THE MINUTES OF THE SPECIAL MEETING

OF THE AUDIT COMMITTEE

HELD ON WEDNESDAY 27 JUNE 2007

Present:	Councillor G Pinkney (Chair) Councillors B Bates, E Bell, Mrs G Bleasdale, R Davison, K McGonnell and B Quinn
Also Present:	J Dafter – Audit Manager C Eddowes – Audit Commission T Bell – Director of Finance and Corporate Services D Temple – Head of Financial Management L Hughes – Principal Accountant J Hughes – Accountancy Manager

STATEMENT OF ACCOUNTS INCORPORATING THE STATEMENT OF INTERNAL CONTROL

Consideration was given to the report of the Director of Finance and Corporate Services on the Statement of Accounts incorporating the Statement of Internal Control 2006/7, a copy of which had been circulated to each Member.

The Audit Committee was required to review the Statement of Accounts for 2006/7, to consider whether appropriate accounting policies had been followed and whether there were any concerns arising from the financial statements that needed to be brought to the attention of the Council. The Statement of Accounts had been circulated as a separate document.

T Bell, Director of Finance and Corporate Services explained that the Statement provided a comprehensive picture of the District Council's financial circumstances for the year ending 31 March 2007. He gave a detailed presentation to Members analysing the year end position in relation to both the General Fund and the Housing Revenue Account, details of the reserve position and future use of reserves.

He outlined the key results for the year, explaining that the General Fund showed an operational surplus of £1.675m, which included a surplus on the base or controllable budget of £615k, a variance of 3.8% when compared to budget. During the year £1.6m of windfall income was received, the majority of which was reserved to sustain future regeneration in the area. This brought the surplus to £3.3m. Balances were reviewed and this reduced general reserves to just over £2m which was moved into specific reserves to meet future commitments. The year end balance was £4.1m compared to an anticipated balance of £3.5m.

With regard to the key results in respect of the Housing Revenue Account there was a surplus on the account of £396k mainly as a result of increased rent income but the Council also utilised reserves of £1.9m in the year. Reserves at the year end amounted to around £2.7m.

A summary of the statutory financial statements and details of variances for the year were attached to the report, together with descriptions of specific and earmarked reserves.

To conclude, he confirmed that both the General Fund and the Housing Revenue Account were stable and that there were reserves in place to face some of the uncertainties ahead.

In terms of the future outlook he explained that at this point in time details of the comprehensive spending review covering 2008 – 2010 were awaited. Signals from the Treasury suggested a three year settlement from 2008/9 with no guarantee of grant uplift in line with inflation. In conjunction with the spending review it was likely that cashable efficiencies of 3% per annum would be required. There were adequate reserves in place to smooth out the impact of these proposals in the medium term and he was confident that finance for the Council's priorities could be managed. He identified the risks to be borne in mind, as follows:-

- the possibility of more government initiatives;
- the formula grant was uncertain;
- a new wave of efficiencies was expected;
- the national concessionary fares scheme (2008 onwards);
- the Supporting People Grant (Warden Services relied on this funding which was controlled by the Government);
- the decline in capital receipts as a result of fewer right to buys and the reduction in assets to be disposed of;
- East Durham Homes – still a relatively new company and there was uncertainty around whether 2 star status would be achieved which was necessary to bring properties up to decent homes standards;
- the local government review

In reviewing the Statement of Accounts and the key issues, a Member made reference to the high levels of reserves in the General Fund and how this may be perceived by residents. T Bell responded that it was important to utilise reserves effectively but only when the Council was confident that it's financial position was stable. At this point in time, whilst there were issues around the base budget he felt that further General Fund reserves should be released to meet Council priorities and this would be subject to consultation with Members and further reports.

A general discussion ensued in relation to the financial position of EDH. T Bell stated that until the Council was confident that the company was financially stable and a decision on the 2 star status was known, it would not be prudent to release HRA reserves. In relation to financial and performance monitoring of the company Members were able to attend meetings of the Regeneration Services Scrutiny Committee when quarterly performance was reported. The newly appointed Chief Executive of EDH was to address concerns around communications and closer working with the Council.

In response to a question relating to the Comprehensive Spending Review and the 3% cashable efficiencies expected, T Bell confirmed that this would be a national requirement for all local authorities. He added that to some extent these proposals were forseeable following the Gershon efficiencies of 2005/6 and 2007/8. Gershon had made it clear that Councils should be working together to deliver services. Whilst the Gershon efficiencies had been achieved the new proposals were likely to be more challenging for authorities because nationally, shared services or outsourcing was a way of working that not many authorities had explored. When the medium term financial plan was reviewed £1.5m had been set aside in the short term and next year an Efficiency Strategy would be established for the following three years. Exploring the provision of services on a shared basis with other Districts and/or by outsourcing would be part of this Strategy.

A Member asked if the balances in the General Fund were adequate in the event of any emergencies or unforeseen issues. T Bell explained that the prudent balance within the reserves would be utilised to meet any unforeseen issues. Some unforeseen emergencies were covered by grant funding which could be claimed back, although costs would still have to be financed by the Council in the short term.

A discussion ensued in relation to the provision for bad debts. T Bell assured Members that debts were not written off unless they were irrecoverable, ie uncollectable or uneconomical to collect. Over the last three years the Council had reduced bad debts provision which in turn had helped reduce council tax levies.

A Member referred to the contingency provision of £723k set up within the General Fund budget which was not utilised. T Bell explained that this had been set aside because in determining the 2006/7 budgets the Council was faced with significant cost and service pressures covering a number of issues. By way of example he explained that at the time EDH were carrying out a review of the Service Level Agreements (SLAs) with the Council as part of their value for money arrangements. This could potentially have resulted in a loss of income to the Council of £1.5m. This review was not completed and the risk did not materialise, therefore the contingency provision was returned to the general reserve.

Reference was made to the capital programme and the statement within the accounts that 91% of the programme had been achieved. A Member asked about the underspend resulting from 9% of the works not being completed. T Bell explained that the underspend was carried forward to 2007/8 as a commitment had been given that those projects would be completed. He added that 91% was a good turnaround particularly as some capital schemes could be delayed because of external factors such as the weather. Regular monitoring meetings of the Capital Programme Working Group maintained a close control on the capital programme finance.

By way of observation, a Member referred to the sale of assets which had avoided the need to borrow to fund capital schemes and considered that the Council should err on the side of caution when selling off major assets. T Bell explained that most assets sold were properties which could not be re-let or areas of land to developers. These contributed to the Councils efficiencies during the year and the use of capital receipts was generally considered to be more prudent than prudential borrowing because the Council would have to debt charges, which would then fall on the revenue accounts.

With reference to the cash flow statement for 2006/7, a Member highlighted the increase in cash paid to employees. T Bell explained that this referred to Council staff and stated that this figure included the annual wage and pension fund increases. Other reasons for the increase included the transfer of Care Services back to the Council during the year and the mainstreaming of Street Wardens posts.

Expenditure on publicity was also referred to by a Member who pointed out that costs for 'other' publicity seemed high. J Hughes explained that this figure incorporated a large number of smaller individual pieces of ad-hoc publicity carried out during the year. Members felt that this should be explained in more detail within the Statement.

Members expressed their concerns in relation to the position on rent arrears. J Hughes advised that EDH had set up a Team to specifically deal with the pursuit of outstanding rent arrears and a number of accounts that may have previously been written off had been kept 'live'. The position should show an improvement in next year's Statement. Members felt that it would be useful for a note to be included within the Statement to reflect this. T Bell added that the BVPI relating to rent arrears had been identified for specific attention during 2007/8 and Members would receive progress reports as part of the BVPI quarterly reports to the Committee.

Members asked for sight of the Management Assurance Statements provided by Managers to Internal Audit in order to obtain an assurance in relation to the financial aspects of corporate governance at the Council, and it was agreed that these be circulated to the Audit Committee.

Having reviewed the Statement, Members **RESOLVED** that the Statement of Accounts for the year ended 31 March 2007, be endorsed.

JE/MA/com audit/070603
29 June 2007