

Leicester  
City Council

**WARDS AFFECTED:**

ALL WARDS (CORPORATE ISSUE)

**CABINET**

26<sup>th</sup> June 2006

**STANDARDS & AUDIT COMMITTEE  
COUNCIL**

28<sup>th</sup> June 2006

29<sup>th</sup> June 2006

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**STATUTORY STATEMENT OF ACCOUNTS 2005/2006**

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**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 Standards and 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.
- 1.2 The statutory date for the completion and audit of the Council's accounts has been brought forward by a month for each of the last two years, and the date for completion of the accounts for 2005/06 has been brought forward a further month so that the accounts must be complete by June 30<sup>th</sup> and the audit complete by September 30<sup>th</sup>. These are the dates that will apply to the preparation of the Council's accounts in the future.
- 1.3 The accounts for the year ended 31<sup>st</sup> March 2006 (the year 2005/2006) are now substantially complete and will be available for public inspection from 14<sup>th</sup> July, 2005. 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 Standards and 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 solely 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. There are also other sections within the accounts, in addition to the primary financial statements, and an explanation of each section is set out in the supporting information attached to this report. In summary, the main components are as follows:

- 2.2 Statement on internal control. This statement is also considered as a separate item on the agenda of the Standards and 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.
- 2.3 Statement of accounting policies. 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.
- 2.4 Consolidated Revenue Account. This account summarises, in a standard prescribed format, the expenditure and income for the whole Council.
- 2.5 Housing Revenue Account The Council is required to maintain a separate account for all of the transactions associated with the provision of council housing for its tenants.
- 2.6 Collection Fund This account shows the performance and financial health of the Collection Fund which is the responsibility of the Council for administration purposes. It includes transactions associated with the collection of business rates and council tax
- 2.7 Consolidated Balance Sheet. This shows what the Council owns, its debts and investments.
- 2.8 Statement of total movement in reserves. This separate statement shows how each of the Council's principal reserves have increased or decreased in the past year.
- 2.9 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.
- 2.10 The accounts show that the authority is in reasonable financial health. An important indicator of this is the balance on the general reserve, which is maintained as a contingency against future unforeseen events and which can also be used to tackle one-off budgetary issues. The reserve has increased during the year from £7.625m to £7.884m. These issues have been explored in more detail in recent reports on the Council's budget, where it is noted that the uncommitted balance of the general reserve is £6.2m. Whilst the balance is low compared to many other authorities, it is consistent with the Council's financial strategy.

### **3. RECOMMENDATIONS**

3.1 Cabinet is asked to:

Note the Statement of Accounts for 2005/2006 and submit them to the Council for approval;

3.2 The Standards & 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.

**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

**6. OTHER IMPLICATIONS**

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

**7. REPORT AUTHOR:**

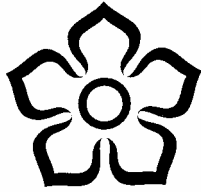
Andy Morley – Ext 7404  
Chief Accountant

Date: June 7<sup>th</sup> , 2006

**MARK NOBLE**  
**CHIEF FINANCE OFFICER**

**DECISION STATUS**

<b>Key Decision</b>	No
<b>Reason</b>	Part of Policy and Budget framework
<b>Appeared in Forward Plan</b>	Yes
<b>Executive or Council Decision</b>	Council



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## **STATUTORY STATEMENT OF ACCOUNTS 2005/2006**

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### **SUPPORTING INFORMATION**

#### **1. THE 2005/2006 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 Consolidated Revenue Account, the Consolidated Balance Sheet, the Statement of the Total Movement in Reserves and the Cash flow statement are attached to this report. (to follow). Copies of the full draft statement of accounts will be available in the members' area prior to the meeting.
- 1.3 Statement of responsibilities
  - 1.3.1 This section sets out responsibilities of the authority, now exercised primarily through the Standards & 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.
- 1.4 Statement on internal control
  - 1.4.1 This statement is considered as a separate item on the agenda of the Standards and 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.

#### **1.5 Statement of accounting policies.**

1.5.1 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. The policies include an explanation of the treatment of the following items:

- Accruals of income and expenditure
- Provisions
- Reserves
- Government grants and contributions (Revenue)
- Retirement benefits (pensions)
- VAT
- Overheads and support services
- Intangible fixed assets
- Tangible fixed assets
- Charges made to revenue accounts in respect of fixed assets
- Deferred charges
- Leases
- Repurchase of borrowing
- Investments
- Stocks and work in progress
- Interest in companies and other entities

The items are recorded in accordance with the requirements of the Statement of Recommended Practice on Local Authority Accounting (the "SORP").

## 1.6 Consolidated Revenue Account

1.6.1 The consolidated revenue account brings together all expenditure and income for the year for the General Fund, and the Housing Revenue Account. The Council also operates a number of services as "trading" operations that sell their services internally.

1.6.2 The presentation is complex, as accounting practice requires us to present figures in a way broadly comparable with generally accepted accounting practice, although this does not sit comfortably with local government finance legislation. Those items ultimately met from outside the General Fund are cancelled out, so that the "bottom line" figure shows the General Fund net deficit for the year and the balance carried forward. This is also known as the General Fund Reserve. The balance on the General Fund reserve stands at £8.069m which includes the sum of £185k carried forward as underspend by Departments to be used in 2006/07. The unallocated balance on the general reserve stands at £7.884m, which is a slight increase over the figure at 31 March 2005. This balance is considered to be adequate, in the context of the financial issues the Council is likely to face over the next few years and budget commitments already made.

1.6.3 The first section of the Consolidated Revenue Account (CRA) shows the "net cost of services". This equates to, but does not replicate the Council's Revenue Outturn position. The key difference is that the figures on the CRA are prepared in accordance with the Best Value Accounting Code of Practice (BVACOP) and this prescribes to which line on the CRA each of our services should be allocated. In

addition, the CRA does not recognise the concept of “controllable “budget lines (a key element in our budgetary control framework), so the cost of each service is shown inclusive of all overheads. This is in accordance with the BVACOP concept of “total cost”.

## 1.7 Housing Revenue Account

1.7.1 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 account showed a deficit for the year of £1.124m compared with a budgeted deficit of £0.5m, due to the financing of additional capital expenditure. The balance carried forward is £3.4m, which exceeds the minimum figure of £1.5m, set by cabinet.

## 1.8 Collection Fund

1.8.1 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, Community Charge (now very minimal) and National Non-domestic Rates (NDR) 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 surplus for the year of £2.7m, of which the share attributable to Council Tax and Community charge is £3.1m, the City Council's share being £2.6m. This reflects the highest level of performance in the collection of council tax that the Council has yet achieved.

## 1.9 Consolidated Balance Sheet

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

a) Net Fixed Assets

Primarily the land and buildings owned by the Council, including Council Housing. The figure of £1.7billion 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

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 2006 showed an

increase of £50m in the figure for short-term investments in comparison with 31 March 2005, but this increase reflects the timing of investment decisions to optimise the Council's position rather than any significant change to the Council's underlying asset base.

d) Current Liabilities

These items represent sums due by the Council that are normally payable within one year. The short-term loans taken out by the Council show a decrease of £13m. This movement, as with the short-term investments referred to above, is the result of treasury management decisions.

e) Long Term Borrowing

The majority of loans taken out by the Council to meet capital spending are repayable over periods in excess of 10 years. The figure shows an increase of £79m over the 2004/05 figure. This is due to 2 principal factors: an increase in borrowing due to the additional opportunities provided by the prudential borrowing regime; and some early borrowing taken to meet the requirements of the 2006/07 capital programme when interest rates were particularly advantageous. It should be noted that the Council's borrowing remains considerably less than the value of its assets.

f) Pension liability

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 an increase in the actuarial deficit of £26m from the 2004/05 figure. The deficit now stands at £195.7m. 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.

g) Fixed Asset Restatement Account, and Capital Financing Account.

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.

h) Earmarked Reserves

These are reserves held for specific purposes which have been approved by Cabinet, in accordance with Finance Procedure Rules. The total of £53.2m includes reserves of £21.7m which are ringfenced by law for specific

purposes including Schools and Schools block funds (£19m)n and Supporting people grant (£2m). Other significant earmarked reserves include the Capital Reserve (£14.4m) which is committed to meet the capital programme and other Education (non-school) reserves (£4.8m). For the purposes of the accounts, the Insurance Fund is split into two elements and £4.4m is included in earmarked reserves rather than provisions.

i) Balances

These represent reserves held in accordance with statutory definitions, including the General Fund Reserve and the Housing Revenue account balances.

1.10 Statement of total movement in reserves.

1.10.1 This separate statement shows how each of the Council’s principal reserves have increased or decreased in the past year.

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.

**2. SUBSEQUENT CHANGES**

2.1 Any changes arising from the audit of the accounts will be reported back to the Audit and Standards 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**

<b><u>OTHER IMPLICATIONS</u></b>	<b><u>YES/NO</u></b>	<b><u>PARAGRAPH REFERRED</u></b>
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. AUTHOR**

**Andy Morley – Ext 7404**  
Chief Accountant

**MARK NOBLE**  
**CHIEF FINANCE OFFICER**