

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: AGC-017- 2013/14

Date of meeting: 23 September 2013

Portfolio: Finance and Technology

Subject: Statutory Statement of Accounts 2012/13

Responsible Officer: Bob Palmer (01992 564279)

Democratic Services: Gary Woodhall (01992 564470)

Recommendations/Decisions Required:

(1) That a report be submitted to the Council recommending that the Statutory Statement of Accounts for 2012/13 be adopted.

Executive Summary:

One of the key roles of this Committee is scrutinising the annual Statutory Statement of Accounts. All Members of the Council will have the opportunity to debate the Accounts at Full Council and part of that debate will be to consider the recommendation of this Committee.

It is anticipated that the audit will be completed shortly and that the Statutory Statement of Accounts will be presented to Council on 26 September. There is a separate report elsewhere on the agenda that sets out the key findings of the audit.

The changes to the annual Statutory Statement of Accounts for 2012/13 are modest compared to those necessary for compliance with International Financial Reporting Standards (IFRS) in 2010/11. To assist Members with their consideration of the Accounts a report follows together with the Accounts themselves.

Reasons for Proposed Decision:

It is important that this Committee scrutinises the annual Statutory Statement of Accounts so that residents and other Members can have confidence in the Accounts.

Officers have exercised their professional judgement and liaised closely with external experts and the External Auditor to produce the Statutory Statement of Accounts. If Members are satisfied with the content of this report and the verbal responses to any questions raised, they are requested to recommend the Statutory Statement of Accounts for adoption by Full Council on 26 September.

Other Options for Action:

The Committee could decide that the accounts should be amended or expanded prior to them being presented to Full Council.

Report:

1. The Accounts and Audit Regulations require Full Council or an Executive Committee to adopt the Council's Statement of Accounts before the end of September. The Council's constitution reserves the adoption of the Accounts to Full Council only. However, prior to Council considering the accounts it is important that they have been subject to Member

scrutiny. This Committee has scrutinised the Statement of Accounts for several years.

2. The consideration of the Statement of Accounts is contained in the Terms of Reference of this Committee, the relevant parts being:

(h) To review financial statements, including the Council's Statement of Accounts, External Auditor's opinion and reports to members, and monitor management action in response to the issues raised by External Audit.

(i) Review, and challenge where necessary, the actions and judgements of Management, in relation to the Council's Statement of Accounts, paying particular attention to:

(i) critical accounting policies and practices, and any changes to them;

(ii) decisions requiring a major element of judgement;

(iii) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;

(iv) significant adjustments resulting from the audit; and

(v) any material weakness in internal control reported by the Internal or External Auditor.

Changes to the Contents of the Statutory Statement for 2012/13

3. There have been no significant changes in content this year to either the main accounting statements or their accompanying notes. One additional note has been added for Assets Held for Sale.

4. This is an additional note due to circumstances this year not because of any change in or addition to accounting policies. Assets are classed as being held for sale where, at the Balance Sheet date, they were being actively marketed and a sale is highly probable with the asset in its current condition. The asset in question here is a Housing Revenue Account property known as Leader Lodge.

5. Following consideration of different development options and consultation with the public in North Weald, on 12 March 2012 Cabinet decided that the property should be disposed of. The first attempt at sale by tender attracted ten bids but proved abortive as the highest bidder withdrew during the sale process. A second tender exercise resulted in six bids and a Portfolio Holder decision was signed on 29 January 2013 agreeing the sale to the highest bidder for a price of £515,000. The book value of the asset was £109,000 so in anticipation of its disposal shortly after the Balance Sheet date at £515,000 it has been revalued in the accounts to this amount.

6. Unfortunately the purchaser has recently withdrawn their offer so the property has not yet been disposed of. Members are still to formally determine what will now be done with the property, although disposal still seems the most likely outcome.

Critical Accounting Policies and Practices, and any changes to them

7. There have been no significant changes in accounting policies and practices during the year. The accounting policies are set out on pages 9 to 16 of the Accounts.

Decisions Requiring a Major Element of Judgement

8. In preparing a set of accounts at a point in time it is inevitable that some of the information required will not yet be available. If an actual amount is uncertain an estimate is

used. The estimate will be based on the assessment of information available at the time the accounts are closed. When the actual figures are determined any difference is usually accounted for in the following year. If the estimate was wrong by a material amount it would be necessary to consider re-stating the figures, this is extremely rare.

9. Two of the additional notes introduced by IFRS are relevant here, note 3 “Critical judgements in applying accounting policies” and note 4 “Assumptions made about the future and other major sources of estimation uncertainty”. The key critical judgement highlighted in note 3 is that the Council does not currently need to close facilities or significantly reduce levels of service provision. If this were not the case it would be necessary to consider any assets that would be affected and any consequent impairment of their values.

10. Three areas are covered by note 4, these are firstly property, plant and equipment, secondly pensions liability and finally arrears. The assumption made on property, plant and equipment is that assets will continue to be maintained so as to maximize their useful lives. If this were not to be the case additional depreciation would need to be charged. In reviewing arrears an estimate has to be made to allow for bad debts and, whilst a prudent view is taken in making this calculation, if the economic climate were to worsen significantly the charge to the CIES would increase.

11. The substantial annual fluctuations in the pension’s liability make clear the element of judgement exercised by the actuary in establishing the pension figures. The largest creditor on the Balance Sheet is the Council’s liability to the pension fund. The Balance Sheet shows that the pension liability for the Council has increased in the year from £65.6 million to £75.4 million. The value of the scheme assets has increased during the year but the projected liabilities have increased by even more. The main factor in increasing the scheme’s liabilities has been the change in discount rate for future outgoing cash flows. This discount rate has reduced from 4.6% to 4.1%, causing increases in liabilities for Essex authorities of more than 10%. This is a reflection on the projected state of the investment and money markets and follows last year’s reduction from 5.5% to 4.6%.

12. The following table is included to illustrate how the overall deficit has changed over time. With the benefit of hindsight, the decision by the previous actuaries to reduce the value of the liabilities in 2010/11 appears to have been an error.

	2012/13 £'m	2011/12 £'m	2010/11 £'m	2009/10 £'m	2008/09 £'m
Liabilities	(170.4)	(150.8)	(130.1)	(139.2)	(102.3)
Assets	95.0	85.2	83.8	82.7	60.8
Deficit	(75.4)	(65.6)	(46.3)	(56.5)	(41.5)

13. The inclusion of this amount in the Balance Sheet shows the extent of the authority’s liability if the pension fund was to close on 31 March 2013. It does not mean that this full liability will have to be paid over to the pension fund in the near future.

14. There are no other areas in the Statement of Accounts to bring to Member’s attention as having required a major element of judgement. Where it has been necessary to exercise judgement in the interpretation of the Code of Practice advice has been sought from CIPFA and staff have liaised closely with both the External Audit Manager and other Essex authorities.

The Extent to which the Financial Statements are Affected by any Unusual Transactions in the Year and how They are Disclosed

15. Where a transaction has been separately disclosed as an Exceptional Item it clearly needs to be mentioned in this section. Last year the Council received a compensation payment of £100,000 and interest on that payment of £237,000. The size of the interest relative to the compensation illustrates the length of time this issue has been running for.

16. The amounts relate to a compulsory purchase order that took some land owned by the Council to construct the M25 in 1992. The case has been quite complex and has required the Council to prove good title to the land.

17. As the compensation relates to the disposal of a piece of land that amount has to be treated as a capital receipt. The interest has been treated as revenue income and as a one-off has been credited to the District Development Fund.

Significant Adjustments Resulting from the Audit

18. Any significant adjustments that are made to the Statement of Accounts will be reported to this Committee, none have arisen so far for 2012/13.

Any Material Weakness in Internal Control Reported by the Internal or External Auditor

19. The weakness reported in 2011/12 of Senior Benefit Officers failing to perform the required amount of checking have been resolved in 2012/13. No material errors arose in any year as a result of this.

Resource Implications:

The Accounts set out the resource implications of the Authorities activities for 2012/13. The recommendation of the Accounts to Full Council does not in itself have any resource implications.

Legal and Governance Implications:

Full Council must approve the Accounts before the end of September and as part of the overall governance framework the Accounts should be subject to Member scrutiny prior to their approval.

Safer, Cleaner and Greener Implications:

There are no environmental implications.

Consultation Undertaken:

None.

Background Papers:

Reports on the revenue and capital outturns to the Finance & Performance Management Cabinet Committee on 20 June 2013.

Impact Assessments:

There are no equalities or risk management impacts.