

AUDIT COMMITTEE

26 JUNE 2008

STATEMENT OF ACCOUNTS 2007/2008

Report from: Mick Hayward, Chief Finance Officer

Summary

This report presents the 2007/2008 Statement of Accounts for approval.

The Cabinet is considering this report on 24 June 2008 and a verbal update will be made at the meeting.

1. Budget and Policy Framework

- 1.1 The Accounts and Audit Regulations 2003 (as amended) (the Regulations) require these accounts to be formally approved by the Council or a committee set up for this purpose. The terms of reference of this committee 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.

2. Background

- 2.1 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. PKF are the auditors responsible for the audit of accounts that must be published by 30 September 2008.

3. Statement of accounts

- 3.1 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 significantly changed the format of the statements for 2006/2007, as reported to Members last year. The 2007 code has introduced some further revisions predominantly in respect of accounting for capital reserves and the 2006/2007 figures have been restated where required.

- 3.2 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;
 - the auditor's opinion which is given at the completion of the audit and must occur by 30 September 2008;
 - a statement of accounting policies which highlights practices adopted by the authority;
 - an income and expenditure account, statement of movement on the general fund balance and statement of total recognised gains;
 - the balance sheet which shows the assets, liabilities and net worth of the authority. Explanatory notes are required for certain headings; and
 - 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.

- 3.3 Members may recall that a Statement on Internal Control has, for several years, been included within the Statement of Accounts. The 2006 Regulations have formally removed this requirement for accounting periods after 2006/2007. However, with effect from 2007/2008, local authorities are required to prepare and publish an annual governance statement. A published framework defines the form and contents of the statement which will be considered as a separate report to Members.

- 3.4 **The draft statement of accounts are being finalised and will be circulated to Members separately as Appendix 1.** The elements that may be of most interest to Members are the income and expenditure account, statement of movement on the general fund balance, statement of total recognised gains and losses and the balance sheet which can be found on pages 14 and 28 respectively.

- 3.5 The presentation of the income and expenditure account (I&EA) requires costs to be allocated to service headings that are subsequently netted out through the appropriation or other 'below the line' adjustments. To assist Members in making the comparison to the more familiar management accounting format as shown on page 3 the note 8 on page 18 provides a reconciliation between the I&EA 'deficit' and the revenue summary.

- 3.6 Paragraph 2.1 refers to the audit of the statements being completed by the 30 September 2008. 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.

4. Summary financial position for 2007/2008 (General Fund)

Directorate	Budget £000s	Provisional Outturn £000s	Variation £000s
Business Support Department	8,529	6,996	(1,533)
Children's Services	206,442	206,948	506
Community Services	71,435	73,883	2,448
Regeneration & Development	48,530	48,614	84
Interest & Financing	(20,634)	(23,335)	(2,701)
Levies	763	821	58
Dedicated Schools Grant	(159,684)	(159,669)	15
Contribution to/(from) Reserves	(175)	328	503
Total	155,206	154,586	(620)

4.1 Throughout the year, regular monitoring reports have identified the major variations from approved budgets. Earlier monitoring reports had forecast an overspending that, at it's peak, was reported to members in September last year as a forecast overspending of some £6.4 million. The final accounts now show a revenue underspend of £620,000 (summary on page 3 of appendix 1) and clearly, against this backdrop, the final position is a significant achievement reflecting the management action taken as a consequence of that report. However, this achievement must be viewed against a backdrop of continuing overspends for Children's Services and Community Services in excess of £2.9m, offset by underspendings in all other directorates and, in particular, an extremely favourable outturn for interest and financing. For Members information, some of the more significant variations to agreed budgets were:

4.1.1 Business Support

The underspend for this department of £1.5m included 'windfall' savings in respect of NNDR refunds (£177,000) and property rental income (£220,000). Apart from these the underspend can be attributed to the moratorium with significant savings being achieved across all support services, including Human Resources (£386,000), Information Technology (£288,000) and Research and Review (£150,000).

4.1.2 Children's Services

The net overspend for the directorate was £507,000. The major areas of overspend were as follows:

- placements for children with Special Educational Needs (SEN) in the independent/non-maintained sector and in schools in other local authority areas (£1,407,000)
- SEN home-to-school transport (£510,000)
- Social work teams (£264,000)
- Support for looked-after children leaving care (£265,000)

- Casework legal fees (£412,600)
- Maternity and paternity leave (£265,000)

Underpends were generated across a wide range of services as managers adhered to the Council-wide spending moratorium. The major areas of underspend were as follows:

- Family support centres (£396,000)
- Adoption services (£199,000)
- Fostering services (£285,000)
- placements in Children's Homes and Secure Accommodation (£212,000)
- Disability services (£221,000)
- Child Protection teams (£147,000)
- Directorate and School contingency funds (£360,000)
- Training and development (£100,000)

4.1.3 Community Services

The net overspend for the directorate is £2.45 million, which comprises the following significant variances:

- Older People Services overspent by £974,000, principally in relation to homecare. This was because the actual hours of care provided were around 5.7% in excess of budgeted activity.
- Physical Disability Services overspent by £1,062,000. Approximately half of this can be attributed in part to the number of new clients with brain or spinal trauma. The remainder is the result of high levels of take up of direct payments, with little corresponding reduction in homecare and other services, i.e. new clients.
- Owing to the imposition of challenging income targets during the budget setting process, there was a £629,000 shortfall in revenues across all Leisure Centres.
- These and other less significant pressures have been offset by vacancies and moratorium savings across all services within the directorate.

4.1.4 Regeneration and Development

The directorate had to address a number of significant pressures including a vacancy savings target (£440,000), concessionary fare scheme (£350,000) and a shortfall against budget in respect of car parking income (£180,000). Despite this, strict control of expenditure and adherence to the moratorium enabled the directorate to return an overspend of only £84,000.

4.1.5 Interest and Financing

Treasury and cash management during 2007/2008 performed above expectations, generating a healthy surplus. The Treasury Outturn report elsewhere on the agenda provides more detail on the performance of this part of the budget but once again the in-house portfolio outperformed the professional fund managers. The change in the method of calculating the Minimum Revenue Provision (MRP) also helped to enhance the surplus for the current year and produce a prior year surplus allocated to reserves. MRP represents the requirement to provide for future debt repayment and changes to the governing regulations presented an opportunity for savings.

4.2 The above paragraphs highlight the major variations from the approved budget. The general pattern of variation remains as reported in previous monitoring reports with the overspending in Children's services and Community Services being offset by savings within the remaining directorates and Interest and Financing.

4.3 The 2007/2008 revenue underspend has been applied to the General Fund balance and the Consolidated Balance Sheet (page 28 of Appendix 1) shows this balance at £8.3 million. This represents 5.0% of the non-schools budget for the council. 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. Clearly we remain within this tolerance.

5. Summary financial position for 2007/2008 (HRA)

5.1 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 is set out at page 21 of Appendix 1 and reveals a surplus for the year of £269,000. This is then incorporated into the balance shown at the foot of the Balance Sheet (page 28) as the Housing Revenue Account balance that now stands at just over £3.1m. This is only available for housing purposes and cannot be used to support General Fund (council tax) costs.

6. Summary financial position for 2007/2008 (Delegated Schools Budget)

6.1 A significant proportion of the overall budget of the council is delegated to schools and is then ring-fenced for that purpose. Any surplus or deficit is 'rolled-forward' as part of the schools' balances. The effect of this in the table at section 4 is therefore to assume that for this £176m there is neither an over or under spending against the budget.

6.2 The reality of the spending position is reflected in the movement in the schools' balances figure at the foot of the Consolidated Balance Sheet (page 28). This shows that the schools balances have reduced from £6.688m as at 31 March 2007 to £6.092m as at 31 March 2008. In addition:

- Net revenue reserves have fallen, as a percentage of the total resources available, from 3.8% to 3.3%;
- There has been a reduction of £0.5m in the level of reserves held by schools with positive balances;
- There has been an increase of £0.1m in the level of deficits held by schools;
- The number of schools in deficit has remained at seven
- Just one school held reserves in excess of the maximum figure set by the LA

7. Summary financial position for 2007/2008 (Capital)

7.1 The total approved capital programme for 2007/2008 and future years is some £141m. Capital forecast for individual years are continually monitored and expenditure reprofiled as appropriate. The final capital expenditure for 2007/2008 was £87.215m against the latest forecast expenditure for the year of £89.824m, a variation of £2.609m 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 2007/2008 represents an increase of approximately £12m (16%) over 2006/2007 and £64m more was invested than was the case in 1999/2000. The tables below exemplify spend across directorates and the funding streams and section 7.3 highlights the major achievements during 2007/2008.

Summary capital outturn position

Directorate	Approved programme 2007/2008 and beyond £000	Forecast Spend for 2007/2008 £000	Provisional Outturn 2007/2008 £000	Variance £000
Business Support	25,247	23,780	21,290	(2,490)
Children's Services	35,121	23,395	22,152	(1,243)
Community Services	24,452	10,625	10,101	(524)
Regeneration & Development	56,735	32,024	33,672	1,648
Total	141,555	89,824	87,215	(2,609)

Funding Source	Funding of expenditure £000's
Borrowing (supported and unsupported)	27,714
Government Grants	41,822
Major Repairs Allowance/Reserve	2,504
Capital Receipts	7,171
General and Earmarked Reserves	4,019
Developer and Other Contributions	3,985
Total	87,215

7.2 Borrowing represents supported capital expenditure (revenue), (SCE(R)) together with unsupported (invest to save) borrowing predominantly for the purchase and refurbishment of Gun Wharf. Government grants represents the proportion of the supported capital expenditure (grant), (SCE(C)), used in financing spend in the year. The balance of government grants that haven't been spent during 2007/2008 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. The first round of CLG sustainable communities grant came to an end on 31 March 2007 and, with the exception of Watermill Wharf, the full CLG grant allocations have been expended by that date.

7.3 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:

7.3.1 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 and

- Considerable investment in the new civic HQ at Gun Wharf.

7.3.2 Children's Services

- Brompton Westbrook Primary School – Children's Centre;
- Danecourt School – replacement of temporary key stage 1 block;
- Delce Infant School –provision of a new foundation stage;
- Lordswood Infant School – Children's Centre;
- Purchase of a youth minibus;
- Elaine Primary School – opening of new teaching block and completion of Phase 1 of the Integrated Children's Centre;
- Bligh Infant School - provision of a new foundation unit;
- Brompton Westbrook Primary Children's Centre;
- Lordswood Infant Children's Centre;
- Oaklands Infant School Children's Centre;
- Greenacre School – Sports hall;
- All Faiths Primary School Children's Centre – Mobile building and
- Mobile Technology to Support Children's Social Workers.

7.3.3 Community Services

- Phase I emergency safety works to Rochester Castle;
- Transfer of Register Office to the Corn Exchange;
- Strood Leisure Centre Soccer Academy;
- Improvements to housing stock;
- Improvements to private sector housing through renovation grants etc and
- Property adaptations for disabled persons.

7.3.4 Regeneration & Development

- Construction of the river wall at Rochester Riverside;
- Various projects to improve recycling and reduce landfill;
- Various 'Greening the Gateway' projects and
- Significant progress of Rochester Riverside development.

7.3.5 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 the Strand;
- Green Flag schemes in Rochester;
- Medway Extreme Sports;
- Castle Gardens – soundproofing for concerts;
- Mobile childrens and young persons library;
- Churchfields to Esplanade footpath improvements;
- Jackson's Wheelpark;
- CCTV at Wayfield;
- CCTV at Cricketers Car Park;
- Warden's vehicles – sign writing;
- Churchfields to Esplanade – repaired and improved hand railing;
- Wainscott School railings;
- Lordswood Ball Park;
- Hempstead Library Improvements;
- Mobile Children's/Young Person's Library;
- Cliffe Toilets Refurbishment and
- Napier Road Vehicle Activated Signs.

8. Reserves

- 8.1 The council's reserves have diminished substantially in recent years, largely as a result of financing capital investment but also in supporting revenue expenditure in the earlier years of Medway Council. The budget setting process for 2008/2009 forecast available general reserve of zero at 1 April 2009. However, this anticipated the use of £3.7m to support the capital programme in 2007/2008 and future years. However, only £2.7m was required from the General Reserve with the balance being rolled forward to future years and, as a consequence, £1m from the General Reserve is committed to fund the capital programme.
- 8.1 The General Reserve at 31 March 2008 stands at £1.7m and assuming that the remaining requirement for reserves to finance the capital programme is spent in 2008/2009, the estimated balance of the General Reserve at 31 March 2009 will be approximately £0.7m and this is a slight improvement on the forecast at budget setting.

9. Financial and legal implications

- 9.1 The financial implications are contained within the body of the report.
- 9.2 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. Recommendation

- 10.1 That the Audit Committee approves the draft statement of accounts for 2007/2008.

Background papers

Revenue and Capital budget monitoring reports to Cabinet during 2007/2008
Medway Council's draft statement of accounts for 2007/2008.

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