

CONSTITUTION COMMITTEE – 30TH JUNE 2005

REPORT OF THE DIRECTOR OF RESOURCES

STATEMENT OF ACCOUNTS FOR 2004/05

PURPOSE

1. The purpose of this report is to present the 2004/05 statement of accounts (Appendix 1) for approval and inform the Committee of the key issues within the accounts.

BACKGROUND

2. The Accounts and Audit regulations 2003 require all authorities to approve their accounts by the end of June following the end of the financial year. This is a change to the previous date of September and reflects the timescale required by the Treasury to produce a set of consolidated accounts for the whole of Government. Although the regulations allow a phased reduction in the approval date, that would require approval for the 2004/05 accounts by the end of July, the County Council has achieved the tighter deadline one year ahead of the statutory requirement.
3. The format of the statement of accounts is largely dictated by the Accounting Code of Practice on Local Authority Accounts.
4. The accounts must be published by 31st October preferably with an auditor's certificate or opinion. This is expected by the end of September. The accounts will be on deposit for public inspection from 18th July to 12th August 2005.

ISSUES

5. This is the second year the regulations that govern the contents of accounts require the Authority to include an internal control statement that is signed by the Chief Executive and Leader. This statement sets out the purpose of the system of internal control, how it operates in the County Council and how its effectiveness has been reviewed. A separate report considers this in more detail.
6. The accounts essentially show the revenue outturn in the format required by government regulation. A report setting out the revenue budget outturn will be considered by Cabinet on the 4th July and Scrutiny on 18th July. The main balance sheet and revenue account issues are set out below;

Revenue Account

7. The Service classification within the Consolidated Revenue Account is presented in line with CIPFA's Best Value Accounting Code of Practice and thus is not comparable to the format of the council budget. In addition, service expenditure includes capital charges and other 'below the line' items such as central support costs, thus preventing a direct comparison with the revenue outturn reported to Cabinet and Scrutiny.
8. The explanatory foreword explains the outturn in the context of the council's budget. In summary the County Council underspent by a net £5.5m after allowing for carry forwards (the gross underspend was £10.5m). In addition, provision has been made for both the loss of the job evaluation employment tribunal case (£4.5m) and amending reports (£2.3m) (see paragraph 10-12 below for more detail). The Employment Tribunal provision has been charged to the revenue account and is included in the cost of services. These provisions have the impact of reducing the level of underspend with a resulting knock on effect on the County Fund.
9. Leicestershire Highways trading account shows a surplus of £389,000. However this reduces to a loss of £238,000 after the costs of the job evaluation industrial tribunal are allocated. These costs are obviously one-off and outside the control of Leicestershire Highways.

Balance Sheet

Provisions

10. In December 2004 an Employment Tribunal made a judgement against the County Council in relation to Consultation on the implementation of Job Evaluation. The Employment Tribunal made a protective award against the County Council in respect of those groups of staff who were either downgraded or were previously in receipt of bonus or enhancements. The County Council has received legal advice that there are grounds to appeal against the original judgement and have appealed to the Employment Appeal Tribunal. The outcome of this appeal is due this summer.
11. The accounts include a provision of £4.5m to meet the estimated costs of losing this case. There is, however, uncertainty around the basis of calculating the protective award. The provision is based on a 'worst case' interpretation of the legislation.
12. The accounts include provision of £2.3m to meet the anticipated costs of correcting population errors by the Office of National Statistics in 2003/04 and 2004/05. In effect the County Council is required to repay grant which it has already spent on providing services. This is reflected in lower revenue support grant in 2005/6 and 2006/7.
13. The provision for bad debts within the accounts has reduced considerably from £1.6m in 2003/04 to £0.8m in 2004/05. This principally reflects the fact that following the loss of the recent legal case with Transco outstanding claims in respect of charges for delays to the completion of works on the highway have in the main been resolved. In 2003/04 to reflect the uncertainty surrounding the court case the council provided for the non payment of £1m of this income. This has proved unduly pessimistic and during 2004/05 £260,000 has been received and credited to the

revenue account and £540,000 has been written off to the provision as it cannot be recovered. The balance of £200,000 is currently under review.

14. The accounts included a provision of £391,000 in 2003/04 in respect of refunds to Social Services Mental Health clients who had previously been charged for residential services. This followed legal judgements that restricted the Council's ability to charge for these services. The vast majority of these refunds have now been paid and the balance on the provision of £58,000 is available to meet any future claims that have not been received.

Reserves

15. The balance on the County fund has fallen from £7.35m in 2003/04 to £6.27m as at the end of 2004/05, assuming all carry forwards of underspend are approved. The policy on the county fund has been to maintain a minimum level of balances in line with the inherent risks faced by the County Council. The required level of reserves is kept under review during the year and a more formal assessment is undertaken at the time the budget is set. In recent years reserves have been maintained in the £5.5m to £7.5m range. The policy will be to continue to maintain a level of county fund consistent with the overall financial environment.
16. Overall earmarked revenues (excluding Schools) have increased from £10.31m in 2003/04 to £12.06m at the end of 2004/05. This is mainly as a result of an increase in both the insurance and renewals reserves.
17. Reserves are held for a variety of reasons, including:-
 - Insurance reserve – to meet future claims to enable the Council to meet the excesses not covered by insurance. Insurance companies usually impose excess levels on their cover. Accepting higher levels of excess based on past claims experience has proved to be more cost effective than paying higher premiums for greater insurance cover. These are currently £500,000 per claim on buildings and £150,000 on public and employer's liability. The latter in particular can involve claims requiring legal judgements that take a number of years to settle.
 - Renewals – to enable services to plan and finance an effective programme of vehicle and equipment replacement. These reserves are a mechanism to smooth expenditure on asset replacement so that a sensible replacement programme can be achieved.
 - Carry forward of underspend - some services commit expenditure to projects, but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources. Example of this type of reserve are Central Maintenance Fund and Shire Grants.
18. Schools balances have increased from £15.8m in 2003/04 to £21.1m in 2005/06. The schools (funding forum) have agreed that schools will be consulted on a scheme to control schools balances.

Pension Assets And Liabilities

19. These accounts include both a summary of the County Council's pension fund and a detailed County Council pensions balance sheet note as required under Financial Reporting Standard 17.

20. The actuarial valuation of the pension fund showed that at 31st March 2004 the fund's assets covered 87% of its liabilities. Whilst this is a significant reduction on the fully funded position in 2001 it was not a surprise given the disappointing returns in the equity markets in the intervening three years. The funding level was the best of all County Council pension funds. The deficit will be addressed by raising the employer's contributions to the scheme. During 2004/05 the value of the pension fund increased by £180m principally as a result of an increase in the value of the investments.
21. The FRS17 note indicates that, for the County Council, pension liabilities exceed the pension fund assets at 31st March 2005 by £203m. This net liability significantly exceeds the funding shortfall indicated by the last actuarial revaluation of the pension fund. The FRS 17 valuation methodology is more volatile and will always show a higher liability than the actuarial valuation as it assumes a lower rate of future investment return. Effectively FRS 17 makes no allowance for the anticipated higher long term return that the fund is expected to make on equities.

EQUAL OPPORTUNITIES IMPLICATIONS

None.

RECOMMENDATIONS

The Committee is recommended to approve the Statement of Accounts for 2004/05.

CIRCULATION UNDER SENSITIVE ISSUES PROCEDURE

None.

BACKGROUND PAPERS

None.

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