
FINANCIAL MANAGEMENT AND ACCOUNTING OVERVIEW

Purpose

1. The purpose of this report is to give the Committee background information about key financial management and accounting issues to help to fulfil the Committee's responsibilities in relation to the Council's accounts.

Background

2. This Committee's terms of reference include responsibility regarding the Council's annual accounts: -

“To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.”

3. The Council's 2005-06 Accounts were required to be approved by Members by 30th June 2006. They were reported to and approved by Council on 26th June. The Auditor's report will be presented to this Committee in the autumn.

The Regulatory Framework

4. Local authorities are required to prepare an annual Statement of Accounts (“the accounts”), which must be approved by Members, published and audited.

5. The principal pieces of legislation that establish the legal requirements for local authorities' financial management and accounting are: -

- (a) The Local Government Act 1972
- (b) The Local Government and Housing Act 1989
- (c) The Audit Commission Act 1998
- (d) The Local Government Finance Act 1999
- (e) The Local Government Act 2003

6. The 1972 Act requires authorities to identify an individual with specific responsibility for the proper administration of their financial affairs. This is often referred to as “the section 151 officer” or the Chief Financial Officer (CFO).

7. The Audit Commission Act sets out the requirements for independent examination of council's accounts by auditors appointed by the Audit Commission.
8. The Act is supplemented by the Accounts and Audit Regulations 2003 (amended by the Accounts and Audit (Amendment) (England) Regulations 2006). These provide further detail including deadlines for approval and publication of accounts and public rights to access financial information and question the Auditor. The Regulations also set out the structure and contents of the Statement of Accounts that local authorities are required to publish each year.
9. The Chartered Institute of Public Finance and Accountancy (CIPFA) as the principal accountancy body in the public sector has issued an Accounting Code of Practice that constitutes the "proper practice" that authorities are required by the 2003 Local Government Act to follow.
10. Council's accounts must also comply with accounting standards that are issued by the Accounting Standards Board in the form of Financial Reporting Standards (FRS) and Statements of Standard Accounting Practice (SSAP).

Darlington Borough Council's Financial Management Arrangements

11. The Council's internal financial management and accounting framework is established in the Budget Procedure Rules, Financial Procedure Rules, Contract Procedure Rules and Corporate Governance sections of the Constitution.
12. Medium Term Financial Plans (MTFP) for both revenue and capital are now well established in Darlington. MTFP are not statutory requirements but are now widely recognised as good practice and may be regarded as essential elements of sound financial management. There is a statutory requirement for the Council to set an annual revenue budget by 10th of March each year, which in turn determines the level of Council Tax.
13. The Director of Corporate Services is the Council's section 151 officer and is supported in meeting his statutory responsibility by Audit Services, Accounting Services and Financial Services teams. The Council uses a devolved structure to carry out financial management. There are finance professionals in departments and responsibility for management control of budgets is devolved through Directors to service managers.
14. Following setting of the revenue budget and capital programme by Council in March, monitoring reports are presented regularly to Cabinet and Resources Scrutiny Committee. If Directors are unable to contain expenditure within resources allocated in the budgets, Cabinet or Council approval is required for any subsequent additional resources. As soon as possible after the end of the year, the financial results are reported to Cabinet, which also considers any final variations between approved resources and outturn results.
15. The accounts include a statement of the accounting policies that have been used to prepare the accounts. These reflect mandatory requirements and the Council's internal financial management arrangements. These are necessarily technical, but they provide important information about the basis of amounts included in the accounts. Authorities are also required to include details of any changes in accounting policies, which gives important assurance about

the consistency of the accounts between years. No changes in accounting policies have been made in 2005-06.

External Financial Reporting

16. The Council's main financial public reporting requirement is the annual Statement of Accounts. The mandatory format of the accounts is quite lengthy and technical, which makes it not generally "user-friendly", certainly to the lay public. It is, however, an important element of authorities' public accountability. The requirement for detailed, independent, professional examination gives an assurance to the public about the standard of authorities' financial management. The accounts and associated public access rights, also provide interested parties a specific opportunity to seek information, ask for explanations and question the Auditor.
17. With this public accountability role in mind, it is important that elected Members are able to debate the contents of the accounts and ask officers for information and explanations. This is particularly relevant to Members with specific responsibility for approving the draft accounts prior to audit and subsequently considering the Auditors report on the accounts. To help to fulfil that role, an explanatory report drawing attention to the key issues covered by the accounts accompanies the draft accounts when they are presented for Member approval. The report to Council on 26th June 2006 is attached as **Appendix 1**.
18. To provide more user-friendly financial information, a summary of the accounts is also produced. This is not mandatory but is increasingly widely accepted best practice. Though the summary accounts are outside of the regulatory requirements they must be consistent with the information contained in the audited formal statement of accounts. Summary accounts for 2005-06 will be published following completion of the audit. For information, the 2004-05 summary accounts are attached at **Appendix 2**.

Legal Implications

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

Section 17 of the Crime and Disorder Act 1998

20. 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 function 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

21. The Committee is recommended to note the contents of this report.

Reasons

22. The recommendation is supported to help the Committee to meet its responsibilities with regard to the Council's accounts.

Paul Wildsmith
Director of Corporate Services

Background papers

No background papers were used in preparing this report other than those referred to in the report.

David Hall : Extension 2303

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

David Hall : Extension 2303
TAB

DARLINGTON BOROUGH COUNCIL

SUMMARY OF ACCOUNTS – 2004-05

Director's Statement

Each year, the Council produces an annual Statement of Accounts, which is prepared in accordance with statutory requirements and best practice as recommended by the Accounting Code of Practice that applies to local authorities. The information contained in this summary has been modified to provide more easily understandable information.

The Council's 2004-05 accounts have been audited by PricewaterhouseCooper, who are appointed by the Audit Commission. The auditor has issued an unqualified opinion and the full statement of accounts is available on the Council's website.

The Council's Accounts

Council's are required to keep separate accounts in relation to continuing annual service provision (revenue accounts) and major expenditure on assets (capital accounts).

We are also required to account separately for income and expenditure relating to our Housing stock (called the Housing Revenue Account – HRA). HRA expenditure is funded from rents; Council Tax income cannot be used to pay for HRA expenditure. Net expenditure on Housing relates to the Council's statutory and strategic housing responsibilities and internal charges for asset usage.

All services other than HRA are termed General Fund services. These are funded by a combination of government grant, non-domestic rates (sometimes called business rates) and Council Tax.

Both General Fund and HRA have reserves (sometimes called working balances) to enable changes in expenditure and income between years to be managed and to meet any significant unexpected or urgent expenditure.

2004-05 Revenue Budget and Reserves

In March 2004 the Council set a budget for 2004-05 of £105.6M. The budget is proactively managed throughout the year and can be amended in accordance with the Council's Constitution. During the year, an additional £0.3M of reserves was released to fund various projects.

At the start of 2004-05, the Council planned to have unallocated reserves of £7.3M at 31st March 2005. As a result of changes to the financing of some major items of expenditure and reductions in some areas of spending, during the year the Council revised its planned level of reserves to £11.0M. Actual reserves at 31st March 2005 were £11.1M. In addition, departments held £0.9M of allocated reserves that are earmarked for specific services at 31st March 2005.

The Council plans to use reserves over the next four years (£1.2M in 2005-06) to effectively control spending within projected resources. The level of reserves at 31st March 2005 is appropriate, given the need to carefully manage expenditure limitations over the next four to five years.

Capital Expenditure

During 2004-05 the Council spent £29.9million on capital, principally on housing improvements and renovations (£6.6M), schools (£7.4M), leisure facilities (£2.3M), social services facilities (£0.7M), highways (£5.0M) and regeneration (£1.4M). This was funded by the use of borrowing (£11.9M), grants and contributions (£14.1M) and capital receipts (£3.8M). Total borrowing from outside the Council for capital spending is £72.5M.

The Department of Education & Skills (DfES) approved funding of £35M for a Private Finance Initiative (PFI) scheme involving Beaumont Hill Special School, Haughton Community School, Springfield Primary School (The Education Village) and Harrowgate Hill Infants and Junior Schools.

If you require further information about the Council's accounts, or wish to comment on this summary statement, please contact Accounting Services on 01325 388326 or e-mail enquiries@darlington.gov.uk

REVENUE ACCOUNT – for the year ended 31st March 2005

The Revenue Account shows the cost of delivering all Council services from 1st April 2004 to 31st March 2005, where the money came from and the surplus for the year, which is added to Reserves.

Revenue Account	Net Expenditure £M	
Education	60.7	
Social Services	21.9	
Cultural, environmental & planning services	14.2	
Highways, roads & transport services	5.6	
Housing services	2.7	
Central services to the public	5.1	
Corporate and democratic core	4.9	
Net Cost of Services	115.1	
Internal charges for use of assets	-12.2	
Appropriations to and from reserves	-4.8	
Other internal accounting adjustments	0.4	
Amount to be met from Government Grants and Local Taxation	98.5	
Financed by: -		
Revenue Support Grant	48.4	46%
Non-domestic Rates (Business Rates)	27.3	26%
Council Tax	29.9	28%
Total income from Government Grants & Local Taxation	105.6	
Net General Fund surplus for the year	7.1	
General Fund Reserve	£M	
Brought forward at 1st April 2004	4.9	
Surplus for the year	7.1	
Carried forward at 31st March 2005	12.0	

Housing Revenue Account – expenditure and income relating to the Council’s housing stock – 1st April 2004 to 31st March 2005	£M
Income	
Rents	13.3
Charges and contributions	1.2
Total Income	14.5
Expenditure	
Repairs and maintenance	4.5
Management	3.8
Capital financing costs	4.6
Other costs	1.6
Total Expenditure	14.5
Working balance at 1st April 2004	0.5
Contribution to / (from) reserve	0.0
Working balance at 31st March 2005	0.5

BALANCE SHEET - What the Council owns, owes and is owed at 31st March 2005

Assets and Liabilities	£M
Council dwellings	81.8
Other Land and Buildings	118.3
Other fixed assets	40.5
Money owed to the Council	54.7
Money owed by the Council	(32.4)
Total Assets less liabilities	262.9
Financed by: -	
Borrowing	71.1
Non-distributable reserves (1)	170.0
Distributable reserves (2)	21.8
Total Financing of Net Assets	262.9

(1) Non-distributable reserves are: -

Fixed asset restatement reserve (£109.4M) and Capital financing and deferred grants accounts (£60.6M)

(2)

Distributable reserves are: -	£M
General Fund reserve	12.0
Schools reserves	2.6
Investments	3.5
Housing Revenue Account	0.5
Other	3.2
Total Distributable Reserves	21.8