



## CONSTITUTION COMMITTEE – 29 JUNE 2009

### REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

#### STATEMENT OF ACCOUNTS FOR 2008/09

##### PURPOSE

1. The purpose of this report is to present the 2008/09 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 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 13 July to 7 August 2009.

##### 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 2009 and the Committee approved the statement and the method used to evidence it.
6. A report setting out the revenue budget outturn will be considered by Cabinet on 29 June 2009 and by the Scrutiny Commission in July 2009. The main balance sheet and revenue account issues are set out below.

## **Income and Expenditure Account**

7. 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 that will be reported to the Cabinet and the Scrutiny Commission.
8. The explanatory foreword explains the outturn in the context of the council's budget. In summary the County Council (excluding schools grant) underspent by a net £8.6m after allowing for carry forwards (the gross underspend was £11.9m).

The outturn included a number of transactions which were not included in the original budget, but most of which have been included in other reports to members. These include:

- (i) PCT financial arrangements: a £1m arrangement for 2008/09 has been excluded from the above figures and has been allocated to the LAA earmarked reserve to fund expenditure in 2009/10. The 2007/08 arrangement has also been excluded: income was transferred to an earmarked reserve and £4m has been utilised in 2008/09 and the balance of £3m will be utilised in 2009/10. Capital resources provided under the 2006/07 arrangements have been utilised to finance £0.45m of capitalised highways expenditure, offsetting part of the overspending on the Highways and Transport revenue budget, and to reduce the Waste Management revenue contribution to capital expenditure by £0.43m.
- (ii) The County Council has also received Local Authority Business Growth Incentive Grant (LABGI) of £0.38m.

## **Balance Sheet**

### **Reserves**

9. The uncommitted balance on the General County Fund has increased from £9.0m in 2007/08 to £9.1m as at the end of 2008/09, 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). The balance of £9.1m represents 2.8% of net expenditure for 2009/10.

10. The County Council approved the MTFs on 25<sup>th</sup> February 2009. The key aim of the strategy is to ensure that the Authority has the appropriate resources in place to fund services including 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.
11. Overall earmarked cash backed revenue revenues (excluding schools) have decreased from £53.8m in 2007/08 to £52.7m at the end of 2008/09. This is mainly as a result of the withdrawal from reserves for the PCT arrangements and waste management contribution to capital, and the creation of new reserves. The main reserves are:-
  - Waste strategy implementation. From the waste underspend £1m has been allocated to this reserve which now stands at £1.1m.
  - Building Schools for the Future (BSF). Once BSF is introduced further pump priming will be required. To meet initial costs there is a £0.8m 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 consists of £8.5m for organisational change projects and £6.1m for invest to save projects. The corporate severance reserve is £1.5m.
  - Shared Services – an earmarked reserve of £0.2m has been established to provide funding for the development of Shared Services with Nottinghamshire County Council.
12. 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.
13. Schools balances have reduced from £23.8m in 2007/08 to £21.0m at the end of 2008/09.

#### Provisions

14. In overall terms, the level of provision was £7.2m in 2007/08 to £5.3m at 31 March 2009. The largest provision relates to insurance (£3.7m) for unsettled claims.
15. A provision of £0.1m has been established regarding a contribution from the County Council towards the costs of the council tax Single Person Discount review which is being undertaken along with the district councils.

#### Pension Assets And Liabilities

16. 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.
17. The last available triennial 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.
18. The actuarial valuation is already over 2 years '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 significant decrease in the funding level, and would require a large increase in employers' contributions. The next valuation does not take place until 31 March 2010, by which time the financial conditions may have improved.
19. The FRS17 note indicates that, for the County Council, pension liabilities exceed the pension fund assets at 31 March 2009 by £309m. This net

liability is a significant increase on the net £140m liability in 2007/08. The increase in the net liability results from the fall in the value of the fund investment over the last 12 months.

### **RECOMMENDATION**

20. The Committee is recommended to approve the Statement of Accounts for 2008/09, 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 THE LOCAL ISSUES ALERT PROCEDURE**

None.

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### **EQUAL OPPORTUNITIES IMPLICATIONS**

None.