

COMMITTEE: AUDIT AND GOVERNANCE

DATE: 25 JUNE 2008

SUBJECT: THE STATEMENT OF ACCOUNTS 2007-08

REPORT BY: HEAD OF CORPORATE FINANCE

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IMPLICATIONS:

LEGAL	✓	COMMUNITY SAFETY
EQUALITIES		ENVIRONMENT
FINANCIAL	✓	CONSULTATIONS
STAFFING		OTHER

WARDS AFFECTED: NONE

PURPOSE

1. A committee of the Council is required to pass a resolution approving the 2007-08 Statement of Accounts, Income and Expenditure Accounts and Balance Sheets attached at Appendix A by 30 June. In accordance with Council minute 50/2006, this non-Executive function is now the duty of the Audit and Governance Committee.

RECOMMENDATION(S)

2. **Audit and Governance Committee is recommended to approve the Council's Statement of Accounts, Income and Expenditure Accounts and Balance Sheets, together with the Annual Governance Statement.**

BACKGROUND

3. The Accounts and Audit Regulations 2003 specified very particularly how a local authority's accounts should be prepared and approved.

4. The regulations require that committee (not a sub-committee) of the Council shall pass a resolution approving the Statement of Accounts, Income and Expenditure Account and Balance Sheet before the 30 June immediately following the end of a year. The Council's Constitution specifies that the Audit and Governance committee is the responsible committee for passing this resolution. This is also in accordance with the Local Government Act 2000.
5. It is a requirement of the regulations that following approval by the relevant committee, that the Statement of Accounts shall be signed and dated by the person presiding at the meeting.
6. In accordance with the regulations and in order that the Audit and Governance Committee can have confidence in the accounts that they are being asked to approve, I have in my capacity as the responsible financial officer certified that the accounts present fairly the financial position of the Council. To confirm this I have signed and dated the accounts.
7. The External Auditors are due to commence their audit of the accounts in week commencing 30 June. Should there be amendments as a result of the audit they will be reported to this committee, but formal re-approval will not be necessary. The timetable set by the regulations does not anticipate the audit being completed prior to the approval of the accounts.
8. The Executive considered the provisional outturn on 2 June 2008. The decisions taken by the Executive concerned the allocation of monies to various reserves and the use of the general fund surplus.

REPORT

9. The Statement of Accounts is prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007 – A Statement of Recommended Practice (SORP 2007), published by the Chartered Institute of Public Finance & Accountancy (CIPFA). Before the 2006 SORP, previous versions required a number of entries that had their origins in the requirements of statutory or non-statutory proper practices and also required a notional transaction to be included for capital financing charges.
10. The SORP now requires the accounts to be produced in a format that is consistent with generally accepted accounting practices (UK GAAP). This means that the notional transaction for capital financing charges has been removed and the accounting requirements that have their origin in statute and non-statutory proper practice are disclosed in accordance with the UK GAAP as reserve movements.

11. The statement of performance that replaced the Consolidated Revenue Account from the 2006/07 accounts only includes income and expenditure and was renamed as the Income and Expenditure Account. The Statement of Movement on General Fund Balance, which shows the amount that would be reported as the surplus or deficit for the year under statute and non-statutory proper practice, immediately follows the Income and Expenditure Account.
12. The Balance Sheet has been restated to show the requirement under the SORP to replace the Capital Financing Account and the Fixed Asset Restatement Account with a Capital Adjustment Account and a Revaluation Reserve. The balances of the two previous accounts were both transferred to the Capital Adjustment Account and the Revaluation Reserve was opened with a nil balance on 1 April 2007, as required by the SORP.

The Statement of Accounts, Income and Expenditure Account and Balance Sheet

13. The Statement of Accounts, Income and Expenditure Accounts and Balance Sheets are intended to provide clear information about the authority's finances, in a standardised way, to aid comparison between authorities. They provide information on the cost of services, sources of finance used to fund the services and the assets and liabilities held by the authority at the year end.
14. The detailed accounts are attached at appendix A and explanatory details follow below. The accounts include the following: -
 - the introduction and the explanatory foreword setting out the background to the financial year.
 - the Statement of Accounting Policies.
 - summarised statements of the Council's Income and Expenditure Account, Movement on the General Fund Balance, Total Recognised Gains and Losses, Balance Sheet and Cash Flow.
 - summarised statements of the supplementary financial statements, the Housing Revenue Account and the Collection Fund.
 - the Council's Group Accounts. If the Council was subject to the Companies Acts, it would be required to consolidate its accounts with that of the Airport Company in order to show the overall results and financial position of the group. This account gives a local authority equivalent for information purposes.
 - the Statement of Responsibilities.
 - the Annual Governance Statement.
 - the Glossary of terms

Interpretation of the Accounts and Key Issues

15. The Statement of Accounts attached at Appendix A give a full disclosure of the financial affairs of the Council. There are a number of statements where it is beneficial to give Members further commentary and highlight key issues.
16. **Introduction & Explanatory Foreword (page 1 to 6)** – with regard to the General Fund, Members will see that the overall deficit on the Income and Expenditure Account for 2007-08 is £35.1 million. This is performance measured in standard accounting terms and does not reflect the actual change in General Fund Balances once local government rules have been applied. Once these rules are applied the accounts show a healthy surplus of £6.5 million.
17. The foreword highlights how the 2007-08 budget was spent, detailing a major increase in school spend, additional investment in demand-driven areas of social care and further investment to fund free travel on local buses for concessionary permit holders. It also explains how additional resources were focused by the new administration on private sector housing grants, community service provision and library services. It also highlights excellent budget monitoring and the fact that there were no unexpected overspends.
18. The foreword also sets out the changes in the level of General Fund balances, highlights include the use of the adult care management reserve, additional funds added to the Invest to Save reserve and the creation of a swimming pool reserve to contribute towards developing a new pool in the town. It also details how increases in the various other reserves may be utilised.
19. **Revenue expenditure and financing 2007-08 (page 7)** – the main points to highlight are that the Council Tax only generates 12% of the income and that employee costs and running costs account for 44% and 48% of expenditure incurred respectively.
20. **Capital expenditure and financing 2007-08 (page 8)** – 27% of capital expenditure is made on investment in schools and other services for children, 21% for Housing (public and private), 22% for Highways and 13% for Environment and Regeneration. 65% of the spend is financed by external resources / contributions and 24% is financed by borrowing.
21. **Statement of Accounting Policies (page 9 to 12)** – the only significant change for 2007-08 is the move to a Capital Adjustment Account and a Revaluation Reserve, as required by the 2007 SORP.

22. **Income and Expenditure Account (page 13)** – this is the key statement of revenue expenditure for 2007-08. As explained above it is now based on UK GAAP requirements. Expenditure is shown as £541 million, with income of £373 million (this includes £126 million for the Dedicated Schools Grant), giving net operating expenditure of £168 million. This was mainly funded by General Government Grants of £76.6 million and £56.4 million from Council Tax Payers. The costs of services are shown in the prescribed format and in accordance with Financial Reporting Standard (FRS) 17, which deals with retirement benefits.
23. **Statement of movement on the General Fund Balance (page 14)** – this statement shows how the brought forward balances on the general reserve and schools reserves has been adjusted in the year to reach the carry forward of balances to 2008-09.
24. **Statement of total recognised gains and losses (page 15)** – this statement is prepared in accordance with FRS 3 “Reporting Financial Performance” which requires that all gains and losses should be included in such a statement. It shows the movement on the General Fund Balance and other Balance Sheet movements in 2007-08.
25. **Consolidated Balance Sheet (page 16)** – this is the key statement showing the assets and liabilities of the Council. Property valuations of fixed assets have been made in accordance with guidance issued by the Royal Institution of Chartered Surveyors (RICS) and other assets follow guidance from CIPFA. Members may wish to review the size and value of the Council’s assets and liabilities, and to ask questions to gain assurance that they are being effectively managed. It will be seen that the Council has £299 million worth of operational land and buildings, other than Council Houses, and £74 million worth of investment properties. This emphasises the vital importance of good asset management, to ensure effective and efficient use of the operational assets, and income maximisation from the investment buildings. It can also be seen that the Council had £44 million of debtors at the year end, emphasising just how important effective debt collection is to the Council’s financial health.
26. External borrowing has reduced by just under £9 million following repayment of some loans and this is in accordance with reports to the Executive throughout the year.
27. The pensions liability of £122.7 million is a major long-term liability to the Council. This figure is very volatile. Last year it was £174.5 million, so the deficit has reduced by £51.8 million. This improvement is due to an actuarial revaluation, which reassessed the scheme’s liabilities.

28. The pension liability and the future payments the Council will have to make to cover that cost are dependent on; the discount rate, the investment market (at 31 March some 56% of investments within the Pension Fund were in equity investments and the Fund plans to make some investments in other volatile areas such as commodities, so there could be significant variations in asset values, up or down, in years to come), the shape of the pension scheme in future (a new scheme became effective from April 2008), the assumptions made in the next major actuarial valuation, and the number of years over which the deficit can be made good. This makes predicting future costs problematic.
29. Reserves and balances have increased by £10.3 million to £47.9 million at the year end. £8.5 million of those reserves are specifically held for use by schools and central expenditure funded from the Dedicated Schools Grant. A number of the General Reserves are also committed for use in 2008-09 or later including the invest to save at £2.7 million and the service provision at £1.5 million, in addition a further £2.9 million held in the general reserve has been committed to a number projects due to be completed in 2008-09. The insurance reserve (£4.3 million) is required as part of the Council's self-insurance and is assessed annually as part of the Budget report. Other balances at £8.1 million include a number of specific grants and an adjustment for capital accounting purposes.
30. **Cash Flow Statement (page 17)** – this is a technical statement, which highlights movements of cash during the year. Cash flow is extremely important to the Council to ensure that sufficient monies are available at the appropriate time to fund both capital expenditure and revenue services.
31. **Notes to the Statements (page 18 to 42)** – there is a lot of detail included within the notes and they aim to advise and analyse information to enhance the understanding of the accounts.
32. **Housing Revenue Account (page 43 to 47)** – this statement shows the income and expenditure for the Council's housing stock, which generated a surplus of £3.6 million based on UK GAAP. The Statement of Movement on the Housing Revenue Account Balance shows that the actual increase in the balance was only £453k following the adjustments required by statute and non-statutory proper practices. The revenue reserve therefore stands at £4.3 million, although this is expected to fall over the medium term. PricewaterhouseCoopers advise that the minimum balance for each dwelling should be £150 and that equates to £1.25 million.

33. **Collection Fund (page 48 to 49)** – there is a deficit of £0.6 million at the year end and this will be included within the calculation for setting the Council Tax for 2009-10.
34. **Group Accounts (page 50 to 58)** – each year a review is undertaken to assess whether companies, subsidiaries or associates of the Council need to be included within the group accounts. As in previous years it is only London Luton Airport's accounts that need to be incorporated within the group accounts.
35. **Annual Governance Statement for 2007-08 (page 60 to 73)** – a separate report is being made to the Audit and Governance Committee at this meeting.
36. **Glossary of terms (page 77 to 85)** – the glossary aims to describe various accounting terms and accounts that may not be readily understood.

PROPOSAL/OPTION

37. The committee is required to approve the accounts before 30 June 2008, so any decision other than to approve the accounts would need to be fully justified.

LEGAL IMPLICATIONS

38. Save for those set out above there are no further legal implications to this report and this has been agreed by Richard Stevens in Legal Services on 10 June 2008.

FINANCIAL IMPLICATIONS

39. Financial implications are dealt with in the body of the report.

APPENDIX

Appendix A - The Statement of Accounts 2007-08 (**To Follow** (this document will be circulated to Members only))

LIST OF BACKGROUND PAPERS

LOCAL GOVERNMENT ACT 1972, SECTION 100D

Code of Practice on Local Authority Accounting in the United Kingdom 2007 – A Statement of Recommended Practice – published by the Chartered Institute of Public Finance (CIPFA).

The Statement on Internal Control in Local Government – meeting the requirements of the Accounts and Audit regulations 2003 – published by CIPFA.

The Best Value Accounting Code of Practice 2007 – England and Wales – published by CIPFA.