

Leicester
City Council

WARDS AFFECTED:

ALL WARDS (CORPORATE ISSUE)

**CABINET
AUDIT COMMITTEE
COUNCIL**

**25th June 2007
21st June 2007
28th June 2007**

STATUTORY STATEMENT OF ACCOUNTS 2006/7

REPORT OF THE CHIEF FINANCE OFFICER

1. INTRODUCTION

- 1.1 The Accounts and Audit regulations 2006 require the Council formally to consider and approve the accounts prior to audit, and subsequently to approve any changes following the audit. Whilst reserving to the full Council the task of approving the accounts, the Council has given to the Audit Committee the responsibility for reviewing the Council's financial statements and for considering any matters related to the accounts subsequently raised by the Council's auditors. The accounts must be approved by the Council before the end of June each year.
- 1.2 The accounts for the year ended 31st March 2007 (the year 2006/2007) are now substantially complete and will be available for public inspection from 6^h July, 2007. Copies of the full accounts will be available for inspection in the members' area before the meeting.
- 1.4 A separate report on the agenda of the Audit Committee addresses the Statement on Internal Control. Although this is published as part of the Council's Statement of Accounts, members are also required to consider and approve it separately.

2. SUMMARY

- 2.1 There are separate items on the agenda for the Cabinet, which set out the revenue and capital outturn for the authority. The financial position of the authority is presented in a different way in the statement of accounts. The outturn reports focus on the in-year financial performance in a format consistent with the Council's budgets, while the statement of accounts shows the in-year performance in a standard format adopted by all local authorities, including a balance sheet showing the underlying financial position. Despite the wide variations in the way the position is presented, the key point is that **both the outturn reports and the accounts are consistent and say the same thing.**
- 2.2 The statutory accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the UK. This code has undergone substantial changes for 2006/07 resulting in a set of financial statements which are significantly different from those presented in previous years.

- 2.3 This year and for the first time the Council has had to prepare an “Income and Expenditure account”. This account is prepared on the same principles as those which apply to commercial company accounts and demonstrates the actual financial performance for the year, measured in terms of resources consumed and generated over the financial period, and shows an accounting deficit of £30.35m. However, local authorities are not commercial companies and are required under separate statutory provisions to set their budget and local taxation on a different accounting basis. There a number of statutory adjustments to be made to the Income and Expenditure Account deficit in order to determine the movement on the general fund balance (which is the traditional method of measuring in year performance). The adjustments eliminate this deficit. Consequently, the accounts show the same reserves as the outturn report. The main differences between the two methods are outlined below:
- For statutory purposes, capital investment is accounted for as it is financed, rather than when fixed assets are used up – therefore depreciation charges (£17m) and deferred charges (capital expenditure that has no ongoing benefit to the authority) of £9.3m are included within the Income and Expenditure Account deficit but have no impact on local taxation.
 - Retirement Benefits are charged to the Income and Expenditure Account as future benefits are earned – This has resulted in additional charges of £6.3m which, also does not impact on local taxation, because for statutory purposes the general fund is charged when amounts become payable to the pension fund.
- 2.4 Consequently there is a further new statement, following the Income and Expenditure Account, which shows the movement on the Council’s General Fund Balance in the year (this is the amount that would previously have been reported as the surplus or deficit for the year). This statement shows the net movement on the General Fund Balance of £0.04m.
- 2.5 There is a further new primary statement within the accounts, the “Statement of Total Recognised Gains and Losses”. This statement, too, is intended to bring Local authority accounts within the same broad framework as exists for company accounts. This discloses all financial gains and losses experienced by the authority during the financial year, regardless of whether they are realised or unrealised. This statement shows an increase in recognised gains and losses of £250m. This mainly arises from unrealised gains from the revaluation of fixed assets during the year which total £222m, of which £155m relates to the revaluation of the council dwellings.
- 2.6 The Balance Sheet is fundamental to the understanding of the authority’s financial position at year end. It shows the net value of the organisation including the balances and reserves, its long term indebtedness, together with fixed and net current assets employed in its operations.

- 2.7 Cash Flow Statement. This statement summarises the movements in cash holdings during the year in common with the presentation required for commercial companies, although the statement is of less significance in the Local Authority context.
- 2.8 There are a number of other sections in the accounts including key statements setting out the respective responsibilities for the accounts, a statement of accounting policies, and a statement setting out the internal control framework, together with supplementary financial statements relating to the Housing Revenue Account and the Collection Fund. An explanation of each section is set out in the supporting information attached to this report.

3. RECOMMENDATIONS

3.1 Cabinet is asked to:

Note the Statement of Accounts for 2006/7 and submit them to the Council for approval;

3.2 The Audit Committee is asked to

- 1) Consider any issues arising from their review of the financial statements
- 2) Consider whether appropriate accounting policies have been followed
- 3) Make any observations to the Council as they see fit.

3.3 The Council is recommended to approve the accounts.
Subject to the approval of the accounts, the Lord Mayor is asked to sign them on behalf of the Council.

4. FINANCIAL IMPLICATIONS

4.1 This report is exclusively concerned with financial issues.

Lisa Turner Ext. 29 6013

5. LEGAL IMPLICATIONS

5.1 The timetable and the arrangements for the reporting of the Council's statement of accounts is governed by statute. These statutory requirements have been complied with. Legal Service officer consulted: Head of Legal Services, Peter Nicholls

Peter Nicholls – Ext. 29 6302

Other officers consulted: Anthony Cross (Legal Services) - Ext. 6362

6. OTHER IMPLICATIONS

Other Implications	Yes/No	Paragraph referred
Equal Opportunities	No	-
Sustainable & Environmental	No	-
Crime & Disorder	No	-
Human Rights Act	No	-

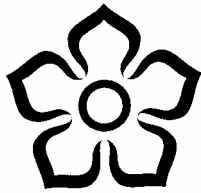
7. REPORT AUTHORS:

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Senior Accountant

Date: June 11th , 2007

**MARK NOBLE
CHIEF FINANCE OFFICER**



Leicester
City Council

**CABINET
AUDIT COMMITTEE
COUNCIL**

**25th June 2007
21st June 2007
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STATUTORY STATEMENT OF ACCOUNTS 2006/7

SUPPORTING INFORMATION

1. THE 2006/2007 ACCOUNTS

- 1.1 This supporting information explains the purpose behind the main components of the accounts, and offers some interpretation of the implications of the figures.
- 1.2 The statutory accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the UK. This code has undergone substantial changes for 2006/7 resulting in a set of financial statements which are significantly different from those presented in previous years.
- 1.3 The Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the Cash Flow Statement are attached to this report. Copies of the full draft statement of accounts will be available in the members' area prior to the meeting.
- 1.4 Statement of Responsibilities
 - 1.4.1 This section sets out responsibilities of the authority, now exercised primarily through the Audit Committee, for making arrangements for the proper administration of its financial affairs in a manner which secures economic, efficient and effective use of resources and safeguards its assets. The responsibilities of the Chief Finance Officer are also summarised.

1.5 Statement on Internal Control

1.5.1 This statement is considered as a separate item on the agenda of the Audit Committee. Its purpose is to set out the governance arrangements of the authority whereby the necessary internal controls are exercised, and to review the effectiveness of those arrangements. Any areas of weakness identified during the course of the year are identified in the statement.

1.6 Statement of Accounting Policies.

1.6.1 This statement sets out the treatment of the key accounting issues that could have a material impact on the accounts, to enable readers better to understand the accounts and to make comparisons with other local authority accounts.

1.6.2 These policies are recorded in accordance with the requirements of the Statement of Recommended Practice on Local Authority Accounting (the "SORP"). Following revisions to this code for 2006/7 the Council has adopted three significant new accounting policies. These being:

- Changes to the way the authority accounts for the way assets are "used up" in the course of their life.
- Changes in the way government grants for capital spending are dealt with.
- A new way of accounting for any "profit" or "loss" when land and buildings are sold.

Whilst these changes impact on the presentation of the accounts they do not impact on the authority's budget.

1.6.3 As a result of these changes the comparative figures shown in the accounts relating to 2005/6 have been amended from those previously reported in the published 2005/6 accounts. A summary of these revisions is shown at note 4 to the core financial statements.

1.7 Income and Expenditure Account

1.7.1 The Income and Expenditure Account brings together the financial performance for the year of General Fund, the Housing Revenue Account, and the Council's trading operations which sell their services internally.

1.7.2 This account is presented using the same principles as those which apply to commercial company accounts. It measures performance in terms of the resources consumed and generated over the financial period and shows a technical deficit for the year of £30.35m. However, the authority is required by law to set its budget and raise council tax on a different accounting basis. The main differences relate to capital investment which is accounted for as it is financed, rather than when fixed assets are consumed, and retirement benefits are accounted for as amounts become payable to the pension fund, rather than when benefits are earned. The reversal of these differences is accounted for within the Statement of Movement in General Fund Balance, as outlined below.

1.7.3 The first section of the Income and Expenditure Account shows the “net cost of services”. These figures are prepared in accordance with the Best Value Accounting Code of Practice (BVACOP), which prescribes the line each of our services should be allocated and enables comparisons to be made with other local authorities. A further difference in this section of the account relates to the introduction of the Dedicated Schools Grant during 2006/7, which has reduced the net spending on Education Services.

1.7.4 There are two exceptional items of revenue expenditure disclosed in the accounts, these being:

a) Equal Pay Provision

Many local authorities have received claims that predominantly female groups of staff have been underpaid in comparison with other, predominantly male, groups of employees and a potential breach of equal pay legislation. The Council is holding discussions with its trade unions about the payment of compensation, without any admission of liability. Accordingly, a notional “equal pay – back pay account” has been set up on the Balance Sheet, and a charge of £10.4m made in the Income and Expenditure Account. This charge is reversed elsewhere. The final cost of any compensation is subject to a report to Cabinet.

b) City of Leicester Primary Care Trust (PCT)

In order to support the City of Leicester PCT in delivering its financial recovery plan, the Council has utilised its well being powers (Local Government Act 2000) and made a revenue grant of £3.6m during 2006/7 with a further £0.45m payable in 2007/8. This has been financed by a transfer from the capital earmarked reserve and therefore has had no impact on the general reserve balance. Furthermore, the overall impact is neutral as the authority has received a capital grant of £4.1m from the PCT during the year.

1.8 Statement of Movement on General Fund Balance

As outlined above, the deficit on the income and expenditure account is based on essentially the same accounting principles as a commercial company. However there are a number of items of income and expenditure that statutory provisions require to be credited or charged to the general fund when setting the authority’s budget and raising council tax. In 2006/7 these adjustments amounted to a credit of £30.39m which, when added to the deficit on the Income and Expenditure Account (£30.35m), results in a net increase on the general fund balance of £0.04m.

1.9 Statement of Total Recognised Gains and Losses

1.9.1 This statement brings together all the gains and losses of the council for the year and shows the aggregate increase (£250m) in its net worth, as shown in the balance sheet. This arises mainly from the revaluation of council dwellings.

1.10 Balance Sheet

1.10.1 The balance sheet shows the net value of the organisation. This includes the following components:

a) Net Fixed Assets - £1.9billion

Primarily the land and buildings owned by the Council, including Council Housing. The figure of £1.9billion is derived from a variety of valuations intended to reflect the worth of the assets to the Council - not necessarily the sum for which they could be sold.

b) Long Term Debtors

These are sums repayable to the Council, in respect of loans made.

c) Current Assets - £131m

These include cash and other items that may be converted into cash fairly promptly (normally within one year). For example, debtors are generally in respect of services provided, and sums owed should be received promptly. Short-term investments are made to maximise the interest earned by the Authority on temporary cash balances whilst retaining flexibility to meet day-to-day spending requirements. The figure as at 31 March 2007 showed a reduction of £11m in the figure shown as at 31st March 2006. This movement is as a result of treasury management decisions taken during the course of the year.

d) Current Liabilities - £101m

These items represent sums due by the Council that are normally payable within one year. The short-term loans taken out by the Council have increased by £6.5m. This movement, as with the short-term investments referred to above, is the result of treasury management decisions. The creditors figure as at 31st March 2007 has increased by £14.2m. This relates to a number of items including the revenue grant payable to the City of Leicester Primary Care Trust (see paragraph 1.7.4 above), and sums owed to the Government.

e) Long Term Borrowing - £327m

The majority of loans taken out by the Council to meet capital spending are repayable over periods in excess of 10 years. The level of long term borrowing (£327m) remains largely unchanged from the position at 31st March 2006. This is mainly as a result of low interest rates being exploited at the end of 2005/06, when borrowing was undertaken for the entirety of the 2006/07 capital programme. This money was invested pending need and benefited from the increase in short term interest rates seen during 2006/07. It should be noted that the Council's borrowing remains considerably less than the value of its assets.

f) Capital Grants and Contributions Deferred and Unapplied - £111m

Grants and Contributions relating to capital expenditure are held in this account and written off to the income and expenditure account over the useful life of the asset which the grant was used to finance.

g) Provisions - £22.4m

Provisions are made by making a charge to the revenue account where an "event" has taken place which will probably require settlement by a transfer of monies, but where the timing is uncertain. "Events" relate to more than legal obligations and extend to circumstances where valid expectations have been raised that an obligation will be discharged. The authority holds a number of provisions, the main items relate to the equal pay provision described above and a provision against insurance claims received.

h) Pension Liability - £142m

Financial Reporting Standard FRS 17, underpinned by the Local Authority Accounting Code of Practice, requires local authorities to obtain from the actuaries to their pension fund an estimate of the deficit (or surplus) on their share of the pension fund and to show this on the balance sheet. The figure shown is balanced by an equivalent figure being the "Pension reserve", and showed a reduction in the actuarial deficit of £53.4m from the 2005/06 figure. The deficit now stands at £142.4m. It should be noted that movements on these figures have no effect on the amount to be raised from taxation, and do not have any policy implications for the budget which takes account of the level of employers' contributions to the Pension Fund. The level of this contribution is set on the basis of a triennial valuation of the pension fund, the most recent valuation being as at March 31 2004. The fund has been revalued as at 31st March 2007, but the impact of this will not be known until November 2007.

i) Fixed Asset Restatement Account and Capital Financing Account - £1.5billion

These are technical account headings the Council is required to maintain. In effect, when added together, they represent the value of council assets which are free of debt, and are similar to the shareholders' funds shown on the balance sheet of a company. They are not sums of money which can be spent.

j) Earmarked Reserves - £55.7m

These are reserves held for specific purposes which have been approved by Cabinet, in accordance with Finance Procedure Rules. The total of £55.7m includes reserves of £27.6m, which are ring-fenced by law for specific purposes including Schools and Schools block funds (£24.5m) and Supporting people grant (£2.1m). Other significant earmarked reserves include the Capital Reserve (£6.3), Building Schools for the Future (£3.1m), and Job Evaluation (£2.3m). For the purposes of the accounts, the Insurance Fund is split into two elements and £6.5m is included in earmarked reserves. More detailed information on earmarked reserves is included within the Revenue Outturn Report.

k) Balances - £13.2m

These represent reserves held in accordance with statutory definitions, including the General Fund Balance, Housing Revenue Account Balance and the Collection Fund Balance. Balances are considered by the Council when it sets the budget each year; and estimates were available at the time the 2007/08 budget was set.

1.11 Cash Flow Statement.

1.11.1 This statement summarises the movements in cash holdings during the year in common with the presentation required for commercial companies, although the statement is of less significance in the Local Authority context.

1.12 Housing Revenue Account (HRA)

1.12.1 The Council is required to maintain a separate account for all of the transactions associated with the provision of Council housing for its tenants. The presentation of this account has, similarly to the main Income and Expenditure Account, changed to reflect the moved towards a more commercial style. The account showed an accounting deficit for the year of £4.4m. However, after adjustments to reflect statutory requirements, the account incurred a deficit of just £0.5m compared with a budgeted deficit of £1.7m.

1.12.2 The HRA balance at 31st March stands at £2.9m, which exceeds the minimum balance, set by Cabinet (£1.5m), by £1.4m. HRA balances are ring-fenced and will be required support the HRA capital programme and help meet the decent homes standard by 2010, and also to help meet the cost of introducing the Council's Job Evaluation scheme for staff employed in the HRA and Housing Trading Services.

1.13 Collection Fund

1.13.1 This account shows the performance and financial health of the Collection Fund which is the responsibility of the Council for administration purposes. The components of the fund are Council Tax and National Non-Domestic Rates (NNDR). Any surpluses on the Council Tax element of the fund are shared between the City Council, the Police Authority and the Fire Authority in proportion to the precepts made by each. The account showed a cumulative surplus at year end of £2.1m.

2. SUBSEQUENT CHANGES

2.1 Any changes arising from the audit of the accounts will be reported back to the Audit Committee at the conclusion of the audit.

3. FINANCIAL IMPLICATIONS

3.1 The report is exclusively concerned with financial issues.

4. LEGAL IMPLICATIONS

The timetable and the arrangements for the reporting of the Council's statement of accounts is governed by statute. These statutory requirements have been complied with. Legal Service officer consulted: Head of Legal Services, Peter Nicholls

5. OTHER IMPLICATIONS

<u>OTHER IMPLICATIONS</u>	<u>YES/NO</u>	<u>PARAGRAPH REFERRED</u>
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	No	
Crime and Disorder	No	
Human Rights / Elderly people on low incomes	No	

6. BACKGROUND PAPERS

Revenue Outturn reports.

7. CONSULTATIONS

All departments are consulted during the Authority's close down period.

8. AUTHORS

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