

# MEDWAY COUNCIL

## AUDIT COMMITTEE

28 JUNE 2007

### STATEMENT OF INTERNAL CONTROL AND STATEMENT OF ACCOUNTS 2006/2007

Report from: Neil Davies, Chief Executive

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#### 1. Summary

- 1.1 This report presents the 2006/2007 draft statement of accounts for the committee's approval. This is a covering report and the draft statement of accounts will be circulated prior to the meeting.

#### 2. Decision issues

- 2.1 The Accounts and Audit Regulations 2003 (the Regulations) require these accounts to be formally approved by the authority before 30 June 2007.
- 2.2 The Regulations require the statement of accounts to be approved by the Council as the body responsible for governance. In accordance with CIPFA recommendations, Members agreed to set up an Audit Committee whose terms of reference include approval of the Statement of Accounts. In the first instance they are presented to Cabinet, as the body charged with the executive management of the council's budget, to make comment and recommend approval by the Audit Committee.

#### 3. Background

- 3.1 Local authorities are required under the Regulations to produce an annual statement of accounts that is subject to scrutiny by the external auditors. The auditor will give an opinion on the accounts and additionally interested persons have the right to inspect the accounts and make representations to the auditor. PricewaterhouseCoopers is responsible for the audit of accounts that must be completed by 30 September 2007.
- 3.2 Since the 2003/2004 final accounts there has been a requirement for the Council to comply with the standards and codes of corporate governance, and to report on the effectiveness of the Council's systems for risk management and internal control. The Statement on Internal Control (SIC) has been updated annually to report on issues raised in previous audits and to identify any new areas to be addressed.

- 3.3 Although currently incorporated within the Statement of Accounts there is a requirement that Members formally agree the contents of the SIC which must be signed by the Leader of the Council and the Chief Executive. The SIC also requires formal acceptance by Members and a separate recommendation is incorporated in this report for that purpose.
- 3.4 The draft statement of accounts is being finalised and will be circulated to Members separately in advance of the Cabinet meeting. The following sections however provide some detail as to its contents

#### **4. Statement of accounts content**

- 4.1 These documents are subject to detailed requirements as to content and style, mainly prescribed by the Code of Practice on Local Authority Accounting and the Best Value Accounting Code of Practice (BVACOP). The 2006 Code has changed the format for 2006/2007 and future years and the 2006/2006 figures have been restated where required.
- 4.2 In accordance with proper accounting practice, the statement of accounts includes the following elements which are subject to scrutiny by the appointed auditor:
- an explanatory introduction and statement by the chief financial officer;
  - a statement of responsibilities which outlines responsibility for efficiently managing the affairs of the Council;
  - a statement on internal control. As discussed above, this is a relatively new requirement designed to ensure effective systems of internal control;
  - the auditor's opinion which is given at the completion of the audit and must occur by 30 September 2007;
  - a statement of accounting policies which highlights practices adopted by the authority;
  - the income and expenditure account, statement of movement on the general fund balance and statement of total recognised gains and losses.
  - the balance sheet which shows the assets, liabilities and net worth of the authority.
  - the cash flow statement which summarises the total transactions of the authority in cash terms.

The following supplementary statements are required to expand on the information included within the statements above;

- the housing revenue account (HRA) which summarises the major items of expenditure and income relevant to the account with supplementary notes where required and
- the collection fund which records council tax and business rate income and disbursements to precepting authorities (the council's own requirement, Kent Police Authority, Kent Fire and Rescue Service and parish councils) and payments to central government in respect of the contribution to the business rates pool.

- 4.3 The elements that may be of most interest to Members are the income and expenditure account, the statement of movement on the general fund balance and the balance sheet.
- 4.4 Paragraph 3.1 refers to the audit of the statements being completed by the 30 September 2007. The actual audit of the statements is scheduled to commence at the end of July and clearly the statement of accounts that is presented for approval does not reflect any changes that this audit may require. If there are significant amendments to the statement of accounts these will need to be reported back to Members prior to formal publication.

## 5. Summary financial position for 2006/2007 (General Fund Revenue)

- 5.1 Throughout the financial year, regular monitoring reports identified the major variations from approved budgets and detailed the management action being proposed and taken in response to the potential for a significant overspend. The final accounts show an underspend of £59,000 which is a significant achievement in view of the severe financial pressures faced by some services. The table below summarises the directorate positions (excluding capital charges which are a nil total across directorates) and the more significant variations to agreed budgets are highlighted in section 5.2.

<b>Directorate</b> (Excluding capital charges)	<b>Budget</b> £000s	<b>Outturn</b> £000s	<b>Variation</b> £000s
Community Services	63,254	65,667	2,413
Children's Services	176,313	177,222	909
Regeneration & Development	33,258	32,682	(576)
Business Support	12,144	10,847	(1,297)
Interest & Financing	16,154	14,622	(1,532)
DSG	(153,092)	(153,092)	0
Other	452	476	24
<b>Total</b>	<b>148,483</b>	<b>148,424</b>	<b>(59)</b>

### 5.2 Major Variations:

#### 5.2.1 Community Services

The gross overspend for the directorate is £2.4m predominantly occurring in the following areas:

- Physical disability care £1.266m;
- Leisure £709,000;
- Events £244,000;
- Older people care £229,000;

#### 5.2.2 Children's Services

The overspend for the directorate is £909,000 predominantly due to an overspending of £1.117m in respect of special education needs.

#### 5.2.3 Interest and Financing

Effective cash management ensured that balances were available to invest and a surplus of £1.532m was achieved.

#### 5.2.4 Business Support Department

The department has achieved a net underspend of £1.3m principally through savings in the following areas:-

- Human resources £501,000.
- Information technology £492,000.

#### 5.2.5 Regeneration and Development

The department has achieved a net underspend of £576,000 principally through savings of £447,000 in respect of planned highway maintenance.

5.3 The Statement of Movement on the General Fund Balance reflects the addition of the 2006/2007 revenue underspend of £59,000 which increases the balance to £7.724 million. This represents 5% of the budget requirement for the Council for 2007/2008 (£155.206m). The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Audit Commission have declined to be prescriptive on a guideline level of reserves but 5% is the figure that is generally quoted as a prudent guide.

### **6. Summary financial position for 2006/2007 (Housing Revenue Account)**

6.1 The Housing Revenue Account (HRA) is a ring-fenced account to record the 'landlord' costs and income associated with the maintenance of our housing stock. It includes costs of management and maintenance for the property portfolio, housing benefit costs in the form of rent rebates and capital financing costs, offset by housing rents and government grant. The summary of that account reflects a surplus for the year of £758,000. This is then incorporated into the balance shown at the foot of the Consolidated Balance Sheet as the Housing Revenue Account balance that now stands at just over £2.8m. This is only available for housing purposes and cannot be used to support General Fund (council tax) costs.

### **7. Summary financial position for 2006/2007 (Delegated Schools Budget)**

7.1 A significant proportion of the overall budget of the Council is delegated to schools (£168m out of the £302m) and is then ring-fenced for that purpose. Any surplus or deficit is 'rolled-forward' as part of the schools' balances. The effect is, therefore, that for this £170m there is neither an overspending or underspending against the budget.

7.2 The reality of the spending position is reflected in the movement in the schools balances. This shows that the schools balances have reduced marginally from £6.717m as at 31 March 2006 to £6.688 as at 31 March 2007. In addition:

- Net revenue reserves have fallen marginally, as a percentage of the total resources available, from 3.9 % to 3.8%;
- There has been a reduction of £0.246m in the level of reserves held by schools with positive balances;
- There has been a reduction of £0.217m in the level of deficits held by schools;
- The number of schools in deficit has increased from 4 to 8; and
- The number of schools with reserves over 10% has fallen from 8 to 6.

## 8. Summary financial position for 2006/2007 (Capital)

8.1 The total approved capital programme for 2006/2007 and future years is some £126m. Capital forecast for individual years are continually monitored and expenditure reprofiled as appropriate. The final capital expenditure for 2006/2007 was £75.250m against the latest forecast expenditure for the year of £75.718m, a variation of £3,198m arising from a variety of schemes. This outcome continues an established pattern of steadily increasing value of capital investment delivered year on year. Indeed, expenditure in 2006/2007 represents an increase of £12m over 2005/2006 and £52m more was invested than was the case in 1999/2000. The tables below exemplify the spend across directorates and the funding streams and section 8.3 highlights the major achievements during 2006/2007.

### Summary capital outturn position (all services)

Directorate	Approved programme 2006/2007 and beyond £000	Forecast Spend for 2006/2007 £000	Provisional Outturn 2006/2007 £000	Variance £000
Business Support	5,280	3,247	2,017	(1,230)
Children's Services	30,790	19,770	20,631	861
Community Services	12,158	8,968	7,520	(1,448)
Regeneration & Development	78,031	43,733	42,352	(1,381)
<b>Total</b>	<b>126,259</b>	<b>75,718</b>	<b>72,520</b>	<b>(3,198)</b>

Funding Source	Funding of expenditure £000's
Borrowing (supported and unsupported)	9,274
Government Grants	53,390
Major Repairs Allowance	2,332
Capital Receipts	3,330
General and Earmarked Reserves	2,152
Developer and Other Contributions	2,042
<b>Total</b>	<b>72,520</b>

8.2 Borrowing represents supported capital expenditure (revenue) (SCE(R)) together with unsupported (invest to save) borrowing for the Customer First project. Government grants represents the proportion of the supported capital expenditure (grant) in 2006/2007, (SCE(C)), used in financing spend in the year. The balance of Government grants that have not been spent during 2006/2007 will roll forward to support spend in later years. These grants include certain education grants linked to the academic year, and thus available to the end of the summer term, and ODPM sustainable communities grant.

8.3 The capital investment represents significant achievement towards the planned outputs of the capital programme. These will have featured in the regular monitoring reports to Cabinet and Overview and Scrutiny. Key outputs were:

8.3.1 Business Support

- ICT Strategic Fund – continuation of projects to ensure Medway has the infrastructure in place to deliver services efficiently and effectively
- Continuing improvements and extension to the Customer First project.

8.3.2 Children's Services

- Provision of a hydrotherapy pool at Abbey Court School;
- Opening of day nursery and family rooms at Bligh Infant School;
- New classrooms at Chatham Grammar School for Boys;
- Phase I works to Danecourt School;
- New classrooms at Delce Infant School;
- Amalgamation of Fairview Infant and Junior Schools;
- Synthetic pitch at Hundred of Hoo Comprehensive School;
- Replacement/refurbishment of facilities at Twydall Junior School;
- Foundation stage accommodation/children centre at Wayfield Primary School;
- Security works;
- Kitchen adaptations and
- Network/broadband improvements.

8.3.3 Community Services

- Improvements to housing stock;
- Improvements to private sector housing through renovation grants etc;
- Property adaptations for disabled persons and
- Strategic landscaping at Cliffe.

8.3.4 Regeneration & Development

- Various projects from Liveability Fund;
- Various projects to improve recycling and reduce landfill;
- Completion of Phase I of Chatham Road network;
- Completion of Phase I of Medway Innovation Centre and
- Significant progress of Rochester Riverside development.

8.3.5 Member's Priorities – in addition to the above considerable progress has been achieved on a great number of smaller projects across all directorates and include:

- Improvements to play facilities;
- Improvements to community sports facilities;
- Improvements to community recreational facilities;
- Rochester Library improvements;
- Highways improvements;
- Road markings;
- Various footway, lighting and public realm improvements and
- CCTV.

## **9. Reserves**

- 9.1 The Council's reserves have diminished substantially in recent years, largely as a result of financing capital investment but also in supporting revenue expenditure. The budget setting process for 2007/2008 forecast available general reserve of £1.9m at 1 April 2008. However, this anticipated the use of £5.7m to support the capital programme in 2006/2007 and future years and, as the table above indicates, only £2m was required from the General Reserve with the balance being rolled forward to future years and, as a consequence, £3.7m from the General Reserve is committed to fund the capital programme.
- 9.2 The General Reserve stands at £3.7m as at 31 March 2007 and, assuming that the remaining balance of reserves to finance the capital programme is spent in 2007/2008, the fund will be fully utilised.

## **10. Financial and legal implications**

- 10.1 The financial implications are contained within the body of the report.
- 10.2 The Local Authorities (Functions and Responsibilities) (England) Regulations 2000 places a duty on Council or a designated committee to approve the statement of accounts and it is a function that cannot be delegated to Cabinet.
- 10.3 Regulation 4 (2) of the Accounts and Audit Regulation 2003 require authorities to "conduct a review at least once in a year of the effectiveness of its systems of internal control" and include a statement on internal control with their statement of accounts.

## **11. Recommendations**

- 11.1 That the Audit Committee approves the draft statement of accounts for 2006/2007.
- 11.2 That the Audit Committee agree the Statement on Internal Control for signature and inclusion in the Authority's Annual Accounts for the financial year 2006/2007.

### **Background papers**

Revenue and Capital budget monitoring reports to Cabinet during 2006/2007  
Medway Council's draft statement of accounts for 2006/2007.

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