

## Supplementary Papers to Accompany the Statutory Statement of Accounts

1. Some of the responses from the Audit Commission on queries raised by the Head of Finance with them on the draft Statutory Statement of Accounts were only received on Monday 18 June. This has necessitated a number of changes to the draft that is on the agenda for the Audit and Governance Committee meeting on 25 June. In view of these changes and other items that have arisen in checking the first draft the attached revised draft has been issued. Members are requested to bring these documents with them to the Audit and Governance Committee meeting on 25 June and Council on 28 June.

## Explanatory Comments on the Statutory Statement of Accounts

2. Last year a paper was written to accompany the Statutory Statement of Accounts to make them more accessible, aid interpretation and highlight key issues. This year a similar paper is even more necessary as there have been substantial changes to the accounts. These changes are discussed below before moving on to this year's statements themselves. Detailed reports on the Revenue and Capital Outturns have already been made to the Finance and Performance Management Cabinet Committee on 18 June and Members attention is also drawn to these reports. The Audit and Governance Committee will consider the Statutory Statement on 25 June and any comments or issues arising will be reported separately.
3. 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. This year the appearance and contents of the financial statements have changed considerably and as part of this process it has been necessary to re-state some of the figures previously reported for 2005/06.
4. 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.

5. 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. Whilst the Balance Sheet itself did not need direct amendment to comply with the SORP some items have had to be re-stated on the Balance Sheet because of the changes to the other core statements (full details for re-stated amounts are given in the relevant statements). Similarly no direct changes were required to the Cashflow Statement, which 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.

#### 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 have delayed announcing the results of their Comprehensive Spending Review and so the level of Government grant for 2008/09 is not yet known.
  - The Council has remained debt free and has been allowed to keep £1 million of capital receipts that would otherwise have been paid over to the Government.
  - Revenue accounts achieved surpluses instead of the predicted deficits, with salary savings again making a major contribution.
  - 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 Parade Ground site.
  - Items that will impact on the Council in the future include:
    - a) Outcome of the Comprehensive Spending Review;
    - b) Top Management Review;
    - c) Award of a new long term waste management contract; and
    - d) Changes to concessionary fares schemes.

#### Statement of Accounting Policies (pages 1 to 5)

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

#### Income and Expenditure Account (page 6)

This account is a summary of the resources generated and consumed by the authority in the year. As stated above this is the first time this statement has been produced and it has been necessary to re-state the 2005/06 figures using the treatments that the Council is now required to apply for 2006/07. 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 £23.4 million.
  - Total Net Operating Expenditure for the year was £26.9 million.
  - The Deficit for the year was £7.6 million.

It is hoped that in subsequent periods the usefulness of this statement will become clearer and it will be possible to offer more purposeful comments on it.

#### The Statement of Movement on General Fund Balance (page 7)

This is a reconciliation showing how the balance of resources generated/consumed in the year links in with the statutory requirements for raising council tax. As such it is effectively what brings the output from the new 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 £7.9 million.

- Key Issues
- A surplus of £305,000 was generated in the year and this has been added to the General Fund Balance.
  - The outturn on the General Fund was £807,000 better than anticipated in the revised estimate.

#### Statement of Total Recognised Gains and Losses (page 8)

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 £27.5 million.
  - The increase arises from a surplus on the revaluation of fixed assets of £28.6 million, with other gains and losses largely netting off against each other.

#### Balance Sheet (page 9)

This lists what the Council owns, what is owed to the Council and what the Council owes to others as at 31 March 2007. 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 £635 million as at 31 March 2006 to £648 million as at 31 March 2007. This increase is largely due to the revaluation of council dwellings and other land and property. During the year £8.9 million was spent on additions to fixed assets whilst some £15.4 million of assets were disposed of.
  - 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 £53.1 million, an increase of some £10 million.

- Debtors have reduced from £6.8 million to £5.9 million; this is good as it illustrates a further improvement in collection rates.
- The largest liability on the balance sheet is the Pensions Liability of £28.7 million, which has reduced by £6.4 million. This shows the extent of the Council's liability if the pension fund was to close on 31 March 2007. It does not mean that this full liability will have to be paid over in the near future.
- Creditors are very similar to last year at £8.5 million.
- The Council has substantial revenue reserves on both the General Fund (£6.8 million) and the Housing Revenue Account (£5.6 million).

#### Cash Flow Statement (page 10)

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 decreased by £266,000.
  - The largest payments out of cash in the year were £62.6 million in precepts and £27.2 million to the National Non-Domestic Rate Pool.
  - The largest receipts of cash in the year were £63.2 million of Council Tax and £32.1 million from the Department for Work and Pensions to fund benefit payments.

#### Notes to the Core Financial Statements (pages 11 to 28)

In previous years the notes for a particular statement had immediately followed that statement. Now all of the Core Statements have to be 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 29 to 35)

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, it has been necessary to produce the Housing Revenue Account using different accounting treatments for 2006/07 and re-state the figures for 2005/06. This means that the HRA now 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 2006/07 the Income and Expenditure Account shows a deficit of £2.9 million.
  - Despite the deficit mentioned above the account had a surplus of £33,000 on the year. The outturn was £538,000 better than the revised estimate.
  - There were 46 properties sold during the year but there are still 6,627 dwellings managed by the Council.

### Collection Fund and Notes (pages 36 to 38)

This shows the income and expenditure for the 2006/07 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 for 2006/07 was shared in the following proportions between a number of different organisations:

Essex County Council	73.1%
Epping Forest District Council	10.3%
Essex Police Authority	8.5%
Essex Fire Authority	4.4%
Parish/Town Councils	3.7%

- Key Issues
- Collection rates for both Council Tax (98.20%) and Non Domestic Rates (99.01%) were up again (previously 98.02% and 98.86% respectively).
  - Council Tax income was £70.6 million, of which £7.2 million was retained by EFDC.
  - Non Domestic Rate income was £27.3 million. EFDC was allowed to retain £169,000 to help pay for the costs of collection and received £7.2 million of funding back from the National NDR Pool.