Leicestershire County Council

CONSTITUTION COMMITTEE – 30TH JUNE 2006

REPORT OF THE DIRECTOR OF RESOURCES

STATEMENT OF ACCOUNTS FOR 2005/06

PURPOSE

1. The purpose of this report is to present the 2005/06 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.

3. The format of the statement of accounts is largely dictated by the Accounting Code of Practice on Local Authority Accounts.

4. The accounts should be published by 30th September 2006 with the auditor's certificate or opinion as required by the Accounts and Audit regulations. This is expected by the end of September. The accounts will be on deposit for public inspection from 10th July to 4th August 2006.

ISSUES

5. These accounts 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. This statement was considered by the Corporate Governance Committee on 17th May 2006 and the Committee approved the methods used to evidence the statement.

6. The accounts essentially show the revenue outturn in a common format as prescribed by the Chartered Institute of Public Finance and Accountancy (CIPFA). A report setting out the revenue budget outturn was considered by Cabinet on 27th June 2006 and will be considered by the Scrutiny Commission on 13th July 2006. 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 £3.3m after allowing for carry forwards (the gross underspend was £8.8m).

Balance Sheet

Reserves

9. The balance on the County fund has increased from £6.3m in 2004/05 to £7.4m as at the end of 2005/06, 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. The policy will be to continue to maintain a level of county fund consistent with the overall financial environment and the level of the county fund is currently within the target range of 2 to 3% of net expenditure (excluding schools).

10. Overall earmarked revenue revenues (excluding schools) have increased from £12.06m in 2004/05 to £18.3m at the end of 2005/6. This is mainly as a result of an increase in the insurance and renewals reserves and the creation of new reserves. The main new reserves are;

    - Local Area Agreement (LAA) reserve – This is a reserve of £1.65m to finance the achievement of targets within the LAA. A proportion, £1.4m, relates to the achievement of 'stretch' targets and this will be repaid to the County Council from anticipated reward grant for meeting the targets. The remaining £250,000 is the contribution to the achievement of 'non reward' targets.

    - Concessionary travel – Maximum contribution of £0.5m to support the introduction of county-wide concessionary travel.

    - Change Management – Contribution of £0.3m to support the corporate change management programme. A further contribution will be made following the receipt of PSA 1 reward grant.

    - Corporate Severance – Contribution of £0.5m to meet severance costs arising from the need to make efficiency savings.

11. Reserves are held for other reasons, including:-

- Insurance reserve – To meet future claims to enable the Council to meet the excesses not covered by external insurers. 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. Examples of this type of reserve are Central Maintenance Fund and Shire Grants.

12. Schools balances have reduced from £21.05m in 2004/05 to £20.57m at the end of 2005/6.

<u>Provisions</u>

In overall terms the level of provisions has increased from £10.5m in 2004/5 to £12.5m at 31st March 2006. The largest provisions relate to:

- The Employment tribunal judgement against the County Council in relation to the implementation of Job Evaluation (£4.5m). An appeal to the Court of Appeal was heard in May 2006 and judgement is awaited.

- Insurance (£3.2m) for outstanding and unsettled claims.

- Revenue Support Grant (RSG) Amending reports (£0.67m) for the cost of correcting census errors made by the Office of National Statistics in 2004/5 and 2005/6. In effect the County Council has to repay grant it had already spent on providing service. In 2005/6 the provision was reduced by £527,000 following the receipt of further information from the Department of Communities and Local Government (DCLG).

In 2006/7 two new provisions have been established:

- Landfill allowances (£3m). In 2005/6 there is a new requirement to account for landfill allowances. The government has issued allowances to all local authorities that in effect are required to enable waste to be land filled. In 2005/6 it is anticipated that £3m of the allowances will be utilised and a provision has been created to reflect this. As the allocation was £3.7m the balance of £700,000 has been set aside and is shown on the balance sheet as a non cash backed reserve. Over time, allowances reduce thus forcing local authorities to use alternative methods of waste disposal. Allowances could be purchased from other authorities (if any have an excess). Exceeding allowances will involve substantial financial penalties.

- Education restructuring (£360,000). To meet the redundancy costs of the Advice and Inspection restructure that took place in 2005/6.

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 (FRS) 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.

21. The FRS 17 note indicates that, for the County Council, pension liabilities exceed the pension fund assets at 31st March 2005 by £210m. 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.

Other

22. The balance sheet shows a significant increase in long term borrowing, up from £290m to £362m. This reflects two factors, firstly the borrowing requirement of a historically large capital programme of £53m, and secondly the advantage that has been taken of low interest rates in 2005/6 to prefund some of the 2006/7 programme.

EQUAL OPPORTUNITIES IMPLICATIONS

None.

RECOMMENDATIONS

The Committee is recommended to approve the Statement of Accounts for 2005/06.

CIRCULATION UNDER SENSITIVE ISSUES PROCEDURE

None.

BACKGROUND PAPERS

None.

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