

<i>COMMITTEE</i>	<i>DATE</i>	<i>CLASSIFICATION</i>	<i>REPORT NO.</i>	<i>AGENDA NO.</i>
Audit Committee	29th June 2009	Unrestricted		
<i>REPORT OF:</i>		<i>TITLE:</i>		
Chris Naylor – Corporate Director of Resources		Draft Statement of Accounts 2008-2009		
<i>ORIGINATING OFFICER(S):</i>		<i>Ward(s) affected:</i>		
Alan Finch – Service Head, Corporate Finance		N/A		

Special Circumstances and Reasons for Urgency

- The report was unavailable for public inspection within the standard timescales set out in the Authority's Constitution, because of the continuation of discussions between the Council, its Auditors and other London authorities regarding items of account which it had been anticipated would be completed in time for publication of the agenda for this meeting of the Audit Committee.
- The Corporate Director of Resources recommends that a committee approval of the Draft Statement of Accounts is given at this meeting in order to meet the statutory deadline of 30 June 2009.

1. SUMMARY

- 1.1 This report presents the Authority's draft Statement of Accounts for the financial year ending 31st March 2009, prior to audit.
- 1.2. It also provides an update on progress towards meeting the International Financial Reporting Standard (IFRS).

2. RECOMMENDATIONS

Audit Committee is recommended to:-

- 2.1 Approve the draft final Statement of Accounts for the financial year ending 31st March 2009.
- 2.2 Note that the accounts will now be submitted for audit.
- 2.3. Note progress towards meeting the International Financial Reporting Standard (IFRS).

LOCAL GOVERNMENT ACT, 2000 (SECTION 97)
LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"

*Name and telephone number of holder and
address where open to inspection*

*Closure of Accounts Working Files
Accounts & Audit Regulations 2003 Approval of Accounts
Best Value Accounting Code of Practice
HRA Closure of Accounts Working Papers
Capital Working Papers*

*Gary Moss, Ext. 4223
Gary Moss, Ext. 4223
Gary Moss,, Ext. 4223
Paul Leeson, Ext. 4995
Ekbal Hussain, Ext. 4737*

3. BACKGROUND

- 3.1 The approval of the authority's Statement of Accounts is subject to a two stage process. Firstly, Audit Committee receives and is requested to approve the draft Statement of Accounts for submission to the Audit Commission. Under statute this must take place on or before 30th June 2009.
- 3.2 After the Council's accounts have been subjected to external audit, the auditor will issue his opinion and, providing he finds no reason not to do so, his audit certificate. This must take place on or before 30th September this year.
- 3.3 Under legislation, if there are any material amendments arising as a result of the audit, these must be reported back to the Audit Committee.
- 3.4 The auditor is also required to make a report setting out any matters that are not material to the accounts but are more than merely trifling. If necessary, this report will be made to the Audit Committee at the end of September.

4. STATEMENT OF ACCOUNTS 2008-2009

- 4.1 The draft Statement of Accounts is attached to the report as **Appendix 1**.
- 4.2 The contents of the accounts are largely determined by statutory requirements and mandatory professional standards as set out within the "Statement of Recommended Practice" published by the Chartered Institute of Public Finance and Accountancy (CIPFA). A summarised version of the accounts is published as a leaflet once they are approved.
- 4.3. The Council's final spending against budgets is reported to the Cabinet and this will take place at the meeting of 1st July 2009.
- 4.4. The accounts are an important aspect of the financial management of the Council as they set out the Council's financial position, including its main assets and liabilities on a year-by-year basis as well as summarising the transactions of the Council during the year. The accounts influence the Council's financial plans because balanced budgets and sustainable medium term planning depend upon a healthy overall financial position. If an authority finds itself in a position in which it needs to set money aside in its accounts to cover existing liabilities or future risks, for example, these items are the first call on the budget.
- 4.5. The draft accounts provide some important information about the Council's finances which Members will wish to bear in mind.

<p>Income and Expenditure Account (<i>Page 16</i>)</p>	<p>The Income & Expenditure Account summarises the revenue activities of the Council during 2008/09 and shows the day-to-day costs of services provided by the Council together with charges made to the revenue accounts in respect of the use of assets, costs of borrowing and income from investments. This includes the activities of the General Fund and the Housing Revenue Account.</p> <p>The draft accounts show that in 2008/09, the Council spent £1,201m on services, most of which was funded from income which comes in the form of specific grants, rents, fees and charges for services.</p> <p>Any surplus or deficit on the Income and Expenditure Account is carried to the Statement of Movement on the General Fund Balance.</p>
<p>Housing Revenue Account (<i>Page 52</i>)</p>	<p>The Housing Revenue Account is a separate ring-fenced account showing the expenditure and income relating to the provision of Social Housing by the Council.</p> <p>The HRA balance as at 31st March is £23.301m, which includes reserves set aside to fund capital expenditure in 2009/10.</p>
<p>Group Accounts (<i>Pages 61 to 66</i>)</p>	<p>This is the first year the Council has been required to complete a set of Group Accounts following the establishment of Tower Hamlets Homes in July 2008.</p> <p>The Group Accounts show the financial position of the Council's 'Group'-comprising the Council itself plus its share of any controlled Companies. THH is 100% owned by the Council and does all of its business with the Council. For this reason the Group Accounts are not substantially different from the Council's own accounts at this stage.</p>
<p>Reserves & Balances</p>	<p>Earmarked reserves are those that have been set aside to cover a particular risk, or are ring fenced for particular purposes or services. The level of earmarked</p>

	<p>reserves now stands at £101.865m, an increase of £9.019m over the previous year. The detail is set out in Note 47 to the Accounts (<i>Pages 43 to 45</i>). Most of the increase is explained by grant income received in 2008/09 and set aside for expenditure in later years. The earmarked reserves are set aside against specific risks or approved spending.</p> <p>The level of General Fund general reserve now stands at £27.102m (<i>Page 40</i>). This is the amount which is generally available for use in unforeseen circumstances. The amount is being held at a relatively high level at the moment in view of the risks to the authority's expenditure and income arising from the economic downturn and the consequential squeeze on public spending.</p> <p>The accounts assume certain transfers to reserves requested by Directorates which have yet to be formally approved, and these will be reported in full to the Cabinet for approval on 29th July. In the event that the Cabinet does not agree to these transfers, the accounts will be adjusted as part of the audit process subject to the auditor's agreement.</p>
Balance Sheet (<i>Page 19</i>)	<p>The Balance Sheet shows the various assets and liabilities of the Council as at 31st March 2009. The value of the assets of the Council must equal the value of liabilities plus reserves.</p> <p>Assets include land and buildings, equipment and vehicles, cash and investments held by the Council, and any debts owing to the Council.</p> <p>Liabilities include loans taken out by the Council to finance capital expenditure and any debts owed by the Council.</p> <p>The net assets of the Council (assets less liabilities) were £1.935 billion, which was a reduction from 31st March 2008 when the figure was £2.139bn. The main reason for the reduction is the revaluation of Council owned land and buildings, in the light of falling asset</p>

	<p>values during the economic downturn.</p> <p>The reduction in value has no immediate impact on the Council but clearly if sustained would reduce the value of assets that the Council might dispose of in future to fund other priorities.</p>
Collection Fund (<i>Page 58</i>)	<p>The Collection Fund is a separate account detailing local taxes collected by the Council on behalf of itself, the Greater London Authority (GLA) and the Government. The account shows the distribution of the amount of Council Tax collected between the Council and the GLA and the payment of non-domestic rates to the Government pool.</p> <p>Any surplus on the Fund is distributed between the Council and the GLA in proportion to their share of tax income drawn from the fund, and any deficit is similarly distributed.</p> <p>The Fund is currently showing a small deficit of £810,000. However a deficit was foreseen and planned for in setting the budget for 2009/10.</p>
Cash Flow Statement (<i>Page 20</i>)	<p>The Cash flow Statement is an alternative way of showing the financial activity of the Council in terms of payments made and received during the year. It gives quite a good idea of the scale of the financial operations of the Council, showing where its money comes from and how it has been spent.</p>
Pension Fund Accounts (<i>Pages 67 to 72</i>)	<p>The Pension Fund accounts are separate from the rest of the Council's accounts and show the expenditure and income, assets and liabilities of the Pension Fund provided by the Council under legislation for the benefit of its employees and pensioners, and those of admitted bodies. They are audited at the same time as the Council's accounts but are subject to a separate audit opinion.</p> <p>The market value of the assets of fund at the end of the year was £562.3m, a decrease of 18% largely reflecting the market conditions affecting investments over the last year. This is not at this stage a serious problem because the</p>

	<p>fund is not due to pay the bulk of its liabilities for many years and the value of investments has time to recover. However the current valuation could affect the next valuation of the Fund, which is due in 2010 and sets the Council's contributions to the Fund for the following three years.</p> <p>The Pensions Fund accounts were also considered by the Pensions Committee on 11th June.</p>
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- 4.5. In a recent report, the Audit Commission has drawn attention to six financial ratios which are a useful starting point for understanding how historic decisions have impacted on the Council's current financial position, and as a starting point for future decision making. These are set out at **Appendix 2**, together with comparison to the Inner London average, and a commentary.
- 4.6. The Statement of Accounts also incorporates the Annual Governance Statement, which is the subject of a report elsewhere on this agenda.
- 4.7. Members are now invited to approve the accounts and formally submit them to the Audit Commission for audit. The auditor is expected to issue his opinion in September. Any material issues arising from the audit will be reported back to the Committee. Any immaterial but more than merely trifling issues will be reported to the Audit Committee.

5. INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS)

- 5.1. With effect from the 2010/11 financial year, local authorities will be required to prepare their financial statements in accordance with the International Financial Reporting Standard (IFRS). This replaces the existing standards and the Generally Accepted Accounting Code of Practice for the UK (UKGAAP). IFRS, which has applied to Companies for some years, has already been introduced in central government and the NHS and the purpose is to have a single standard upon which all organizations throughout the world are required to report. Adoption is mandatory for local authorities.
- 5.2. The IFRS introduces many changes to the way results are reported, but the main changes which will make a noticeable difference to the way information is used are:
- Increasing the level of detail required in reporting the valuation of assets.
 - Bringing assets procured through PFI onto the balance sheet.
 - Enhancing the level of information required to be reported on leases and contracts.

- Providing more information in the accounts which relates back to Services and Directorates, so that the performance of budget managers will be become clearer from the accounts.
- Increasing the level of reporting required relating to employee benefits.

It is understood from experience elsewhere that the changes are likely to increase the size of the accounts by about 50%.

- 5.3. As the IFRS is introduced fully in 2010/11, it will be necessary to state the current year's (2009/10) accounts in IFRS terms as well as in accordance with existing standards.
- 5.4. There is a considerable amount of work involved in progressing towards IFRS, which affects most parts of the Council. Consequently a project has been set up to address these requirements. A qualified accountant within the Corporate Finance Service has been seconded to the role of IFRS Accountant in order to progress the project. The Financial Reporting & Technical Excellence Group, which comprises senior finance officers from all Directorates, is acting as the project board. The group receives monthly updates. The project began in December 2008 and has made good progress so far.
- 5.5. Further updates will be provided to the Audit Committee as the project proceeds.

6. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 6.1 The comments of the chief financial officer are incorporated within this report of which he is the author.
- 6.2. There are additional costs incurred in adopting IFRS, both in relation to the project and to maintain processes and systems and continue to report on the new basis. These will need to be contained within existing resources.

7. RISK MANAGEMENT

- 7.1 There are no specific risk management implications.

8. CONCURRENT REPORT OF THE CHIEF LEGAL OFFICER

- 8.1. The Accounts and Audit Regulations 2003 specify the process by which the authority's accounts are initially approved and then examined by the external auditor. This process and the dates by which the various stages have to be achieved are set out in paragraph 3 of the report and are binding on the authority.

9. ONE TOWER HAMLETS CONSIDERATIONS

- 9.1 The Statement of Accounts is a single statement of the financial position of the whole Council which is potentially of interest to all individuals and organisations which have dealings with the Council.
- 9.2 The statements are published on the Council's website both in draft and in audited form. Interested parties have the right to inspect the accounts during the audit and local electors have the right to submit questions to the auditor. Details of these rights are published in local newspapers at appropriate stages.

10. ANTI-POVERTY CONSIDERATIONS

- 10.1 There are no specific anti-poverty implications arising out of this report.

11. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)

- 11.1 There are no SAGE implications arising out of this report.

Appendix 2

FINANCIAL RATIOS ARISING FROM THE ACCOUNTS

Ratio	Tower Hamlets' ratio 2008/09 accounts	2007/08 accounts	Inner London plus Newham midpoint average 2007/08 (*)	Notes
Working Capital	1.43	1.48	1.71	<p>The working capital ratio is the ratio between current assets and current liabilities. Current assets are those which can be realized within 12 months - such as cash held at the bank. Similarly, current liabilities are those payable within 12 months.</p> <p>A figure above 1 indicates that current assets exceed current liabilities, which is clearly the position to be in as it indicates that it should be possible for the Council to meet all of its current liabilities from current assets. However if the ratio is too much above 1, this may indicate inefficient resource management, with too much value held in short term assets.</p> <p>Tower Hamlets' ratio is healthily above 1, and in 2007/08 was slightly lower than the Inner London average of 1.71.</p>
Useable Reserves compared with spending.	12.7%	10.8%	15.5%	<p>This indicator is the value of the Council's useable capital and revenue reserves as a percentage of gross expenditure on services.</p> <p>Useable reserves are held against known or unforeseen risks. If the level of reserves is too low relative to spending, this may suggest that the Council is running the risk of having to meet</p>

	0.77	0.94	2.09	<p>unforeseen expenditure by cutting back on costs in year. Too high a figure may indicate that the Council is holding too much in reserve which could be used for investment in services.</p> <p>Although Tower Hamlets' figure is lower than most Inner London Boroughs, this reflects a relatively high level of spending, and Tower Hamlets' figure compares well with a number of other similar budgets. However it also suggests that other authorities may find it easier to weather any forthcoming public spending constraints.</p>
<p>Long term borrowing compared with tax revenue</p>	0.77	0.94	2.09	<p>This ratio indicates notionally how many years worth of "tax revenue" (Council Tax and non specific grants) would be needed in order to pay off the Council's current debts in full. This situation is never likely to arise, and the ratio is a fairly crude one, which doesn't take account of all Council income, but it is a rough guide to current debt levels.</p> <p>This figure indicates that Tower Hamlets' long term borrowing is the equivalent of under a year's tax revenue.</p> <p>A Council's level of long term borrowing is a factor of past spending and financing decisions. In Tower Hamlets' case, our relatively low figure arises from the fact that much capital expenditure in recent years has been funded from internal balances rather than through new borrowing, which has kept borrowing costs down. This does not necessarily mean that the Council can afford significant additional borrowing, since internal borrowing, while it does not incur "real" debt charges, still has to be funded.</p>

<p>Long term borrowing as a proportion of long term assets</p>	<p>13%</p>	<p>13%</p>	<p>21%</p>	<p>This ratio indicates notionally what proportion of the Council's assets would need to be sold to pay off its long term borrowing in full. A low figure is preferable, although too low a figure may indicate that the Council is not making good enough use of its asset base.</p> <p>For Tower Hamlets this figure in 2007/08 was 13% which was lower than most Inner London authorities. The proportion has stayed roughly the same in 2008/09 because, although debt has been paid off, asset values have reduced in the current property market.</p>
<p>School balances compared with Dedicated Schools Grant</p>	<p>9%</p>	<p>13%</p>	<p>6%</p>	<p>Balances held by schools are not useable by the local authority. This ratio gives an indication of the level of reserves currently held in relation to the current year's DSG allocation.</p> <p>Tower Hamlets' figure is relatively high, and the Corporate Director- Children's Services has been in discussion with the Schools Forum to identify how this money can be put to use.</p>
<p>* No comparative figures yet available for 2008/09. Inner London includes Newham in this analysis, since this is a neighbouring Borough which shares many characteristics with Tower Hamlets, but excludes the City of London which is an unusual authority in local government finance terms.</p>				