

Audit Committee – 29th June 2006

Report of the Director of Finance

Statement of Accounts 2005/06

Purpose of Report

1. To present the Statement of Accounts to the Audit Committee for consideration and approval, and to inform the Audit Committee of the progress of the audit of the accounts.

Background

2. The Accounts and Audit Regulations 2003 set out the requirements for the production and publication of the Statement of Accounts. The Council has delegated the responsibility for the approval of the Statement of Accounts to the Audit Committee. The Statement of Accounts, and the audit of them, are the main formal and public report on the financial standing of the authority.
3. The Accounts and Audit (Amendment) Regulations 2006 specifically requires that the Committee considers the accounts before approving them.
4. The Statement on Internal Control, which is presented to this Committee in a separate Report, will be published with the accounts.

Statement of Accounts

5. The Statement of Accounts is attached as Appendix D, preceded by summaries setting out the main features:
 - Consolidated Revenue Account - (Appendix A)
 - Housing Revenue Account - (Appendix B)
 - Consolidated Balance Sheet - (Appendix C)

Audit of the Accounts

6. The audit of the Accounts for 2005/06 is underway. With the earlier deadline of June for submission of accounts it is no longer possible to complete the audit before the accounts have to be agreed by the Committee and signed by the Director of Finance. Any material amendments to the accounts arising from the later stages of the audit will be reported to this Committee.

7. The 2005 Code of Audit Practice applies for the first time to the audit of these accounts. The Code requires the auditors to report the results of their audit work to the approving body before signing their audit opinion. To allow this to happen before the accounts publication deadline of the end of September, the next meeting of the Audit Committee has been brought forward to 21st September.
8. A “letter of representation” is provided to the auditors each year, assuring auditors in some detail that all material information has been made available to them. This is signed by the Director of Finance, relying in some matters on assurances by the Director of Law and Property. Under the 2005 Code of Audit Practice, our auditors will ask that the letter for the 2005/06 accounts is also signed by the chair of the Audit Committee. The text will be circulated with the Committee papers for the September meeting, and any queries members may have will be addressed beforehand or at the meeting.
9. The report of the auditors to the September meeting of the Audit Committee will cover all aspects of the 2005/06 audit, i.e. it will include the Value for Money conclusion, and the statutory report on the 2005 Best Value Performance Plan.

Main Features of the Accounts

Consolidated Revenue Account (CRA)

10. This account shows that net revenue expenditure in 2005/06 is greater than the funding from tax-payers through general government grants and local council tax by £0.589m (this figure is shown as the deficit, three lines from the bottom of the account.) This deficit is then funded from the Council’s General Reserves, which have therefore reduced from £3.857m to £3.268m. The 2006/07 Budget assumes £2.4m of this will be used to support spending in the current year.
11. This account is laid out in four sections, and is analysed to be comparable across different authorities.
 - Net Cost of Services, total £366m, shows gross expenditure, income (from fees, charges and grants for specific purposes), and the net expenditure for each service. The service lines are those set out in the Best Value Accounting Code of Practice (BVACOP) rather than Dudley’s structure of directorates. The costs include increases in liabilities for future pensions, instead of actual contributions to the pension fund or payments of pensions. Comparisons can be made year on year. There is an exceptional item in the “Non-Distributed Costs” line, which shows the future benefit, as estimated by the actuary, of a one-off change to the pension scheme rules.
 - The second section, leading to Net Operating Expenditure of £356m, contains those items which relate to the authority as a whole, such as interest, levies, and the Asset Management Revenue Account, which compares capital accounting charges with interest paid on borrowings.

- The third section contains transfers to and from reserves, which in accounting terms are separated from actual spend. The transfers to and from the Capital Financing Account and the Pensions Reserve reverse out capital accounting and pensions adjustments to the figures in the Net Cost of Services section above, so that charges to tax-payers are not affected by these technical adjustments. The “capital expenditure charged to revenue” represents the use of revenue monies to finance capital spending in the year. Other transfers represent use of or contributions to reserves and balances. The total after this section, of £349.811m, is the amount to be met by general government grants and local tax-payers.
- Finally the sources of government grant, and the Collection Fund Demand, are listed, totalling £349.222m. As this is less than the sum above, by £0.589m, this figure is shown as the deficit for the year.

Housing Revenue Account

12. This ring-fenced account for council housing transactions follows a statutory framework. As with the Consolidated Revenue Account, transfers to and from reserves are separated from spending and income.
13. There is a surplus for the year of £3.094m, leaving reserves available for housing purposes of £5.938m. These reserves will be required to meet the Decent Homes Standard by 2010. The favourable outturn in 2005/06 is partly due to a change in the negative subsidy payable, and also to good performance in rent collection and management of empty properties, and savings on housing management.

Pensions Reporting

14. The accounts follow the requirements of Financial Reporting Standard 17 (FRS 17), replacing actual payments of pension and contributions to the pension fund with liability increases during the year. These adjustments to service expenditure are reversed in the third section of the CRA, so that there is no effect on tax-payers. Details of payments, changes in liability, and interest effects are shown in note 4 to the CRA. Information about valuation and the assumptions used by the actuary are shown in Note 27 to the Balance Sheet.
15. The net pension liability remains little changed, at £209m. It should be noted that the main local Government Pension scheme is fully revalued every three years, and contribution rates set to bring the scheme into balance over time.
16. New pensions regulations for the Local Government Pensions Scheme were laid in March 2006, allowing scheme members, on retirement, to opt to take a greater share of their entitlement as a lump sum rather than a continuing pension. The actuaries estimate that the Dudley will benefit from the future take-up of this option by some £11.5m. This effect is required to be shown as income to the CRA, under the heading “non-distributed costs”. The gain is reversed in the item “transfer to/from Pensions Reserve”, and has no overall effect on the revenue account or the charge to tax-payers. However the change does affect the net liability of the pension scheme.

Consolidated Balance Sheet

17. The balance sheet shows that local tax-payer's equity has fallen by some £24m, from £869m at 31st March 2005 to £845m at 31st March 2006.
18. The value of fixed assets has fallen from £1,272m to £1,262m. Note 1 to the balance sheet gives details of the movements for each category of asset. This shows that Council housing was revalued downwards by £46m. This revaluation was affected by a change in the government-prescribed discount factors.
19. Net current liabilities, i.e. the excess of current liabilities over current assets, remains fairly steady at £15m. Within this there is variation on a number of headings. For instance, the debtors figure has increased from £37m to £62m. Note 8 to the balance sheet gives details. There is an increase of some £19m in sums due from government departments, mainly several substantial grants. These include the final payments under Standards Fund, and the Local Public Service Agreement reward money, described in note 16 to the CRA. The exact balance of current assets and liabilities is not as critical for a local authority, with largely predictable income, as it can be for commercial concerns.
20. Long Term Borrowing stands at £425m. This figure includes £234 m of debt relating to the former West Midlands County Council. The liability is met by the constituent authorities, shown as a long term debtor in note 6 to the balance sheet.
21. The General Fund balance has fallen by £0.589m, from £3.857m to £3.268m. This relates to the use of £1.889m balances to support revenue in the year, of which £1.300m came from the annual review of reserves and provisions. £2.4m of this £3.268m will be used to support expenditure in 2006/07.
22. The reserves held by Dudley schools have increased overall by £0.516m, to £10.485m. These funds are only available to the schools, and not for other Council purposes.
23. Other general fund reserves (i.e. those earmarked for specific purposes, such as covering self-funded insurance) have fallen by £6.152m, to £31.530m. Note 20 to the balance sheet shows extra detail of the main reserves and distinguish the £1.3m released to the general balances from the overall use of reserves of £4.85m. This use includes a substantial use of the capital resources reserve, reflecting movement in the capital programme. The corporate reserves include the £2m Working Capital reserve, which is specifically held to cover unforeseen expenditure or shortfalls in income of an exceptional nature, and is not anticipated to be utilised under normal circumstances.
24. The reserves give the Council flexibility in meeting future events, both planned and unforeseen.

Finance

25. This report is entirely financial in content, but does not give rise to any direct costs.

Law

26. Legislation appertaining to Local Authority Audit and Accounts is contained in the Local Government Act 1972, part 2 of the Audit Commission Act, 1998, and regulations made thereunder.

Equality Impact

27. The proposal takes account of the Council's policy in relation to equal opportunities.
28. With regard to children and young people:
- There is no direct effect of the proposals on children and young people.
 - There has been no specific consultation with children and young people.
 - There has been no direct involvement of children and young people in developing the proposals.

Recommendation

29. It is recommended that:-
- the Committee consider the Statement of Accounts.
 - the Committee approve the Statement of Accounts.
 - The Chair of the Committee signs and dates the Statement of Accounts to give evidence of the approval above.



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Director of Finance

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Appendix A

2004/05		CONSOLIDATED REVENUE ACCOUNT		2005/06	
Net Expenditure	Summarised Version	Expenditure	Income	Net Expenditure	Net
£'000	<i>(BVACOP Headings – not Dudley Directorates)</i>	£'000	£'000	£'000	£'000
176,623	Education Services	267,500	(71,542)	195,958	
26,629	Housing Revenue Account	87,234	(66,736)	20,498	
3,026	Other Housing Services (inc. Payment of Housing Benefit)	71,121	(66,942)	4,179	
76,409	Social Services	118,647	(33,419)	85,228	
37,864	Cultural, Environment and Planning	74,288	(33,910)	40,378	
17,864	Highways and Transport	21,954	(2,961)	18,993	
2,960	Central Services <i>(Local Tax collection, Elections, Registration of Births, Deaths and Marriages)</i>	23,560	(19,666)	3,894	
309	Court Services (Coroners)	325	0	325	
9,271	Corporate and Democratic Core <i>(Members activities, and costs of being a multi-purpose body)</i>	12,191	(3,960)	8,231	
267	Non-distributable Costs <i>(Capitalised costs of early retirements approved in year)</i>	(11,528)	0	(11,528)	
367	Discontinued Service – Magistrates Courts	0	0	0	
351,589	Net Cost of Services <i>(including capital charges and notional, not actual, pension costs, but without transfers to reserves)</i>	665,292	(299,136)	366,156	
13,838	Levies <i>(National Rivers Authority and West Midlands Passenger Transport Authority)</i>			14,874	
(206)	Trading Account Surpluses <i>(Industrial Estates, market and other commercial properties)</i>			(90)	
(38,230)	Asset Management Revenue Account Balance <i>(reverses out capital charges, and includes interest paid)</i>			(36,988)	
14,436	Contribution to Housing Pooled Capital Receipts <i>(this is reversed out in transfers to and from reserves and balances below)</i>			10,295	
(4,029)	Interest and Investment Income <i>(Includes Birmingham Airport)</i>			(3,265)	
5,622	Finance Cost/(Gain) re. Pensions <i>(Effect of interest rates on pension assets and liabilities)</i>			5,863	
343,020	Net Operating Expenditure			356,845	
(1,689)	Net transfers to and from Capital Financing Account			(8,801)	
3,735	Capital Expenditure Charged to Revenue <i>(financing capital from revenue)</i>			12,228	
(8,178)	Transfer to/(from) Pensions Reserve <i>(so that charge to ratepayers is actual payment)</i>			2,420	
(10,181)	Net transfers to and from Reserves and Balances			(12,881)	
326,707	Amount to be met from Government Grants and Taxpayers			349,811	
(154,101)	Revenue Support Grant			(157,107)	
(85,154)	Income from National Non-Domestic Rates Pool (NNDR)			(101,562)	
(50)	Transfer in Respect of Previous Years Surplus on Collection Fund			(21)	
(88,070)	Collection Fund Demand <i>(council tax income)</i>			(90,532)	
(668)	(Surplus)/Deficit for the year			589	
(3,189)	Balance at the beginning of the year			(3,857)	
(3,857)	Balance at the end of the year			(3,268)	

HOUSING REVENUE ACCOUNT – Summarised Version

2004/05		2005/06
£'000		£'000
Income		
62,801	Rent	64,471
2,715	Other Income	2,801
65,516	Total income (including interest)	67,272
Expenditure		
21,428	Contribution to Housing Repairs Account (for Repairs and Maintenance)	22,159
12,747	Supervision and Management	12,625
28,885	Capital Charges (3.5% of Fixed Assets)	27,423
11,800	Negative Subsidy *	8,553
(26,149)	Less: Adjusting Transfer	(24,241)
13,593	Depreciation of Fixed Assets (used to finance capital expenditure)	13,630
2,918	Other Expenditure	2,226
65,222	Total Expenditure (less adjusting transfer)	62,375
294	Net Operating Surplus	4,897
(1,408)	Other financing transactions	(1,803)
(1,114)	Total surplus/(deficit) for the year	3,094
3,958	Surplus at the beginning of the year	2,844
2,844	Surplus at the end of the year	5,938

*Rent rebates are now a charge on the General Fund, supported by specific grant. This change affects the housing subsidy calculation, so that the Housing Revenue Account pays subsidy into a national pool. The overall effect on Dudley is intended to be neutral.

The surplus shown is held for housing purposes. The HRA will face considerable financial pressures in meeting the Decent Homes Standard.

A proportion of receipts from the sale of council houses is contributed to a national pool. This contribution is shown in the Consolidated Revenue Account as Contribution to Housing Pooled Capital Receipts, matched by a transfer from the Usable Receipts Reserve.

CONSOLIDATED BALANCE SHEET – Summarised Version

The following statement reports the authority's financial position at year end. It shows the balances and reserves at the Council's disposal and its long term indebtedness, and the fixed assets and net current assets employed in its operations.

31st March 2005 £'000		31st March 2006 £'000
1,272,321	Fixed Assets: <i>Assets that yield benefits to the local authority and the services it provides for a period of more than one year</i>	1,262,150
236,985	Other Long Term Assets: <i>Includes long term investments and debtors i.e. falling due after a period of at least one year</i>	233,417
1,509,306	Total Long Term Assets	1,495,567
71,929	Current Assets: <i>Includes cash and cash equivalents, and other assets that can be readily converted to cash in less than one year (e.g. short term debtors, short term investments and inventory)</i>	89,555
87,955	Current Liabilities: <i>Debts and other amounts owed to Council creditors and due within one year</i>	104,661
(16,026)	Net Current (Liabilities)	(15,106)
(415,389)	Less: Long Term Liabilities: <i>Council borrowing that it does not expect to repay in the next year</i>	(425,230)
(208,565)	Pension Liability: <i>Represents the difference between the estimated future liability for pensions and the current value of the fund assets (Dudley MBC's element only)</i>	(209,466)
869,326	Total Net Assets	845,765
	Represented by:	
1,023,498	Capital Related Reserves <i>Supporting the purchase, revaluation and sale of capital assets</i>	1,003,907
(208,565)	Pension Reserve <i>(see above)</i>	(209,466)
3,857	General Fund Balance <i>Unallocated Council reserve – £2.4million of this balance to support Council budget 2006/07</i>	3,268
	Reserves <i>(earmarked to support future Council services):</i>	
2,844	Housing Revenue Account Reserves	5,938
9,969	Local Management of Schools	10,485
37,682	Other	31,530
41	Collection Fund Balance <i>Reflects the statutory requirement for billing authorities to maintain a separate Collection Fund. Outstanding surplus/deficit balances are distributable against General Fund.</i>	103
869,326	Total Local Taxpayers' Equity	845,765