



Chester-le-Street
District Council

Report to:	Council
Date of Meeting:	26 June 2008
Report from:	Head of Corporate Finance
Title of Report:	Member Approval of the Statement of Accounts for 2007/2008
Agenda Item Number:	11

1. PURPOSE OF REPORT

- 1.1 The Accounts and Audit Regulations 2003 require Members to approve the 2007/08 Statement of Accounts before the end of June 2008. This report seeks approval for the 2007/08 Statement of Accounts attached as Appendix 1.
- 1.2 The Accounts have not yet been audited; this is scheduled for August. The outcome of the audit will be reported to Council.

2. CONSULTATION

- 2.1 Corporate Management Team has been consulted on the report and on the Annual Governance Statement.

The Corporate Governance Steering Group, which comprises the Director of Corporate Services, The Acting Head of Resources, The Head of Corporate Finance, Acting Head of Internal Audit and the Head of Legal and Democratic Services, has been fully involved in the production of the Annual Governance Statement and all Heads of Service have signed off their individual assurance statements.

3. CORPORATE PLAN AND PRIORITIES

- 3.1 The report is wholly concerned with finance, which provides the means by which the Council achieves its corporate priorities.

4. IMPLICATIONS

- 4.1 Financial and Value for Money

Financial implications are detailed throughout the report.

4.2 Local Government Reorganisation Implications

The main implication is to ensure that Council has adequate financial resources to help establish the new Council while delivering 'Business as Usual'. In doing so the level of our General Fund Reserve should not fall below £390,000 as at 31 March 2009. As detailed in section 13 below this balance stands at £417,000 as at 31 March 2008.

If any potential resource issues arise that are not included in the Authority's budgets for 2008/09 then appropriate consultation with the County Treasurer will take place.

4.3 Legal

The report meets the requirements of the Accounts and Audit Regulations 2003.

4.4 Personnel

None

4.5 Other Services

There are no direct implications for other services beyond those outlined in the report.

4.6 Diversity

None

4.7 Risk

Financial management arrangements are a key part of the Council's strategic and operational risk management processes. At a strategic level, the Council has recognised this through the Strategic Risk Profile and the increasing emphasis on medium term financial planning.

The level of reserves are referred to in section 13 of the report and show the general fund reserve at £417,000. The Medium Term Financial Strategy states that the General Fund Reserve should not be allowed to fall below £349,000.

Any issues of financial performance that have arisen as part of the closure of accounts for 2007/2008 will be considered by Corporate Management Team and Heads of Service will be required to produce action plans by 31 July 2008 to address the areas of concern.

The Council's risk management arrangements are an integral part of the authority's internal control and corporate governance framework.

4.8 Crime and Disorder

It is not felt that there are any specific implications of the report on Crime and Disorder.

4.9 Data Quality

Every care has been taken in the development of this report to ensure that the information and data used in its preparation and the appendix attached are accurate, timely, consistent and comprehensive. The Council's data quality policy has been complied with in producing this report.

5. REPORT

5.1 The following section summarises the Council's financial performance in 2007/08.

6. GENERAL FUND REVENUE EXPENDITURE

6.1 General Fund expenditure for 2007/08 is summarised in the Income and Expenditure Account in section 4 of the Statement of Accounts.

This shows the costs of the Council's services, other than Council housing and how the net expenditure has been funded.

6.2 The table below shows where our money came from and how we spent it.

WE SPENT MONEY ON:-

Service	Net Actual Expenditure £'000	Percentage of Total
Leisure	1,630.4	17.3%
Environmental Health	559.3	5.9%
Planning	158.8	1.7%
Environmental Services	2,721.9	28.8%
Revenues and Benefits	623.0	6.6%
Finance and Accountancy	2.7	0.1%
Organisational Development	135.5	1.4%
Corporate Development Unit (Including Concessionary Travel)	1,387.1	14.7%
Regeneration	967.9	10.2%
Legal and Democratic Services	329.4	3.5%
Corporate Functions and Savings	927.6	9.8%
Sub Total	9,443.6	100%
Less: Capital Accounting Adjustment	(922.8)	
Less: Interest on Investments	(447.8)	
Net	8,073.0	100%

WHERE THE MONEY CAME FROM:-

	£'000	Percentage of Total
Council Tax	3,015	37%
Revenue Support Grant	725	9%
Business Rates	4,317	53%
Collection Fund Surplus	43	1%
Budget for the year	8,100	100%

- 6.3 The Council set a net General Fund Revenue Budget of £8,100,409 for 2007/08.

The table below shows the budgeted figures for 2007/08 as compared with the actual outturn for the year.

Service	Net Budget £'000s	Net Actual Outturn £'000	Variance from Budget £'000
Leisure	1,964.7	1,630.4	- 334.3
Environmental Health	572.7	559.3	- 13.4
Planning	199.2	158.8	- 40.4
Environmental Services	2,719.2	2,721.9	+ 2.7
Revenues and Benefits	750.0	623.0	- 127.0
Finance and Accountancy	12.9	2.7	- 10.2
Organisational Development	179.5	135.5	- 44.0
Corporate Development Unit	1,454.2	1,387.1	- 67.1
Regeneration	1,063.2	967.9	- 95.3
Legal and Democratic Services	281.9	329.4	+ 47.5
Corporate Functions and Savings	827.1	927.6	+ 100.5
Less: Capital Accounting Adjustment	(1,624.2)	(922.8)	+ 701.4
Less: Interest on Investments	(300.0)	(447.8)	- 147.8
	8,100.4	8,073.0	- 27.4

- 6.4 The final position for 2007/08 shows an underspend of £27,422 as compared with the agreed budget. This has been transferred to reserves.
- 6.5 Changes in the treatment of capital charges, which, effectively, show the depreciation of assets used to provide the service, have affected the outturn for several service areas; leisure, environmental services and regeneration, and the Civic Centre (included in Corporate Functions), are the main services affected by these changes. Capital charges do not, however, affect the real cost of the general fund services as they are reversed out in the capital accounting adjustments and are not taken into account in the net costs of services.

- 6.6 Excluding the effects of the changes in capital charges, the main variances from the agreed budget were as follows:

	£'000
Leisure	+ 103.8
Environmental Services	+ 59.7
Revenues and Benefits	- 139.1
Regeneration	+ 27.2
Corporate Development Unit	- 67.1

The overspend on leisure services is mainly due to less than expected income at the Golf Complex and the Leisure Centre, and the use of agency staff to cover posts at Selby Cottage Day Care Centre.

The overspend on Environmental Services is mainly due to a reduction in income from the highways agency service carried out for Durham County Council, increased fuel costs and the use of agency staff to cover for sickness absence.

The underspend on Revenues and Benefits is mainly due to the management of vacancy savings.

The overspend on regeneration is mainly due to loss of income in respect of the Market which has been partly offset by additional income in other areas of the budget such as Industrial Unit Rent.

- 6.7 The variance showing against corporate functions and savings is simply due to the fact that the salary contingency and other savings are reflected in the individual services in the Net Actual Outturn for 2007/2008.
- 6.8 The underspend for the year amounting to £27,422 as detailed above in 6.3 and 6.4 has been added to the General Fund Reserve in accordance with normal accounting practice. However the Council is subject to two claims against the authority in respect of planning cases and at this stage the potential liability is unknown. It would be prudent, therefore, subject to the approval of Members to transfer the 2007/08 underspend into our Insurance Reserve in 2008/09.

7. HOUSING REVENUE ACCOUNT

- 7.1 The Housing Revenue Account (HRA) is a statutory ring-fenced account into which all items of expenditure and income relating to the provision of the public sector housing service must be charged. The HRA cannot be subsidised from the General Fund, neither can it subsidise the General Fund. Housing Revenue Account expenditure for 2007/08 is summarised in section 10 of the Statement of Accounts.

- 7.2 The table below shows the budgeted figures for 2007/08 compared with the actual outturn for the year. It should be noted that all items of income/expenditure relate to the period up to 4th February 2008 compared to the full year budget. This is due to the successful transfer of the housing stock to Cestria Community Housing Association Limited.

	Original Budget £'000	Actual Outturn £'000	Variance from Budget £'000
<u>Income</u>			
Rents and other income	11,157	9,596	+ 1,561
Major Repairs Allowance	2,383	1,983	+ 400
Interest Receivable	61	50	+ 11
Negative subsidy paid to DCLG	(4,429)	(3,827)	- 602
Rent Constraint Allowance	282	236	+ 46
Total income	9,454	8,038	+ 1,416

<u>Expenditure</u>			
Property Services	2,629	2,501	- 128
Central Costs	462	291	- 171
Estate Management	732	808	+ 76
Income Management	278	237	- 41
I T and Accounts	533	316	- 217
Community Engagement	301	225	- 76
Exceptional Items	118	68	- 50
Stock Transfer	100	9	- 91
Special Services – Sheltered Housing	244	196	- 48
Care for the Elderly – Careline	42	110	+ 68
Council House Sales	-	25	+ 25
Cost of Democracy	278	281	+ 3
Depreciation	2,383	1,983	- 400
Debt Management and Loan Charges	911	709	- 202
Direct Revenue Financing	390	0	- 390
Total expenditure	9,401	7,759	- 1,642
(SURPLUS)/DEFICIT	- 53	- 279	- 226

- 7.3 The main reason for the variance on the Housing Revenue Account of £226,000 is that the income and expenditure only relates to 10 months, up to the date of the transfer, whereas the budget had to be prepared for the full year in case the transfer did not occur. No direct revenue financing, which is a revenue contribution to the housing capital programme was required during the year.
- 7.4 The closing balance on the housing revenue account reserve at the end of 2007/08 is £1.579 million. There are no significant items of income or expenditure expected to be incurred in 2008/09 that will change the balance on the reserve by the end of next financial year.

7.5 The housing revenue account reserve (£1.579 million) was subject to a report to Council in December 2007 and will revert to the Council at the end of the 2008/09 financial year. This reserve has been fully earmarked along with other measures to ensure the Council could meet the residual costs to the General Fund resulting from the housing stock transfer.

**8. BUILDING AND MAINTENANCE
DIRECT LABOUR ORGANISATION (DLO)**

8.1 Turnover in 2007/08 amounted to £2.430 million and resulted in a surplus of £10,726 for the year. (2006/07 turnover amounted to £2.735 million and a surplus of £4,231).

9. CAPITAL PROGRAMME

9.1 Total Capital Programme expenditure amounted to £7.411 million, as compared with the agreed programme of £6.966 million.

9.2 This includes expenditure on Council housing, regeneration and other general fund schemes. The main areas of expenditure included:-

	£'000
Affordable Housing	2,506
SHIP	1,201
Town Centre Regeneration	1,091
Sacrison Community Centre	507
Careline Equipment	319
Housing Grants	261
Pelton Fell Regeneration	253
Information Technology	191

9.3 The total capital programme expenditure of £7.411 million was financed as follows:-

	£'000	Percentage of Total
Major Repairs Allowance	1,983	27%
Capital Receipts	3,084	42%
Borrowing	190	2%
Government Grants	127	2%
Other Grants and Contributions	2,027	27%
	7,411	100%

10. REVENUE RECOVERY

- 10.1 The table below summarises the performance of the Council in recovering amounts due from local taxpayers and tenants.

	Arrears	Arrears
	31 March 2007	31 March 2008
	£	£
Council Tax	729,479	747,299
Non Domestic Rates	311,078	143,728
Rents	506,020	0
	1,546,577	891,027

- 10.2 The total amount of Council Tax collected during 2007/08 amounted to £20,570,975.88, and the total amount of non-domestic rates amounted to £6,815,311.02.
- 10.3 The authority achieved a collection rate of 97.5% (97.2% - 2006/07) for Council Tax and 98.2% (96.7% - 2006/07) for non-domestic rates in 2007/08.

11. BORROWING

- 11.1 For 2007/08 the Council set its Authorised Limit which is the 'Affordable Borrowing Limit' required by s3 of the Local Government Act 2003 at £22.05 million.
- 11.2 The Council did not exceed its authorised limit.
- 11.3 The Operational Boundary, set at £20.04 million for 2007/08, is a potential borrowing position that could be required in the event of cash flow problems that could arise during the year, and periods when the actual position is either below or over the boundary would be acceptable, subject to the Authorised limit not being breached.
- 11.4 The Operational Boundary is how we manage external debt to ensure we remain within the authorised limit.
- 11.5 The maximum gross borrowing position during the year was £21.06 million, and the minimum gross borrowing position was nil.
- 11.6 As part of the arrangements to transfer the Council's housing stock to Cestria Community Housing Association Limited, £19.85 million of debt was repaid by the government together with £1.88 million of debt premium. This fully repaid all debt liabilities and left the amount of outstanding long-term debt as at 31 March 2008 as nil.
- 11.7 The average rate of interest paid on long-term loans in 2007/08 was 4.93% compared with a rate of 5.55% in 2006/07.

12. INVESTMENTS

- 12.1 The Council's investments amounted to £24.75 million on 31 March 2008, which was significantly higher than in previous years. This was due to the Council holding almost £17.75 million in VAT as part of the development agreement with Cestria Community Housing Association Limited. The £17.75 million was paid over to Cestria Community Housing Association Limited early in 2008/09. An average rate of interest of 5.71% was earned on investments.

13. RESERVES AND BALANCES

- 13.1 At the end of 2007/08, the Council's total General Fund reserves amounted to £1.9 million. This total comprises:-

	£000
General Fund Reserve	417
Insurance Reserve	233
Earmarked Revenue Reserves	1,250
	1,900

- 13.2 The General Fund reserve is a reserve set aside for unforeseen events and is needed to help cash flow management.

The Council is responsible for collecting the Council Tax for Durham County Council, Durham Police Authority, Durham and Darlington Fire and Rescue Authority and the Parish Councils, as well as itself. Instead of paying their share of the Council Tax as it is collected, the Council has to pay a proportion of the total due to the different organisations at specific times during the year, irrespective of whether the amounts due have been collected. It is important, therefore, to have the general reserve available to help meet these payments should this be required.

- 13.3 The earmarked revenue reserves are a wide variety of funds earmarked for specific revenue purposes. The total includes the planning delivery grant, funding earmarked for leisure activities and the Venture Fund.
- 13.4 The Housing Revenue Account (HRA) has reserves of approximately £1.579 million.

14. ANNUAL GOVERNANCE STATEMENT

- 14.1 The Annual Governance Statement (AGS) is detailed in section 12 of the Statement of Accounts. This includes the requirements of the former Statement of Internal Control which as well as setting out the Council's governance arrangements, comprises the annual review of effectiveness. A revised recommended framework for corporate governance was published in June 2007 which, following a detailed review by the Council's Corporate Governance Steering Group, led to the adoption of a new Local Code of Governance in February 2008. It is against this framework and local code that the annual review has been conducted.

14.2 There are several actions detailed in the AGS and these include:-

- (i) A review of internal audit function will be undertaken as part of the Audit Commissions annual workplan;
- (ii) An audit of assets and inventories will be undertaken by internal audit prior to handover to the new authority;
- (iii) Business Continuity Plans will be updated with support of DDCCU;
- (iv) Partnership working will be further developed and strengthened through the new single priority **People & Place**;
- (v) Steps will be taken to address Audit Commission recommendations from the Annual Audit letter regarding transitional arrangements.
- (vi) Recommendations from the recent RIPA inspection will be developed into an action plan;
- (vii) Matters arising from Managers assurance statements will be followed up by the Corporate Governance Steering Group.

Progress will be reported quarterly through the Council's performance monitoring and reporting arrangements

15. RECOMMENDATIONS

15.1 It is recommended that

- (i) Council approves the Annual Statement of Accounts for 2007/08, subject to audit;
- (ii) the capital financing for 2007/08 be determined as detailed in the report;
- (iii) delegated authority be given to the Head of Corporate Finance (s151 Officer), in consultation with the Lead Member for Resources and Value for Money, to make any amendments to the Statement which are not material;
- (iv) Council approves the Annual Governance Statement for 2007/08, subject to audit;
- (v) Council approves the transfer of the 2007/08 underspend on General Fund services (£27,422) from the General Fund Reserve to the Insurance Reserve as detailed in 6.8 above.

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Version 1.0

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