

**STATEMENT OF ACCOUNTS 2006/07****Report By: Head of Financial Services****Wards Affected**

None affected.

**Purpose**

To report to the Audit and Corporate Governance Committee on the 2006/07 Statement of Accounts.

**Financial Implications**

These are outlined in the report.

**RECOMMENDATION**

**THAT the Audit and Corporate Governance Committee approve the 2006/07 Statement of Accounts.**

**Reasons**

Legally the requirement under the Accounts and Audit Regulations 2003 is to have the 2006/07 Statement of Accounts approved by no later than 30 June.

**Considerations**

1. It is worth noting that the format and content of the formal Statement of Accounts is determined each year by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting and the following outlines the changes to the 2006/07 Statement of Accounts:
  - (a) The removal of notional interest from the capital charges to services in the published accounts. This does not have an effect on the 'bottom line' charge to council tax but reduces the level of spend shown in services.
  - (b) There is a new set of core statements presented in a specified order and followed by a consolidated set of notes. The statements and their order of presentation are:
    - Income and Expenditure Account
    - Statement of Movement on the General Fund Balance
    - Statement of Recognised Gains and Losses
    - Balance Sheet

- Cash flow statement

(c) These statements present the figures in a completely new way. In addition the new approach required the 2005/06 figures to be restated in the new format to enable a consistent comparison.

### **Income and Expenditure Account**

2. This is the first of the new set of core statements for the 2006/07 accounts. With the other statements it represents a significant shift in the presentation of local government accounts placing an emphasis on bringing the way figures are presented more in line with non-government accounts.
3. The account brings together all income receivable and expenditure incurred in delivering the Herefordshire Council's services during 2006/07. The transactions are accounted for on an accruals basis meaning that they are represented in the period to which they relate. For example, this means that if income for a service supplied by the Council in 2006/07 was received after the end of the financial year it was still included in the 2006/07 financial year. In some cases precise amounts are not known at the year-end and figures are included on an estimated basis using the best information available at the time.
4. The income and expenditure account includes all day-to-day expenses, related income and transactions covering the value of the Council's fixed assets consumed. It also includes the value of retirement benefits earned by employees in 2006/07.
5. The Statement of Accounts contains a significant change to presentation affecting the Education Service area. In 2005/06 School's funding was provided as part of the Revenue Support Grant like any other service. However following the introduction of the Dedicated Schools Grant (DSG) means schools' funding is now via this ring-fenced grant. The result sees the net expenditure on Education services fall significantly because funding is now covered by the £78m DSG and included in the income analysis of Education Services rather than Revenue Support Grant.
6. The income and expenditure account shows a net deficit of £6.821m in 2006/07. However at the same time the accounts show an underspend against budget for the year of £3.2m on net revenue expenditure. As a result the anticipated £9 million transfer from revenue balances was reduced to £5.8million. The sound financial performance against budget whilst closing the accounts with a deficit position can briefly be explained as follows:
  - Planned transfers to earmarked reserves of £4.8 million in line with the Medium Term Financial Management Strategy; and
  - Allocation of £3.7 million of under spends carried forward from 2005/06, funded from the accumulated revenue balance.

### **Statement of Movement on General Fund Balance**

7. The statement confirms the General Fund balance carried forward is £8.738m after transferring £5.787m to revenue (brought forward balance of £14.525 million). The reduction in brought forward balance is largely explained by the revised policy put in place in 2006 placing an emphasis on specific reserves.

8. The transfer from the General Fund balance differs from the deficit on the Income and Expenditure account of £6.821m as the council is required to raise council tax on a different accounting basis to that used for the Income and Expenditure Account. Additional amounts of income and expenditure are credited or charged to the General Fund and the main differences are outlined in the Statement of Accounts. This includes areas such as capital investment, which is accounted for as it is financed rather than when the fixed assets are consumed.
9. In 2006/07 the net position on amounts required to be included in the General Fund in addition to the Income and Expenditure account was a surplus of £1.034m. The overall position includes areas such as depreciation; net charges made for retirement benefits; employer's contributions payable to the pension fund as well as statutory provision for repayment of debt.

### **Statement of Total Recognised Gains and Losses**

10. The third new statement brings together in one place all the gains and losses of the Council for 2006/07 so that the aggregate position is shown. In 2006/07 there was an overall increase (gain) of £15.656m made up of four key areas;
  - the £6.821m deficit on the income and expenditure account;
  - the £8.656m surplus arising from the revaluation of fixed assets;
  - the £822,000 decrease on the collection fund balance; and
  - a £14.643m gain on pension fund assets and liabilities
11. The 2006/07 position compares with a £24.394m increase in net worth for 2005/06 when the total was largely made up of a surplus arising from the revaluation of fixed assets.

### **Balance Sheet**

12. The balance sheet summarizes the Council's assets, liabilities and other balances at the end of the financial year.
13. The overall position sees the Council's total assets exceed liabilities by £144.936m with this being financed by various sources the largest of which is the Fixed Asset restatement account at £120.632m (this reflects movements in fixed assets for revaluations and disposals).
14. The Council's long-term assets increased from £317.08m to £338.41m between 31/03/06 and 31/03/07. This was mainly due to increases in fixed assets such as land and buildings as well as infrastructure. Current assets saw a decrease in the amount owed to the Council but an increase in our short-term investments.
15. The current liability position increased by £5.38m largely as a result of an increase in the Council's creditors. The balance sheet also confirms the long-term borrowing of the Council has increased to fund its capital programme. The Public Works Loan Board has supplied loans of £81.853m as of 31 March 2007 compared with £70.296m as at 31<sup>st</sup> March 2006.
16. Two additional longer-term loans totalling £12m are supplied by money market providers and date back to 2004. Related to these loans is a review of accounting

treatment of interest over the lifetime of the agreement. The current 'stepped' arrangement is likely to be required to change to one of a consistent basis over the lifetime of the agreement. As a result the Council has prudently decided to create a new £505,000 reserve in its accounts to meet this likely requirement. In the unlikely event that the accounting treatment does not change the reserve can be written back to the revenue account in a future year.

17. The other significant longer-term liability totals £88.8m being a reflection of the underlying commitments the authority has over the longer term to pay employee retirement benefits. This arises because employees are eligible to join the Local Government Pension Scheme administered by Worcestershire County Council. The deficit on the scheme will be made good by increased contributions over future years as assessed by the pension scheme's actuary.

### **Cash Flow Statement**

18. The final core statement is the cash flow statement and it summarises all cash flowing in and out of the Authority arising from transactions with third parties. It excludes all internal transactions between the various parts of the Council.
19. In 2006/07 cash outflows totalled £369.5m compared with cash inflows of £386.9m on revenue activities. The cash outflow includes the payments required to pay for operational activities whilst the cash inflow includes £139.1m of central government grants to fund council services (in addition to Revenue Support Grant and grant for housing benefits). Our revenue (day-to-day activity) cash flow saw £17.4m more cash received than we spent. However our servicing of finance covering interest payments, interest received, and purchase of assets as well as sales of assets saw an £8.5m net cash outflow.
20. In summary the overall net position saw a £286,000 increase in the cash position.

### **Collection Fund**

21. One area of presentation unaffected by the new set of accounts is the Collection Fund. Herefordshire is a 'billing authority' and as such has a statutory requirement to establish and maintain a separate fund covering the collection of distribution of amounts due in respect of council tax and national non-domestic rates (NNDR).
22. In 2006/07 the total income on the Collection Fund was £124.69m representing an increase of £6.84m on the previous year. The income was also collected on behalf of West Mercia Police Authority; Hereford and Worcester Fire Authority; Parish Councils and the national pool for non-domestic rates.
23. The net position on the collection fund was a deficit of £223,000 compared to the previous year's surplus of £311,000.

### **Risk Management**

The requirement to approve the Statement of Accounts by end of June is not only a legal requirement but also a Use of Resources assessment issue directly feeding into the Comprehensive Performance Assessment process. Further risk management activity is addressed by providing high quality working papers and officer time to help external auditors from an appropriate judgment on the Statement of Accounts by 30 September 2007.

**BACKGROUND PAPERS**

- Completion of the Accounts for 2006/07, report to Audit and Corporate Governance Committee, 13 April 2007