THE MINUTES OF THE SPECIAL MEETING

OF THE AUDIT COMMITTEE

HELD ON THURSDAY 26 JUNE 2008

Present:	Councillor G Pinkney (Chair) Councillors E Bell, R Davison, B Quinn and P Stradling
Also Present:	R Walker and C Eddowes - Audit Commission
Apology:	Councillor Mrs G Bleasdale

1 **STATEMENT OF ACCOUNTS INCORPORATING THE ANNUAL GOVERNANCE STATEMENT 2007/8**

Consideration was given to the report of the Director of Finance and Corporate Services on the Statement of Accounts incorporating the Annual Governance Statement for 2007/8, a copy of which had been circulated to each Member.

The Audit Committee was required to review the Statement of Accounts for 2007/8 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. Members had endorsed the Annual Governance Statement at the Audit Committee meeting held on 22 May 2008.

T Bell, Director of Finance and Corporate Services gave a detailed presentation to Members on the key messages arising from the accounts in order to give assurance to the Audit Committee that they had been completed to a high standard and that they reflected the priorities of the Council. The Accounts were to be submitted to full Council for approval on 30 June 2008 and any issues from the Audit Committee would be raised at that meeting.

By way of background he explained that the Statement of Accounts was a detailed explanation of the accounts, set out in a prescribed format. The Statement provided a comprehensive picture of the Council's financial circumstances for the financial year ending 31 March 2008 and advised of performance against the budgets, giving reasons for variations. He continued that the accounts reflected the position at one point in time, reflected the budget strategy and took account of in year decisions. Some in year decisions were taken to strengthen the future financial position and in turn sustain progress in meeting the Council's priorities.

As Members were aware, the Council took a medium term approach to financial planning which allowed the Council to prepare for the future with confidence as well as be prepared for any volatile periods to avoid disruption to services. It also provided a strong financial base to fund short term pressures but more importantly to develop services which were sustainable in the longer term. In terms of the local government review, this prudent approach ensured that activities prioritised by the Council in the Transitional Plan could continue beyond 1 April 2009 in the medium term without placing a financial burden on the new authority.

T Bell outlined the key results for the year in respect of the General Fund, explaining that the overall surplus of £2.411m had been adjusted to give an operational surplus of £1.638m, of which £849k related to the base budget. He briefly outlined to Members variations from the original budget stating that material savings were from vacant posts, investment income, election expenses, slippage in revenue programmes and end of year adjustments. Material overspends from the original budget included replacement bins, fuel increases, the increased cost of the kerb it scheme, reduced income related to benefit overpayments, purchase of recycling bags and increased staff costs above the amount anticipated.

In terms of the General Fund reserves, he explained that following the review of the Medium Term Financial Plan in December 2007 £2.328m was moved from general to specific reserves after transferring £1.259m into the general fund for redistribution. After surpluses and transfers were taken into account, the Statement showed that over the year the balance reduced from £4.159m to £3.964m, a reduction of £195k.

A Member asked if reserves were invested to maximise interest on the amounts prior to being utilised. T Bell assured Members that reserves were invested in the financial market through a number of sources to ensure the best rate of return. Officers also took advice from external Treasury Management Advisors which ensured that money was being invested prudently.

In response to a further question concerning the effect of the current financial market on the Pension Fund, T Bell explained that whilst it could potentially impact on the Fund, Durham County Council used specialist companies to invest the money through a variety of sources. This not only maximised the return on the investments but also helped to mitigate risk.

To summarise, he stated that the General Fund was fairly stable and the Council had adequate reserves in place to meet any uncertainties.

In terms of the Housing Revenue Account he explained that this represented the day to day housing management and maintenance issues, much of which was now delivered by East Durham Homes through the Management Fee.

Table 2 in the report showed an operational surplus on the HRA of £1.589m before the use of reserves and before taking additional support for EDH into account. This could be accounted for through management and maintenance savings, (in the main accrued from Care Services), rent income increase due to an additional weeks rent compared to the previous year, a reduction in right to buys and efficiencies brought about by a reduced number and voids being turned around more quickly. In addition capital receipts less than £10k which could have been used for capital were not required and were brought into HRA reserves. The additional housing subsidy was in relation to rental constraint allowance which was payable to authorities in compensation for rent income lost as a result of the Government's capping limits. This claim was subject to examination by the Audit Commission. Improvements in rent collection performance had enabled the Council to reduce the bad debts provision.

With regard to HRA reserves he explained that the balance at the end of March 2008 was £2.834m and table 3 in the report tracked the movement of reserves. He made reference to the financial position of EDH and stated that in preparing the 2007/08 budget the Council was aware of the financial difficulties faced by EDH following its failure to achieve 2 stars in the last inspection in September 2006. Following consultation with the Company a number of issues emerged which were addressed in a report to Council in September 2007 which outlined the need to right-size the Company and address a budget gap of just under £2m. The Council also agreed to transfer the capital operations to a strategic partner and to subject the maintenance service to market testing without an 'in-house' bid.

At the time it was agreed to commit £2.075m of HRA reserves to facilitate the process and the 2007/8 budget difficulty was to be monitored throughout the year. In February 2008 the Executive approved up to £715k to address the budget gap and a further £100k to continue improvements in turning around void properties.

Of the £700k which was transferred to the Company to bridge the gap only £358k had been required. Given that the Company would next be inspected in 8 months time Executive agreed to allow EDH to retain the unspent balance. A programme amounting to £1.36m would be resourced from commitments already made (£1.06m) and the unused gap funding highlighted above.

A Member asked for details of the programme and it was suggested that this be provided to Members at their next Audit Committee meeting.

It was also proposed to release £300k of the surplus to the capital programme to clear the backlog of aids and adaptations, following confirmation from the company that their strategic partner had the capacity to carry out further works in 2008/9.

In response to a further question concerning future financial support for the company, T Bell advised that he was confident that since the appointment of the new Chief Executive the financial position of EDH had grown stronger and the company was now much more financially viable.

A Member made reference to fixed assets and the value of the Council's housing stock, noting that it had increased from £194m to £279m, despite the current downward trend in the housing market. J Hughes, Accountancy Manager advised that the whilst the Council valued its stock annually, it was only required to complete a detailed valuation of individual properties every five years which explained the increase shown this year despite the decline in the current housing market. Notwithstanding this, he added that evidence had shown that social housing had not decreased in value to the extent of properties in the private housing market.

To conclude, T Bell highlighted a number of issues facing the Council in the coming year. He advised that despite being faced with the local government review, the Council had continued to ensure that revenue accounts were stable and had set aside resources for the next three years which would allow the new Council to deliver its promises and commitments to it's communities. The Council's approach to three year financial planning had also provided a useful audit trail. In terms of capital plans these would be the responsibility of the new Council from year two.

The Council had exceeded the government efficiency target for 2005-2008. After three years over £3.5m of efficiencies had been achieved against a target of £1.8m. The cashable amount over and above the target would be carried forward to meet the new Council's target 2008/9 to 2010/11.

The Head of Financial Management had met with the Department for Communities and Local Government (DCLG) to discuss proposals for the HRA in the new Council and an options paper was to be produced on this. It was important to ensure that meeting the decent homes target was a priority of the new Council.

Having reviewed the Statement, Members **RESOLVED** that the Statement of Accounts incorporating the Annual Governance Statement for 2007/8, be endorsed.

JE/MA/COM/AUDIT/080601
27 June 2008