Leicestershire County Council

CONSTITUTION COMMITTEE – 30 JUNE 2008

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

STATEMENT OF ACCOUNTS FOR 2007/08

PURPOSE

1. The purpose of this report is to present the 2007/08 Statement of Accounts for approval and inform the Committee of the key issues within the accounts. The Statement of Accounts is being finalised but will be forwarded to members as soon as possible.

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 30 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 14 July to 8 August 2008.

ISSUES

5. These accounts include a summary of the Annual Governance Statement which has been 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 15 May 2008 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 two significant changes in the format of the Statement of Accounts 2007/08 arising from the introduction of :

   (a) A Revaluation Reserve has been created with an opening balance of zero, due to the difficulty local authorities would have encountered in determining the original cost of all of its assets.

Subsequently increase in asset values, net of depreciation will be reflected in this account. Should asset values decline then such reductions will be charged to the Income and Expenditure account. In order to avoid this having a cost to the council tax payer such charges are reversed out in the Statement of Movements on the General County Fund Balance in accordance with statutory regulations.

(b) Three new Accounting standards relating to financial instruments which result in changes to the accounting for;

i) interest payable on stepped rate market loans known as LOBO's (Lender Option/Borrower Option).

ii) Premiums and discounts arising from the premature repayment of debt.

Again these result in changes to the value of transactions in the Income and Expenditure account which are reversed out in the Statement of Movements on the General County Fund Balance.

7. A report setting out the revenue budget outturn was considered by Cabinet on 20 June 2008 and will be considered by Scrutiny on 23 July 2008. 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 the Cabinet and the Scrutiny Commission.

9. The explanatory foreword explains the outturn in the context of the council's budget. In summary the County Council underspent by a net £10.28m after allowing for carry forwards (the gross underspend was £16.28m). The revenue account does include a number of significant financial transactions. These are summarised below:

(i) PCT financial arrangements: the 2007/08 arrangement has been excluded from the above figures. Income from contributions in advance has been transferred to an earmarked reserve and will be utilised in 2008/09 and 2009/10. Capital resources provided as part of the 2006/07 arrangements have been utilised to finance £0.9m of capitalised highways expenditure, leading to an increased underspending on the Highways and Transport revenue budget.

(ii) A significant element (£1.66m) of the Children and Young People's underspend of £4.06m reflects steps taken by the Authority to minimise the underspending on LAA grant funding that is subject to claw back arrangements by Central Government.

Balance Sheet

Reserves

10. The balance on the County Fund has increased from £8.5m in 2006/07 to £9.0m as at the end of 2007/08, 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 Medium Term Financial Strategy is rolled forward. 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 20 February 2008. 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 £36.5m in 2006/07 to £53.8m at the end of 2007/8. 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 (£3.0m) has been allocated to this reserve which now stands at £5.4m.

    - Building Schools for the Future (BSF). The Melton and Vale of Belvoir review is expected to cost £45m (capital). There will also be some associated revenue costs. Once BSF is introduced further pump priming will be required. To meet initial costs there is a £0.9m reserve.

    - Reconfiguration of services. Under the change management programme 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 reserve of £10.1m is forecast to be spent by 2010/11. The corporate severance reserve is £1.9m.

    - LAA General Sure Start – A reserve of £2.8m has been established to assist in meeting costs of implementing the Children's Centres Programme.

- Adult Social Care – A reserve of £2.0m 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.

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. 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 assets 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 increased from £20.1m in 2006/07 to £24.0m at the end of 2007/8.

<u>Provisions</u>

16. In overall terms the level of provisions reduced from £7.2m in 2006/07 to £5.4m at 31 March 2007.The largest provision relates to insurance (£3.7m) for unsettled claims.

<u>Pension Assets And Liabilities</u>

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 31 March 2007 the fund's assets covered 93% of its liabilities. This funding level was an increase on the 87% position of the 2004 valuation and would have been better if it had not been for a decrease in the expected future investment returns (caused by a fall in bond yields), and an increase in life expectancy. Most employing bodies saw upward pressure on their contribution rates, and a 17 year deficit recovery plan is in place for tax raising bodies.

19. The actuarial valuation is already over 12 months 'out of date' and investment markets have produced negative returns over this period. If an actuarial valuation were to be carried out today it would show a decrease in the funding level, and a required increase in employers' contributions. As the next valuation does not take place until 31 March 2010, there is still plenty of time for the funding level to recover – although there is obviously also the possibility that it may get worse.

20. The FRS17 note indicates that, for the County Council, pension liabilities exceed the pension fund assets at 31 March 2008 by £140m. This net liability is an improvement on the £153m liability in 2006/07. This improvement comes despite the fall in asset values that occurred over the year, and was due to a substantial increase in corporate (i.e. company) bond yields over the period – a large part of which was the impact of the 'credit crunch'.

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, although the gap between corporate band yields (on which FRS17 figures are based) and the expected future return on equities did narrow significantly during the year.

RECOMMENDATION

22. The Committee is recommended to approve the Statement of Accounts for 2007/08, subject to the Director of Corporate Resources being authorised to make such amendments which are not of a material nature as he considers appropriate following further discussions with the External Auditor.

BACKGROUND PAPERS

None.

CIRCULATION UNDER SENSITIVE ISSUES PROCEDURE

None.

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APPENDIX

Statement of Accounts for 2007/08.

RELEVANT IMPACT ASSESSMENTS

EQUAL OPPORTUNITIES IMPLICATIONS

None.