

County Council

26th June 2008



**Statement of Accounts for the year ended
31st March 2008**

**Report of Stuart Crowe, County Treasurer
[Cabinet Portfolio Member for Corporate Resources,
Councillor Michele Hodgson]**

Purpose of the Report

- 1 To seek approval of the attached Statement of Accounts for the County Council for the financial year ended 31st March 2008.

Background

- 2 The 'Accounts and Audit Regulations 2003' as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 set out the requirements for the production and publication of the annual Statement of Accounts. The Regulations require the Statement of Accounts to be approved either by a full Council meeting or by a committee of the Council on or before 30th June 2008.
- 3 The Statement of Accounts is subject to audit by our external auditor, the Audit Commission. The audit of the accounts is ongoing. On completion, the auditor's report will be incorporated into the published version of the document.
- 4 The attached Statement of Accounts is the statutory published accounts for the County Council. They reflect the detailed revenue and capital outturn for 2007/08 which was reported to Cabinet on 19th June 2008.

Statement of Accounts

- 5 The Statement of Accounts has been prepared in accordance with the requirements of the 2007 '*Code of Practice on Local Authority Accounting in Great Britain*' as updated and published by the Chartered Institute of Public Finance and Accountancy (CIPFA). As a result, the document contains a great deal of detailed financial information, which is unavoidably technical and complex.
- 6 There are five core statements that provide fundamental information on the financial activities and position of the County Council; the Income

and Expenditure Account (page 23), the Statement of Movement on the General Fund Balance (page 24), the Statement of Total Recognised Gains and Losses (page 25), the Balance Sheet (page 26) and the Cash Flow Statement (page 27).

- 7 The Statement of Accounts also includes the accounts for Durham County Council Pension Fund (page 64) for which the County Council is the Administering Authority.
- 8 To help in reading and interpreting the contents, Appendix 2 to this report briefly explains the purpose of each section of the Statement. Appendix 3 gives an interpretation of the accounts, highlighting key issues for the benefit of members.
- 9 I will provide additional explanation of the contents of the Statement of Accounts at the meeting.

Recommendation

- 10 It is recommended that the Council approve the attached Statement of Accounts for the County Council for the financial year ended 31st March 2008.

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Appendix 1: Implications

Finance

Local Government Reorganisation

(Does the decision impact upon a future Unitary Council?)

Details the financial position of the County Council as at 31st March 2008.

Finance

Details the financial position of the County Council at 31st March 2008.

Staffing

None

Equality and Diversity

None

Accommodation

None

Crime and disorder

None

Sustainability

None

Human rights

None

Localities and Rurality

None

Young people

None

Consultation

None

Health

None

Appendix 2: Statement of Accounts - Summary and Explanation

Item	Pages	Explanation of Purpose and Content
Explanatory Foreword	3	Summary of the most significant matters reported in the accounts, and the overall financial position of the County Council.
Statement of Accounting Policies	13 - 19	Explains the policies adopted in preparing the accounts and indicates compliance with the Accounting Code of Practice.
Auditor's Report	20 - 22	Once the audit is completed, the final report from external audit will be included.
Income and Expenditure Account	23	Summarises the resources generated and consumed by the authority in the year.
Statement of Movement on the General Fund Balance	24	Reconciles how the balance of resources generated/consumed in the year links with statutory requirements for raising council tax.
Statement of Total Recognised Gains and Losses	25	Demonstrates how the movement in net worth in the Balance Sheet is identified to the Income and Expenditure Account surplus/deficit and to other unrealised gains and losses.
Balance Sheet	26	Shows the financial position of the County Council at 31st March 2007.
Cash Flow Statement	27 - 29	Summary of the inflows and outflows of cash during the year arising from revenue and capital cash transactions.
Notes to the Core Financial Statements	30 - 63	Gives further explanation to the core financial statements.
Pension Fund Account and Notes	64 - 75	Full accounts and notes relating to Durham County Council Pension Fund.
Statement of Responsibilities for the Statement of Accounts	76	Sets out the responsibilities of the Council and the County Treasurer for the Statement of Accounts.
Annual Governance Statement	77 - 85	Gives assurance that appropriate mechanisms are in place for the maintenance of good governance across the activities of the County Council.
Glossary of Terms	86 - 94	To help the reader understand terminology used in the Statement of Accounts.

Appendix 3: Interpretation of Accounts and Explanation of Key Issues

Interpretation of Accounts

- 1 Members have already received a detailed report on the Revenue and Capital Outturn. This explained the key variances against original budget based on the organisational structure of the County Council.
- 2 The Statement of Accounts is prepared under CIPFA guidance that specifies the Best Value Accounting Code of Practice is followed. This requires reclassification of service expenditure into generic headings that are common across Local Government. This enables comparisons to be made from one authority to another based on common categorisation of spend. Consequently the analysis of the numbers quoted in the Outturn report has now changed but the broad trends are consistent and the total of expenditure are the same.

Key Issues

- 3 During the year, the County Council spent £336.913m, when the effect of the capital charges is removed from the expenditure, at Net Cost of Service level there is an under spending in the County Council's services of £26.182m compared to original budget.
- 4 This comprises, in the main, of £20.960m which was budgeted for Equal Pay, £16.892m in County Council services and £4.068m in Schools. As there is no agreement with staff to settle this issue, this remains unspent.
- 5 The remaining £5.222m under spend is within services:
 - Children's and Education Services under spent £0.3m after removing the impact of not spending amounts set aside for Equal Pay claims.
 - Adult Social Care and Supporting People under spent by £2.1m due to reduced residential care costs, vacant posts and delays in investing growth allocated in 2007/08 budget.
 - Highways and Transportation under spent by £2.4m due to reduced energy costs for street lighting, lower public liability insurance charges and staff vacancies.
 - Within Other Services, Corporate Services were over spent by £1.1m due to a reduced workload for Design Services and therefore less opportunity to recover costs and increased repairs and maintenance costs on premises. Also, the Chief Executives Office was £1.0m under spent due to vacant posts in Customer Services and Economic Development.

- 6 The under spend at 'Net Operating Expenditure' level increases due to higher than anticipated interest rates, slower than anticipated spend on capital, the non-settlement of Equal Pay claims and a surplus from DurhamNet, which enabled the County Council to achieve £3.692m extra income from interest and investments.
- 7 Once the capital charges are included there was an overspend of £17.950m at Net Operating Expenditure level.
- 8 Finally, grants from government exceeded the original budget by £1.427m, as the Council had not budgeted for Local Authority Business Growth Initiatives (LABGI) grant.
- 9 The reconciling transaction of £25.841m is analysed in the extract from the 'Note on reconciling items for the Statement of Movement on the General Fund Balance'. It is made up of a transfer to earmarked reserves of £10.813m, compared to an original budget of £12.535m use of reserves, an under spend of £23.348m; and the net effect of the reversal of capital charges to ensure that these items have no impact on the amount required from Council Tax payers. This note also shows that capital financing charges are £1.237m more than anticipated due to additional items of capital expenditure identified in 2007/08 being financed directly from revenue.
- 10 The transfer of £10.813m represents that part of the under spend that has been identified for specific purposes. A new reserve of £2.548m has been established to allow the reallocation of under spends identified in 2007/08 to be available in 2008/09 for schemes agreed during 2007/08 but not yet implemented. A number of earmarked reserves have increased, notably for Equal Pay, Pensions and Insurances. £0.300m of specific non ring-fenced grants have not been spent during 2007/08, earmarked reserves have been established for this amount. The general reserve has increased by £9.318m during 2007/08. The schools' balances, which are retained at the discretion of governing bodies have increased by £4.275m from £21.215m as at 31st March 2007 to £25.490m as at 31st March 2008, due to schools providing reserves for the settlement of Equal Pay claims.
- 11 Although the statements show that the County Council spend including all capital charges was £17.950m above that originally budgeted, of which £12.535m was to have been drawn from reserves, this year the revaluation of Children's and Education Services' assets has led to a significant increase in the depreciation charge to the service over that in the original budget. This charge is reversed out through the Reconciling Item so that it has no effect on the council tax payer or the County Council's overall outturn position.
- 12 Recent changes to CIPFA's Statement of Recommended Practice (SORP) require that losses in value that assets have suffered during the year are charged to services' revenue expenditure. These charges

are significant and were not included in the original budget, but again, they are reversed out through the Reconciling Item as part of the capital charges and have no effect.

- 13 LABGI grant of £1.427m was also received which was not anticipated at the time the budget was set. This gives an overall net over spend of £16.523m before the reconciling item from the Statement of Movement in the General Fund Balance is added. This results in an under spend of £9.318m which is transferred to the General Reserve.
- 14 Capital expenditure for 2007/08 was £77.1m, £7.7m less than original budget. £39.4m was invested in Education, £22.2m in Highways and Transportation, £4.3m in Environmental Services and £11.2m in Other Services.
- 15 The major sources of financing of the capital programme are £18.6m from external borrowing, £39.9m from capital grants and contributions, capital receipts of £10.6m and £3.2m of direct revenue funding and the use of reserves. The Dedicated Schools Grant (DSG) has been used to finance £4.7m of capital expenditure in schools.
- 16 A total of £23.8m has been carried forward into 2008/09 for the completion of existing projects in future years.
- 17 The net worth of the County Council has increased by £424.436m, largely due to the revaluation of Children's and Education Services assets.
- 18 The net increase in cash was £2.760m.