
STATEMENT OF ACCOUNTS 2005-06

Responsible Cabinet Member(s) - Councillor Don Bristow,
Resource Management Portfolio

Responsible Director(s) - Paul Wildsmith, Director of Corporate Services

Purpose of Report

1. This report seeks approval of the Council's draft Statement of Accounts for 2005-06 prior to audit by the Council's appointed auditor, PricewaterhouseCooper (PwC).

Background

2. The Accounts and Audit Regulations 2003 require local authorities to approve their 2005/06 Statement of Accounts (SoA) by 30th June 2006. The Council's Constitution requires approval full Council, following which the accounts will be subject to examination by the Council's auditors, commencing in July.
3. The statutory deadline for production of local authorities' accounts has been brought forward by three months, phased over the last three years. This reflects the importance of timely financial accountability in relation to public expenditure.

Information

4. The draft SoA is attached at **Appendix 1**. It is presented in the format prescribed under the regulations, which differs in a number of respects from the format used for internal financial management purposes. The Council's financial results for 2005/06 were reported to Cabinet on 6th June, 2006.
5. The main accounts contained within the overall SoA and the key issues that should be brought to Members' attention in the 2005-06 SoA are explained in the following paragraphs.
6. The *Revenue Spending Summary* (pages 4 and 5) is not a statutory part of the SoA. It is added to give an informative overview of the Council's main sources of funding and how and on what the money was spent. 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.
7. The *Consolidated Revenue Account* (CRA) (page 12) brings together all of the Council's revenue expenditure and income on all services. It is, therefore, together with the

Consolidated Balance Sheet, the principal account within the overall SoA. There are four sections to the CRA: -

- (a) The Net Cost of Services identifies the total cost of each service and the income from service users and grants that are specific to each service. Regulations require notional capital charges to be included in the net cost of services. These include depreciation and the opportunity-cost of having funds 'tied-up' in buildings and other assets that the Council owns. Regulations also require notional pension costs to be included, which reflect the value of pension entitlement built up in the year. The reason for including these notional charges in the net cost of services is to help to enable like-for-like comparisons between different authorities' service costs.
 - (b) Notional capital charges and pension costs are replaced with the actual costs of each in the second part of the CRA to show the Council's Net Operating Expenditure for the year. This part of the CRA 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 third part of the CRA shows amounts that have been transferred to and from specific reserves. These reserves are money that has been set aside or 'earmarked' to help to pay for specific future services. At the end of this part of the CRA is the total amount of general government grants and Council Tax needed to pay for the year's net expenditure and contributions to or from specific reserves.
 - (d) The final part of the CRA shows the actual amount of general government grants and Council Tax paid in to the CRA for the year and the overall net surplus or deficit that is transferred to the Council's General Fund Reserve.
8. 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 2005-06 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 2005, Council approved a contribution from reserves of £1.236M for 2005-06. Additional approvals made in accordance with the Council's Constitution during the year increased the approved contribution to £1.603m. Changes approved in the MTFP by Council in March 2006 resulted in a planned net contribution to reserves of £0.595m. Variances in income and expenditure resulted in the actual contribution from reserves being £0.806m. This is a variance from the approved contribution equivalent to 0.2% of the net budget.
9. At 31st March, 2006, the Council had reserves of £11.860m available to fund general future expenditure. The MTFP approved by Council in March 2006 includes the planned use of £6.139M of reserves over the next four years to 2009-10. Implementation of the MTFP is reliant on reducing annual dependency on reserves by achieving significant savings via the Council's Leading Edge programme of service and efficiency improvement. The financial results for 2005-06 mean that implementation of the MTFP remains on track.

10. The ***Housing Revenue Account*** (HRA) (page 19) contain 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 2006 is £0.665m, which is equivalent to 4.5% of the annual budget for the HRA. This is a reasonable level and is in line with approved plans.
11. The ***Collection Fund Account*** (page 24) 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 2005-06 was £62.558m. Surpluses and deficits arise on this account as a result of variances between estimated and actual Council Tax collection. The surplus for 2005-06 was £0.126m, equivalent to 0.4% of Council Tax income. At 31st March 2006 the accumulated surplus on this account was £0.120m. This will be used to help to limit future Council Tax increases.
12. The ***Consolidated Balance Sheet*** (CBS) (page 28) brings together all of the assets and liabilities that the Council had at 31st March 2006, 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 £292.320m. 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 2005/06 £4.672m worth of assets were sold and the proceeds reinvested to help provide better facilities for on-going service delivery.
13. The Council also has current assets in the form of debtors and investments. At 31st March, 2006 the Council was owed £9.494m by debtors for services that had been provided, Council Tax and business rates and the Government owed the Council £3.543m 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 over 99% of Council Tax and sundry debts being collected. Income that has been collected in advance of being needed is routinely invested in accordance with prudential procedures to achieve interest income without undue risk. At 31st March 2006 the Council held £46.390m of investments and received £2.176m of investment interest during 2005/06.
14. Other key issues relevant to the 2005/06 accounts are: -
 - (a) Provision has been made for payment of £2.5m to employees as a result of implementing Single Status to comply with legal requirements and national agreements. This is still an estimated cost as these payments have not yet been made. They have, however, been properly included in 2005/06 accounts as they relate to backdating prior to 1st April, 2006. Council is requested to formally approve use of the Single Status Reserve established in the current MTFP for this purpose.
 - (b) With regard to the Council's financial standing at 31st March, 2006 and looking forwards, the Council has planned to spend £120m on continuing service provision in 2006/07 and has identified the necessary resources to pay for this. It has also planned

to spend over £25M on capital projects during 2006/07 (£86M over the four year capital MTFP) and has identified resources to pay for this also.

- (c) The Council's financial health at 31st March, 2006 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 2005/06 that materially change that position.
- (d) The Council has fully complied with the 'Code of Practice on Local Authority Accounting in the United Kingdom. A Statement of Recommended Practice' 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 Statement of Recommended Practice, the provisions of FRS2 "Accounting for Subsidiary Undertakings" and the provisions of FRS9 "Associates and joint ventures". The exercise identified that Group Accounts are required for 1 company, namely Connexions.

Outcome of Consultation

- 15. 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 specifically regarding summary accounts and have provided feedback that will be used to make further improvements. In addition, published financial information provides contact points and invites feedback from readers.

Legal Implications

- 16. This report has been considered by the Legal Services Manager for legal implications in accordance with the Council's approved procedures. There are no issues which the Legal Services Manager 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

- 17. 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.

Council Policy Framework

- 18. The issues contained in this report are required to be considered by Council.

Recommendation

- 19. Council is requested to approve :-

- (a) The attached draft Statement of Accounts for 2005/06 financial year.
- (b) Application of the £2.5m Single Status Reserve to meet backdated costs in 2005/06.

Reasons

- 20. The recommendations are supported to meet statutory requirements for formal approval of the Council's accounts prior to Audit and to comply with proper accounting practice.

Paul Wildsmith
Director of Corporate Services

Background Papers

- (i) Budget 2005-06
- (ii) Council's accounts 2005-06
- (iii) Budget 2006-07

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