

MINUTES OF: ACCOUNTS COMMITTEE

Date of Meeting: 28th June 2006

**PRESENT: Councillor Ormerod (in the Chair)
 Councillors Entwistle (substituting for Challinor), Essex
 (substituting for Ruddick) and Robertson (substituting for
 Hancock)**

**IN ATTENDANCE: George Graham, Executive Director of Resources
 Phil Seddon, Head of Financial Services
 Julian Joinson, Democratic Services Manager**

APOLOGIES Councillors A Barnes, Challinor, Hancock and Ruddick

BUSINESS MATTERS

1. APPOINTMENT OF CHAIR

In the absence of the Chair and Vice-Chair, the Committee considered the appointment of a Chair for the meeting.

Resolved:

That Councillor Ormerod be appointed Chair of the Committee for the duration of the meeting.

2. URGENT ITEMS

There were no urgent items to be considered.

3. DECLARATIONS OF INTEREST

No declarations of interest were made.

4. PUBLIC QUESTION TIME

There were no members of the public present.

ITEMS FOR CONSIDERATION

5. STATEMENT ON INTERNAL CONTROL

The Committee considered a report of the Head of Financial Services on the Statement on Internal Control (SIC) 2005/06. The Committee was informed that the SIC was an annual statement signed by the Leader and Chief Executive. The statement covered the following areas:-

- Scope of Responsibility
- Purpose of the system of internal control
- The internal control environment
- Review of effectiveness
- Significant internal control issues

A number of evidence sources had been used on which conclusions were formed including:-

- Internal Audit's annual report
- Audit Commission reports during the course of the year
- Assurance statements by all Heads of Service

The recent Audit Commission's Progress Assessment Report (February 06) stated that "Rossendale Borough Council is progressing well." The SIC also demonstrated that, although recognising that further work was required (as demonstrated by the 'Use of Resources' score) the Council had made progress over the last year in its systems of internal control and had identified the areas for further improvement.

The Committee considered a revised version of the SIC which was circulated at the meeting by Councillor Ormerod. He introduced the report stating that the SIC was more than just about issues of financial control, but the whole environment of the Council: governance, performance and risk management. The SIC would be included in the Statement of Accounts for 2005/06, which was to be discussed elsewhere on the Committee's agenda.

The Head of Financial Services reported that representatives of Internal Audit and the Audit Commission had attended a recent Overview and Scrutiny meeting and had confirmed that the Authority was progressing well. The Council's score in the Audit Commission's 'Use of Resources' category had been 2, which was similar to most Lancashire districts. The Council aimed to increase its overall rating to 2+.

The Executive Director of Resources indicated that the SIC had developed over a period of time and would continue to evolve for the future into a 'Governance Statement' which would be signed by the Leader and Chief Executive.

Councillor Entwistle asked for clarification about the role of the Committee and the Executive Director of Resources explained the duty placed on those charged with governance to consider the Statement on Internal Control and the draft Annual Accounts. The Committee was reminded that it would also be asked to consider the final accounts in the autumn following an audit of the accounts by the District Auditor. The Council was required to publish the final accounts and it was also intended to produce an 'easy to read' version of the accounts at that stage.

Councillor Ormerod indicated that although there was a system of control in place it would be useful to understand how it was proposed to monitor its effectiveness over the next twelve months. The Committee was informed that an Audit Plan and Core Financial Strategy had been considered by the Policy Development Overview and Scrutiny Committee. The Audit and Performance Management Overview and Scrutiny Committee would undertake financial monitoring and monitoring of

qualitative performance. That Committee would ensure that the Council was sticking to its priorities and would also consider indirect financial issues, such as managing the levels of sickness absence. In addition, Heads of Service had produced quality assurance statements.

Councillor Essex commented that the Overview and Scrutiny Committee had improved its procedures to replace 'regular review' with the words 'quarterly review'. He also enquired whether the purchase of a new financial package in the sum of £190k had led to improvements in the area of financial control. Mr Seddon replied that this was now starting to be rolled out and that there would be some early improvements in relation to procurement, through electronic ordering and the provision of speedier information, such as commitment accounting. It was envisaged that the new system would be fully operational by October/November 2006.

Councillor Robertson enquired about whether staffing levels within Internal Audit remained a concern. Mr Graham indicated that the Audit Commission had previously criticised the Council for its weak internal control, weak Internal Audit Service, poor planning and low staffing levels. Mr Seddon responded that staffing was no longer an issue since the Council had purchased the services of Lancashire County Council for the provision of its Internal Audit function. It was considered that this represented good value for money and was a good example of capacity building. The arrangement had also provided access to specialist services, such as IT audit, which would have been difficult for the Council to provide from within its own staffing resources.

Councillor Essex asked that at Section 5, Paragraph 1, the word 'satisfactory' be replaced with 'sound', which better reflected the robust nature of the internal controls in place. Officers agreed to include that amendment.

Members expressed the view that the system of internal controls outlined would help to ensure that any problems were avoided, or dealt with before they became more serious issues.

Resolved:

That the Statement on Internal Controls be noted and approved for submission to the District Auditor.

6. STATEMENT OF ACCOUNTS 2005/06

The Committee considered a report by the Head of Financial Services on the Statement of Accounts for the year ended 31st March 2006, including the key document which comprised the draft Statement of Accounts.

The timetable for Member approval had been brought forward one calendar month compared to 2004/05 and Council officers were, therefore, working to a more demanding timetable.

There had been one material change since the earlier report to the Cabinet, with regard to the Minimum Revenue Provision (MRP) in relation to outstanding debt. It

was the opinion of officers that as all external debt had been paid off there was no need to make such a provision (for repayment of further principal) though this was not the opinion of the external auditors. The impact on the general fund had been an adverse £214k. This had been mitigated by use of the provision of £126k held against a “no” vote in Stock Transfer and adjustments to the levels of other earmarked reserves.

Despite the above, as in previous years the accounts showed a continuing improvement of the Council’s financial position during 2005/06 i.e. within the General Fund (GF) and the Housing Revenue Account (HRA) the latter being subject to Housing Stock Transfer (HST) on 27th March 2006. The results of the transfer had dramatically impacted on the consolidated balance sheet in both the reduction of fixed assets due to the transfer of the housing stock and the elimination of long term debt following the repayment made by the Office of the Deputy Prime Minister of the attributable housing debt at the housing transfer date.

The above main revenue accounts showed the following balances as at 31st March 2006:

	£000s
• GF	£647
• HRA	£1,098

The Housing Revenue account, following the HST, had to remain open for a further 12 months. Thereafter, any remaining balance could be transferred into General Fund on 1st April 2007. Feasibly, there might still be further legitimate costs to HRA during 2006/07, though these were not expected to be material.

Members were informed that the Cabinet “Outturn Report”, presented to Members on 7th June 2006, indicated balances of £640k and £1,013k on GF and HRA respectively. The same report did however indicate that there might be further adjustments as part of the finalisation process.

The other key areas of note, other than GF and HRA balances were:

- Fixed Assets - £16,260k (£123,728k 04/05)
- Cash Balances – £2,747k (£2,423k 04/05)
- Long term borrowings – £nil (£22,856k 04/05)
- Pension Deficit – £18,328k (£19,551k 04/05)

The Committee was asked to note that the effect of the pensions deficit, which was a notional rather than a cash amount, was to produce a negative figure for the Council’s net equity. This resulted from the fact that the Stock Transfer process removed over £100m from the Council’s balance sheet. This phenomenon was becoming more common in local authorities as fewer remain providers of housing and the full impact of the implementation of Financial Reporting Standard (FRS) 17 in relation to pensions was felt.

The Chair invited Members to consider the overall position with regard to the accounts. Mr Seddon indicated that the document would be further refined to improve its appearance. A user friendly summary would also be produced after

the audit of accounts. The Chair commented that budget position was very positive. Three years ago the Council had set itself a target to increase the General Reserves to £500k. That figure had now risen to approximately £650k. External long term debt had been eliminated; the housing stock had been transferred; cash flow had improved; and other pockets of reserves had been identified, such as a Legal Liabilities Reserve of approximately £100k.

Mr Graham reminded Members of the amount of effort expended by staff to produce this highly technical document. As a consequence, the Committee was asked to consider a log of changes tabled at the meeting, following a record of the quality assurance process which had been on-going in relation to the draft Statement of Accounts. The amendments discovered were insignificant in financial terms, but the process of checking represented a significant step forward in quality assurance of the document. Further embellishments would be made to the final audited document including the addition of photographs.

The Chair enquired about the increases in expenditure on publicity from £95 to £230k at Note 6 on Page 28. Mr Graham reported that this included the development of the new website; the full year cost of staffing within the Communications Team which had been expanded in February 2005; and the production of the Civic Newspaper.

Councillor Robertson asked whether improved use of ICT had led to increased savings on paper costs. The Chair enquired about the large increase in the grants to charities identified at Note 5 on Page 28. Councillor Gill asked about the increased administration costs also at Note 5. Officers agreed to circulate a written response to any detailed questions raised.

Councillor Entwistle enquired about the cost of redundancies due to reorganisation of the Council's officer structures and whether the majority of these had now taken place. He also asked whether the increases in reserves had been funded by the sale of assets. Officers responded that increases in reserves had been funded through the Council Tax (in that the Council had budgeted to increase general reserves to £0.5M as part of its recovery programme), efficiency savings, underspending and technical changes to generate one-off cash savings.

In response to a query by Councillor Essex, Mr Seddon explained the changes to the way in which the Council received an income from the bus company. The Council now recharged for operational expenses and Members' time rather than receiving a dividend, as this was more tax efficient for the company.

Councillor Essex also enquired about the cost of the Local Government Pension Scheme at Note 20 on Page 56. It was noted that employer's contribution would rise from 14.5% prior to April 2006 to 18.1% in April 2007. Officers reported that the overall deficit in the sum of £18,328k applied to the long term and due to Financial Reporting Standards was based upon the unlikely assumption that all staff would retire with immediate effect and would take a lump sum. The Chair reported that the deficit had been taken into account in the budget and the Corporate Improvement Plan. The overall deficit would be made good by increased contributions over the working life of employees, as assessed by the actuary for the scheme. The Local Government Association, trade unions and the

Department for Communities and Local Government were negotiating about a reasonable level of employees' contributions.

The Chair enquired further about the £214k call upon the General Fund for the repayment of future debt, although the Council had eliminated external debt. Mr Seddon reported that the Council did have internal borrowing in the region of £4m and was required to make provision for this within the budget. The level of the MRP was due to fall significantly in the following year.

Councillor Gill enquired about increases in the amounts of subsistence allowance at Note 8 on Page 29. Mr Graham reported that this related to the cost of attendance at courses and conferences, as a result of increased Member Development activity.

The Chair reminded members that the Housing Revenue Account would remain open for 12 months and that any balance would transfer to the General Fund Reserves in April 2007.

Councillor Essex asked a question about the name of the Greenfield Trust Massage Centre on Page 68.

NOTE: It was subsequently confirmed that this name was indeed correct, the name's heritage relating to a post-WWI therapy unit for demobilised Servicemen.

Resolved:

1. That the draft Statement of Accounts as presented are approved for submission to the District Auditor.
2. That the amendments sheet circulated be noted and submitted to the Audit Commission along with the Draft Statement of Accounts.
3. That the Quality Assurance Log be noted and the minor amendments identified since publication of the Draft Statement of Accounts be approved for incorporation.
4. That the Statement of Accounts goes on deposit for public inspection on 3rd July until 28th July 2006 to allow for the regulatory 20 working days before the date appointed for the Public to question the Auditor (31st July 2006) or to make objections to the accounts.

(The meeting commenced at 6.30pm and finished at 7.25pm)