

Final Accounts Memorandum Salford City Council

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Reference:	Salford CC
Date:	January 2005

Introduction

The Audit Commission Act 1998 and the Code of Audit Practice require the external auditors to give an opinion as to whether the statement of accounts presents fairly the financial position of the Council and its income and expenditure for the year in question. In accordance with this requirement we gave an unqualified opinion on the 2003/04 accounts on 26 November 2004.

This report summarises the issues which arose from our audit of the financial statements.

Main issues arising

Preparation and approval of the accounts

The Director of Customer and Support Services and his staff are commended for the earlier closure of the 2003/04 accounts. We are satisfied that the financial statements in general comply with good practice. Working papers provided by accountants to support the statements are generally of a good standard. The Council has made good use of electronic working papers and has been proactive in identifying and dealing with current technical issues.

Members approved the council's annual accounts in August 2004. Timeliness in producing the accounts will become increasingly important over the next two years as the deadline for completion of the accounts is brought forward in line with the whole of government accounts initiative. In 2005 the accounts will need to be approved by members by the end of July 2005 and audited by the end of October 2005. This will require early planning and thoughtful scheduling of key meetings next year.

Report to the council

We are required by professional standards to report to 'those charged with governance' certain matters before we give an opinion on the accounts.

In accordance with this requirement we reported the matters arising from our audit to the Accounts Committee on 22 November 2004. The Director of Customer and Support Services issued a report in response to these issues and the Accounts Committee agreed with his recommendation to make several amendments to the accounts. These amendments did not impact on the reported balances in the council's general fund reserve or the housing revenue account.

General fund spending and balances

We concluded from our review that the council's financial position continues to be sound. The council budgeted to contribute £1m to the general fund reserve in 2003/04. This, together with £0.9m underspend for the year, resulted in the general fund reserve increasing from £5.1m at 31 March 2003 to £7m at 31 March 2004. This level of balances is in line with the minimum identified by the council as part of its financial risk assessment in approving its 2004/05 revenue budget.

The council's budget monitoring for 2004-05 indicates that overall spending is currently projected to be within budget. Looking ahead, it is important that actions continue to be taken to ensure that the council delivers the key financial targets which are included in its medium term financial strategy. These include:

- Maintaining general fund and housing revenue account balances at the minimum (or more) identified by the council's financial risk assessments
- Clearing the deficit on the collection fund (£0.95m at 31 March 2004) in 2004/05
- Eliminating the dependence on capital funding for some expenditure which might more normally be charged to revenue.

Schools' deficits

As at the 31 March 2004 there were over 30 schools with deficit balances which totalled around £2m. This has significantly increased compared with the previous year when the total was £1.2m. Members, the LEA and relevant schools' governors need to ensure that there are clear plans to eliminate the schools' deficits and that further schools do not fall into deficit.

Treasury management

Two issues of national relevance have recently arisen which apply to other local authorities as well as Salford. These issues could have a significant impact on the council's future financial standing and will need to be carefully examined when the outcome is known. We are awaiting further guidance from the Audit Commission and professional bodies which we will share when it becomes available. Further details are provided below.

- Interest on loans

The council has entered into a number of loan agreements which include a reduced rate of interest in the initial period (ranging from two to five years) followed by a planned minimum increase in the interest rate after this initial period. The council's budget assumes that interest will be charged to the accounts in line with the payments made each year.

To comply with the requirements set out in the Financial Reporting Standards, the council may need to spread all the interest it plans to incur over the life of the loans in equal instalments for each year of the loans. The estimated impact in 2003/04 is £1.1m of interest above the amount charged to the revenue account. This increases by a further amount of £1.8m in 2004/05 and £1.5m in 2005/06.

The Director of Customer and Support Services advised the Accounts Committee in November 2004 that in the event that the council needs to meet these charges, approximately 50% would fall on the housing revenue account and will be eligible for housing subsidy. The remaining 50% would be borne by the general fund.

- Premium on restructured loans

There is also an issue relating to the premium on restructured loans. Where the council has repaid loans early and paid a premium for doing so, the related general fund amount is held in the balance sheet and written off over the period of the replacement loan. There are instances where the council is still writing off the premium where the replacement loan has itself been restructured. If the authority is required to write-off this amount there will be an additional charge to revenue of £1.8m.

The Director of Customer and Support Services advised the Accounts Committee in November 2004 that in the event that the council needs to meet these charges there is adequate provision within the Capital Financing Reserve to write this off.

Statement on internal control

The Accounts and Audit Regulations now require authorities to carry out an annual review of internal control arrangements together with the provision of a signed assurance statement in the published accounts. CIPFA recognised that the review and associated statement for 2003/04 would be transitional towards a complete methodology which will need to be in place for 2004/05.

The council's assurance statement for 2003/04, which was redrafted following our audit, met the transitional requirements. The council has recognised that much still needs to be done to fully comply with the requirements envisaged for 2004/05 and has set up a Management Group to take this forward. We will keep progress on this under review as part of our regular liaison with the Director of Customer and Support Services.

Income collection

In past years we have commented on the council's performance relating to income collection and the need for strengthening systems of internal financial control in this area.

Current trends in performance on key financial indicators for income collection and management of arrears are generally encouraging. The comparative position with last year for arrears is illustrated below:

Income	2003/04 Arrears £m	2002/03 Arrears £m
Council tax	14.689	16.619
National non domestic rates	2.472	3.311
Sundry debtors	12.330	13.067
Housing rents	6.505	6.616

Despite the overall improvement the arrears on housing rents are around 10% of the annual rental income. Collection performance in 2003/04 was 93.6%, which fell short of the council's target of 96%. The council needs to work closely with New Prospect Housing Limited to identify opportunities for improving collection performance of housing rents.

Action Plan

An Action Plan (attached) has been agreed for tackling the issues referred to above together with some of the less significant matters arising from the audit.

Status of our reports to the Council

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to non-Executive Directors/Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Director/Member or officer in their individual capacity, or to any third party.

AC Head A

AC Head B

AC Head C

AC Head D