

## **CLOSURE OF ACCOUNTS 2002/03**

### **1 SUMMARY**

- 1.1 This report is to consider some of the detail regarding the Statement of Accounts that was submitted to Council on the 29<sup>th</sup> July.

### **2 BACKGROUND**

- 2.1 In agreeing the accounts for submission to the external auditors Members also agreed to consider in detail the variations to the budget. In addition there were two items missing from the statement of accounts, the Pension statement from Essex County Council and the Cash Flow statement. These two documents need to be agreed by this Committee.

### **3 CONSIDERATION**

- 3.1 Members will recall that overall the General Fund net revenue budget was improved by around £591,000. The following is the analysis of variations over or under the revised estimate for 2002/03, in excess of £5,000.
- 3.2 The list of variations excludes asset rentals, depreciation and deferred charges. These are all entries, which are made in the accounts and then reversed out. Therefore there is no effect on the net expenditure of the general fund. Internal charges between one account and another where the net cost is zero are also excluded.
- 3.3 Salaries have not been shown separately. There is a single statement bringing all salaries together. Salary budgets are managed on a corporate basis as provision is made for the full costs of approved posts in each cost centre and a centrally estimated vacancy factor. Heads of Service are not allowed to use savings in salary budgets without the approval of Corporate Management Board and then only for manpower type expenditure. An example would be the employment of an agency worker to temporarily support a vacant post.
- 3.4 Repairs and maintenance have not been shown separately. There is a single statement bringing all these items together. Members have previously agreed that although estimates are shown for each premise there is full virement (transfer between estimates) between these codes. This helps in the construction of estimates in that provisions do not have to be made in each premise for the possibility of faults occurring. Corporate Management Board requires that these budgets be monitored individually and on a corporate basis.

- 3.5 In the column headed Var. (short for variation), non-bracketed figures are adverse for the Authority and bracketed figures are favourable. Therefore a non-bracketed figure might be either expenditure in excess of revised budget or income less than revised estimate. Where an item is income the word income appears in the column headed item.

NO	Cost Centre	Item	Revised Est.	Actual	Var.	Explanation
1.	Corporate Management	Bank Charges	20,600	26,559	5,959	This includes the initial costs of transferring to the new bank account.
2.	Other Operating Inc & Exp.	Net External Finance – income	380,000	436,580	(56,580)	Estimated reduction in investment income was less than expected. Average investments higher
3.	Council Tax	Court Costs Income	86,000	73,414	12,586	Less use of the court by increased use of negotiated settlements.
4.	Conducting Elections	National Register Initiatives	5,000	0	(5,000)	Estimate to meet the Government's requirement for all councils to log into the national electorate database. Not implemented in 2002/03. Awaiting Government developments.
5.	Local Land Charges	Fees and Charges - Income	330,000	286,983	43,017	Number of searches reflects current property market. Electronic searches are popular for which solicitors receive a 7% discount.

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NO	Cost Centre	Item	Revised Est.	Actual	Var.	Explanation
6.	Leisure Premises	NNDR	173,400	137,039	(36,361)	Reduction in rateable value of Great Wakering Sports Hall.
7.	Maintenance of Grounds Holding Acct	Contract Payments	557,000	548,027	(8,973)	RPI budgeted to be 3%, actual was 1.5%.
8.	Building Control	Deposit of Plans - Income	42,000	47,727	(5,727)	More applications than estimated.
9.		First Inspection - Income	144,000	159,137	(15,137)	More applications than estimated.
10.	Development Control	Planning Fees - Income	190,000	227,071	(37,071)	Demand led service.
11.	Environmental Health	Car Allowances	23,100	16,723	(6,377)	Staff vacancies
12.	Street Cleansing	Contract Payment	355,000	348,446	(6,554)	RPI budgeted to be 3%, actual was 1.5%.
13.	Waste Collection	Contract Payment	808,000	797,834	(10,166)	
14.		Recycling Credits Applied - Income	0	(24,592)	(24,592)	Return of reserved credits to General Fund.
15.	Waste Disposal	Recycling Credits & Sales - Income	65,000	84,194	(19,194)	Reflects rise in recycling levels and income.
16.	Parking Services	Parking Fees - Income	435,000	448,291	(13,291)	Small percentage variation (3% of estimate).
17.		Permits / season tickets - Income	50,000	74,186	(24,186)	More demand for season tickets.
18.	Housing Benefit (HB) Administration	Verification Framework - Income	26,000	36,016	(10,016)	Cautious estimate of income under new verification framework.
19.		Discretionary Housing - Income	0	7,433	(7,433)	Discretionary income not included in estimates.

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NO	Cost Centre	Item	Revised Est.	Actual	Var.	Explanation
20.	Housing Benefit Payments	Rent Allowances (Net Position)	5,233,500	5,119,899	72,934	Demand led service plus more cautious estimate of Government grant.
21.		DWP Rebates	0	10,997		
22.		HB Subsidies – income	4,838,700	4,663,162		
23.		Recoveries – income	205,000	344,944	(139,944)	Additional income for identifying overpayments.
24.	Revenues Investigation	Government Grant – Fraud Incentive inc.	49,000	36,275	12,725	Level of fraud is variable.
25.	Central Services – Postal & Office Services	Central Stationery Provision	22,000	16,451	(5,549)	Demand lower than anticipated.
26.	Personnel Services	Staff Advertising	60,000	76,684	16,684	High recruitment levels with re-advertisement necessary for some posts. Rise in advertising costs.
27.	Property Maintenance	Consultants / Support Services	5,000	0	(5,000)	Expected input into surveys on major repairs not required.
28.	Works Account	Repairs & Maintenance	295,400	253,852	(41,548)	Savings made on contracts let on planned works.
29.	Computer Services	Contract Payment	530,000	544,292	14,292	Increased costs arising from systems implemented with e-government grant.
30.	Legal Services	Legal Fees (Net) – income	0	14,094	(14,094)	Reduced expenditure on external legal fees and increased income from court awarded costs and

NO	Cost Centre	Item	Revised Est.	Actual	Var.	Explanation
						planning agreements.
31.	All General Fund services	Salaries	4,911,100	4,778,078	(133,022)	Additional vacancies in excess of those estimated.
32.	<b>General Fund</b>	<b>TOTAL</b>			(447,618)	Note – Other items below £5,000 = (£143,000).

#### **4 HOUSING REVENUE ACCOUNT**

- 4.1 It was estimated that there would be a draw down of the Housing Revenue Account balances of £252,200. In the event there was a reduction in balances of £141,130. The total variation is therefore £111,070.

NO	Cost Centre	Item	Revised Est.	Actual	Var.	Explanation
1.	General Management	Salaries	197,800	189,532	(8,268)	Vacant Posts.
2.		Tenants Participation	12,000	845	(11,155)	No major projects requested by tenants.
3.		Transfer Incentive Scheme	0	24,000	24,000	Re-introduction of incentive scheme following determination of estimates.
4.		Void Property Clearance	11,500	21,519	10,019	Better identification of repair costs associated with void properties. Relevant costs now charged to voids.
5.		Essex Water Co Commission - Income	22,000	41,726	(19,726)	Income is based on % commission and difference between actual water charges and set charge to sheltered housing tenants. Estimate is based on % commission only.
6.	Wardened Services	Salaries	276,300	255,192	(21,108)	Vacant posts
7.		Heating	62,000	71,653	9,653	Demand Led
8.		Commercial	31,900	26,196	(5,704)	Demand Led

NO	Cost Centre	Item	Revised Est.	Actual	Var.	Explanation
		Boiler Services				
9.		Communal Services Housing Dept.	40,100	33,753	(6,347)	Repairs have reduced as there are now fewer cookers to maintain and some of the washing machines are under warranty.
10.		Communal Services Fire Safety	22,800	12,953	(9,847)	High level of capital works in previous financial year.
11.	HRA Summary –	Debt Charges	1,510,500	1,480,189	(30,311)	Repayment of loan during year reduced interest charged.
12.		Depreciation	1,040,000	1,058,000	18,000	Higher figure, but matched with additional funding in 18.
13.		Repairs & Maintenance	825,000	796,453	(28,547)	Savings made on contracts let on planned works.
14.		Rents – income	4,738,000	4,821,907	(83,907)	Estimates drawn on 52 weeks, 53 weeks in accounts.
15.		Charges- income	682,000	706,099	(24,099)	High voids estimated for Lavers and Hardwick plus 53 week year.
16.		Leaseholder Charges - income	34,000	21,566	12,434	Varies with repairs and maintenance expenditure.
17.		Interest - income	30,000	44,645	(14,645)	HRA balance higher and therefore interest higher.
18.		Subsidies (net) - income	2,555,000	2,523,187	31,813	Income figures included in final accounts on prudent basis until final audit completed.
19.	<b>Housing Revenue Account</b>	<b>TOTAL</b>			129,198)	Note – other items = £(18,128)

- 4.2 Members will need to agree the above as virements to ensure that the revenue accounts are fully authorised. This is required even though the net totals show under spends.

**5 FRS 17 – PENSIONS STATEMENT**

- 5.1 Members will recall that the information was not available from Essex County Council for Council on the 29<sup>th</sup> July but was received shortly afterward. The information was circulated to Members by letter on the 13<sup>th</sup> August. It was agreed that the contents of the statement would be reported to this Committee to enable Members to have some discussion on the contents.
- 5.2 On the 20<sup>th</sup> August 2003 Essex County Council notified the Authority that due to some errors by the fund's actuaries they have had to re-issue the FRS17 statement. In order to show the full picture both the original statement, which has already been issued to Members and the changed elements of the revised statement now received are included within the report.

The pages **originally** reported to Members were as follows:-

**5.3 Pensions.**

In 2002/2003 the Council paid employer's contribution of £903,150.63 into Essex County Council's Pension Fund, (22.74% of pensionable pay) which provides members with defined benefits related to pay and service. The Fund's Actuary based on triennial actuarial valuations determines the contribution rate. The last review applicable to these accounts was conducted in March 2001. Under Pension regulations contribution rates are set to meet the overall liabilities of the fund. The contribution in 2001/2002 was £809,286 (21.63% of pensionable pay).

- 5.4 Local authorities are not required to comply with SSAP24, "Accounting for Pension Costs", however, the Fund's Actuary advice on the pension costs necessary to provide for in the year to comply with SSAP 24, is £761,666.95, representing 19.18% of pensionable pay. The amount in 2001/2002 was £642,531, 17.17% of pensionable pay.
- 5.5 Discretionary payments made in the year and expenditure on added years was £139,699 representing 3.52% of total pensionable pay. For 2001/2002 the equivalent figure was £137,253, 3.67% of total pensionable pay.
- 5.6 Further information can be found in Essex County Council's Pension fund Annual Report which is available upon request from:-

The Pensions Division,  
Finance and Performance  
County Hall  
Chelmsford  
CM1 1JZ

**6 FRS 17**

- 6.1 Employees of Rochford District Council are admitted to the Essex County Council Pension Fund (the fund), which is administered by Essex County Council under the regulations governing the Local Government Pension Scheme, a defined benefit scheme.
- 6.2 The figures disclosed below have been derived by approximate methods from the full actuarial valuation of the fund carried out by Watson Wyatt (actuaries to the fund) as at 31<sup>st</sup> March 2001.
- 6.3 The employer's contribution certified by the actuary in respect of 2001/02 was 166% of member's contributions. For the period 1<sup>st</sup> April 2002 to 31<sup>st</sup> March 2005 the rate of contribution will be 180% plus lump sums of £321,000 (in 2002/03) terms and £390,000 (in 2003/04 terms) and £465,000 (in 2004/05 terms), rising in line with price inflation, less 2.5% pa.
- 6.4 The main assumptions adopted as at 31<sup>st</sup> March 2003 were, retail price inflation of 2.5% per annum, increases in salaries 4.3% per annum, increases in pensions and deferred pensions at 2.5 % per annum and a discount rate of 6.1%.
- 6.5 Components of Defined Benefit Cost

	£m
<i>Analysis of amounts charged to operating profits:</i>	
<b>a</b> Current service cost	0.558
<b>b</b> Past service costs	0.000
<b>c</b> Total charged to operating profit	0.558
<i>Analysis of other amounts charged to profit and loss account:</i>	
<b>d</b> (Gain)/loss due to settlements	0.000
<b>e</b> (Gain) loss due to curtailments	0.001
<b>f</b> Net (gain) loss charged to Profit and Loss account	0.001
<i>Analysis of amount credited to other finance income:</i>	
<b>g</b> Interest on pension scheme liabilities	1.493
<b>h</b> Expected return on assets in the pension scheme	(1.435)
<b>i</b> Net charge (credit) to other finance income	0.058
<b>j</b> Total Profit & Loss charge before deduction for tax (c + f + i)	0.617
<i>Analysis of amounts recognised in Statement of Total Recognised Gains &amp; Losses (STRGL)</i>	
<b>k</b> (Gain) loss on assets	5.229



<b>l</b>	Experience (gain) loss on liabilities	0.000
<b>m</b>	(Gain) loss on change of assumptions (financial and demographic)	0.000
<b>n</b>	Total (gain) loss recognised in STRGL before adjustment for tax	5.229

History of experience gains and losses:

<i>(Gain) loss on Fund assets</i>		
Amount		5.229
% of Fund assets at end of period		30.82%
<i>Experience (gain) loss on scheme liabilities</i>		
Amount		0.000
% of Fund liabilities at end of period		0.00%
<i>Total actuarial (gain) loss recognised in STRGL</i>		
Amount		5.229
% of Fund liabilities at end of period		17.56%

- 6.6 The fair values of each main class of assets held by the fund as at 31<sup>st</sup> March 2003 and the expected rates of return for the ensuing year are set out in the following table.

	Fair Value £	Expected returns %
Equities	1,080,000,000	8.5
Gilts	323,000,000	4.5
Other bonds and property	86,000,000	7.0
Cash	36,000,000	4.0
Total	1,525,000,000	7.46

- 6.7 There is no provision for unitising the assets of a fund under the LGPS. The above assets as a whole are allocated to participating bodies on a consistent basis.
- 6.8 The fair value of the above assets related to Rochford District Council was £17m (£20.5m for 2001/02). The value placed on the liabilities related to the Rochford was £29.78m (£28.5m for 2001/02). Consequently, at 31<sup>st</sup> March 2003, the deficiency related to Rochford District Council was £12.8m (£8m as at 31<sup>st</sup> March 2002).

Reconciliation to the Balance Sheet:

	<b>01/04/2002</b>	<b>31/03/2003</b>
	<b>£m</b>	<b>£m</b>
Funded benefits under the LGPS regulations	(26.692)	(28.038)
Unfunded discretionary benefits awarded by means of additional benefits under the LGPS regulations	(1.818)	(1.737)
Actuarial value of Fund liabilities	(28.510)	(29.775)
Market value of Fund assets	20.472	16.967
Surplus (deficit) in the Fund	(8.038)	(12.808)

Analysis of the movement in deficit in the Fund during 2002/2003:

	As at 31/3/03 £m
Surplus (deficit) in the Fund at beginning of period	(8.038)
Contributions paid	1.076
Current service cost	(0.558)
Past service cost	0.000
Settlement cost	0.000
Curtailment cost	(0.001)
Other finance income (charge)	(0.058)
Actuarial gain (loss)	(5.229)
Surplus (deficit) in the Fund at end of period	(12.808)

## **7 THE REVISED STATEMENT**

7.1 For the part of the Fund relating to Rochford District Council:

### **C COMPONENTS OF DEFINED BENEFIT COST**

	<b>£m</b>
<b>a</b> Current service cost	0.558
<b>b</b> Past service costs	0.000

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<b>c</b>	Total charged to operating profit	0.558
	<i>Analysis of other amounts charged to profit and loss account:</i>	
<b>d</b>	(Gain)/loss due to settlements	0.000
<b>e</b>	(Gain) loss due to curtailments	0.001
<b>f</b>	Net (gain) loss charged to P and L account	<u>0.001</u>
	<i>Analysis of amount credited to other finance income:</i>	
<b>g</b>	Interest on pension scheme liabilities	1.496
<b>h</b>	Expected return on assets in the pension scheme	<u>(1.432)</u>
<b>i</b>	Net charge (credit) to other finance income	0.064
<b>j</b>	Total P and L charge before deduction for tax (c + f + i)	0.623
	<i>Analysis of amounts recognised in STRGL:</i>	
<b>k</b>	(Gain) loss on assets	5.220
<b>l</b>	Experience (gain) loss on liabilities	0.000
<b>m</b>	(Gain) loss on change of assumptions (financial and demographic)	0.000
<b>n</b>	Total (gain) loss recognised in STRGL before adjustment for tax	5.220

**D HISTORY OF EXPERIENCE GAINS AND LOSSES**

<b>a</b>	<i>(Gain) loss on Fund assets</i>	
	Amount	5.220
	% of Fund assets at end of period	30.89%
<b>b</b>	<i>Experience (gain) loss on scheme liabilities</i>	
	Amount	0.000
	% of Fund liabilities at end of period	0.00%
<b>c</b>	<i>Total actuarial (gain) loss recognised in STRGL</i>	
	Amount	5.220
	% of Fund liabilities at end of period	17.47%

**E RECONCILIATION TO THE BALANCE SHEET**

	01/04/2002	31/03/2003
	£m	£m
Funded benefits under the LGPS regulations	(26.692)	(28.108)

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Unfunded discretionary benefits awarded by means of additional benefits under the LGPS regulations	(1.818)	(1.770)
Actuarial value of Fund liabilities	(28.510)	(29.878)
Market value of Fund assets	20.472	16.901
Surplus (deficit) in the Fund	(8.038)	(12.977)

*Analysis of the movement in surplus (deficit) in the Fund during the period*

	<b>31/03/2003</b>
	<b>£m</b>
Surplus (deficit) in the Fund at beginning of period	(8.038)
Contributions paid	0.904
Current service cost	(0.558)
Past service cost	0.000
Settlement cost	0.000
Curtailment cost	(0.001)
Other finance income (charge)	(0.064)
Actuarial gain (loss)	(5.220)
Surplus (deficit) in the Fund at end of period	(12.977)

- 7.2 Both statements are as supplied by Essex County Council and are complex. It can be seen that in the revised statement the estimated deficit has increased. It should be remembered that the FRS 17 statement is at a particular point in time, 31<sup>st</sup> March 2003. The actual contributions that the Council is required to make to Essex County Council are determined by the actuaries to the Pension Fund. Here they will take account of future movements in the assets of the fund rather than a spot valuation. Movements in the stock market will be particularly important. At the statement date the 100 index was 3613 whereas today it is over 4,000. More importantly the actuary must estimate future movements to estimate the value of assets to meet liabilities. In preparing the specific information to report FRS 17 the actuaries warn that due to the way that the information must be prepared “ the results are likely to exceed the levels of materiality usually applicable to the participating bodies accounts”.
- 7.3 The last actuarial valuation was at 31<sup>st</sup> March 2001 and determined the contributions required for 2002/03, 2003/04 and 2004/05. Members will recall from the existing budget strategy that additional pension contributions, based on this actuarial valuation are already included within the current strategy.

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7.4 However the fact that these statements do show a deficit cannot be ignored and that the expectations are that future actuarial valuations will show estimated deficits, which may require additional funding and inclusion within a future budget strategy.

7.5 Members are reminded that authority has been given to the Councils external auditors to work with Essex County Council to consider the figures being presented.

## **8 CASH FLOW STATEMENT**

The cash flow statement is shown as appendix A to this report.

## **9 RISK MANAGEMENT**

### **9.1 Strategic Risk**

It is important that all the finances of the Council are dealt with within the Budget Strategy. This ensures that a medium term view is taken (5 years from 2004/5) and that all significant decisions are taken together to ensure that competing priorities are considered.

## **10 RECOMMENDATION**

10.1 It is proposed that the Committee **RESOLVES**

- (1) To agree the budget amendments identified in this report.
- (2) To note the Pensions information
- (3) To agree the cash flow statement for submission to the external auditors.

Dave Deeks

Head of Financial Services

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### **Background Papers:**

For further information please contact Mrs Y Woodward on:-

Tel:- 01702 546366 ext 3101

E-Mail:- Yvonne.Woodward@rochford.gov.uk