

Meeting:	Audit Committee
Date:	25 September 2006
Subject:	Statement of Accounts 2005-2006
Key Decision:	No
Responsible Officer:	Myfanwy Barrett (Director of Financial & Business Strategy)
Portfolio Holder:	Councillor D. Ashton (Business Development)
Status:	Part 1
Encs:	Appendix 1: Proposed account changes Appendix 2: 2005-2006 Financial Management

MEMBERS ARE REQUESTED TO BRING THEIR COPY OF THE STATEMENT OF ACCOUNTS CONSIDERED AT THE MEETING OF 12 SEPTEMBER 2006.

Section 1: Summary and Recommendations

This report sets out the proposed changes to the 2005-2006 Statement of Accounts.

Recommendations:

- (a) To receive and agree further changes to the 2005-2006 Statement of Accounts;
- (b) To receive and consider the revised audit report and conclusions of the External Auditor; and
- (c) Approve the 2005-2006 Statement of Accounts (note: the Chairman and Director of Finance and Business Strategy will sign once the agreed changes are made to the Statement of Accounts)

Reason:

The Accounts and Audit Regulations 2003 require the Statement of Accounts to be audited and published by 30 September 2006. If the accounts are not approved by 30 September the Council will have failed to achieve the required statutory deadline.

Section 2: Report

Brief Background

1. Reporting the Statement of Accounts is a major part of the strategic principle of providing proper management and stewardship of all the Council's Resources. Financial implications of the recommendations, and any effect on performance indicators, are integral to the report.
2. The Council has delegated authority to this Audit Committee to approve the annual Statement of Accounts. This Committee received and approved the draft Statement of Accounts 2005-2006 at the meeting of 27 June. At a further meeting of 12 September the Committee considered and agreed changes to the accounts and considered the initial report of the External Auditor.
3. The previous meetings of the Committee agreed:

27 June 2006

- (a) To note the provisional 2005-2006 revenue and capital outturn;
- (b) Approve the change in provisions set out in the report and note the impact on the level of General Fund balances;
- (c) Approve the 2005-2006 Statement of Accounts (subject to audit); and
- (d) Authorise the Director of Financial & Business Strategy to submit the 2005-2006 Statement of Accounts to the External Auditor for annual audit.

12 September

- (a) Agreed the proposed account changes as presented to date;
 - (b) Considered the audit report and initial conclusions of the External Auditor;
 - (c) Agreed that the Chairman and Vice-Chairman meet with the External Auditor on 20 September to consider any further changes to the accounts before the Committee meeting of 25 September.
4. The "Accounts and Audit Regulations 2003" required the annual accounts to be approved by a new statutory deadline of 30 June 2006 by resolution of a committee of the relevant body, that is this Committee. This date was achieved with the accounts subject to audit. This is a full month earlier than previous years and this new statutory date remains the same for future financial years.
 5. The Statement of Accounts for 2005-2006 incorporates a summary of the consolidated revenue position, the Balance Sheet of the Authority and details of other statutory accounts. The Statement has been prepared in accordance with the "Code of Practice on Local Authority Accounting in Great Britain". This specifies the principles and practices of accounting required to prepare a Statement of Accounts which is intended to 'present fairly' the financial position

and transactions of a local authority. There have been no major changes to the Code of Practice on Local Authority Accounting (the SORP) under which the accounts have been prepared. From 2006-2007 significant changes in the SORP requirements are expected.

6. It is expected that the External Auditor will issue an unqualified opinion on the accounts. With regard to their value for money (VFM) conclusion the External Auditor expects that the opinion will be qualified. The VFM conclusion is primarily due to the overspend in 2005-2006 and the low level of General Fund Balances.
7. As agreed at the last meeting the Chairman, Vice Chairman and officers, met the External Auditor on 20 September to discuss the progress of the audit and whether further changes were required to the accounts. Three minor changes were reviewed which are set out in appendix 1 for consideration by the Committee. The meeting also reviewed the likely audit opinion on the VFM work and the level of financial management actioned during 2005-2006. Appendix 2 sets out additional information provided to the External Auditor on financial management in that year to assist their conclusions on the VFM opinion.
8. The Auditor confirmed that most items had now been cleared to their satisfaction. Three issues remained under audit review and the Committee will be given an update at the meeting. The issues relate to BTP capitalization costs, a potential planning appeal liability and the circumstances of a refund due to the Council in respect of an LPSA grant. This last item is already set out in appendix 1. The External Auditor will also report on amendments to their letter considered at the last meeting (appendix 3). The Committee in considering the final requirements of the audit will need to take a view as to whether the accounts require further amendment and also agree the process for the approval to the Accounts by the end of September.
9. The "Accounts and Audit Regulations" require that a further report be submitted if there are amendments to the accounts arising from the Audit. The meeting of 12 September considered and approved changes to the accounts and also considered a report on outstanding issues with the Harrow Primary Care Trust (PCT). This report sets out in appendix 1 amendments to the accounts agreed at the last meeting and some further minor changes that affect the General Fund only:
 - (a) General Fund: Net change of +£0.223m resulting from accruals and other changes. The net effect on General Fund balances is a reduction from £2.512m to £2.289m;
 - (b) Housing Revenue Account (HRA): Net changes of -£0.161m, increasing HRA balances to £5.193m;
 - (c) Collection Fund: This is a separate statutory account to reflect the billing of Council Tax. Members will recall that the level of bad debt provision was discussed at the last meeting and at that time no additional provision was

- proposed. After a further review with the external auditor additional provision has now been made. The bad debt provision is now £2.5m resulting in a deficit on the Collection Fund of £2.2m The outturn deficit could impact on the level of Council Tax in 2007-2008. However the level of collectable tax is improving in 2006-2007 as new properties enter the Valuation List and discounts and exemptions are removed, and it is estimated that this improvement will assist in covering the deficit by the end of 2006-2007; and
- (d) Pension Fund: Net changes of -£0.121m, reducing balances to £413,421.0m;

10. The statutory framework for approval of the accounts is referred to in the report. Case law dictates that members of a local authority retain responsibility for the proper administration of the finances of the authority (Lloyd & Ors v McMahon (1987)). Failures by Local Authority Councillors to fulfil their general fiduciary responsibilities have previously resulted in findings of wilful misconduct in Court. There are specific statutory rules governing the use and control of Housing Revenue Account. Additional practical guidance in the form of a Housing Revenue Account Manual has been produced by the Office of the Deputy Prime Minister and should be referred to.
11. With regard to the impact on equalities, budget monitoring during the year reviews the resources across the whole Council and these resources contribute to the delivery of the corporate equalities plan, achievement of level 3 of the equalities standard, and implementation of the race equality scheme. The Statement of Accounts reports on the final position for the financial year.

Section 3: Statutory Officer Clearance

Chief Finance Officer	✓
Monitoring Officer	✓

Section 4: Contact details and background papers

Contact: Barry Evans (Group Manager - Corporate Finance) tel: 020-8424-1203

Background Papers:

- (a) Statement of Accounts 2005-2006 (Audit Committee 27 June 2006)
- (b) Statement of Accounts 2005-2006 and External Audit report (Audit Committee 12 September 2006)
- (c) Provisional Revenue and Capital Outturn 2005-2006 (Cabinet 29 June 2006)
- (d) Accounts and Audit Regulations 2003

1.	Consultation	N/A
----	--------------	-----

2.	Corporate Priorities	Yes (D)
3.	Community Safety (s17 Crime and Disorder Act 1998)	N/A
4.	Manifesto Pledge Reference Number	Yes (D)

HARROW COUNCIL
Changes to the 2005-2006 Statement of Accounts

	CRA	HRA	COLLECTION FUND	PENSION FUND
	£000	£000	£000	£000
(Surplus)/Deficit for the year as per draft Statement of Accounts	8,791	(205)	(347)	(87,859)
Changes				
<u>Increase in Provisions</u>				
(1) Bad Debt Provision			1,611	
(2) Single Status		120		
<u>Capitalisation</u>				
(3) Training costs (** previously £0.092m)	**74			
<u>Increase/Decrease in Accruals</u>				
(4) Housing Subsidy interest		(168)		
(5) Purchase card expenditure	130			
(6) Housing Benefit claim (** previously £0.122m)	**84			
(7) Transport contract	372			
(8) External Audit Fees	53			
(9) LPSA Grant refund	(458)			
(10) Over accrual - Staffing costs	(70)			
(11) Professional fees	** (75)			121
Net total for amendments	110	(48)	1,611	121
(Surplus)/Deficit post audit amendments	8,901	(253)	1,264	(87,738)
Balance c/fwd as per draft Statement of Accounts	(2,512)	(5,032)	573	(413,542)
(12) Prior Year Adjustment	113	(113)		
(13) Account adjustments as detailed above	110	(48)	1,611	121
Balance c/fwd post audit amendments	(2,289)	(5,193)	2,184	(413,421)

HARROW COUNCIL
2005-2006 Financial Management

1. The draft value for money conclusion included in the Auditor's report on the 2005-06 accounts states that "adequate action was not taken during 2005-06 to deal with the deterioration in the financial position".
2. Whilst it is accepted that there was a significant overspend and that reserves are now below the agreed minimum, considerable action was taken during 2005-06 and this is explained below.
3. The 2005-06 budget round was difficult because of the considerable upward pressures on spending and the political desire to achieve a very low council tax increase.
4. During 2005-06 a whole host of issues came to a head and this resulted in a significant overspend. However, it is important to note that the potential overspend was identified very early in the year and management action was taken to contain the position as far as possible.
5. The 2005-2006 budget was agreed by Council in February 2005. There were a number of unallocated corporate savings to be met as part of the budget including:
 - Procurement savings £4,032k
 - New Harrow Project Restructure £370k
 - Sickness Absence £200k
6. The restructure and sickness absence savings were allocated out to Directorates in May 2005 which was very early in the financial year and shows that these issues were taken seriously by the Corporate Management Team and that the need to act early to ensure all savings targets were met was recognised. These targets were distributed across the Departments and action to contain these was taken.
7. In addition £1.6m of the procurement target was allocated to UL at an early stage. This left a balance of £2.4m procurement savings to find.
8. However, a range of other unforeseen issues developed during the year:
 - Demand for services, particularly in social care, was growing rapidly, and outstripping growth in resources
 - The Primary Care Trust was pushing costs onto the Council
 - Economic pressures reduced interest rates, as well as depressing the property market (which resulted in reduced income from land charges).

- A shortfall on Local Authority Business Growth Incentive (LABGI) funding was anticipated
9. There was regular reporting to the Executive Directors Group (EDG), Portfolio Holders Briefing on the Budget (PHBB) and cabinet during the year monitoring the forecast outturn and the action being taken. PF in particular took steps to contain spend on children's and adults' services. The cabinet reports during the year gave an accurate assessment of the position.
 10. A report on the financial position was presented to a special EDG on 25 May with the Portfolio Holder in attendance. This report dealt with the unallocated savings. In addition some of the risks facing the council including demand for social care, land charges and LABGI were flagged up at this stage and ways to mitigate the situation were discussed.
 11. The first quarter monitoring report to cabinet (28 July 2005) identified a net overspend of £1.6m which would leave reserves of £5.7m at the year end. The report stated that Directorates would continue to take action through their management teams to continue to manage their budgets.
 12. A more detailed analysis of the position was presented to EDG and Portfolio Holders in September. This identified a worst case scenario of an overspend of £8.9m and a likely overspend of around £3m.
 13. The second quarter monitoring report to cabinet (10 November 2005) identified a net overspend of £2.9m which would leave reserves of £4.3m at the year end. A range of management action was being pursued regarding the corporate procurement savings as listed in the report:
 - Purchase card will be re-launched to increase take up and spend
 - Key suppliers will be targeted for procurement cards
 - Further West London and Pan London projects will be undertaken
 - Detailed work with the People First contracts team is in progress to identify scope for further savings
 14. Reserves were still forecast to be above the minimum level and there was action planned to deliver the procurement savings.
 15. On 22 November 2005 the Chief Executive issued a letter to Directors and Group Managers requesting action to be taken in a number of areas to minimise the overspend forecast. This included reducing agency staff.
 16. The third quarter monitoring report identified a net overspend of £2.9m which would leave balances at year end of £4.1m. This is set out in the Cabinet report of 16 February 2006. This report included a forecast underspend of £300k on agency staff across the Council following the measures introduced to mitigate

spend. However despite all the efforts of officers the position on procurement savings had worsened by £700k.

17. At the time of the February Cabinet meeting the announcements on LABGI were made. Harrow received no grant at all through this scheme, and whilst a shortfall of £200k had been predicted, this represented an actual shortfall of £700k. It was too late to alter the budget monitoring report for cabinet but members were briefed and action was taken to amend the 2006-07 budget accordingly before the Council meeting.
18. Considerable progress was made on debt recovery during the year. Nevertheless, further provision was required for Housing Benefit overpayments at year-end. In addition, the meetings with the PCT at the very end of the financial year resulted in an additional provision being made. In addition a review of litigation showed that there was a need to make provision for an employment tribunal and other cases (in previous years such cases had been shown as contingent liabilities with no provision being required). Creating these provisions and earmarked reserves reduced the Council's reserves to below the minimum level.
19. In conclusion, whilst the Council did overspend and ended up with reserves below the £3.5m minimum level, adequate action was taken given the circumstances.