to reflect lower asset values.

Statement of Movement on General Fund Balance (page 9)

12. 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 £3.7 million (2008/09 £41.4 million).

Key Issues

- A deficit of £135,000 occurred in the year and this has reduced the General Fund Balance.
- The outturn on the General Fund was £702,000 better than anticipated in the revised estimates.

Statement of Total Recognised Gains and Losses (page 10)

13. 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 £31 million.
- The increase arises from a surplus on the revaluation of fixed assets of £48.4 million and other gains of £0.2 million; these gains are partially offset by an increase of £13.8 million in pension liabilities and the deficit on the Income and Expenditure Account of £3.9 million.

Balance Sheet (page 11)

14. This lists what the Council owns, what is owed to the Council and what the Council owes to others as at 31 March 2010. 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 £605 million as at 31 March 2009 to £656 million as at 31 March 2010. This increase is due to net upward revaluations of £41 million on the Council's housing properties. During the year £12 million was spent on additions to fixed assets and £0.8 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 £33.8 million, a decrease of £23 million, although this is off set by a £9.2 million increase in cash.
- Debtors have increased from £4.2 million to £12 million. Increases of £7.1 million in amounts due from Government and £0.7 million in sundry debtors are the main changes. The Council is owed money by the Government for benefit payments and non-domestic rates, as these payments are made on account with the actual expenditure being claimed after the year end. Last year the Council owed money to the Government.
- The largest liability on the balance sheet is the Pensions Liability of £56.5 million, up by £15 million. Despite the recovery improving assets values in the scheme by 36%, changes in the actuarial assumptions used have increased the projected liabilities by even more. The scheme actuary

(Mercer) has advised that the assumptions used as at 31 March 2010 are more conservative, driven by the yields on corporate bonds falling. The balance sheet shows the extent of the Council's liability if the pension fund was to close on 31 March 2010. It does not mean that this full liability will have to be paid over in the near future.

- Creditors have reduced from £9.7 million to £6.4 million. The largest reductions are in accruals £1.9 million and amounts owed to the Government £0.8 million. The fall in accruals is primarily due to the contract payments for the waste service being more upto date in 2009/10.
- The Council has substantial revenue reserves on both the General Fund (£8.3 million) and the Housing Revenue Account (£6.1 million).

<u>Cash Flow Statement (page 12)</u>

15. 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 £7.9 million.
- The net cash flow from revenue activities was £4.6 million, compared to -£5.6 million in 2008/09, the largest single movement contributing to this being the increase in revenue debtors.
- The net cash flow from capital activities was £952,000, compared to £6.8 million in 2008/09, this was partly due to £4.8 million more being spent on the purchase of fixed assets.

<u>Notes to the Core Financial Statements (pages 14 to 43)</u>

16. In previous years the notes for a particular statement have immediately followed that statement. Now all of the Core Statements are 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.

<u>Housing Revenue Income and Expenditure Account and Notes (pages 44 to 50)</u>

17. 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 2009/10 the Income and Expenditure Account shows a deficit of £1.1 million.
- Despite the deficit mentioned above the actual HRA surplus was £8,000.
- There were 9 sales during the year but there are still 6,584 dwellings managed by the Council.

Collection Fund and Notes (pages 51 to 53)

18. This shows the income and expenditure for the 2009/10 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	73.0%
Epping Forest District Council	10.0%
Essex Police Authority	8.8%
Essex Fire Authority	4.5%
Parish/Town Councils	3.7%

Key Issues

- Collection rates for both Council Tax (97.48%) and Non Domestic Rates (97.56%) were down slightly (previously 97.6% and 97.58% respectively), as both individuals and businesses are clearly still experiencing difficulty paying their bills.
- Council Tax income was £79.4 million, of which £7.9 million was retained by EFDC and £2.9 million passed on to Town and Parish Councils.
- Non Domestic Rate income was £30.3 million. EFDC was allowed to retain £173,000 to help pay for the costs of collection and received £7.6 million of funding back from the National NDR Pool.