
STATEMENT OF ACCOUNTS 2006-07

Purpose of Report

1. This report seeks approval of the Council's draft Statement of Accounts for 2006-07 prior to audit by the Council's appointed auditor, PricewaterhouseCooper (PwC).

Information and Analysis

2. The Accounts and Audit Regulations 2003 require local authorities to approve their 2006-07 Statement of Accounts (SoA) by 30th June 2007. The Council's Constitution requires that approval be made by Audit Committee. Following approval the accounts will be subject to examination by the Council's auditors, commencing in July with their Opinion expected by the end of September.
3. The draft SoA is attached at **Appendix 1**. It is presented in the format prescribed under the Regulations, which differs in several respects from the format used for internal financial management purposes. The Council's provisional financial results for 2006-07 were reported to Cabinet on 5th June 2007.
4. The main accounts contained within the overall SoA and the key issues to be brought to Members' attention in the 2006-07 SoA are explained in the following paragraphs.
5. There is a fundamental change to the 2006-07 SoA in so much as the whole format has changed with the introduction of 'Core Statements' namely the Income and Expenditure Account, the Statement of Movement on the General Fund Balance and the Statement of Recognised Gains and Losses. The notes to the individual core statements have been consolidated into one set of notes.
6. Up to 2005/06 the local authority statement of performance was the Consolidated Revenue Account (CRA) and the surplus or deficit on the CRA was the movement for the year on the General Fund Balance. This has now been replaced with the Income and Expenditure Account and the Statement of Movement on the General Fund Balance which gives the same result but shows it in a different format that complies with Generally Accepted Accounting Practice.
7. The ***Explanatory Foreword*** (pages 3 - 8) offers interested parties an easily understandable guide to the most significant matters reported in the accounts. It provides an explanation in overall terms of the authority's financial position, and assists in the interpretation of the accounting statements. It contains a commentary on the major influences affecting the authority's income and expenditure and cash flow, and information on the financial needs and resources of the authority. It shows the amount and relative proportions of government grants, Council Tax and service income. The presentation of spending in the summary uses

the definitions of services that are set out under regulations, not all of which may be readily meaningful to readers. Some explanation has, therefore, been added to the summary.

8. The ***Income and Expenditure Account*** (I&E) (page 18) is fundamental to the understanding of a local authority's activities, in that it reports the net cost for the year of all the functions for which the authority is responsible, and demonstrates how that cost has been financed from general government grants and income from local taxpayers. It brings together expenditure and income relating to all of the authority's functions, in three distinct sections:-
 - (a) The Net Cost of Services summarises the resources that have been used to provide services and manage the Council during the year. It includes day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed (depreciation) and the real projected value of retirement benefits earned by employees in the year. The reason for including these charges in the net cost of services is to help to enable like-for-like comparisons between different authorities' service costs.
 - (b) The Net Operating Expenditure section includes income and expenditure which relates to the authority as a whole and is not charged to the cost of individual services. The most substantial entries relate to borrowing and investments. Notional pension costs are replaced with the actual costs in the second part of the I&E Account to show the Council's Net Operating Expenditure for the year. This part of the I&E also contains adjustments for Housing capital receipts paid into the national pool, interest and investment income received and the surplus made on in-house trading undertakings. These adjustments are all required under the regulations.
 - (c) The final part of the I&E Account is the Net Income and Expenditure Account surplus/deficit. This shows the amount of general government grants and Council Tax paid in to the I&E Account for the year and the overall net surplus or deficit that is transferred to the Council's General Fund Reserve. The General Fund Reserve is money that the Council holds, which is available to pay for future expenditure. It is, therefore, a key indicator of the Council's overall financial health. It should not be so low as to put future service provision at risk, nor so high as to suggest that funds should have been used to enhance previous service provision or reduce taxation levels. The Council has approved a policy to determine appropriate levels of reserves. The level of reserves throughout 2006-07 was in accordance with the approved policy. Annual contributions to and from reserves are decided in accordance with policies and procedures under the Council's Constitution (principally the Medium Term Financial Plans and Revenue Budget, approved by full Council in March each year). In March 2006, Council approved a contribution from reserves of £2.389M for 2006-07. Additional approvals made in accordance with the Council's Constitution during the year increased the approved contribution to £2.635M. Changes approved in the MTFP by Council in March 2007 resulted in a planned net contribution to reserves of £0.702M. Variances in income and expenditure resulted in the actual contribution to reserves being £1.101M. This variance is equivalent to 0.01% of the net budget.
9. At 31st March 2007, the Council had reserves of £13.100M available to fund future expenditure. The MTFP approved by Council in March 2007 assumed reserves of £12.700M and includes the planned use of £6.049M of reserves over the next four years to

2010-11. The financial results for 2006-07 mean that implementation of the MTFP remains on track.

10. The ***Statement of Movement on the General Fund Balance*** (page 19 - 20) shows whether the Council has over or under spent against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure. The Income and Expenditure Account brings together all of the functions of the authority and summarises all of the resources that the authority has generated, consumed or set aside in providing services during the year. However, this accounting basis is currently out of line with the statutory provisions that specify the net expenditure that authorities need to take into account when setting local taxes. In order to give a full presentation of the financial performance of an authority during the year and the actual spending power carried forward to future years, the outturn on the Income and Expenditure Account needs to be reconciled to the balance established by the relevant statutory powers. The Statement of Movement on the General Fund Balance provides the necessary reconciliation.
11. The ***Statement of Total Recognised Gains and Losses (STRGL)*** (page 21) brings together all of the gains and losses of the council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the I&E Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits. The STRGL is the statement that brings these other gains and losses together with the outturn on the I&E Account to show the total movement in an authority's net worth for the year.
12. The ***Balance Sheet*** (BS) (page 22) is fundamental to the understanding of an authority's financial position at the year-end. It shows its balances and reserves and its long-term indebtedness, and the fixed and current assets employed in its operations, together with summarised information on the fixed assets held. It brings together all of the assets and liabilities that the Council had at 31st March 2007, valued in accordance with statutory requirements and proper accounting practice. Fixed assets (housing stock, other land and buildings, roads, parks and vehicles) are valued at £293.263M. The overwhelming majority of these assets are used to deliver essential public services and could not, therefore, be readily sold. The Council does, however, keep its assets under continuous review to ensure that they remain fit for purpose and appropriate to services. Assets that become surplus to service requirements can be sold. During 2006-07 £4.421M worth of assets were sold and the proceeds reinvested to help provide better facilities for on-going service delivery.
13. The ***Cash Flow Statement*** (page 23) summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand and deposits repayable on demand less overdrafts repayable on demand.
14. All of the above are defined as "core" financial statements and are required to be grouped together in a specified order, to be followed by a consolidated set of notes to the accounts covering all of the core statements. Supplementary statements are presented after the notes on the core statements and are as follows:
15. The ***Housing Revenue Account*** (HRA) (page 44) contains all transactions relating to the Council's own housing stock. This account and its specific reserve (sometimes called the

“working balance”) is statutorily ring-fenced. This means that neither Council Tax nor general government grant can be used to pay for the services relating to this account. The HRA reserve at 31st March 2007 is £0.601M, which is equivalent to 4% of the annual budget for the HRA. This is a reasonable level and is in line with approved plans.

16. The **Collection Fund Account** (page 50) contains all transactions relating to Council Tax and non-domestic rates (sometimes called “business rates”). As well as collecting Council Tax to pay for its own services this Council collects Council Tax on behalf of the Police and Fire authorities and parish councils. The total income on this account in 2006-07 was £67.832M. Surpluses and deficits arise on this account as a result of variances between estimated and actual Council Tax collection. At 31st March 2007 the accumulated deficit on this account was £0.033M, equivalent to 0.1% of Council Tax income.
17. The Council also has current assets in the form of debtors and investments. At 31st March 2007 the Council was owed £7.024M by Council Tax and business ratepayers and debtors for services that had been provided. The Government owed the Council £4.431M worth of grants. Whilst these may seem to be large sums, the majority of this will be collected within a short time under the Council’s routine collection procedures. The Council has a good record of income collection with approximately 99% of Council Tax and business rates and sundry debts being collected. Income that has been collected in advance of being needed is invested in accordance with prudential procedures to achieve interest income without undue risk. At 31st March 2007 the Council held £43.466M of investments and received £2.302M of investment interest during 2006-07.
18. Other key issues covered by the 2006-07 accounts are: -
 - (a) The Council has planned to spend £128M on continuing service provision in 2007-08 and has identified the necessary resources to pay for this. It has also planned to spend over £42M on capital projects during 2007-08 (£94M over the four year capital MTFP) and has identified resources to pay for this also.
 - (b) The Council’s financial health at 31st March 2007 as indicated by its planning, record of delivery against financial plans and its level of reserves was good. There are no known events that have occurred or become known since the end of 2006-07 that materially change that position.
 - (c) The Council has fully complied with the ‘Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice’ (SORP) and implemented the requirement to collate its interests in companies. The Council has identified those companies that are subsidiaries, associates or joint ventures in accordance with the guidance detailed in the SORP, the provisions of FRS2 “Accounting for Subsidiary Undertakings” and the provisions of FRS9 “Associates and joint ventures”. This exercise identified that we have one associate company (Connexions) but it is not deemed to be material in respect to the Accounts and therefore no Group Accounts have been prepared.

Outcome of Consultation

19. The content of this report was not subject to consultation. In accordance with developing best practice, the Council publishes summary accounts, which aim to provide more readily

accessible and understandable financial information to the public and other stakeholders. The LSP and Resources Scrutiny Committee have been consulted regarding summary accounts and have provided feedback that has been used to make improvements. In addition, published financial information provides contact points and invites feedback from readers.

Legal Implications

20. This report has been considered by the Borough Solicitor for legal implications in accordance with the Council's approved procedures. There are no issues which the Borough Solicitor considers need to be brought to the specific attention of Members, other than those highlighted in the report.

Section 17 of the Crime and Disorder Act 1998

21. The contents of this report have been considered in the context of the requirements placed on the Council by Section 17 of the Crime and Disorder Act 1998, namely, the duty on the Council to exercise its functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area. It is not considered that the contents of this report have any such effect.

Recommendation

22. The Audit Committee is requested to approve the attached draft Statement of Accounts for 2006-07 financial year.

Paul Wildsmith
Director of Corporate Services

Background Papers

- (i) Budget 2006-07
- (ii) Council's accounts 2006-07
- (iii) MTFP 2007-08

Peter Carrick : Extension 2326