



**MINUTES OF THE MEETING OF THE
AUDIT AND GOVERNANCE COMMITTEE**

**TUESDAY 17 JULY 2012
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

Committee Members Present:

Councillor S Currie (Convener)
Councillor S Brown
Councillor J Caldwell
Councillor A Forrest
Councillor J Goodfellow
Councillor P McLennan
Councillor J Williamson

Other Councillors Present:

Councillor J McNeil

Council Officials Present:

Mr A McCrorie, Executive Director (Support Services)
Mr J Lamond, Head of Council Resources
Mr A Gillespie, Finance Manager
Ms A Glancy, Finance Officer
Mr P Moore, Senior Auditor

Clerk:

Ms A Smith

Visitors Present:

Mr S Reid, KPMG
Mr A Shaw, KPMG

Apologies:

Councillor K McLeod

1. EAST LOTHIAN COUNCIL STATEMENT OF ACCOUNTS 2011/12

The Head of Council Resources, Jim Lamond, presented the Council's Statement of Accounts for 2011/12. He informed Members that he would provide a summary of the salient points and Anthony Gillespie, Finance Manager, would then give more details on specific parts of the accounts.

Mr Lamond indicated that the main statements contained within the accounts were the Comprehensive Income and Expenditure Statement, Balance Sheet, Movement in Reserves Statement and Cash Flow Statement. He drew attention to the explanatory notes on these 4 core statements. He then referred to supplementary financial statements in relation to the Housing Revenue Account (HRA), Council Tax and Non-domestic Rate Accounts, Common Good Account, Trust Funds and the corresponding further set of explanatory notes.

Referring to the Group Financial Statement, Mr Lamond advised that alongside its investments the Council had an interest in a number of associate and subsidiary companies and for the purposes of consolidation and incorporation within the Group Accounts recognition of these interests had been made as reported.

He drew attention to the Annual Governance Statement, highlighting its importance and made reference to the 4 key elements: Annual Review of Corporate Good Governance, Declaration of Assurance, Internal Audit Review and the reasonable assurance statement signed by the Council Leader, the Chief Executive and the Head of Council Resources. He referred to the Remuneration Report, which detailed payments to senior councillors and officers, pension benefits and exit packages.

Mr Lamond made reference to the Statement of Responsibility and the Chief Finance Officer's Certification. He advised Members that it was the specific responsibility of this Committee to review the Annual Statement of Accounts.

He indicated that there had not been the magnitude of changes in 2011/12 as had been experienced in 2010/11; however there had been some notable changes in relation to the new category of Heritage Assets, a requirement for more detail on exit packages and the change in presentation of Group Reserves. Summarising the results for the year he stated that usable reserves had decreased by £7.5m (HRA by £3.4m, General Services by £4.1m); there had been capital spending of £71.5m; borrowing had increased by £38.9m; pension liabilities had increased by £14.2m and following a five yearly revaluation the value of land and buildings had reduced by £97m. He reported that the Statutory Trading Operations had all met their statutory financial target.

Regarding progress with the audit Mr Lamond advised that field work had commenced at the beginning of July and there was now a heightened KPMG presence on site. Current issues included presentation of valuation losses, progress with bank reconciliations and progress with issues raised in the Interim letter; he provided more details on each aspect.

The Finance Manager, Anthony Gillespie, provided further details on specific parts of the accounts highlighting what had happened during the financial year 2011/12.

Movement in Reserves – usable reserves of almost £29m at the year start; at the year-end usable reserves of £21.4m, £6.73m of which related to the HRA. He indicated that the Insurance Fund would be valued in the next few months.

Balance Sheet – property, plant and equipment had fallen in value to just over £731m. He drew attention to the figure for Heritage Assets, a new element for 2011/12. The short term debtor figure had significantly increased, by around £4.6m; but 75% of that related to government debt, i.e. money that was owed to the Council and would be secured. There was also a £1m increase in debt owed by individuals and organisations. Mr Gillespie highlighted the figures for short term borrowing, stating that although this had increased it was slightly behind capital expenditure. He also made reference to other increasing long term liabilities and advised that one of the main reasons was the increase in pension liability.

Fixed Assets – capital expenditure in the year was £71.5m; this included open market acquisitions, buy back of council houses, schools upgrades and several other projects which had all come to a head in financial year 2011/12. He drew attention to assets revalued and also highlighted the substantial assets the Council managed.

HRA – revenue reserves were down by almost £2m, due to funding for open market acquisitions. He highlighted revenue reserves at the end of the year and informed the Committee that the Council had capital reserves of almost £4m.

Common Goods – Mr Gillespie drew attention to the surplus for the year for each of the Common Good accounts.

Group Balance Sheet – he advised that this related to associate and subsidiary companies. Net assets and total reserves were the same however, when compared solely to ELC there was a significant decrease in reserves due to Police and Fire Board pensions. He informed Members that there was an expectation that the Scottish Government would take over these pension liabilities.

Mr Gillespie and Mr Lamond answered questions from Members on the recovery of Community Charge debt, framework for debt recovery and debt write-off. Clarification was sought in relation to the reserves position; how East Lothian compared to other local authorities and the borrowing situation. With regard to comparison, Mr Lamond anticipated a mixed position across the country. In relation to borrowing he stated that in terms of the Capital Plan the capital spending peak had probably been seen; it was also noted that borrowing had also increased; he referred to the mixed portfolio of loans and the Treasury Management Strategy. Mr Gillespie indicated that it was likely that borrowing would continue to increase for the next few years; the Council had to look at the type of borrowing and how to afford the extra borrowing. He added that the Council had been effective at using its reserves to fund borrowing rather than getting loans; he stated however that the proportions would be quite different for 2012/13. Mr Reid of KPMG informed Members that the Council's reserves position would be narrated in the annual audit report which would be brought to committee later in the year. He stated that as external auditors KPMG would consider the sustainability of the Council's position and use of reserves in relation to medium to long term strategy.

Further discussion and questions took place regarding anticipated changes to Police and Fire Boards reserve funds, breakdown of expenditure by directorate, pressure points, external pressures, welfare changes, increase in debt levels, issues around debt and allocation of council housing and the effect of potential salary increases. The Convener indicated that in relation to the reserves position in other councils he would be interested to see how East Lothian compared. He also raised issues regarding figures quoted in the Remuneration Report, stressing the need for consistency. Mr Lamond advised that a better framework for dealing with debt write-off needed to be established; he would bring a report to this Committee. He noted the

request for additional information in relation to reserves and again would bring something forward. Mr Gillespie advised that the extract relating to senior councillors from the Remuneration Report was prescribed in statutory guidance.

Mr Gillespie then outlined the future timetable. He advised that a year-end report would be brought to Council on 28 August 2012.

Councillor McLennan asked if there was a formal process for the Committee taking matters forward. Mr Lamond responded that there was no formal process however Standing Orders gave this Committee the remit to review the accounts and also the powers to take issues forward to Council or Cabinet. In response to a question from Councillor McNeil about further reports, Mr Lamond advised that recent practice had been to put regular budgetary control reports into the Members' Library; however more formal regular public reports to Cabinet would be reinstated for 2012/13. The Convener welcomed this, stating that in terms of scrutiny this was more appropriate.

Mr Lamond drew attention to the movement in usable reserves. He advised that the last financial strategy had been approved before the budget in February; very little had changed; figures were in line with expectations. He informed Members that the Council was now actually drawing upon its reserves, which although forecast, was the first time in recent years that this had been necessary. He stressed that the scale of the challenges ahead should not be underestimated. The Council Management Team had initiated a culture shift towards becoming more prudent and cost aware and that efficient workforce management planning had proved beneficial. With regards to the approved budget, the Council planned to draw further from its reserves and work would continue on becoming more sustainable in years to come.

The Convener referred to the financial strategy previously approved by Council and reiterated that figures were in line with expectations. Referring to movement in usable reserves he commented that the graph presented reflected the strategy put forward; reserves were built up and then used, which was the intended purpose.

He invited KPMG representatives to comment upon any aspect of the draft accounts. Mr Reid advised that the audit was ongoing; he stated that management had been well prepared and had a positive approach to working in partnership. He made reference to the 2 areas already highlighted, valuation of assets and bank reconciliations. He informed Members that a draft annual audit report and a report to those charged with governance would be brought to the Committee in due course.

The Convener expressed thanks to officers for producing the Statements of Accounts and stated that it had been helpful to receive such a thorough overview.

Signed

Councillor Stuart Currie
Convener of the Audit and Governance Committee