

Report of the Director of Resources

## **Statement of Accounts 2005/06**

### **Summary**

- 1 The production and publication of the Statement of Accounts is a statutory requirement that provides Members and interested parties a snapshot of the financial position of the Council. It is a statutory requirement that this year Members approve the Statement of Accounts before 30 June. The pre-audit version of the Council's Financial Accounts for the year 2005/06 have been completed and have been sent as a separate document. Members are requested to bring these accounts to the meeting. Once the Accounts are audited, a set will be distributed to all Members and Chief Officers.
- 2 The new scoring system for CPA is actively encouraging increased Member involvement in governance issues, and a higher score can be given if the accounts have been given a 'robust' scrutiny by Members prior to being approved. For this reason the draft accounts are being considered by the Audit and Governance Committee on 26 June. Any matters of concern arising from their investigations will be reported to the Executive meeting.
- 3 The following sets out the issues put to the Audit and Governance Committee on 26 June, and at the same time highlights some of the main items included in the accounts for Members information. A verbal update will be provided on discussions held at the Audit and Governance meeting.

### **Background**

- 4 A provisional out-turn report will be presented to this meeting as a separate report. That report will concentrate on the performance against the revenue budgets, and will make recommendations for use of the overall underspend for carry forward items where budgeted work could not be completed by 31 March. As the Accounts need to fully represent the financial position of the Council these recommendations have been incorporated into the foreword. Any changes will have to be approved by Council when the accounts are presented to them for final approval on 29 June 2006.
- 5 The Accounts have to be approved and audited earlier this year, and the dates for the accounts to be 'on deposit' and for the District Auditor to be available for interrogation by any member of the public have been agreed. The District Auditor will be available on Monday 7 August, and the accounts will be 'on deposit' between Monday 10 July and Friday 4 August 2006. The deposit period will be

advertised in the York Press. It is a statutory requirement that this year Members approve the Statement of Accounts before 30 June.

- 6 Members should note that the District Auditor has not yet started the audit of the Statement of Accounts. If the District Auditor does insist on any significant changes to the accounts, they will be reported to the Executive following completion of the audit.

### **Statement of Accounts**

- 7 The following sections set out information on the constituent parts of the Accounts to enable Members to more fully understand them. Each of the sections has been compiled in accordance with professional best practice. Key points to note on each section of the accounts are discussed in the following paragraphs. The references shown are to the page numbers in the Statement of Accounts. The Accounts incorporate the requirements of the Accounting Code of Practice, which provides the basis on which all local authority accounts are presented, and the Accounts and Audit Regulations 2004.

### **Foreword (pages v to xv)**

- 8 This is designed to help give readers an understanding of the accounts. It sets out a description of all the individual sections, gives an overview of the revenue and capital position in the year, identifies the position on the Council's borrowing powers and reserves and future issues that may influence how the Council is run.
- 9 The Foreword also provides the opportunity to explain any changes in accounting policies that have been used in the preparation of the Accounts. In this respect the only major change that has necessitated restating prior year figures has been the requirement to separate fixed assets into 'intangible' fixed assets and 'tangible' fixed assets. Intangible Fixed assets are defined as non-financial fixed assets, i.e. assets that do not have a physical substance, but are identifiable and are controlled by the Council through custody or legal rights. A prime example of such an asset is an IT software licence.
- 10 Other changes highlighted are the introduction of transactions relating to the Landfill Allowances Trading Scheme and the Private Finance Initiative.
- 11 The Landfill Allowances Trading Scheme (LATS) is new in 2005/06 and is related to the maximum amount of biodegradable municipal waste the government has determined each waste disposal authority can deposit in landfill sites. In the year there has been a slight under-use of the allocation issued to the Council, and this is being carried forward to be used in future years.
- 12 With regard to the transactions relating to the PFI scheme for the schools, technically, all such transactions are designated as 'off balance sheet', however there are many transactions that impact of the Council's accounts.
- 13 PFI transactions are treated in the Council's accounts in accordance with the latest recommended practice. The Council has one PFI contract for the provision of 4 primary schools with Sewell Education (York) Ltd. Under the terms of the contract

the Council has granted Sewell a licence for use of the land for 30 years, with legal ownership of the land and buildings reverting to the Council in 2036. The nature of the contract means that sufficient risk has been transferred from the Council to Sewell so that the fixed asset does not appear on the Council's balance sheet. However, there are number of accounting entries that are required to reflect the substance of the transaction over the life of the contract. These are:

- A prepayment of £4.032m was made prior to service commencement, this has the effect of reducing the annual unitary charge and as a result needs to be written off to the revenue account over the life of the contract.
- The 4 schools revert back into the Council, for nil consideration, at the end of the contract. As a result it is necessary to build up a residual interest in the asset over the life of the contract to reflect the transfer of the ownership of that asset.
- The nature of the contract and the way that government support is received means that in the early years of the contract a surplus balance is generated. This surplus is retained as an earmarked reserve and used to generate further interest receipts. The earmarked reserve will be used to finance anticipated deficits in the later years of the contract.
- The Council has not yet paid a full unitary charge as the new schools have become operational at different times during the year. The Council will therefore not build up a residual interest in the asset or amortise the prepayment until the full year effect is felt in 2006/07.

14 Full details of the accounting transactions for 2005/06 are shown as notes to the Consolidated Revenue Account and Balance Sheet

### **Statement of Responsibilities (page 5)**

15 This is a simple statement that sets out the different legal responsibilities of the Council and the 'Section 151 Officer' (Director of Resources). It is also where the certificate has to be signed by the Director of Resources that the accounts represent fairly the position of the Council, and the Lord Mayor (or Chair of Council on the day that the accounts are approved) must sign to demonstrate that the accounts have been approved by Members.

### **Statement of Internal Control (pages 6 to 13)**

16 The Accounts and Audit Regulations Act 2004 imposes a legal requirement to prepare a Statement of Internal Control (SIC). This requirement represents a specific development in corporate governance arrangements within local authorities. The SIC has to be published with the Statement of Accounts and represents an important part of the overall process within the Council for monitoring and reporting on the adequacy and effectiveness of the corporate governance arrangements, particularly those in respect of risk management and internal control. The format and wording of the SIC included in the draft accounts closely follows CIPFA guidance.

17 The review process undertaken has identified ten potentially significant control issues, which have been included in the SIC for 2005/06. These have principally been drawn from the evidence of control assurance statements completed by the

individual directorates but also concerns raised by the District Auditor in his Management Letter to the authority and other audit and inspection reports received last year. Details of these issues together with the action taken or proposed to address each area, are included in the action plan incorporated into the SIC. Whilst time recording is not in use across the Council, the total cost in officer time of undertaking the review and preparing the SIC is estimated to have been approximately £5k.

- 18 It is a requirement this year that the SIC is considered separately to the Statement of Accounts, and for that reason there was a separate report at the Audit and Governance Committee. The draft accounts include the SIC that was presented to the Audit and Governance Committee for approval. If there are any changes following that meeting then a verbal update will be given to this meeting and the revised version will be incorporated into the Accounts submitted to Council for approval and the version that will be placed on deposit. Once approved, the Statement will need to be signed by the Chief Executive and the Council Leader.

### **Statement of Accounting Policies (pages 14 to 23)**

- 19 This statement sets out all the policies that have been followed in preparation of the accounts. It also intended to demonstrate where, if at all, the policies followed by Council differ from either the best practice or the CIPFA guidelines.
- 20 The main changes in accounting policies were set out in detail in paragraphs 9 to 13.

### **Main Revenue Accounts**

- 21 The main revenue accounts are the Consolidated Revenue Account (General Fund), the Housing Revenue Account and the Collection Fund. The information that was formerly reported on the Direct Service Organisations (DSOs) Revenue and Appropriations Account is no longer required separately and as such is now included in note 5 to the Consolidated Revenue Account. Each of the main accounts is explained in more depth below. The financial performance on all of these accounts is included in the Statement of Accounts.

### **Consolidated Revenue Account (CRA) (pages 24 to 36)**

- 22 As explained in the Foreword this account pulls together all the income and expenditure for providing the Council's services, and compares the cost of service provision with the income raised by fees and charges, the revenue support grant, the Council's share of the redistribution from the NNDR Pool and the sums demanded from the Collection Fund. It also shows the movement on the General Fund Reserve. The final balance held in General Fund reserve as reported in the Accounts is £5.347m. An analysis of this balance is shown in Annex 1, which shows the movement throughout the financial year, including those items specifically approved by Members as requiring funding from Reserves. However, Members should note that there are some significant items both approved and recommended for approval for utilising the General Fund Reserve. These total £2.237m, and are also set out in Annex 1. This reduces the balance available on

the General Fund to £3.110m, although it is expected that a further £75k may be delivered through business rate refunds during 2006/07.

- 23 It can be seen by looking at the account that the net cost of services has increased by £10.943m (5.9%) between 2004/05 and 2005/06. For the service areas this is a lower net expenditure than had been budgeted for. The presentation of out-turns in the Consolidated Revenue Account differs to that in the revenue out-turn report as the former has to be set out to meet statutory requirements, but Members will note that the both presentations result in the same year-end general fund balance (£5.347m). Details of what is included in exceptional items is explained in note 4 on page 26, and includes both the net income the Council has received from backdated downward rateable valuations (£1.518m in 2004/05 and £0.493m in 2005/06 reflecting that most of the claims have now been settled) and the second instalment of the reimbursement of the cost of land purchase at Harewood Whin which will be received over four years. It also includes the government determined Revenue Support Grant adjustment for 2003/04.
- 24 In the Appropriations section Members attention is drawn to the lines: contributions to provisions, and contributions to reserves. The former includes both the transfer from provisions to reserves of the sum set aside last year for equal pay claims offset by the need to increase the level of provision for bad and doubtful debts. This is particularly in relation to housing benefits arrears and overpayments, which officers continue to carefully monitor. There are two particularly large items in the increased contribution to reserves, namely the transfer of money from provisions to reserves as detailed above offset by the utilisation of the Venture Fund to finance year-end capital transactions that will be funded from capital receipts in 2006/07. This latter transaction can also be seen in note 13 to the CRA where it forms part of the £3.465m. The latter figure also includes the transfer of the Harewood Whin repayment. The position on schools balances is set out in Table 1 below. Members will note despite reducing slightly during 2005/06 they are still higher than they were at 31 March 2004. This is at a time when other reserves of the Council are decreasing.

**Table 1**

School Balances	2003/04 £(000)	2004/05 £(000)	2005/06 £(000)
Opening Balance	(5,067)	(4,812)	(5,242)
Movement in Year	255	(430)	178
Closing Balance	(4,812)	(5,242)	(5,064)

- 25 The Consolidated Revenue Account is supported by some 11 pages of notes which are there to support some of the transactions on the account and give other information required by the Code of Practice. Note 9 draws the reader's attention to the transactions relating to the cost of providing pensions to the Council's employees. It should be noted that while the cost included in 'net cost of services' for the North Yorkshire Pension Fund has reduced by over £2.6m, the total cost to the Council has only increased by £1.0m (8.7%). There are several reasons behind this presentational change, but principally it is because of the estimation techniques the actuaries have to use to comply with the Financial Reporting

Standard 17 (FRS17) rules and regulations, and their estimate of the value of the Council's share of the liability on the fund at 31 March. The Council is still meeting an aggregate 17.6% of employee pay, with the increase of 8.7% reflecting the effect of the national pay awards and increments, a shift in the proportion of employees who contribute 5% of their pay (principally former so-called blue collar workers) to those who contribute 6% and the increased membership levels within Council staff.

- 26 Members will also note that there are new disclosure notes (2 and 3) on the affect on the revenue accounts of the new Landfill Allowances Trading Account and the PFI scheme. Both of these have implications on both the Consolidated Revenue Account and on the Consolidated Balance Sheet.

### **Housing Revenue Account (pages 37 to 44)**

- 27 The Housing Revenue Account (HRA) shows a balance at 31 March 2006 of £5.139m compared to £4.855m at 31 March 2005.
- 28 Members should note that the HRA remains in a position of negative subsidy, i.e. that the Council has to pay the surplus on the notional account to the government. In addition to this note 16 to the account shows that the receipts the Council earned from selling council housing and land raised £2.928m, but as can be seen on the Consolidated Revenue Account and its notes (page 24) the Council is obliged to pay a large proportion (£2.026m) of this to the new 'housing pooled capital receipts'. This is the result of the Council only being able to retain 25% of council house sales and mortgage repayments and 50% of land sales. However, where the land is sold for affordable housing the Council can retain 100%.
- 29 Members are reminded that the provisional out-turn report advised them that £1.510m of the surplus would be used in 2006/07 to meet the necessary revenue contribution to capital outlay that was delayed due to capital programme slippage, and £20k for the carry forward requests. The balance will be kept under review during 2006/07.

### **Collection Fund (pages 45 to 47)**

- 30 The surplus at 31 March 2006 is £0.166m, a reduction of £0.242m on the surplus at 31 March 2005. This surplus, excluding the proportion due to the North Yorkshire Police Authority and the North Yorkshire Fire and Rescue Authority, estimated at £0.033m, as adjusted for any predicted surplus or deficit occurring in 2006/07 will be used in setting the Council Tax for 2007/08. CYC's share of the surplus (£0.133m) is equivalent to approximately £2.05 on a band D property.
- 31 This account is a statutory account and includes the total transactions on the national domestic rate element, where the Council acts as agents for the government. There have been problems on debt recovery in this area following the introduction of a new computer system, but the performance indicators for in-year recovery of in-year debt have shown an increase in 2005/06 from that in 2004/05, and the recovery levels are continuing to increase into 2006/07. It can be seen on the account that there has been an increased allowance made for the cost

of uncollectable accounts and appeals. This reflects the problems that the service has encountered.

### **Consolidated Balance Sheet (pages 48 to 67)**

- 32 The opening balance sheet has been restated for the reasons set out in paragraph 9, and the effect of this change is shown in note 1 to the balance sheet. There are several areas on the balance sheet where there have been material changes between the revised opening and closing balances and information on these is given in the following paragraphs.
- 33 Tangible Fixed Assets increased by £93.901m and the reasons for this are set out in note 3. The two main reasons for the increase are the capital expenditure in the year of £32.903m and the effect of the in-year revaluations of the Council's property. Of the expenditure in the year only £22.499m results in additional assets to be shown in the balance sheet, the remainder is not expected to increase the value of the assets held in the asset register. The Council is obliged to revalue its holding of fixed assets annually for council housing and on a rolling five-year programme for all other assets. This exercise, which is undertaken in-house, has increased the value of the assets by £70.362m. It should be noted, however, that this change only affects the paper value of assets shown in the Balance Sheet, and does not, unfortunately, release additional funds for the Council to use.
- 34 Members will note that the value of temporary investments has increased by £5.450m, but equally there has been a reduction in long term loans due within twelve months, and a new current asset is shown for the transactions relating to the Landfill Usages Allowances which were set out in paragraph 11. The former has arisen due to additional borrowing being taken in 2005/06 in advance of the 2006/07 capital programme. The 2004/05 balance was lower than normal due to the decision in that year to fund the majority of the capital programme from cash balances rather than borrowing. The increase in investments therefore reflects this additional borrowing.
- 35 Members will also notice that there has been a decrease of approximately £1.7m in the level of debtors (people/organisations who owe money to the Council). There has been a change in three main areas - government departments, the NNDRr pool and general debtors. There is a reduction in government departments of £3.6m, but this is more than offset by an increase in general debtors of around £4.5m. There are small general increases in debtors across all departments, but there was one particular large debtor over the year-end of £580k. This has now been settled. Recovery action is being taken to pursue long-standing debtors. There have continued to be increases in the number of downward rateable notifications received from the District Valuer towards the end of the financial year. This has resulted in large refunds being paid on behalf of the government pool, and these costs are recoverable as part of the agreement. The amount owed is, however, £2m less than last year.
- 36 At the same time there has been an increase of £2.5m in the value of creditors (people/organisations who the Council owes money to) at 31 March. Of this increase £1.3m relates to the Landfill Allowances Trading Scheme (see paragraph 26).

- 37 During the year the Council took out long-term loans of £7m, which increases the loans outstanding to £93.365m. This represents £7m of loans to replace maturing loans during the year plus a £10m loan taken at 3.7% in advance of the 2006/07 capital programme. This was done to take advantage of the historically low interest rates prevailing at the time.
- 38 When the accounts for 2004/05 were prepared a provision was established to meet any potential costs for equal pay claims. At the time this approach was in accordance with the Code of Practice. However, over the last twelve months the possibility of a liability existing has become much more certain and so the money set-aside has been transferred from being shown as a provision to being included within earmarked reserves.
- 39 Government Grants Deferred and Developers' Contributions Deferred have both increased in value, in total by £7.6m. These represent grant and contribution income for capital expenditure where the balance must be set aside to write down to revenue in line with the expected life of the capital asset that they were funding.
- 40 The other major change of the face of the balance sheet is the increase in both the Pensions Liability and Pensions Reserve by £5.051m to £108.834m. The liabilities show the underlying commitments that the Council has to pay retirement benefits in the long-term. The total liability of £108.834m has a substantial impact on the net worth of the Council as recorded in the Consolidated Balance Sheet, resulting in a reduced overall balance. However, statutory arrangements for funding the deficit, in that the deficit will be made good by increasing the contributions over the remaining working life of employees as assessed by the Fund actuary, mean that the financial position of the Council remains healthy. It is worth noting that the level of the liability provided by the actuary will always be subject to variations due to fluctuations in the stock market.
- 41 Members should note that within note 24 to the Balance Sheet the level of developers contributions unapplied held has risen from £2.8m to £3.7m. The vast majority of this money has been received under Section 106 of the Town and Country Planning Act 1990 for planning development gain. Section 106 money can be a commuted sum to fund the annual maintenance of an open space or money to enable a capital project (e.g. a new road infrastructure or park and ride site) to be undertaken.
- 42 The benchmark recommended by the CPA was that there should be a minimum level of revenue reserves equivalent to 5% of the net non-schools budget. For 2005/06, this equated to approximately £5.25m. The CPA now recommends that a risk assessment is undertaken of the level of reserves and any potential calls on them. However, we are still developing this analysis and Table 2 sets out the year-end position for comparison purposes, and also a projection of what the position will be at the end of 2006/07, when the CPA recommended level is £4.95m.

**Table 2**

	31 Mar 2006 £m	31 Mar 2007 £m
General Fund (see Annex 1)	5.347	3.185



Venture Fund	0.852	1.479
Commercial Services Reserves	0.300	0.300
<b>TOTAL</b>	<b>6.499</b>	<b>4.964</b>

### **Cash Flow Statement (pages 68 to 72)**

- 43 This statement shows the transactions in monetary terms that have occurred between the Council and third parties. It excludes all internal trading transfers that are included in other statements in the Accounts. It restates the expenditure and income on both revenue and capital in cash terms, i.e. excluding accrual transactions. It also expands the classification of transactions into more than just revenue or capital, identifying in addition dividends, returns on investments and servicing of finance, management of liquid resources, financing and finally movement in cash balances.

### **Statement of Total Movements in Reserves (pages 73 to 76)**

- 44 This account, as stated in the Foreword, brings together all the recognised gains and losses of the Council during the financial year. It shows the total movement in reserves (or equity of the Council) during the year, and is separated into revenue elements and capital elements. It pulls together revenue and capital transactions and shows how the balance sheet 'worth' of the Council has changed due to surpluses/deficits on balances and due to the sale and acquisition of assets.

### **Consultation**

- 45 The Statement of Accounts is presented here, and was presented to the Audit and Governance Committee, for scrutiny purposes. In particular it is presented to enable Members to request further information on any matters included within the Accounts, or to request further information to be presented to them at a later date.

### **Options**

- 46 There are no alternative options applicable to this paper.

### **Analysis**

- 47 Analysis of the Statement of Accounts is included above.

### **Corporate Objectives**

- 48 When determining the CPA score to issue for the Council consideration is given to whether or not the Statement of Accounts has undergone a full scrutiny by Members prior to being approved by Council.

### **Implications**

- 49 The implications are
- Financial - there are no financial implications to this report

- Human Resources - there are no human resource implications to this report
- Equalities - there are no equality implications to this report
- Legal - there are no legal implications to this report
- Crime and Disorder - there are no crime and disorder implications to this report
- Information Technology - there are no information technology implications to this report
- Property - there are no property implications to this report
- Other - there are no other implications to this report

### **Risk Management**

- 50 This report is for Members to review and comment on the Statement of Accounts. Failure to adequately review the Accounts can impact negatively upon the Council's CPA assessment and reportage of financial issues.

### **Recommendations**

- 51 Members are asked to note the Accounts for the financial year 2005/06 and refer them to Full Council for approval

Reason: The Accounts have to be approved by Full Council

- 52 Members are requested to authorise the Leader of the Executive and the Chief Executive to sign and date page 13 of the Accounts approving the Statement of Internal Control

Reason: It is a statutory requirement that the SIC is approved by the Executive and that it gives authority for the statement to be signed by the Leader and Chief Executive

- 53 Members are requested to advise Full Council that the Lord Mayor, or chair of the Council meeting, must sign and date page five of the Accounts as the formal record that Members have approved them

Reason: The Accounts must be signed and dated at their formal approval.

### **Contact Details**

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**Chief Officer responsible for the report:**

Simon Wiles  
Director of Resources

Report  
approved

√

Date 15 June  
2006

**Specialist Implications Officer(s)** None

**Wards Affected:** *List wards or tick box to indicate all*

**All**

√

**For further information please contact the author of this report**

**Background Working Papers**

Statement of Accounts 2005/06

Closure of Accounts files held in the City Finance Centre

**Annexes**

Annex 1 - Movement on General Fund Balance 2005/06