



General Purposes Committee
29th June 2006

**Report from the
Director of Finance & Corporate
Resources**

Wards Affected:
ALL

2005/2006 Statement of Accounts –supplementary report

***Reason for urgency**

Under the Accounts and Audit Regulations, the General Purposes Committee is required to consider and approve the Statement of Accounts by 30th June. The Statement of Accounts has only recently been completed and it was not possible to send this supplementary report out with the original Committee papers.

1.0 SUMMARY

- 1.1 Members have received a report on the annual accounts which sets out the legal and accounting requirements in relation to approval and publication of the accounts, including the requirement that the 2005/06 accounts are approved by General Purposes Committee by 30th June 2006.
- 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. The Group Accounts will follow under separate cover.
- 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 However, 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 the budget decision which determines council tax levels 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 Comprehensive Performance Assessment framework.
- 1.6 In order to support this increase in accountability, this report provides an explanation of the major items in the accounts. A summary 'plain English' version of the accounts will be combined with the council's Annual Review and distributed throughout the borough.
- 1.7 Members should also note that the accounts have been produced in record time. Last year General Purposes Committee approved the accounts on 12th July. This year, subject to the Committee agreeing the recommendations in the main report, the accounts will be approved 16 days earlier and before the statutory deadline.
- 1.8 There is a recognised trade-off between the 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 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 2005/06 are £10.263m, there is a risk that this amount could be reduced during audit. 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 and any material changes to the underlying balances position set out in the Budget Report to Full Council will be amended and reported to the Executive as part of the budget monitoring process.
- 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 providing summary and contextual information;
- 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 2005/06 – the Cash Flow Statement;
- The Collection Fund account which shows the way in which council tax is used to fund the council's spending, and spending by the Greater London Authority;
- The Group Accounts which consolidate the council's accounts with all subsidiaries, associated companies and joint ventures that the council has a material interest in.

4. EXPLANATORY FOREWORD (pages 2 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 will be reported separately to the Executive on 17th 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 23rd June. 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. The statement has been signed by the Chief Executive and will be subject to scrutiny at the Performance & Finance Select Committee on 11th July. The statement demonstrates that overall the council has a strong control environment. However, Section 5 of the statement identifies a number of significant control issues, these are being addressed. They are as follows:

- A lack of training in Risk Management;
- 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 26)

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 40)

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 £366.371m in 2005/06 (£341.9m in 2004/5), compared to income from government grants and council tax payers of £366.419m (£347.4m in 2004/05). The result was a surplus for the year of £0.048m (£5.5m in 2004/05). The council's year end balances – excluding Housing Revenue Account and school balances – are as follows:

	£'000
Surplus for 2005/06	48
Balances at 1 April 2005	<u>10,215</u>
Balances at 31 March 2006	10,263

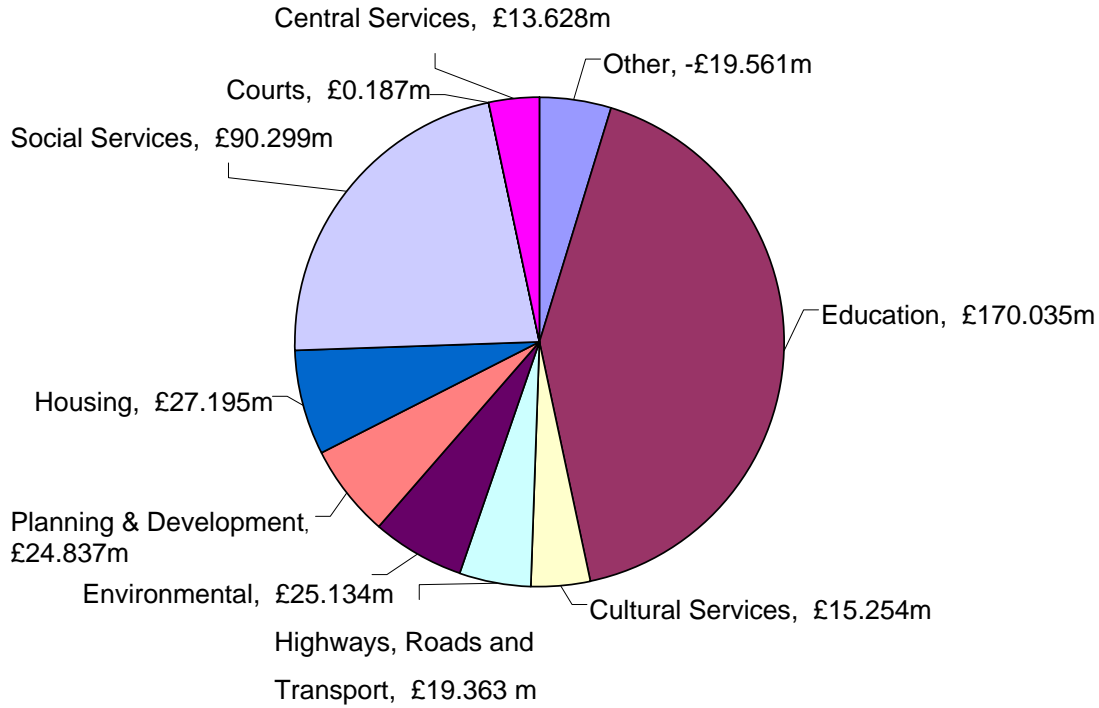
8.3 Table 1 below shows increases in spending and income between 2004/05 and 2005/06. The increase in council tax income is a combination of the impact of a 3.3% increase in Band D council tax and changes to the council tax base.

TABLE 1 Changes in spending and income – 2004/05 to 2005/06

	2004/05 £'000	2005/06 £'000	% change
Spending met from council tax and grant	341,895	366,371	+7.2%
Financed by:			
- Government grants (revenue support grant and non-domestic rate income)	265,239	281,269	+6.0%
- Council tax income	83,363	86,333	+3.6%
Less:			
- Deficit on collection fund	(1,187)	(1,183)	-0.4%
Total funding (set at time of 2005/06 budget)	347,415	366,419	+5.7%
Surplus for the year - spending less funding	5,520	48	

8.4 Chart 1 below shows how the £366.371m net spending in 2005/06 was distributed between the council's services, excluding council housing.

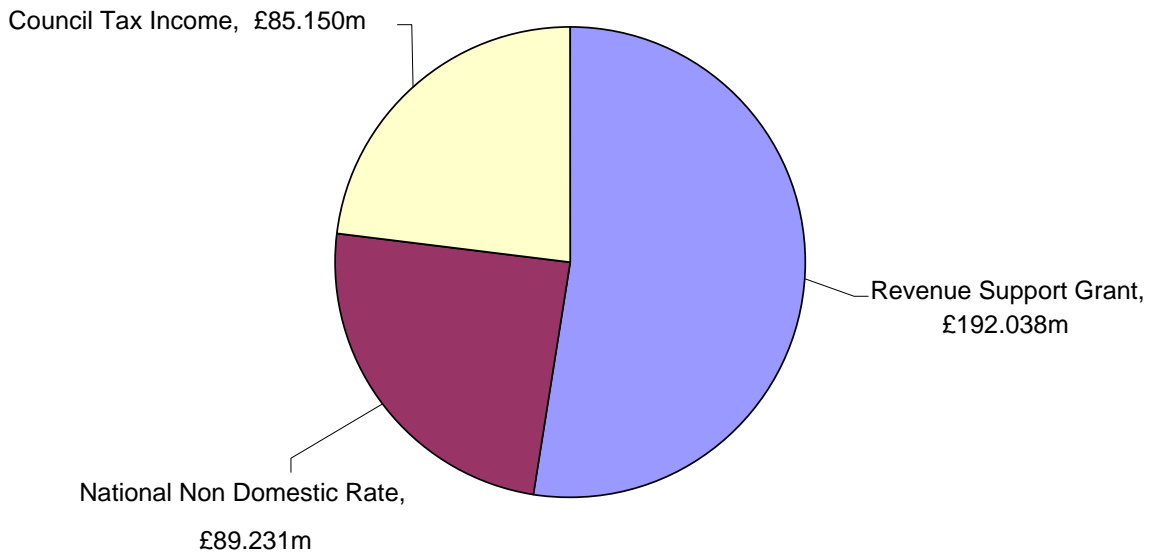
2005/2006 Net Spending



Total 2005/06 Net Spending £366.371M

8.5 Chart 2 shows sources of the £366.419m raised to pay for the council's services.¹

2005/2006 Funding of Spending



Total 2005/06 Funding £366.419M

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.

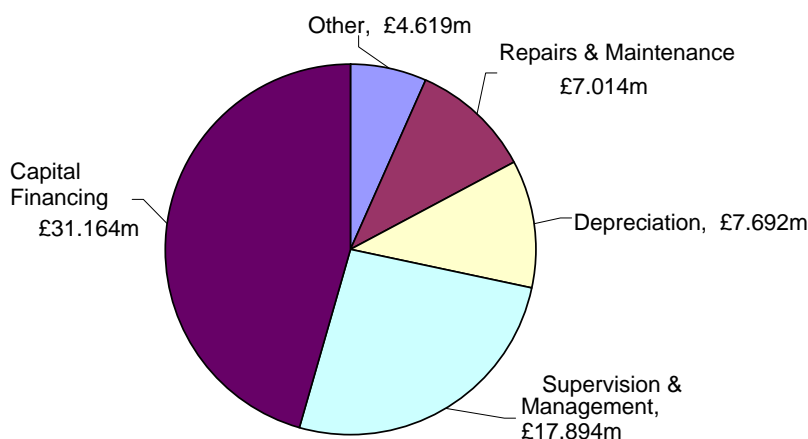
9. THE HOUSING REVENUE ACCOUNT (pages 41 to 45)

- 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 2005/06 was £68.383m (£69.1m in 2004/05). This was funded by rent income, other income from tenants and housing subsidy, totalling £65.363m (£63.6m in 2004/05). This leaves a difference of £3.02m between spending and income but there are a number of internal accounting adjustments which produce an overall surplus on the Housing Revenue Account of £3.3m in 2005/06. The impact on balances carried forward is shown below:

	£'000
Balances at 1 April 2005	400
Add surplus for the year	3325
Less transfer to earmarked reserves	<u>(2947)</u>
Balances at 31 March 2005	778

- 9.3 Rent income increased from £38.3m in 2004/05 to £39.9m in 2005/06, an increase of 4.2%. The average rent rise agreed as part of the 2005/06 budget was £2.76 per week.
- 9.4 Chart 3 below shows the breakdown of the £68.4m spent on council housing in 2005/06.

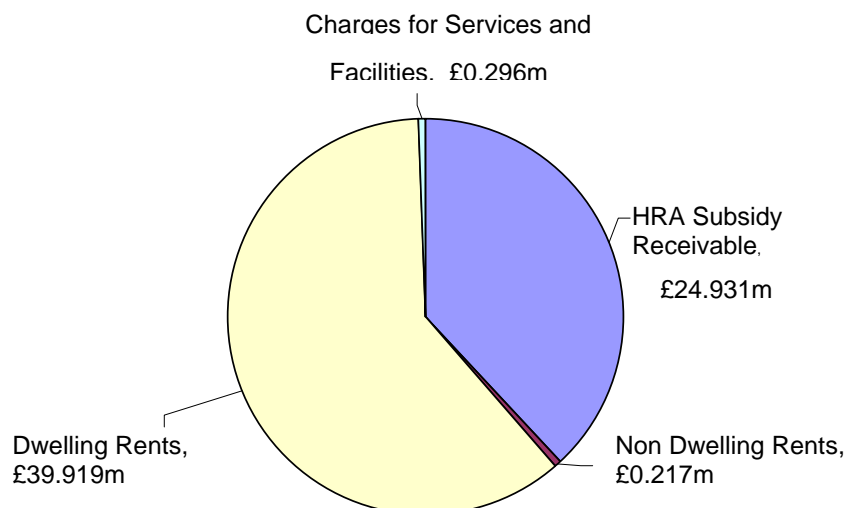
2005/06 Spending - Council Housing



Total 2005/06 Spending - Council Housing £68.383M

- 9.5 Chart 4 shows sources of the £65.363m raised to fund spending on council housing.

2005/2006 - Income to Fund Council Housing



Total 2005/06 _Income to Fund Council Housing £65.363M

10. THE CONSOLIDATED BALANCE SHEET (pages 46 to 60)

- 10.1 The Balance Sheet shows the overall wealth of the council – the asset it holds and its liabilities. Assets and liabilities are shown as long term and short term, with long term being any assets or liabilities with a life of more than one year.
- 10.2 The amount the council owns and is owed is known as assets. The amount the council owes others is known as liabilities. The difference between these two is how much the council is worth. At the 31st March 2006 the council was worth £602.6 million.

	2005/06 @31 st March 2006 £'000	2004/05 @31 st March 2005 £'000
What the council owns or is owed (assets):		
Fixed assets we own such as land, building, vehicles, infrastructure and equipment	1,446,841	1,348,647
Amount owed to us by other people/organisations	68,191	61,018
The amount we hold in investments	99,623	66,367
Other assets such as stock	8,257	3,522
Total we own and are owed	1,622,912	1,479,554
What the council owes (liabilities):		
We owe other people/organisations	69,557	66,612
We have outstanding loans	571,757	496,757
We have to meet future years pension costs	359,790	337,540
We have other liabilities such as cash overdrawn and provisions	19,186	19,242
Total amount we owe	1,020,290	920,151
Total the council is worth	602,622	559,403

10.3 The net worth of the council (total assets less liabilities) has increased by £43.2m This is represented by some significant changes in individual assets and liabilities. The principal changes were as follows:

- Net fixed assets which increased from £1,348.6m to £1,446.8m during 2005/06. This was the combined effect of capital spending on assets, revaluations of council dwellings, disposals and depreciation – details are given in Note 1 on page 48 of the accounts;
- During 2005/06 the Council's borrowing rose by £75.0m from £496.8m at 31st March 2005 to £571.8m at 31st March 2006 and investments rose by £33.2m from £66.4m at 31st March 2005 to £99.6m at 31st March 2006. The increase in net borrowing (borrowing less investments) was £41.8m and reflects the combined effect of borrowing to fund the capital programme, repayment of principal of past borrowing, and changes in cash flow requirements.

The figure of £66.4m for investments includes £100k invested in Greater London Enterprise (GLE) in 1986 when Brent became a founder member. An exit strategy is being developed, possibly through a flotation on the stock market. It is estimated that the Council's stake in GLE is worth approximately £1m.

- Liability related to defined benefit pension schemes which increased from £337.5m to £359.8m during 2005/06. Details of this increase are given in Note 15 to the Consolidated Revenue Account (pages 34 to 37). 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 2006 to calculate the overall value of assets and liabilities. The increase in the deficit in 2005/06 was principally due to changes in actuarial assumptions which added £15.1m to the deficit. The Pension Fund accounts are complete and will be sent with the main accounts to PricewaterhouseCoopers to be audited.

10.4 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 48 to 49)

11.1 Details of capital spending in 2005/06, 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 2005/06 was £114.123m (£110.530m in 2004/05). Table 2 below compares spending on capital in 2004/05 and 2005/06. The principal areas of change in spending between years were as follows:

- A re-alignment of budgets to match the new organisational structure.

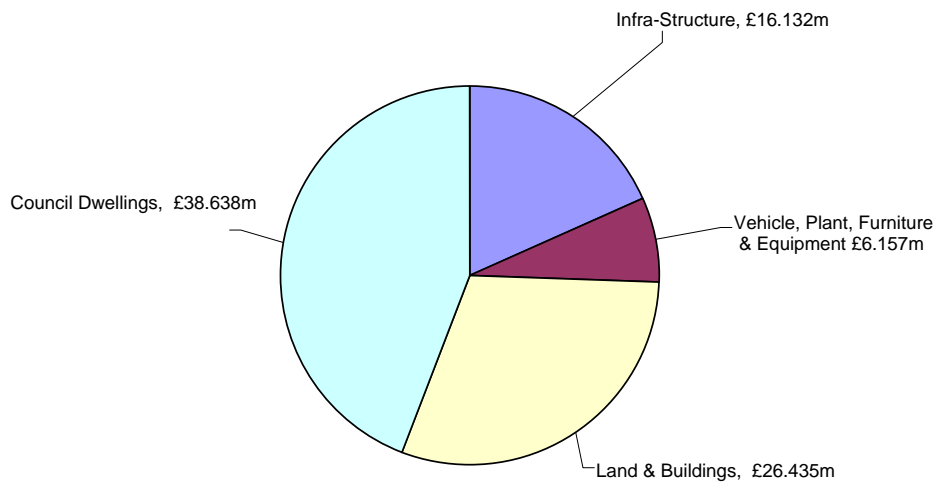
- Central items now include regeneration projects such as the Wembley stations.
- Environment & Culture includes the council's £3.2m contribution to the Willesden Sports Centre PFI, Wembley Stadium access road and increased TFL and council budgets.
- Children's & Families include the Granville Plus project and children's centres.
- The Housing Revenue Account expenditure has reduced in line with the profiled Major Repairs Allowance and Arms Length Management Organisation budgets.

TABLE 2 Changes in capital spending – 2004/05 to 2005/06

Departments (2004/2005 Shown in brackets)	2004/05 £'000	2005/06 £'000
Corporate Units	2,580	216
Finance & Corporate Resources	0	1,402
Central items	17,503	21,969
Children & Families	11,604	18,056
Environment & Culture	14,388	22,061
Housing – General Fund	11,720	11,543
Housing – HRA	52,160	38,638
Adult Community Care	575	238
Total capital spend	110,530	114,123

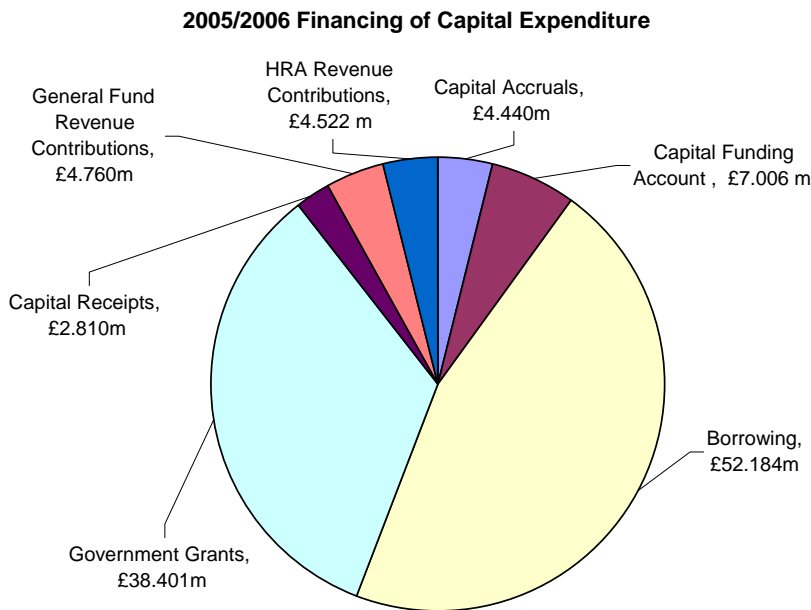
- 11.3 Of the total £114.123m spent on capital in 2005/06, £87.362m was spent on the council's own assets and the balance was used to fund capital expenditure incurred by other bodies or individuals, including contributions to regeneration schemes such as the Wembley stations developments as part of the Single Regeneration Budget, housing association grants, private sector renewal grants, and disabled facilities grants.
- 11.4 Chart 5 shows how the £87.362m spent on council assets was allocated to different asset types.

2005/06 Capital Expenditure by Asset Type



Total 2005/06 Capital Expenditure by Asset Type £87.362M

11.5 Chart 6 shows sources of financing for the total capital spending.



Total 2005/06 Financing of Capital Expenditure £114.123M

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

12.1 This statement summarises the movements in reserves shown in the Balance Sheet. 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 2005/06 (with a balance of £1k at 31st March 2006).

13. CASH FLOW STATEMENT (pages 62 to 64)

- 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 2005/06 of £4.305m is the difference between net cash overdrawn at 31st March 2005 of £9.646m and net cash overdrawn at 31st March 2006 of £5.341m (see Note 3 on page 64 and cash in hand and cash overdrawn figures in the Consolidated Balance Sheet on page 46).

14. THE COLLECTION FUND (pages 65 to 67)

- 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. £86.333m of the total £109.982m paid out of the Collection fund was allocated to Brent Council; the balance of £23.649m was allocated to the GLA.

15. GROUP ACCOUNTS (To follow)

- 15.1 Many authorities now provide services through partner organisations, which operate under the control of the authority. In these cases the financial statements of the reporting authority alone do not fully present the full picture of its activities and financial position. Group financial statements are therefore required to reflect the extended service delivery carried out by these separate legal entities on behalf of the authority. The council has reviewed the relationships it has with partner organisations and only Brent Housing Partnership falls with the legal definition of group accounts.
- 15.2 The group accounts pull together the activities of the council and Brent Housing Partnership (BHP) into a number of key statements including the group Income and Expenditure Account which incorporates the council's consolidated revenue account together with BHP's profit & loss account.
- 15.3 BHP was created as an Arms Length Management Organisation (ALMO) with the purpose of controlling and managing the majority of the council's landlord services.

16 FINANCIAL IMPLICATIONS

- 16.1 This report wholly relates to the Borough's finances.

17. LEGAL IMPLICATIONS

- 17.1 Legal implications were set out in the main report.

18. DIVERSITY IMPLICATIONS

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

19. STAFFING IMPLICATIONS

19.1 There are no specific staffing implications.

20. BACKGROUND INFORMATION

Code of Practice on Local Authority Accounting in the United Kingdom 2005.
Accounts and Audit Regulations 2003.

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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