

CONSTITUTION COMMITTEE – 28 JUNE 2010

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

STATEMENT OF ACCOUNTS 2009/10

PURPOSE

1. The purpose of this report is to present the 2009/10 Statement of Accounts for approval and to 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 5th July to 30th July 2010.

ISSUES

5. These accounts include a summary of the Annual Governance Statement which is to be 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 14 May 2010 and the Committee approved the statement and the method used to evidence it.
6. A report setting out the provisional revenue budget outturn was considered by Cabinet on 15 June 2010 and by the Budget and Performance Monitoring Scrutiny Panel on 22nd June 2010. 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 deficit on the income and expenditure account has increased from £39.7m in 2008/9 to £93.4m as at 31 March 2010. This is primarily due to the increase in impairment on fixed of assets arising from the downturn in land and building values. This has no overall impact on the balance on the General County Fund as statute requires the entries to be reversed out in the Statement of Movement on the General County Fund Balance (SMGFB).
9. From 1 April 2009 the accounting code of practice requires the amount of Council Tax income included in the Income and Expenditure Account for the year to be the accrued income, instead of the precept demand and share of the billing authorities collection fund balances for the year. The difference between the statutory precept demand and the accrued amount is reversed out in the SMGFB to the new Collection Fund Adjustment Account on the balance sheet. Balances owed to or from each billing authority are also included in the County Council's balance sheet to represent the Council's share of Council Tax debtors and bad debts provision, and Council Tax prepayments and overpayments. There is no impact on the General County Fund as a result of the new requirements.
10. 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 £6.7m after allowing for carry forwards, (the gross underspend was £9.2m).
11. 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 2009/10 has been excluded from the above figures and has been allocated to the Local Area Agreement (LAA) earmarked reserve to fund expenditure in 2010/11. The 2007/8 arrangement has also been excluded: income was transferred to an earmarked reserve and £4m was utilised in 2008/9 and the balance of £3m has been utilised in 2009/10.
 - (ii) The County Council has also received Local Authority Business Growth Incentive Grant (LABGI) of £0.28m

Balance Sheet

Reserves

12. The uncommitted balance on the General County Fund remains at £9.1m in 2009/10 after approved carry forwards, the same as in 2008/09. 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 2.7% of net expenditure for 2010/11.
13. The County Council approved the MTFFS on 24th February 2010. 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.
14. Overall earmarked cash backed revenue revenues (excluding schools) have increased from £52.7m in 2008/09 to £58.6m at the end of 2009/10. This is mainly as a result of contributions to the Waste Strategy implementation reserve and the MTFFS / Invest to Save reserve. The main reserves are:-
 - Waste strategy implementation. From the waste underspend, £2.4m has been allocated to this reserve which now stands at £3.5m.
 - 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 £5.7m for organisational change projects and £9.9m for invest to save projects and other MTFFS issues. The corporate severance reserve is £0.7m.
15. 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 £0.5m per claim on assets and £0.15m 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.

16. Schools balances have reduced from £21.0m in 2008/09 to £16.2m at the end of 2009/10.

Provisions

17. In overall terms, the level of provisions has increased to £6.5m at 31 March 2010, compared with £5.3m in 2008/09. The largest provision relates to insurance (£4.8m) for unsettled claims.

Pension Fund Assets and Liabilities

18. 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.
19. 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.
20. The actuarial valuation is now 'out of date' and investment markets have produced negative returns over recent years. The next valuation was 31 March 2010 however the results will not be available until early 2011. The actuarial valuation is likely to show a significant decrease in the funding level of the pension fund.
21. The valuation of the pension fund under FRS 17 as at 31 March 2010 has reported a significant increase in the net liability of the fund. While assets have increased due to improved investment markets, this is outweighed by a substantial increase in the value of liabilities due to both an increase in life expectancy assumptions and more significantly a decrease in the discount rate used to value pension fund benefits, caused by a fall in corporate bond yields over the year.
22. The net liability on the County Council's share of the pension fund has increased to £654.3m as at 31 March 2010. This has led to a negative net worth on the balance sheet (liabilities exceeding assets) of £70.8m. However, the net worth excluding FRS 17, would be net assets of £583.5m.

New Disclosure Note to the Accounts – Senior Officers Remuneration

23. The Accounts and Audit regulations has introduced additional disclosure requirements in the Statement of Accounts for senior officers remuneration. In the past the numbers of staff with salaries greater than or equal to £50,000 were shown in bands of £10,000 in a note to the accounts. This will continue but in bands of £5,000. The regulations also require the disclosure of a new note to show remuneration details by job title for all employees who have the power to direct or control the major activities of the County Council. Employees whose salary is equal to, or greater than £150,000, are required to be disclosed by name.

RECOMMENDATION

24. The Committee is recommended to approve the Statement of Accounts for 2009/10, 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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LIST OF APPENDICES

Leicestershire County Council 2009/10 Statement of Accounts.

EQUAL OPPORTUNITIES IMPLICATIONS

None.