Report to the Audit and Governance Committee

Report reference: AGC - 2012/13
Date of meeting: 24 September 2012

Epping Forest District Council

Portfolio: Finance and Technology

Subject: Statutory Statement of Accounts 2011/12

Officer contact for further information: Bob Palmer (01992 - 56 4279)

Democratic Services Officer: Gary Woodhall (01992 – 56 4470)

Recommendations/Decisions Required:

That a report be submitted to the Council recommending that the Statutory Statement of Accounts for 2011/12 be adopted.

Executive Summary:
One of the key roles of this Committee is scrutinising the annual Statutory Statement of Accounts. All Members of the Council will have the opportunity to debate the Accounts at Full Council and part of that debate will be to consider the recommendation of this Committee.

It is anticipated that the audit will be completed shortly and that the Statutory Statement of Accounts will be presented to Council on 27 September. There is a separate report elsewhere on the agenda that sets out the key findings of the audit.

The changes to the annual Statutory Statement of Accounts for 2011/12 are relatively modest compared to those necessary for compliance with International Financial Reporting Standards (IFRS) in 2010/11. To assist Members with their consideration of the Accounts a report follows together with the Accounts themselves.

Reasons for Proposed Decision:
It is important that this Committee scrutinises the annual Statutory Statement of Accounts so that residents and other Members can have confidence in the Accounts.

Officers have exercised their professional judgement and liaised closely with external experts and the External Auditor to produce the Statutory Statement of Accounts. If Members are satisfied with the content of this report and the verbal responses to any questions raised, they are requested to recommend the Statutory Statement of Accounts for adoption by Full Council on 27 September.

Other Options for Action:
The Committee could decide that the accounts should be amended or expanded prior to them being presented to Full Council.

Report:

1. The Accounts and Audit Regulations require Full Council or an Executive Committee to adopt the Council's Statement of Accounts before the end of September. The Council's constitution reserves the adoption of the Accounts to Full Council only. However, prior to Council considering the accounts it is important that they have been subject to Member

scrutiny. This Committee has scrutinised the Statement of Accounts for the previous five years.

2. The consideration of the Statement of Accounts is contained in the Terms of Reference of this Committee, the relevant parts being:

(h) To review financial statements, including the Council's Statement of Accounts, External Auditor's opinion and reports to members, and monitor management action in response to the issues raised by External Audit.

(i) Review, and challenge where necessary, the actions and judgements of Management, in relation to the Council's Statement of Accounts, paying particular attention to:

- (i) critical accounting policies and practices, and any changes to them;
- (ii) decisions requiring a major element of judgement;
- (iii) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
- (iv) significant adjustments resulting from the audit; and
- (v) any material weakness in internal control reported by the Internal or External Auditor.

Changes to the Contents of the Statutory Statement for 2011/12

3. There have been no significant changes in content this year to either the main accounting statements or their accompanying notes. One additional note has been added for Heritage Assets.

4. The concept of Heritage Assets was introduced by the accounting standard FRS 30. A heritage asset is defined as an asset that is maintained principally for the contribution it makes to knowledge and culture. In the case of the Council the museums service hold a number of artefacts that fall within this definition. The Code also states that such assets should be recognised where the authority has information on the cost or value of the assets but where this is not available a note to that effect should be included. This is a change of policy and as a result the Balance Sheet has been restated, including the opening Balance Sheet for 2010/11, to reflect those assets where a value is available. However the amount is not material to the accounts themselves and therefore not all the disclosures required by the code have been made.

5. The effect on the Balance Sheet has been to reduce the value of Property, Plant and Equipment by £24,000, due to the reclassification of the Epping Fountain as a Heritage Asset, and add Heritage Assets as a new Long Term Asset with a net value of £543,000. This has had the net effect of increasing Total Assets less Liabilities by £519,000. This is mirrored on the bottom half of the Balance Sheet by an increase of £519,000 in Unusable Reserves.

Critical accounting policies and practices, and any changes to them

6. There have been no significant changes in accounting policies and practices during the year. The accounting policies are set out on pages 9 to 15 of the Accounts.

Decisions requiring a major element of judgement

7. In preparing a set of accounts at a point in time it is inevitable that some of the information required will not yet be available. If an actual amount is uncertain an estimate is used. The estimate will be based on the assessment of information available at the time the accounts are closed. When the actual figures are determined any difference is usually accounted for in the following year. If the estimate was wrong by a material amount it would be necessary to consider re-stating the figures, this is extremely rare.

8. Two of the additional notes introduced by IFRS last year are relevant here, note 3 “Critical judgements in applying accounting policies” and note 4 “Assumptions made about the future and other major sources of estimation uncertainty”. The key critical judgement highlighted in note 3 is that the Council does not currently need to close facilities or significantly reduce levels of service provision. If this were not the case it would be necessary to consider any assets that would be affected and any consequent impairment of their values.

9. Three areas are covered by note 4, these are firstly property, plant and equipment, secondly pensions liability and finally arrears. The assumption made on property, plant and equipment is that assets will continue to be maintained so as to maximize their useful lives. If this were not to be the case additional depreciation would need to be charged. In reviewing arrears an estimate has to be made to allow for bad debts and, whilst a prudent view is taken in making this calculation, if the economic climate were to worsen significantly the charge to the CIES would increase.

10. The substantial annual fluctuations in the pension’s liability make clear the element of judgement exercised by the actuary in establishing the pension figures. The largest creditor on the Balance Sheet is the Council’s liability to the pension fund. The Balance Sheet shows that the pension liability for the Council has increased in the year from £46.3 million to £65.6 million. The value of the scheme assets has increased during the year but the projected liabilities have increased by even more. The main factor in increasing the scheme’s liabilities has been the change in discount rate for future outgoing cash flows. This discount rate has reduced from 5.5% to 4.6%, causing increases in liabilities for Essex authorities ranging from 13% to 25%. The increase is all the more noticeable this year as the value of our liabilities had been reduced by over £9 million in the previous year.

11. The following table is included to illustrate how the overall deficit has fluctuated over time, part of this volatility may be due to the change in actuaries during the year from Mercer to Barnett Waddington.

	2011/12 £’m	2010/11 £’m	2009/10 £’m	2008/09 £’m	2007/08 £’m
Liabilities	(150.8)	(130.1)	(139.2)	(102.3)	(120.4)
Assets	85.2	83.8	82.7	60.8	76.9
Deficit	(65.6)	(46.3)	(56.5)	(41.5)	(43.5)

12. The inclusion of this amount in the Balance Sheet shows the extent of the authority’s liability if the pension fund was to close on 31 March 2012. It does not mean that this full liability will have to be paid over to the pension fund in the near future.

13. There are no other areas in the Statement of Accounts to bring to Member’s attention as having required a major element of judgement. Where it has been necessary to exercise judgement in the interpretation of the Code of Practice advice has been sought from CIPFA and staff have liaised closely with both the External Audit Manager and other Essex authorities.

The extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed

14. Where a transaction has been separately disclosed as an Exceptional Item it clearly needs to be mentioned in this section. Last year the Council received a substantial VAT refund relating to over declared VAT and interest on output tax charged on sports tuition between 1 January 1978 and 31 December 1989. A number of authorities across the country made similar claims and Members may have seen them described in the press as “Fleming Claims”. The claim produced a net benefit of £714,000. This year a further net refund of £253,000 has been agreed in relation to trade waste for the period from 1 April 19738 to 30 November 1996.

15. The other exceptional item in the accounts is the borrowing of £185,456,000 from the Public Works Loan Board in order to pay an equivalent amount over to the Department for Communities and Local Government. This payment was the amount prescribed as payable on the cessation of the Housing Revenue Account Subsidy regime on 31 March 2012. The payment is of a capital nature but as it neither creates nor improves an existing asset the payment is written off to the Comprehensive Income and Expenditure Statement in the year of payment. This item is reversed out within the Adjustments Between Accounting Basis and Funding Basis under Regulation as it is not funded from revenue resources. The 30 year business plan for the HRA shows that overall this transaction will bring significant benefits to the HRA, as annual payments into the subsidy pool of £11.3 million have been replaced by interest payments of £5.5 million.

Significant adjustments resulting from the audit

16. Any significant adjustments that are made to the Statement of Accounts will be reported to this Committee, none have arisen so far for 2011/12.

Any material weakness in internal control reported by the Internal or External Auditor

17. The weakness reported in 2010/11 of Senior Benefit Officers failing to perform the required amount of checking was still not fully resolved in 2011/12. However, no material errors arose as a result of this.

Resource Implications:
The Accounts set out the resource implications of the Authorities activities for 2011/12. The recommendation of the Accounts to Full Council does not in itself have any resource implications.

Legal and Governance Implications:
Full Council must approve the Accounts before the end of September and as part of the overall governance framework the Accounts should be subject to Member scrutiny prior to their approval.

Safer, Cleaner and Greener Implications:
There are no environmental implications.

Consultation Undertaken:
None.

Background Papers:
Reports on the revenue and capital outturns to the Finance & Performance management Cabinet Committee on 25 June 2012.

Impact Assessments:
There are no equalities or risk management impacts.