

STEVENAGE BOROUGH COUNCIL

STATEMENT OF ACCOUNTS COMMITTEE MINUTES

Date: Thursday, 28th July, 2005

Time: 6.00pm

Place: Shimkent Room, Daneshill House

Present: Members: Councillors S. Taylor (Chair), B.P. Hall, L. Knight, JP, M. Notley and D. Royall.

In Attendance:

Start/End Time: Started : 6.00pm
Ended : 7.00pm

1 **APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST**

An apology for absence was received from Councillor M.P. Patston.

There were no declarations of interest.

2 **TERMS OF REFERENCE**

It was RESOLVED that the terms of reference of the Committee be noted.

3 **STATEMENT OF ACCOUNTS AND CAPITAL CONTROL SYSTEM DETERMINATIONS 2004/05**

REPORT & APPENDICES attached

The Committee considered a report from the Assistant Chief Executive (Finance) (ACE(F)) that sought approval of the 2004/2005 Statement of Accounts and certain capital financing determinations required under the Local Government and Housing Act 1989 and the Local Authorities (Capital Finance and Accounting) Regulations 2003.

The ACE(F) gave a general introduction to the Statement of Accounts and explained that there had been a very tight timescale to finalise this document as the deadline had been brought forward a month from last year. Next year the deadline would be the end of June.

The ACE(F) outlined the key factors that had shaped the Accounts for the last year and set them in the context of the Council's overall current financial position which had been reported to the July meeting of the Executive. The 2004/05 Accounts again revealed areas of underspend. In previous years such underspends had been carried forward to the next financial year. However, the ACE(F) explained that the Strategic

Management Board was not proposing to automatically agree any carry forwards into 2005/2006. Executive had approved that the ACE(F) would have delegated authority to approve individual carry forwards during the course of 2005/06 which Budget holders could request at the point at which a delayed 2004/05 project was due to commence and sufficient funding could not be found or re-prioritised from other budgets. The aim was to avoid the successive carrying forward of budgets from one year to the next. Members sought an assurance that these arrangements would not leave the Area Committees without funds for projects that they had committed to. The ACE(F) gave an assurance that this would not be the case for Area Committees and he had put in place arrangements to keep them closely monitored.

The ACE(F) was also asked if the underspends on Housing Repairs and Maintenance would be taken into general balances. The Head of Finance reminded Members that the Housing Revenue Account was a 'ring-fenced' account and underspends within the HRA remained within HRA Balances and were therefore available for Housing use in future years.

Members considered the merits of the outlined approach to carry forwards and asked if the Council was working towards further improving budget monitoring. The ACE(F) assured Members that plans were being developed to produce improved quality in Financial Reports from the new Financial Information Systems and that these would be supplemented by further Financial Management training to support budget-holders. Members were further assured that the areas of overspending reflected in the 2004/05 Accounts had been highlighted as variations in budget monitoring during the financial year and that it was areas of underspend that tended not to be reported on early where budget-holders tended to remain optimistic about their ability to undertake projects within the timeframe of the financial year.

Members also considered the extent to which underspends developed from problems with being able to recruit staff and the appropriateness of Transitional Vacancy Rates. It was also pointed out that where vacancies could not be filled this had the potential to generate an underspend on the salary plus underspends on related projects that the member of staff would have been dealing with.

The Head of Finance highlighted the key issues in the Statement of Accounts and the covering committee report and provided interpretations on the accounts, where necessary.

The Head of Finance reminded the Committee of the earlier accounts closure deadlines that were required for the whole of the Government Accounts process. The 2003/04 and 2004/05 Accounts had been closed by the end of August 2004 and July 2005, respectively. The 2005/06 Statement of Accounts would have to be presented to Committee for approval another month earlier, i.e. by 30th June 2006. The Head of Finance explained that work would be commencing shortly to develop

arrangements and procedures to enable this deadline to be met. The Head of Finance was committed to earlier closure and expressed the view that it gave considerable benefits with no overall significant reduction in the quality or accuracy of the Accounts.

The Head of Finance explained the background to each of the recommendations before the Committee that were required by Regulations to be approved.

Firstly, Members were required to approve the Statement of Accounts, as set out at Appendix A, and the Leader of the Council would then be required to sign the Statement of Accounts and the Statement on the System of Internal Control (SIC). The Head of Finance drew Members' attention to the importance of the SIC, which gave assurances that the Council operated compliant systems of Internal Control and which stated how those controls would be further strengthened to continue to protect the Council's resources. It was pointed out that the Statement of Accounts was subject to audit and may be subject to amendment before publication if requested by the Audit Commission.

The Committee was informed of a typographical error on page 44 of the draft Statement of Accounts (agenda page 50). The figure quoted in the first line of the text at paragraph 4 should read '£1,294,613' and not '£1,217,186' as quoted.

The Head of Finance explained the overall variations in the outturn figures and drew Members' attention to Appendix B, which detailed the major variations across the General Fund, the Direct Service Organisations and the Housing Revenue Account.

The Head of Finance explained that the Committee was required to approve the amount of usable capital receipts that had been applied in 2004/05 to meet expenditure for capital purposes. £12.792m of Capital Receipts funding was being recommended, as detailed in Determination 2, to meet the Capital Expenditure of £18.858m. The balance of capital expenditure was predominately funded from the HRA Major Repairs Allowance.

The Head of Finance also explained that there was a technical requirement, following the introduction of the Prudential Code for Members of Debt Free Authorities, to formally approve an amount to be transferred from the amounts set aside as Provision for Credit Liabilities to Usable Capital Receipts. £8.753m was being recommended as the maximum amount that could be transferred and the Head of Finance pointed out that this assumption was already incorporated in the Council's Capital Strategy.

It was explained that the remaining recommendation to defer HRA Revenue Contributions to Capital Outlay for 2004/05 was an officer proposal that would increase the level of HRA Balances at 31st March 2005 and give the option to provide funding to cover the anticipated costs in 2005/06 of setting

up the Council's proposed ALMO. It would also protect the HRA revenue position, given the exceptional costs that the Council was having to meet in respect of the Harrow Court incident. The Head of Finance explained that the Council had made an application for assistance with the costs associated with the disaster from the Government's emergency 'Bellwin' arrangements, but to date Government was not prepared to offer any help.

The Head of Finance pointed out Determination 3 at paragraph 4.2.3 of the report, which referred to the requirement for Authorities to make a Minimum Revenue Provision (MRP). As a Debt Free Authority, Stevenage did not currently have to make a MRP, but the Head of Finance reminded Members that this was the issue that was a potential problem for the Council with regard to borrowing in future under an Arm's Length Management Organisation (ALMO) arrangement.

The Committee asked a number of detailed questions on items in the Statement of Accounts and the ACE(F) and Head of Finance responded as follows:-

Members commented that they found the presentation of the HRA at page 16 of the Statement of Accounts (page 22 of the report) somewhat confusing regarding the entries for Cost of Capital. The Head of Finance confirmed that Members had correctly understood these entries and that the Council was required under Resource Accounting in the HRA to show the Cost of Capital as part of the Net Cost of Services to reflect the value of the dwelling being utilised, but that because this entry could not be permitted to impact on the level of Rents charged it had to be reversed out as an Adjusting Transfer from the Asset Management Revenue Account (AMRA). The Head of Finance acknowledged that Members had expressed concern in the past regarding these entries and reminded them that in order to assist Members the HRA was presented in two formats for budget purposes, including and excluding the resource accounting entries.

A Member asked why the Provision for Bad Debts on page 27 of the Statement of Accounts had reduced from £1.230m to £0.891m at 31/3/05 when the value of Debtors overall had actually increased. The general basis of the construction of the provision for bad debts was explained and that it was related to the underlying nature of the debts and an analysis of the likelihood that they may eventually prove to be bad debts. The Head of Finance stated that although there was therefore no direct relationship with the overall value of the outstanding Debtors the reduction from 2004 to 2005 did seem high. A detailed analysis was not available at the meeting but the Head of Finance undertook to write to Members with an explanation.

Members questioned the significant increase in the Net Liabilities on the Pension Fund at page 32 of the Statement of Accounts (page 38 of the agenda). The ACE(F) explained that this reflected the reduction in the value of investment assets in the pension scheme between the tri-annual revaluations of the Fund, that had reduced in line with reductions in world stock markets.

Members commented on the statement of expenditure on fixed assets at page 25 of the Statement of Accounts (page 31 of the agenda) and noted the extent to which it reflected the considerable variety of capital projects that the Council had undertaken during 2004/05 and the fact that these had all been financed without borrowing.

It was RESOLVED:

1. That the 2004/05 Statement of Accounts be approved subject to the correction of the typographical error on page 44 of the document (agenda page 50) – the figure shown in the first line of text at paragraph 4 to read “£1,294,613” not “£1,217,186” as quoted.
2. That usable capital receipts of £12.792m be applied to meet expenditure for capital purposes in 2004/05.
3. That the budgeted 2004/05 HRA Revenue Contribution to Capital Outlay (RCCO) of £647,000 be deferred.
4. That the amount of £8.753m be transferred to Usable Capital Receipts from the amounts set aside as Provision for Credit Liabilities.
5. That the Committee’s appreciation of the work undertaken by the Finance Officers in finalising the Statement of Accounts, given the tight deadlines, be recorded in the Minutes.

4 URGENT PART I BUSINESS

None.

5 EXCLUSION OF PRESS AND PUBLIC

Not required.

6 URGENT PART II BUSINESS

None.

7 DECISIONS AND SENDING UP

Not required.

CHAIR

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