

**Council Meeting 21 July 2009 – item 8 (iii)**  
**Matter referred from Performance Select Committee on 30 June 2009**

PS18

**STATEMENT OF ACCOUNTS 2008/09**

The Chairman said Members of the Committee had attended a briefing immediately before this meeting, in order to understand the detail of the Statement of Accounts.

The Chief Finance Officer introduced the report on the Statement of Accounts 2008/09. The results of the financial year had been approved by the Finance and Administration Committee on 25 June. The accounts were subject to external audit, which would be reported to Members; and the accounts would be re-presented if there were any material adjustments. The report recommended that Members approve the draft Statement of Accounts; approve the Annual Governance Statement for publication; and request that Full Council on 21 July note the decisions of the Committee. The finalised accounts would be published in September.

Finance and Administration Committee had considered the question of which Committee should approve the Statement of Accounts. The correct forum according to the Council's constitution was Performance Select Committee. The process would be reviewed next year.

As a general point, the Chief Finance Officer said there had been an underspend in both the General Fund and Housing Revenue Account. The reasons for the underspends had been considered at Finance and Administration Committee.

The Chief Finance Officer drew attention to various sections of the report, as follows:

**Landsbanki deposit** (paragraph 3.2): CIPFA guidance was likely to change over the course of the summer. The percentage of the deposit assumed to be recoverable was likely to be 83%, that is, less than the 95% stated in the report.

**'Tidying up'** by writing off certain historical items (3.6): this procedure ensured discrepancies were addressed.

**Bad debt risk** (3.7): it was some years since a review of bad debt provisions had been carried out. In view of recessionary pressures, a more pessimistic approach had been taken, and appropriate charges had been made to the Income and Expenditure Account and Collection Fund.

**Audit opinion** (pages 12 and 13): the Independent Auditor's report would be supplied in September.

**Income and Expenditure Account** (page 24): notional items (such as fixed asset impairment) had been included where this was a CIPFA requirement in order to ensure standardisation and comparability with other councils. The notional figures were then reversed out elsewhere in the account.

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**Balance sheet and cash flow statement** (pages 26 and 27): earmarked reserves showed increase of approximately £1.5 million, and there was an increase in the bank balance. Both were reasonable indicators of healthy liquidity.

**Landsbanki – financial instruments adjustment account** (page 48): a discount was applied to reflect the assumption that money in the future was worth less than in the present.

**Pension Fund** (page 51): the Council's share of the Pension Fund deficit was £16 million.

The Chairman thanked the Chief Finance Officer for what was a comprehensive and helpful report, and congratulated him and his colleagues on completing this task on time. He invited Members to consider the draft Statement of Accounts by taking a section at a time, and to raise questions.

Points of discussion were as follows:

**Income and expenditure account** (page 24): it was noted that every council had to align its services under the standard headings, even where this Council did not perform such a function, eg social services.

**Landsbanki** (page 5): Members noted the further cost to the Council arising from the reduction of the percentage of the deposit likely to be recoverable from Landsbanki to 83%. In response to a question from the Chairman, the Senior Audit Manager confirmed that the Council's strategy as set out was acceptable and that the Audit Commission would not look upon it unfavourably if the accounts were restated to reflect revised CIPFA guidance.

The Chief Finance Officer explained it would be only in 2010/11 that a permanent adjustment would be put through the Accounts. He said it was prudent to maintain the contingency fund in line with CIPFA guidance at the level of impairment. The figure of 83% could still change, therefore when the Statement of Accounts was finalised in September, regard would be had to the latest CIPFA advice.

**Items written off** (page 7): the three paragraphs detailing items to be written off the Income and Expenditure Account comprised three separate items. The Chairman requested as an action point that officers circulate to Members a list of the individual items making up the one-off reduction in expenditure of £300,000.

**VAT Fleming Claim** (page 50): officers explained the claim was being managed by consultants on a 'no win, no fee' basis. Where the Council did not have the capacity to carry out such reviews, this approach was, in principle, appropriate. The Chairman asked for a report for the July meeting, as an action point, covering other areas which could benefit from 'no win, no fee' arrangements.

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Councillor Yarwood asked whether the Senior Audit Manager would confirm the accuracy of what was set out for Members. With the proviso that the final check was yet to be carried out, the Senior Audit Manager said that the information was set out with clarity and detail, and read very well.

**Asset impairment** (page 6): the Chief Finance Officer said Members should expect a sharp increase in the deficit in asset values. In terms of a housing stock transfer, it was obvious that the climate was not right.

A full update on the MTFs would be given at the September meeting of the Finance and Administration Committee.

**Bad debt risk** (page 7): Councillor Barker said she was surprised there was not a great increase in bad debt provision for council home rent. Officers explained that housing rents provision had been reviewed. The rent collection service was performing well, and the increase of about 25% was therefore considered reasonable. Members went on to discuss the challenges of collecting council tax. Until written off, council tax debts were actively chased, despite an assumption in the Accounts that those debts dating up to 2004 would not be pursued.

**Housing Revenue Account** (page 9): Councillor Barker requested explanation of an overspend of £229K listed under 'Other items'. Officers agreed as an action point to provide full details of variances to Members.

**Capital Receipts** (page 10): the proposed sale of the Great Dunmow office was noted.

**Leases** (page 21): the Chief Finance Officer confirmed leases were now being treated consistently with the actuarial method introduced the previous year. He hoped the Audit Commission would agree with this approach.

**Section 52 monies** (Statement of total recognised gains and losses – page 25): Members asked for an explanation of this item. Officers explained that this was a re-categorisation of a historic balance sheet item, which necessitated changing the balance.

Councillor Eden remarked on the dominance of housing in the Accounts, since if it were to be excluded, it could be inferred that the Council had a negative balance sheet. He asked whether this would be a significant factor in making any decision about the housing stock.

The Chief Finance Officer replied that there were indeed councils which had a negative balance sheet for this reason. However, any decision on housing stock should be made on strategic business case grounds, rather than on its notional effect on the balance sheet.

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Councillor Eden noted that of earmarked reserves, a significant part might not be available next year if a proportion of the Landsbanki deposit was not recovered. He asked what level of reserves was recommended in view of that risk.

The Chief Finance Officer said that whilst earmarked reserves were set aside in order to meet aspirations and pressures, the General Fund Working Balance was more crucial. He advised maintaining a level of 2% of gross expenditure and 2% of gross income. Furthermore, there was discretion in the MTFS to top up reserves. However, it was for Council to decide whether to accept this advice. Whilst he would not recommend over-caution, he considered the General Fund Working Balance would be kept at this level or slightly higher in future years.

**Members' allowances** (page 31): the Chairman noted the increase in Members' allowances was above inflation, and asked for a breakdown of figures, as an action point. Officers would circulate an analysis.

**Other Funds – Fairycroft Car Park** (page 50): Councillor Barker queried a discrepancy between figures showing a reduction in the value of this car park, as against an increase in income from car park spaces of 20%. An action point was noted that officers would supply details.

**Asset management** (page 35): the Chairman requested information on the strategy for asset management. The Director of Central Services said officers had met with Essex County Council representatives on 16 June to continue discussions, and were now awaiting a final proposal. A report would be prepared in due course.

**Expected rates of return on assets** (page 53): Councillor Eden asked for an explanation regarding the significant revision to expected returns to assets. The Chief Finance Officer said the information on this section had been supplied by the County Council's actuary, and the Council had little choice but to accept the figures. Along with a number of other CFOs in Essex, he had queried some of the figures and had received explanations. If those estimates did prove optimistic, the deficit would increase.

Members were therefore concerned that the Council was committed to something over which it had no control. Officers advised that a possible route to express such concern was via the governing body. The Senior Audit Manager said Essex pension funds were audited by the Audit Commission, and therefore an additional assurance was provided, as the Audit Commission had access to its own actuaries.

Councillor Yarwood said he was not happy that the statement regarding returns on equities was accurate, as these rates did not reflect what such returns were at the moment.

The Chairman said it was important for Members to understand more about the impact of these figures, and asked for questions to be put to the

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Council's representative. Councillor Barker suggested the matter be raised with the Chairman of the County Council Pensions Steering Group.

Councillor Yarwood said the pensions fund was a fundamental issue, as we had a final salary arrangement which had to be funded. Calculations were based on indices and costs would go up.

*Councillor Barker declared a personal interest as the holder of a local government pension scheme pension.*

An action point was agreed that a report on the pension fund would be brought to the Committee prior to Members considering the Statement of Accounts in September.

**Housing Revenue Account** (pages 57 - 64): Members enquired as to whether the HRA Working Balance was sufficient to meet expected challenges ahead. The Chief Finance Officer explained that it would be premature to answer that question as a major reform of HRA was expected. An announcement from the Secretary of State was imminent, and he would report to Members.

**Collection Fund** (page 65): the question was raised as to whether the Council made a profit on collecting. The Chief Finance Officer explained that assumptions were made about the size of the tax base and proportion of tax collected, with distribution to precepting authorities of any surplus over those assumptions.

**National Non-Domestic Rates** (page 67): Councillor Barker queried the decrease in void properties. The Chief Finance Officer said this year the Government had changed the rules, and now far fewer properties were eligible for relief. This matter had been discussed by Finance and Administration Committee.

The Chairman thanked the Chief Finance Officer, and moved that the recommendations in the report be approved. The motion was carried unanimously.

RESOLVED to

- 1 approve the draft Statement of Accounts as presented on pages 1 to 68 of the document attached to the report before the Committee.
- 2 approve the Annual Governance Statement for publication as presented on pages 69 to 79 of the attached document.
- 3 request that Full Council on 21 July note the decisions of this Committee.