Agenda Item 8

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Leicestershire County Council

**CONSTITUTION COMMITTEE – 29TH JUNE 2007**

**REPORT OF THE DIRECTOR OF RESOURCES**

**STATEMENT OF ACCOUNTS FOR 2006/07**

## PURPOSE

1. The purpose of this report is to present the 2006/07 statement of accounts 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 with the auditor's certificate or opinion as required by the Accounts and Audit regulations. This is expected in early September. The accounts will be on deposit for public inspection from 9th July to 3rd August 2007.

## 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 16th May 2007 and the Committee approved the statement and the method used to evidence it.

6. The accounts essentially show the revenue outturn in a common format as prescribed by the Chartered Institute of Public Finance and Accountancy (CIPFA). There are some significant changes to the presentation. The main changes are:

    - The replacement of the revenue account with a Generally Accepted Accounting Practice (UK GAAP) compliant income and expenditure account. The objective of GAAP compliance is that all UK companies and public sector organisations prepare their accounts in a similar format. This income and expenditure account shows a small deficit of £0.7m which means that on this accounting basis the resources consumed including depreciation and an estimate of pension costs are slightly more than the income generated by the County Council.

- The inclusion of a statement that reconciles the income and expenditure account balance with the county fund called the 'Movement in the County Fund'. This is included because statute prevents some of the costs included in the income and expenditure account impacting on council tax such as some of the pension costs and depreciation.

- The inclusion of a new statement 'The statement of total gains and losses'. This is detailed on page 11 and shows a £103m increase in the council's net worth. This is mainly due to the improved net valuation of the pension fund and fixed assets.

- The overall format of the notes to the accounts have also changed.

7. A report setting out the revenue budget outturn was considered by Cabinet on 27th June 2007 and will be considered by Scrutiny on 18th July 2007. The main balance sheet and revenue account issues are set out below.

**Income and Expenditure Account**

8. The Service classification within the Income and Expenditure 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.

9. The explanatory foreword explains the outturn in the context of the council's budget. In summary the County Council underspent by a net £6.4m after allowing for carry forwards (the gross underspend was £10.3m). The revenue account does include a number of significant financial transactions. These are summarised below:

   (i) The Cabinet agreed a financial arrangement with the Leicestershire and Rutland Primary Care Trust (PCT) on 5th March. The aim of the arrangement was to assist with the PCT's recovery plan. The accounts reflect this transaction which had three elements. Firstly, the payment of capital grant of £2.35m from the PCT to the County Council for health related capital schemes. Secondly, the payment of £2.25m revenue grant to the PCT to be used to meet Medium Term Corporate Strategy health priorities. Thirdly, the agreement of a new phasing arrangement for the revenue contributions to the learning disability pooled budget. This increased the County Council contribution in 2006/7 by £3m and reduced the contribution by a corresponding amount in 2007/8.

   (ii) The Adult Social Care (ASC) outturn reflects the agreement of the relevant PCT contribution to the pooled budget referred to above. However, this is offset by the use of unringfenced grant income. The balance of this income (£2.3m) has been transferred to earmarked reserves. (See (12) below.) The unringfenced grant income relates mainly to an ASC access and systems grant that was received in 2004/5 and 2005/6. This grant was awarded to develop Community Care Services and help prevent hospital admissions. However, lower than anticipated costs of implementing initiatives funded through this grant has resulted in an underspend on the grant. As the ASC has three stars and as a result greater flexibility in terms of grant income it is now possible to utilise this non recurrent underspend against grant income to fund other services.

(iii) A significant element (£1.7m) of the Children and Young People's underspend of £2.4m reflects the steps taken by the Authority to minimise the underspending on LAA grant funding that is subject to claw back arrangements by Central Government.

(iv) Early retirement costs that were previously spread over up to five years have been funded in full in 2006/7. This has resulted in expenditure of £1.6m but will generate efficiency savings of circa £0.24m over the next four years.

(v) In 2004/5 a provision of £4.5m was established to meet the expected costs arising from the loss of an industrial tribunal following the introduction of job evaluation. As detailed in a Member Information Service report the actual costs were lower. The balance of £4.1m has been released to the revenue account.

**Balance Sheet**

Reserves

10. The balance on the County fund has increased from £7.4m in 2005/06 to £8.5m as at the end of 2006/07, assuming all carry forwards of underspend are approved. The policy on the county fund has been to maintain 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).

11. The County Council approved the MTFS on 21st February 2007. The key aim of the strategy is to ensure that the Authority has the appropriate resources in place to fund key service improvements and demands over the next few years. The strategy includes the establishment of earmarked reserves and the allocation of ongoing revenue budget and capital resources for key priorities. This outturn provides a further opportunity to develop this approach with the establishment of reserves to meet future pressures.

12. Overall earmarked cash backed revenue revenues (excluding schools) have increased from £18.3m in 2005/06 to £35.2m at the end of 2006/7. This is mainly as a result of the creation of new reserves and the addition to existing reserves. The main reserves are:

- Waste strategy implementation. The waste underspend (£2.4m) and resources for capital (£0.75m) has been allocated to this reserve.

- Building schools for the future. The Melton and Vale of Belvoir review is expected to cost c£45m (capital). There will also be some associated revenue costs. Once BSF is introduced further pump priming will be required. To meet initial costs a £0.7m reserve has been established.

- Reconfiguration of services. Under the change management banner the Authority is in the process of making major changes to the way services are delivered. This includes areas such as the highways efficiency review, customer first and shared services. With increasing focus on efficiency this reconfiguration will continue and accelerate. With many of these projects significant up front investment is required. This will include severance costs, project management and ICT. The change management reserves of £4.1m is forecast to be spent by 2009/10. The severance reserve is £2.75m.

- LAA General Sure Start – A reserve of £1.75m has been established to assist in meeting costs of implementing the Children's Centres Programme. See 9 (iii) above.

- Adult Social Care – A reserve of £2.3m has been established to pump prime invest to save projects including self directed care, developing new ways of working including the learning disability pooled budgets for commissioning and integrated provision and further development of direct payments, particularly for day care services. The balance of £0.8m will be used to address ASC demand and costs pressures in future years.

- A contribution of £0.25m is being made to an equal pay reserve. In addition a further £0.25m will be contributed from the job evaluation reserve established to meet the cost of job evaluation appeals as this reserve is no longer required. The equal pay reserve will be available to meet any costs arising from the ongoing equal pay audit.

13. Other reserves were also established as part of the MTFS in February. These include:

- Highway maintenance

- Civil parking enforcement

- Advanced design/major highway projects

14. 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, Shire Grants and dedicated schools grant.

15. Schools balances have reduced from £20.57m in 2005/06 to £20.1m at the end of 2006/7.

Provisions

16. In overall terms the level of provisions reduced from £12.5m in 2005/06 to £7.2m at 31st March 2007. The main reasons for the movement is referred to in 9(v) above and relates to the settlement of the job evaluation Industrial Tribunal. The largest provisions relate to:

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

- Landfill allowances (£2.5m). The government has issued allowances to all local authorities that in effect are required to enable waste to be land filled. In 2006/07 it is anticipated that £2.5m of the allowances will be utilised and a provision has been created to reflect this.

Pension Assets And Liabilities

17. 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.

18. The last available actuarial valuation of the pension fund showed that at 31st March 2004 the fund's assets covered 87% of its liabilities. Whilst this was a significant reduction on the fully funded position of 2001 it did not come as a surprise given the disappointing returns in equity markets in the intervening three years although the funding level was the best of all County Council pension funds. The deficit position of 2004 was addressed by putting in place a 20-year deficit recovery plan which included significant increases in employer's contributions for many employers.

19. An actuarial valuation is in the process of being carried out, based on the position of the Pension Fund at 31st March 2007, and the results of this are expected in November. There is no doubt that the funding level has increased substantially due to the high investment returns achieved in the intervening period (assets have increased from £1.39bn to £2.18bn in the three years), and is likely to be close to 100%. Whilst this is unlikely to allow a reduction in employers' contribution rates, it does mean that the magnitude of any future rises will probably be less than was previously expected.

20. The FRS17 note indicates that, for the County Council, pension liabilities exceed the pension fund assets at 31st March 2006 by £153m. This net liability is a significant improvement on the £210m liability in 2005/06. The main reasons for the improved position are a change to the discount rate used to calculate the pension liability. There has also been a higher than anticipated increase in the value of pension fund assets.

21. 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 2006/07.

## CIRCULATION UNDER SENSITIVE ISSUES PROCEDURE

None.

## BACKGROUND PAPERS

None.

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Constitution Cttee/CDT/DJP/Statement of Accounts 29.06.07