

LONDON BOROUGH OF BRENT

General Purposes Committee 12 July 2005

Report from the Director of Finance and Corporate Resources

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| For Information | |
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Report Title: 2004/2005 STATEMENT OF ACCOUNTS – SUPPLEMENTARY REPORT

Forward Plan ref: BFS S2/26

***Reason for urgency**

Under the Accounts and Audit Regulations, the General Purposes Committee is required to consider and approve the Statement of Accounts by 31st July. The Statement of Accounts has only recently been completed and it was not possible to send it out with the original Committee papers.

1. SUMMARY

- 1.1 Members have received a report setting out the legal and accounting requirements in relation to approval and publication of the accounts, including the requirement that the 2004/05 accounts are approved by General Purposes Committee by 31st July 2005.
- 1.2 The accounts were in the process of being finalised at the time the agenda for this meeting went out. The accounts are now finalised and are attached to this supplementary report.
- 1.3 Members make decisions about budgets and council tax, housing rents, the capital programme, levels of borrowing and so on at the budget setting meeting prior to the beginning of the financial year. This is a very public and open process for which Members are fully accountable.
- 1.4 Local government generally has focused less on being publicly accountable for how monies have been spent at the end of the year. This is partly because accounting requirements mean the accounts themselves are often difficult to understand by anybody but finance specialists. It is also because, unlike the private sector where the accounts affect share levels and dividends, in local government the primary focus for accountability to the electorate is budget decisions and not what goes into the final accounts.

- 1.5 The Government and the Audit Commission are seeking to make councils more accountable for what they have spent, as well as what they budget to spend. More stringent accounts approval requirements have been introduced, including the requirement for Committee approval of the accounts, for the Chair of the Committee to sign the accounts once approved, and for a further report should there be material changes to accounts that occur during the audit process. Reporting of accounts has also received increased focus in the new CPA framework.
- 1.6 In order to support this increase in accountability, this report provides an explanation of the major items in the accounts. It is also proposed that a summary 'Plain English' version of the accounts will be distributed with a future issue of the Brent Magazine. The council will separately be publishing its annual report, setting out what it has achieved for the community over the past year. The significant improvement in timescales for producing the accounts may mean that in future years we can combine these in a single document.
- 1.7 Members should also note that the accounts have been produced in record time. Last year General Purposes Committee approved the accounts on 4th August. This year, subject to the Committee agreeing the recommendations in the main report, the accounts will be approved almost a month earlier on 12th July. Next year, the accounts will need to be approved by 30th June to meet an even earlier statutory deadline. We are reviewing the process that took place in the current year, but are confident that the earlier deadline will be achieved.
- 1.8 There is a recognised trade-off between speed of closing accounts and the amount of checking that can be done of what has gone into the accounts. We have quality control procedures that we are confident work well. But the earlier closure of accounts means there is a greater risk that amendments may be needed to the accounts during audit. Members therefore need to be aware that the level of balances, and other items in the accounts, may be subject to change during the audit process. Although balances shown in the accounts at the end of 2004/05 are £10.346m, there is a significant risk that this amount could be reduced during audit (see report on Provisional 2004/05 Outturn and 2005/06 Revenue Budget to the Executive on 11th July). Should there be any material changes to the accounts during the audit, we will report them for approval to a future meeting of General Purposes Committee.
- 1.9 Members also need to be aware that closure of accounts in Brent is hampered by the existence of a number of financial systems. These have been successfully rationalised down to three main systems in recent years but further work needs to be done on this. The Director of Finance and Corporate Resources plans to carry out an appraisal in the near future to establish whether there is a business case for the introduction of a unified single accounting system.

2. RECOMMENDATIONS

- 2.1 Members are referred to the recommendations in the main report, sent out with the agenda.

3. COVERAGE OF THE ACCOUNTS

- 3.1 The annual accounts of the council set out:

- An Explanatory Foreword;
- A Statement of Responsibilities for the Statement of Accounts;
- A Statement on Internal Control setting out the control environment in which the council manages its finances and produces its accounts;
- A Statement of Accounting Policies used in putting together the accounts;
- How the council spent monies raised from council tax payers and provided by government and other agencies – the Consolidated Revenue Account;
- How rents, housing subsidy, and other income were used to fund spending on housing properties owned by the council – the Housing Revenue Account;
- The council's Consolidated Balance Sheet – its overall assets, including housing, land and other property, investments, and debts owed to the council; and its major liabilities, including amounts borrowed and pension fund liabilities;
- Spending by the council on capital assets – improvements to the council's schools, road and pavements, parks and so on – and how this was funded – which is in the notes to the Consolidated Balance Sheet;
- A Statement of Total Movement in Reserves;
- Cash flowing into and out of the council during 2004/05 – the Cash Flow Statement;
- The Collection Fund account which shows the way in which grants and council tax are used to fund the council's spending, and spending by the Greater London Authority.

4. EXPLANATORY FOREWORD (pages 3 to 7)

- 4.1 The explanatory forward summarises the outturn on the revenue account, capital programme and Housing Revenue Account. Further details of the outturn on the revenue account and capital programme have separately been reported to the Executive on 11th July.

5. STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS (pages 10 to 11)

5.1 This sets out the responsibilities of:

- The Council to make arrangements for proper administration of its financial affairs, including appointing an officer to carry out these duties, to secure economic, efficient and effective use of resources, and to approve the Statement of Accounts;
- The Director of Finance and Corporate Resources to prepare the accounts in accordance with accounting codes of practice, to present fairly the financial position of the council, to keep proper up to date accounting records, and to take reasonable steps to prevent fraud and corruption;
- The General Purposes Committee to approve the accounts on behalf of the Council.

5.2 The statement on the Director of Finance and Corporate Resources' responsibilities was signed on 7th July. The statement of Committee approval will be signed by the Chair of General Purposes Committee, subject to approval of the accounts by the Committee.

6. STATEMENT OF INTERNAL CONTROL (pages 12 to 21)

6.1 The Statement of Internal Control provides assurance that the framework within which the council's finances are managed and use of money is accounted for is secure. A draft of this was considered at Performance and Finance Select Committee on 22nd June 2005 and the statement has been signed by the Leader and Chief Executive. The statement demonstrates that the council has a strong control environment. However, Section 5 of the statement (page 20) identifies significant control issues, which are being addressed. These are as follows:

- A lack of understanding of procurement rules by some officers;
- Failure on occasions to comply with the agreed notice period for the council's legal team to comment on reports before they are sent out;
- The need to embed risk management in management culture;
- The need to test business continuity plans;
- Specific issues in individual service areas, reflected in directors' certificate of assurance.

7. STATEMENT OF ACCOUNTING POLICIES (pages 22 to 25)

7.1 This sets out the accounting policies used in putting together the accounts. These are in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

8. THE CONSOLIDATED REVENUE ACCOUNT (pages 26 to 38)

8.1 This shows the council's spending on services, and how this was funded.

8.2 Spending met by government grants (other than specific grants) and council tax payers was £341.8m in 2004/05 (£323.0m in 2003/4), compared to income from government grants and council tax payers of £347.4m (£327.6m in 2003/04). The result was a surplus for the year of £5.6m (£4.6m in 2003/04). The council's year end balances – excluding Housing Revenue Account and school balances – are as follows:

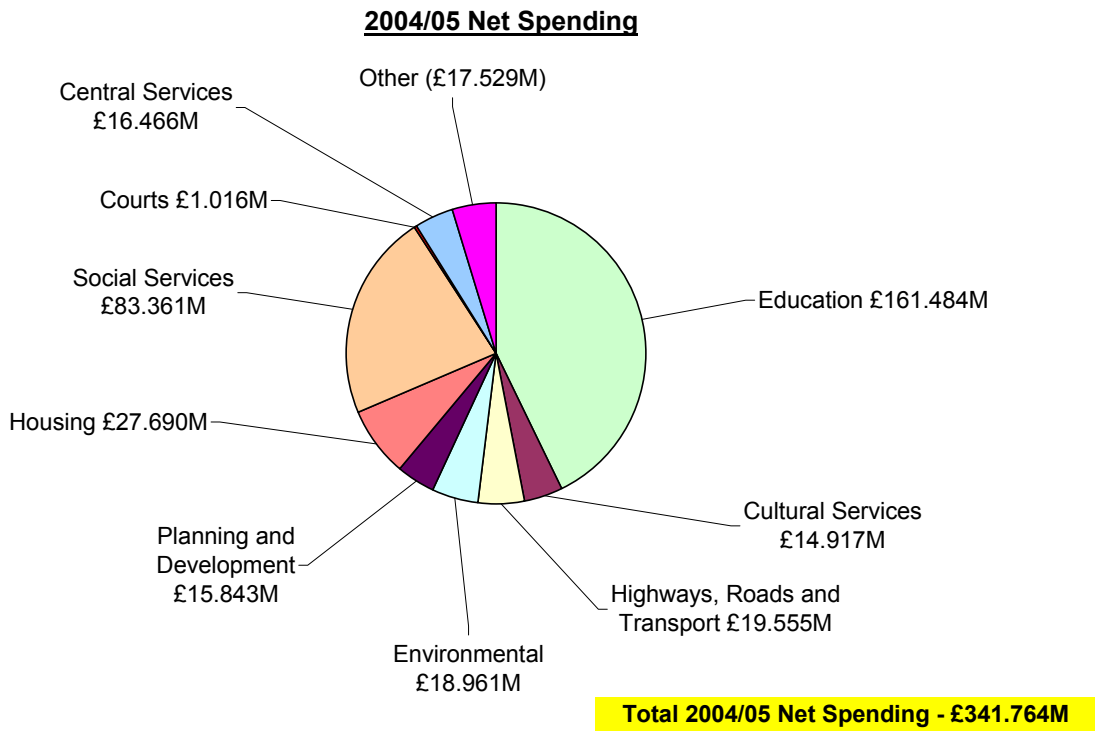
| | |
|----------------------------------|---------------|
| | £'000 |
| Surplus for 2004/05 | 5,651 |
| Balances at 1 April 2004 | 4,695 |
| Balances at 31 March 2005 | 10,346 |

8.2 Table 1 below shows increases in spending and income between 2003/04 and 2004/05. The increase in council tax income is a combination of the impact of a 5.8% increase in Band D council tax and changes to the council tax base.

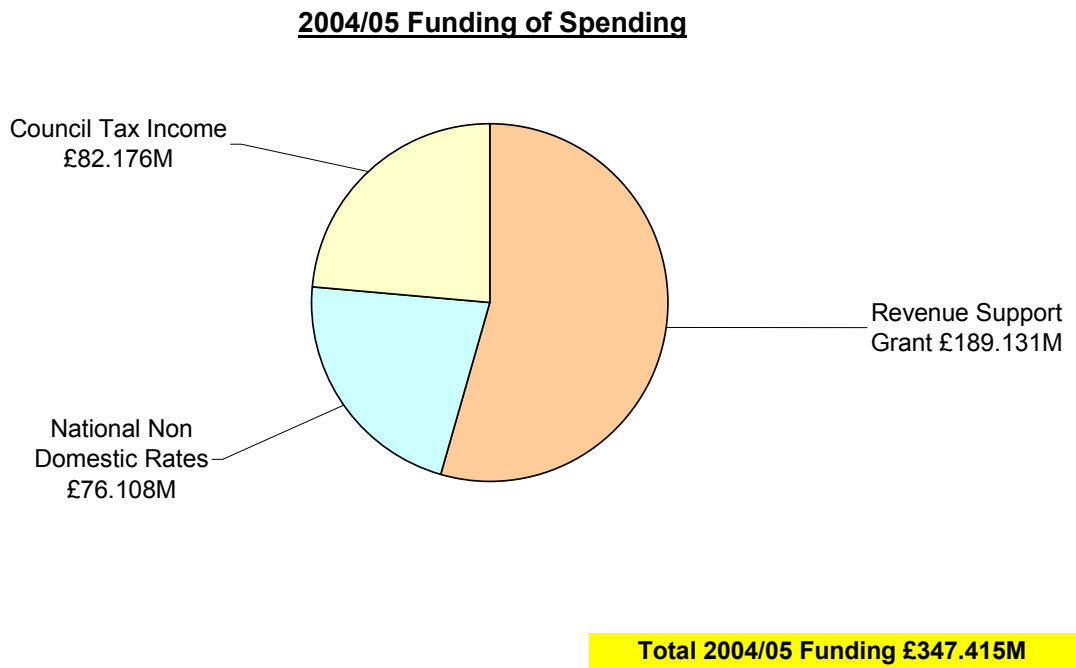
TABLE 1 Changes in spending and income – 2003/04 to 2004/05

| | 2003/04 £'000 | 2004/05 £'000 | % change |
|--|--------------------------|--------------------------|-----------------|
| Spending met from council tax and grant | 323,000 | 341,764 | +5.8% |
| Financed by: | | | |
| - Government grants (revenue support grant and non-domestic rate income) | 251,252 | 265,239 | +5.6% |
| - Council tax income | 77,195 | 83,363 | +8.0% |
| Less: | | | |
| - Deficit on collection fund | 802 | 1,187 | +48.0% |
| Total funding (set at time of 2004/05 budget) | 327,645 | 347,415 | +6.0% |
| Surplus for the year - spending less funding | (4,645) | (5,651) | +21.7% |

8.3 Chart 1 below shows how the £341.8m net spending in 2004/05 was distributed between the council's services, excluding council housing.



8.4 Chart 2 shows sources of the £347.4m raised to pay for the council's services.¹



¹ Note that this excludes fees and charges and specific grants which are used to fund services directly and taken into account in net spending figures.

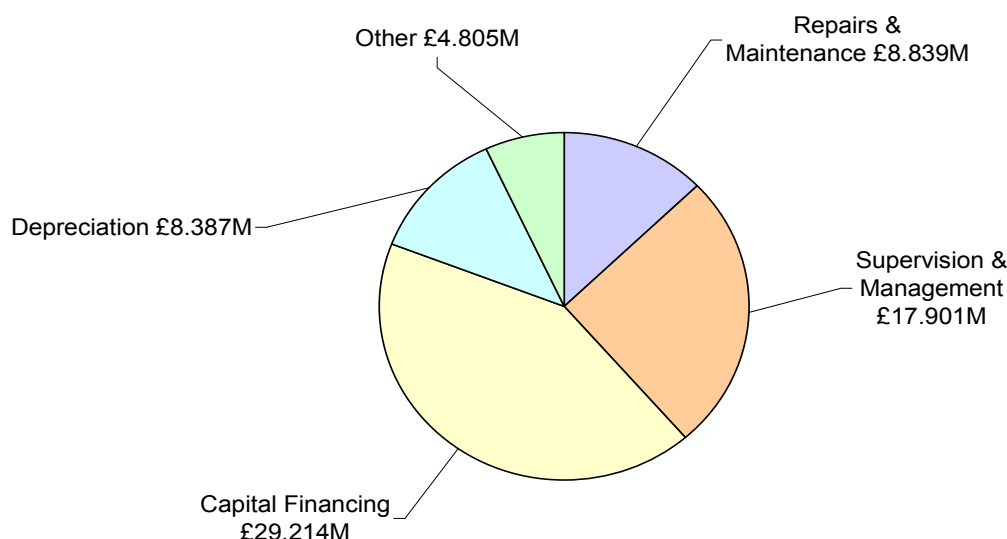
9. THE HOUSING REVENUE ACCOUNT (pages 39 to 43)

- 9.1 The Housing Revenue Account includes spending on council housing and the income that finances it.
- 9.2 Total spending on council housing in 2004/05 was £69.1m (£92.5m in 2003/04). This was funded by rent income, other income from tenants and housing subsidy, totalling £63.6m (£95.9m in 2003/04).² This leaves a difference of £5.5m between spending and income but there are a number of internal accounting adjustments which produce an overall deficit on the Housing Revenue Account of £0.8m in 2004/05. The impact on balances carried forward is shown below:

| | |
|----------------------------------|------------|
| | £'000 |
| Balances at 1 April 2004 | 1,326 |
| Less: | |
| Deficit for the year | (815) |
| Transfer to earmarked reserves | (111) |
| Balances at 31 March 2005 | 400 |

- 9.3 Rent income fell from £38.8m in 2003/04 to £38.3m in 2005/06, a reduction of 1.2%. This reflects the reduction in council dwellings from 9,931 at 1st April 2004 to 9,707 at 31st March 2005. The average rent rise agreed as part of the 2004/05 budget was 3.7%.
- 9.4 Chart 3 below shows the breakdown of the £69.1m spent on council housing in 2004/05.

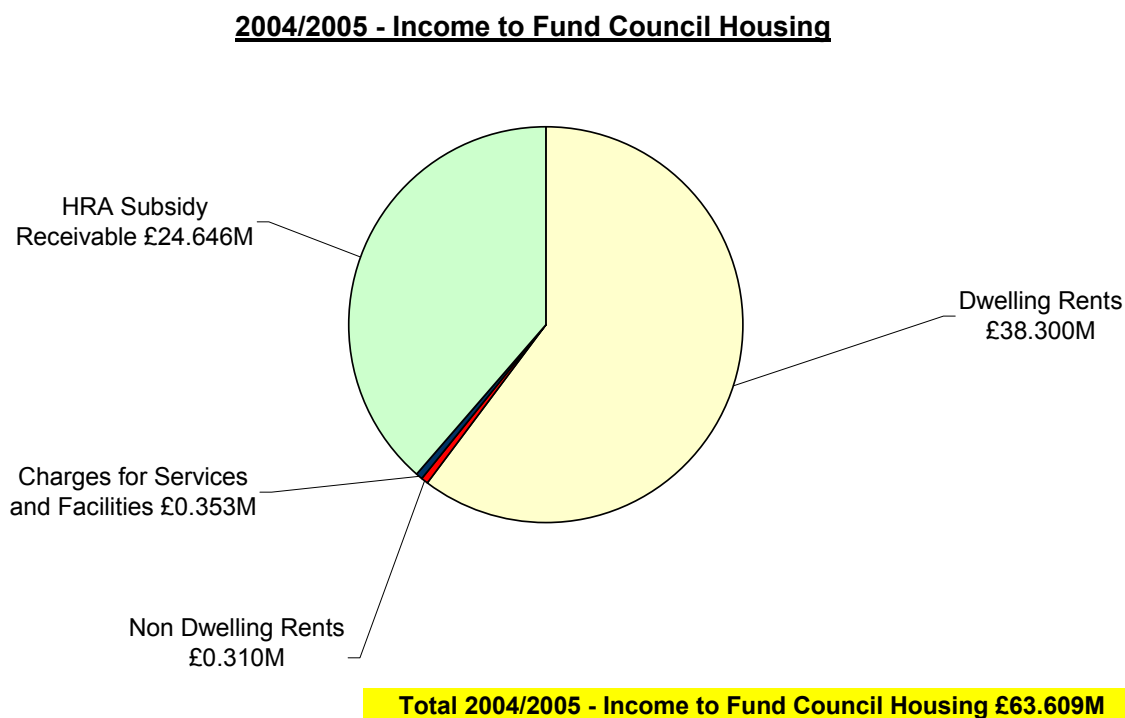
2004/05 Spending - Council Housing



Total 2004/05 Spending - Council Housing £69.146M

² Direct comparisons cannot be made between 2003/04 and 2004/05 overall spending and income figures within the Housing Revenue Account because the Government changed the way in which rent rebates for tenants in council dwellings were accounted for and funded.

9.5 Chart 4 shows sources of the £63.6m raised to fund spending on council housing.



10. THE CONSOLIDATED BALANCE SHEET (pages 44 to 57)

10.1 The Balance Sheet shows the overall wealth of the council – the asset it holds and its liabilities.

10.2 Assets and liabilities are shown as long term and short term liabilities, with long term being any assets or liabilities with a life of more than one year.

10.3 Key figures in the balance sheet are as follows:

- Total fixed assets of the council – land, buildings, vehicles, plant and equipment, and infrastructure – were £1,287.0m at 31st March 2005 (£1,169.7m at 31st March 2004);
- Total long term debtors were £25.5m at 31st March 2005 (£26.1m at 31st March 2004);
- Total long term creditors were £1.0m at 31st March 2005 (£2.2m at 31st March 2004);
- Total short term debtors were £58.9m at 31st March 2005 (£62.6m at 31st March 2004);
- Total short term creditors were £65.0m at 31st March 2005 (£54.7m at 31st March 2004);
- Total investments – long and short term – were £67.0m at 31st March 2005 (£75.0m at 31st March 2004);

- Total borrowing – long and short term – was £496.8m at 31st March 2005 (£496.0m at 31st March 2004);
- The pension fund liability was £335.1m at 31st March 2005 (£252.0m at 31st March 2004);
- Total earmarked reserves were £45.3m at 31st March 2005 (£39.7m at 31st March 2004);
- Total General Fund balances – including school balances of £3.3m – were £13.7m at 31st March 2005 (£7.2m at 31st March 2004);
- Total HRA balances were £0.4m at 31st March 2005 (£1.3m at 31st March 2004).

10.4 Although the net worth of the council (total assets less liabilities) hardly changed - £524.4m at 31st March 2005 compared to £518.1m at 31st March 2004 – there were some significant changes in individual assets and liabilities. The principal changes were as follows:

- Net fixed assets which increased from £1,169.7m to £1,287.0m during 2004/05. This was the combined effect of capital spending on assets, revaluations of properties, disposals and depreciation – details are given in Note 1 on page 46 of the accounts;
- Short term borrowing which fell from £114.2m to £30.0m during 2004/05, matched by an increase in long term borrowing from £381.8m to £466.8m during 2004/05. This reflects treasury management decisions aimed at minimising the cost of borrowing to the council. Decisions about whether to borrow short term or long term are based on an assessment of current interest rates and forecast changes in interest rates in line with the treasury management strategy. Overall borrowing remained largely unchanged, increasing from £496.0m to £496.8m during 2004/05;
- Liability related to defined benefit pension schemes which increased from £252.0m to £335.1m during 2004/05. Details of this increase are given in Note 15 to the Consolidated Revenue Account (pages 33 to 36). The Pension Fund deficit is a notional calculation of the liabilities facing the Pension Fund. It uses actuarial assumptions about pay increases, interest rates, return on investments, number of people in the Fund and number of pensioners and so on to calculate the total liabilities in the Fund. These are then discounted back to 31st March 2005 to calculate the overall value of assets and liabilities. The increase in the deficit in 2004/05 was principally due to changes in actuarial assumptions which added £72.8m to the deficit. The Pension Fund accounts are complete and will be sent with the main accounts to PricewaterhouseCoopers to be audited.

10.5 There are detailed notes to the Consolidated Balance Sheet which explain each of the items on the Balance Sheet.

11. CAPITAL SPENDING – NOTES 1 AND 2 TO THE BALANCE SHEET (pages 46 to 47)

11.1 Details of capital spending in 2004/05, and the way it was financed, are contained in Notes 1 and 2 to the council's Balance Sheet.

11.2 The total spent on capital in 2004/05 was £110.530m (£65.125m in 2003/04). Table 2 below compares spending on capital in 2003/04 and 2004/05. The principal areas of change in spending between years were as follows:

- central items, which include a total of £8.2m on the Estate Access Corridor in 2004/05;
- the Housing Revenue Account, with an increase of £10.1m on Major Repairs Allowance (up from £3.4m to £13.5m), and £14.1m on the Arms Length Management Organisation (up from £11.3m to £25.4m).

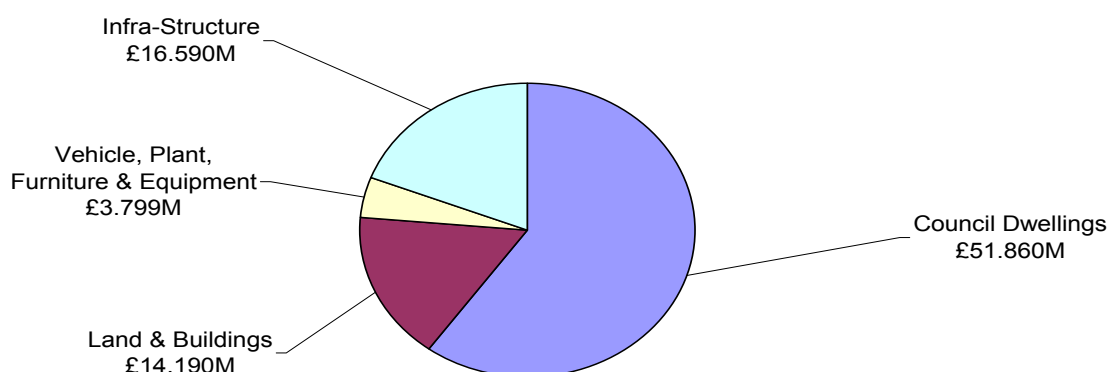
TABLE 2 Changes in capital spending – 2003/04 to 2004/05

| | 2003/04 £'000 | 2004/05 £'000 |
|-------------------------------|--------------------------|--------------------------|
| Corporate | 2,776 | 2,580 |
| Central items | 8,032 | 17,503 |
| Education, Arts and Libraries | 9,996 | 11,604 |
| Environment | 10,964 | 14,388 |
| Housing – General Fund | 12,446 | 11,720 |
| Housing - HRA | 20,203 | 52,160 |
| Social Services | 708 | 575 |
| Total capital spend | 65,125 | 110,530 |

11.3 Of the total £110.5m spent on capital in 2004/05, £86.4m was spent on the council's own assets and the balance was used to fund capital expenditure incurred by other bodies or individuals, including contributions to regeneration schemes as part of the Single Regeneration Budget, housing association grants, private sector renewal grants, and disabled facilities grants.

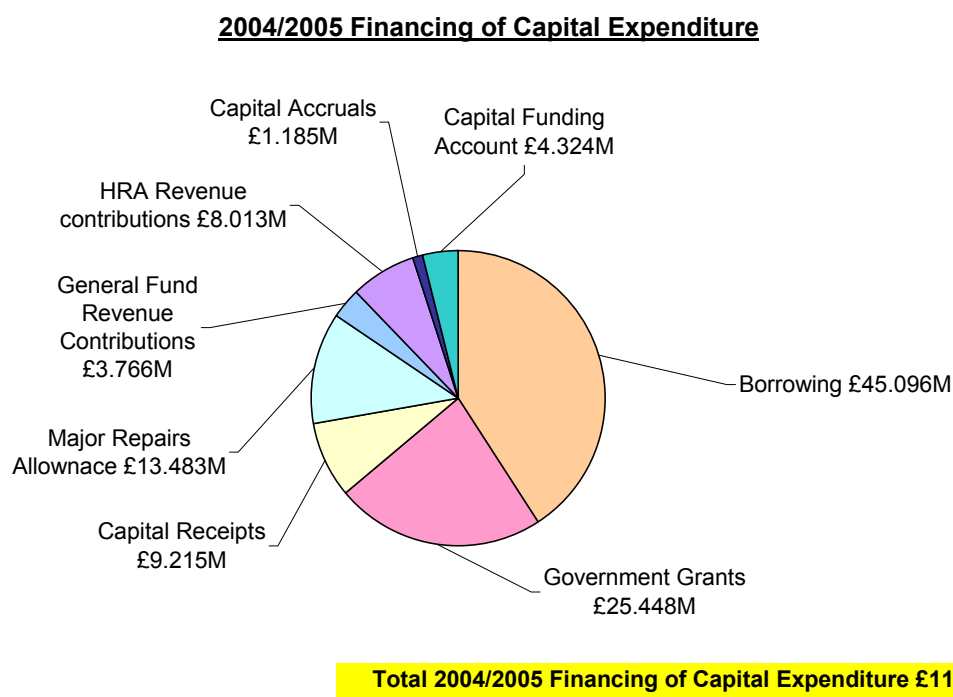
11.4 Chart 5 shows how the £86.4m spent on council assets was allocated to different asset types.

2004/2005 Capital Expenditure by Asset Type



Total 2004/05 Capital Expenditure by Asset Type £86.439

11.5 Chart 6 shows sources of financing for capital spending.



12. STATEMENT OF TOTAL MOVEMENT IN RESERVES (page 58)

12.1 This statement summarises the movements in reserves shown in the Balance Sheet. Details of the revenue reserves have been given in paragraph 10.3 above. The Fixed Asset Restatement Account and the Capital Financing Account reflect changes to the value of council assets and methods of financing the assets. They are accounting entries required under the CIPFA capital accounting framework which ensure overall balance of the Consolidated Balance Sheet. Usable capital receipts have been used fully to fund capital spending in 2004/05 (with a balance of £1k at 31st March 2005).

13. CASH FLOW STATEMENT (pages 59 to 61)

13.1 The cash flow statement summarises the total cash transactions of the council during the year. The decrease in cash held by the council during 2004/05 of £3.342m is the difference between net cash overdrawn at 31st March 2004 of £6.465m and net cash overdrawn at 31st March 2005 of £9.807m (see Note 3 on page 61 and cash in hand and cash overdrawn figures in the Consolidated Balance Sheet on page 44).

14. THE COLLECTION FUND (pages 62 to 64)

14.1 The Collection Fund accounts for total income from council tax-payers which is shared between Brent Council and the Greater London Authority. It also accounts for rate income collected from non-domestic rate payers which is paid into a national pool which the government then distributes to local government as part of the grant settlement. £83.363m of the total £105.720m

paid out of the Collection fund was allocated to Brent Council; the balance of £22.357m was allocated to the GLA.

15 FINANCIAL IMPLICATIONS

15.1 This report wholly relates to the Borough's finances.

16. LEGAL IMPLICATIONS

16.1 Legal implications were set out in the main report.

17. DIVERSITY IMPLICATIONS

17.1 This report has been subject to screening and officers believe that there are no diversity implications.

18. STAFFING IMPLICATIONS

18.1 There are no specific staffing implications.

19. BACKGROUND INFORMATION

Code of Practice on Local Authority Accounting in the United Kingdom 2004.
Accounts and Audit Regulations 2003.

Provisional 2004/2005 Outturn and 2005/2006 Revenue Budget – Report to the Executive on 11th July 2005

Provisional 2004/2005 Capital Outturn and 2005/2009 Capital Programme and Prudential Indicators – Report to the Executive on 11th July 2005

Any person wishing to inspect these documents should contact Max Gray, Finance Manager, Room 115, Brent Town Hall, Forty Lane, Wembley, Middlesex HA9 9HD, Tel. 020 8937 1464.

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