East Lothian Council

MINUTES OF THE MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE

TUESDAY 23 JULY 2013
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON

Committee Members Present:
Councillor K McLeod (Convener)
Councillor S Currie
Councillor A Forrest
Councillor J Goodfellow
Councillor J Williamson

Council Officials Present:
Mrs A Leitch, Chief Executive
Mr A McCrorie, Executive Director (Support Services)
Ms M Patterson, Executive Director (Services for Communities)
Mr J Lamond, Head of Council Resources
Mr T Shearer, Head of Policy and Partnerships
Mr D Nightingale, Head of Education
Mr A Gillespie, Finance Manager
Ms J Mackay, Media Manager

Clerk:
Miss F Currie, Committees Assistant

Visitors Present:
Mr S Reid, KPMG
Miss S Burden, KPMG

Apologies:
Councillor S Brown
Councillor J Caldwell
Councillor P McLennan (notified post-meeting)

Declarations of Interest:

Councillor Goodfellow declared an interest as a board member of Enjoy Leisure and a previous member of the East Lothian Police & Fire Board.

Councillor Forrest declared an interest as a member of the Musselburgh Joint Racing Committee.

1. EAST LOTHIAN COUNCIL DRAFT STATEMENT OF ACCOUNTS 2012/13

The Head of Council Resources, Mr Jim Lamond, presented the Council's Statement of Accounts for 2012/13. He informed Members that he would provide a summary of the salient points and then Mr Anthony Gillespie, Finance Manager, would provide more details on specific parts of the accounts.

Mr Lamond began by expressing his thanks to his team and other departments for their efforts in preparing the accounts. He indicated that there were 4 key financial statements contained within the accounts: the Comprehensive Income and Expenditure Statement; the Balance Sheet; the Cash Flow Statement; and the Movement in Reserves Statement. He drew attention to the extensive explanatory notes on these 4 key statements. He then referred to supplementary financial statements relating to the Housing Revenue Account, Council Tax Income Account, Non-Domestic Rate Income Account, the Common Good Account and the Trust Funds Account and their corresponding explanatory notes.

Drawing attention to the Group Financial Statements, Mr Lamond explained that these provided recognition and consolidation of the Council's interests in a number of associates and subsidiaries.

He highlighted the importance of the Annual Governance Statement, and its five distinct elements: the annual self-evaluation assessment; the declaration of assurance; the internal audit review; the statement of the role of the Chief Financial Officer; and the statement of assurance signed by Mr Lamond himself, the Chief Executive and the Council Leader.

Mr Lamond went on to outline the statements which form part of the Remuneration Report including details of payments and pension benefits provided to Councillors and employees during the year. He explained that the Statement of Responsibilities for the Statement of Accounts provided an outline of both the Council's and Chief Finance Officer's responsibilities together with certification that the financial statements presented a true and fair view of the Council's finances as at 31 March 2013.

He made reference to some minor changes in the format of the accounts and reported on progress since KPMG's Interim Management Report to the Audit & Governance Committee on 30 April 2013. He indicated that of the 10 improvement points identified in the report, 7 had been completed and the remaining 3 were on target for completion.

In summarising the results for the year, Mr Lamond drew particular attention to a reduction in reliance on reserves and to reduced capital spending. These figures notwithstanding, overall borrowing across both General Services and the Housing Revenue Account had increased during the year. He explained that the full effect of the new financial strategy and reduced capital limits would take a bit more time to materialise. In the meantime, service spending pressures would continue to require close monitoring, as would the Council's net pension liabilities.

Mr Lamond concluded that amendments to the Council's Financial Strategy, approved by Members in October 2012 and further refined in February of this year, were having a positive impact on the Council's finances and that this effect should continue into the coming year.

The Finance Manager, Mr Anthony Gillespie, provided a more detailed look at specific parts of the accounts highlighting what had happened during the financial year 2012/13.

Movement in Reserves – showed a reduction in the general fund balance of £1.4m and a decrease in overall usable reserves. He indicated that the Insurance Fund had been increased to compensate for a suggestion of slight underfunding and that there were plans to add further to the Insurance Fund over the next financial year to make up for this underfunding.

Balance Sheet – property, plant and equipment had increased in value to just over £747m. Every year this figure should increase with the addition of assets, although this figure would be reduced by depreciation and disposals. He drew attention to an increase in debtors, short and long term borrowing and long term liabilities which resulted in a net assets figure of £264m.

Capital Finance – total capital spend of £52.2 million funded 4 ways through capital grants (£14.1m), other receipts (£1.2m), direct revenue contributions (£2.6m) and loans fund (£34.3m). He indicated that the Council had borrowed less than originally planned (although still an increase on the previous year) and had used more of its cash resources instead.

Trading Operations – divided into property maintenance, roads services and facility services. The last category showed a deficit for 2012/13 although it met its overall 3 year break even target. However, this deficit trend may continue next year.

Debtors and Provisions – amount owed by central Government bodies has reduced, however monies owed by other organisations and individuals has gone up. Mr Gillespie explained that the amount set aside for the potential non-payment of debts would follow the overall debt figures, e.g. if debt increased then the provision would also increase.

Borrowings – although there had been an overall increase in borrowing, the Council had taken advantage of relatively cheap, short term market loans as part of its financial strategy.

Housing Revenue Account – there had been a decrease in balances over the year of almost £700,000 in revenue reserves.

Common Good – a surplus in 2012/13 and fairly consistent figures in terms of usable reserves over the past 4 years.

Mr Gillespie ended his presentation by summarising the financial reporting timetable and confirming that the Statement of Accounts would be signed off by the end of September 2013. Mr Lamond concluded by drawing attention to controls applied through changes to the Council's financial strategy and the resulting positive effect on the end year figures.

Mr Stephen Reid, Director of KPMG LLP, told Members that their audit was progressing to its timetable and a draft report would be presented to the next meeting of the Audit & Governance Committee in September 2013, with the final report going to the full Council meeting in October 2013.

Mr Lamond and Mr Gillespie answered questions from Members on the decision to reduce capital spending and its effect on the end year figures and increased borrowing over the year. Mr Lamond explained that although the full effect of decisions on capital spending would not be felt until future years, the reduction in general services spending did have an effect on overall capital spending. He also pointed out that the Council had taken advantage of some of the lowest borrowing rates in the country to keep the cost of increased borrowing as low as possible. However, there was no guarantee that this could continue in future years. He indicated that he would be happy to provide more details on these issues to Members. Clarification was sought on the ongoing costs of PFI contracts. Mr Lamond explained that the possibility of buying out such contracts had been looked into previously but had been ruled out due to the potentially high costs involved.

Further discussion took place regarding the Strategic Housing Investment Plan and the effect on the Housing Revenue Account of the Council's decision in October 2012 not to build on a site in Dunbar. Mr Lamond pointed out that no final decision had been taken in relation to a use for the site and should the decision be taken not to use this for housing then this would be reflected in the transfer of site at DV valuation between the General Services and Housing Revenue Accounts. The Executive Director (Services for Communities), Ms Monica Patterson, pointed out that a full options appraisal had been undertaken and the recommendation not to proceed had been right. She stressed that officers were very diligent and mindful that monies given by the Scottish Government should be used in the most cost effective way.

The Convenor raised the matter of the Council's financial liability in relation to the Musselburgh Joint Racing Committee (MJRC). Making reference to a personal letter he had received from Audit Scotland, he expressed concern that Board Members may also be liable for losses incurred by the MJRC. Clarification was also sought on the status of the MJRC and why the Council did not apply a greater level of scrutiny considering its level of financial liability. Mr Lamond firstly stated that he was unaware of the letter from Audit Scotland and the Convener confirmed that he had not shared this with any officers. Mr Lamond then explained that all entities controlled or influenced by the Council had to be included in the accounts. He acknowledged that while the Council did not give any financial support to the MJRC, through the Minute of Agreement it did accept an element of financial risk. However, he assured Members that all arrangements in relation to the treatment of MJRC within the financial statements were in accordance with relevant accounting standards. Mr Gillespie commented that the cash balances managed by the Council, on behalf of the MJRC, offset any potential losses reported at the year end.

Mr Alex McCrorie, Executive Director (Support Services), drew attention to the minute of agreement which exists between the Council and the MJRC and explained that the MJRC is influenced but not controlled by the Council. However, he acknowledged that further clarity on the MJRC's status might be beneficial and agreed to provide this to Members. He also indicated that Bill Farnsworth, General Manager of Musselburgh Racecourse, would be attending the Policy, Performance and Review Committee on 24 September 2013 and Members were welcome to attend. He also agreed to address the issue of financial liability separately with the Convenor.

Members expressed their thanks to officers for producing the Statement of Accounts and for providing such a comprehensive and helpful overview.

Signed ....

Councillor Kenny McLeod
Convener of the Audit and Governance Committee