



**General Purposes Committee  
Tuesday 26<sup>th</sup> June 2007**

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

For Information

**SUPPLEMENTARY REPORT - 2006/2007 STATEMENT OF  
ACCOUNTS**

Forward Plan ref:

**\*Reason for urgency**

**Under the Accounts and Audit Regulations, the General Purposes Committee is required to consider and approve the Statement of Accounts by 30<sup>th</sup> 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. 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 2006/07 accounts are approved by General Purposes Committee by 30<sup>th</sup> June 2007.
- 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<sup>1</sup> and are attached to this supplementary report.
- 1.3 Prior to the beginning of the financial year, Members make decisions about how money will be spent and financed by setting budgets, agreeing the council tax, housing rents, the capital programme, levels of borrowing and so on. This is a very public and open process for which Members are fully accountable. However, local government focuses less on being publicly accountable for how these monies have actually been spent by the year end. This is partly because of the ever increasing and complex accounting requirements which mean the accounts themselves are difficult to understand by anybody but finance specialists.

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<sup>1</sup> The Group Accounts, which combine the council's statement with the Brent Housing Partnership statement, are in the process of being finalised.

- 1.4 As a consequence, the government and the Audit Commission have made councils more accountable for what they have spent by imposing stringent accounts approval requirements 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. The reporting of accounts has also received increased focus in the Comprehensive Performance Assessment framework.
- 1.5 This report has been produced to help ensure increased accountability. It provides an explanation of the major items in the accounts, including how much the council spent and how this spending was funded, and details of the overall financial worth of the council.
- 1.6 To provide further understanding for the tax payer, a summary 'plain English' version of the accounts will be combined with the council's Annual Review and distributed throughout the borough.
- 1.7 In meeting the statutory deadline for the approval of the accounts, Members should note that there is always 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 requirement for early closure of accounts and the increased complexity to reflect changing accounting requirements mean there is a 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 general balances shown in the accounts at the end of 2006/07 are £9.986m, there is a risk that this amount could change 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. Any changes to the balances position will also be reported to the Executive as part of the budget monitoring process.
- 1.8 In previous years Members have noted and embraced the need for a rationalisation of the number of accounting systems used in Brent. During 2006/07 all council departments agreed to move to a unified single accounting system so our current systems are now being evaluated with a view to migrating to the one which best meets our needs. Following this, the Director of Finance & Corporate Resources is making plans for a phased migration taking account of available resources.

## **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;
- A series of core financial statements which show:
  - o How the council spent monies raised from council tax payers and provided by government and other agencies – the Income and Expenditure Account and the Statement of Movement on the General Fund Balance;
  - o 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. The Consolidated Balance Sheet is closely related to the Statement of Recognised Gains and Losses, which precedes it in the accounts, and shows the change to the net worth of the council
  - o Cash flowing into and out of the council during 2006/07 – the Cash Flow Statement.
- Related to these core statements are some fifty detailed notes which seek to provide further information on the key components of the statements;
- How rents, housing subsidy, and other income were used to fund spending on housing properties owned by the council – the Housing Revenue Account;
- 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 8)**

- 4.1 The explanatory forward summarises the outturn on the revenue account, capital programme and Housing Revenue Account. It includes an explanation of variations from budget. Further details of the outturn on the revenue account and capital programme will be reported separately to the Executive on 16th July.

## **5. STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS (pages 13 to 14)**

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 25th 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 15 to 24)**

6.1 The Statement of Internal Control provides assurance that the framework for managing and accounting for the council's finances is secure. The statement was subject to scrutiny by the Audit Committee on 20<sup>th</sup> June and has been signed by the Leader of the Council and Chief Executive. 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 as follows:

- The need to embed risk management across the council in a consistent manner;
- The need to test business continuity plans;
- Specific issues in individual service areas, reflected in directors' certificate of assurance.

6.2 Embedding of risk management and testing of business continuity plans were identified as control issues in the 2005/06 Statement of Internal Control and on-going action is being taken to address them.

## **7. STATEMENT OF ACCOUNTING POLICIES (pages 25 to 29)**

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 INCOME AND EXPENDITURE ACCOUNT (pages 30 to 32)

- 8.1 The Income and Expenditure Account replaces what was previously known as the Consolidated Revenue Account. It includes all income and expenditure on the council's General Fund, which includes schools' spending and the net impact of the Housing Revenue Account. Details of the Housing Revenue Account are provided in a supplementary financial statement (see below).
- 8.2 The purpose of the account is to show the council's spending on services, how this was funded, and the year end balances.
- 8.3 The changes made to the way in which the accounts are presented are to bring councils' accounting practice into line with the UK GAAP (Generally Accepted Accounting Practices). The two major areas of difference are treatment of capital investment and retirement benefits. This means that the in-year deficits for the year based on GAAP, shown in the Revenue Account on page 30 of the accounts, change to in-year surpluses for the year when converted to the basis on which the council calculates its council tax and balances, shown in the Statement of Movement on the General Fund Balance on page 31 of the accounts.

**Table 1 Conversion from GAAP basis to local authority funding basis**

	<b>2006/07 £'000</b>
Deficit for the year using generally accepted accounting practices	2,798
Accounting adjustments to align with council funding arrangements	(7,182)
<b>Increase in General Fund balance (includes both schools and general balances)</b>	<b>(4,384)</b>

Details of how the £7.182m adjustment is calculated are given on page 32 of the accounts.

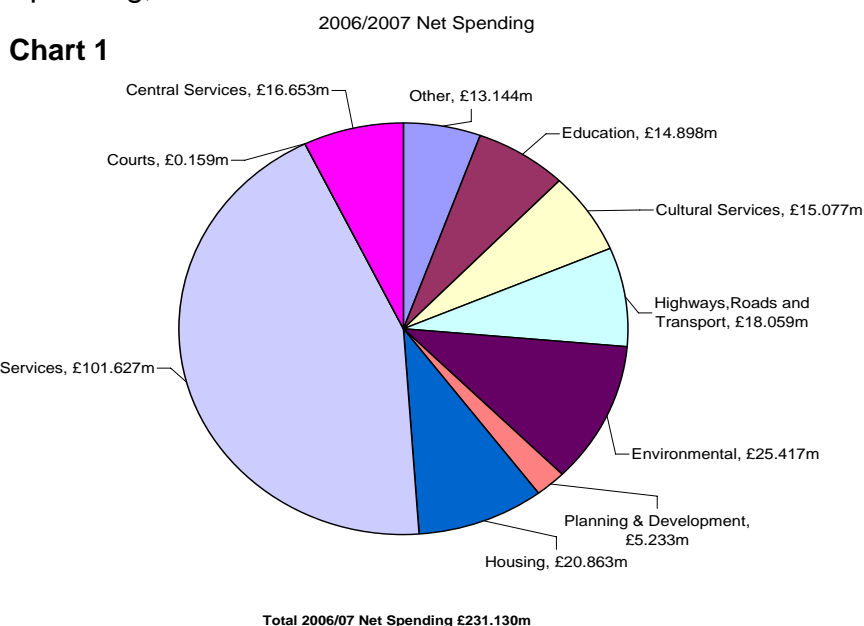
- 8.4 Table 2 below shows the overall movement in balances in 2006/07, divided between schools and general balances<sup>2</sup>. The net surplus for the year of £4.384m represents a £4.661m improvement in school balances and a £277k reduction in general balances. Overall, general balances are £9.986m and school balances are £9.034m at 31<sup>st</sup> March 2007.

**Table 2 Movement in general and school balances in 2006/07**

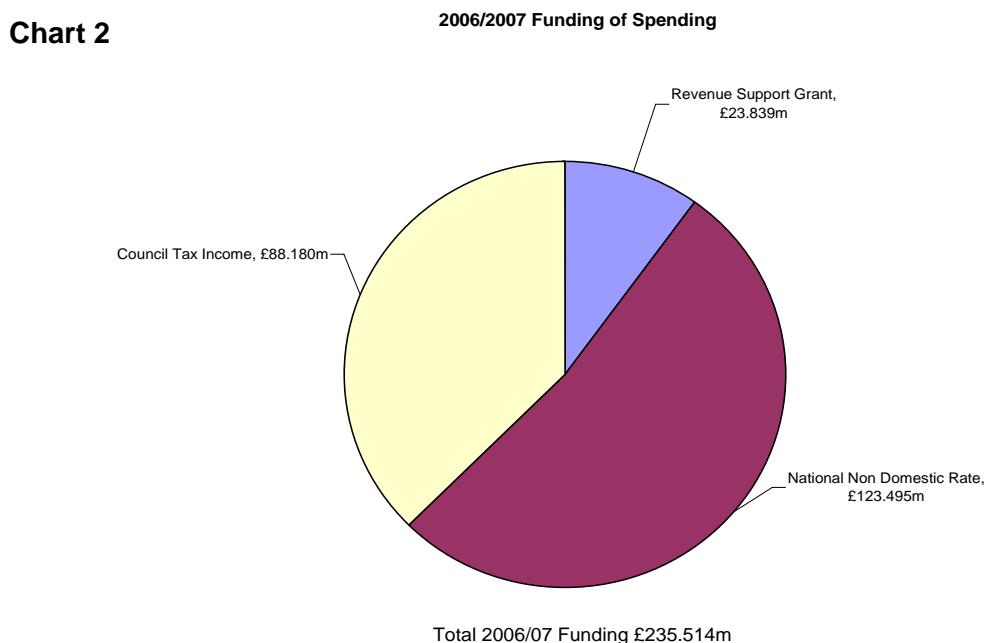
	<b>General balances £'000</b>	<b>School balances £'000</b>	<b>Total £'000</b>
Balances at 31 <sup>st</sup> March 2006	10,263	4,373	14,636
Surplus/(deficit) on revenue account during 2006/07	(277)	4,661	4,384
<b>Balances at 31<sup>st</sup> March 2007</b>	<b>9,986</b>	<b>9,034</b>	<b>19,020</b>

<sup>2</sup> The split between school and general balances is on page 31 of the accounts.

8.5 The detail of the Income and Expenditure Account shows net spending on each of the council's services and how it was funded. Chart 1 below shows how the council's net spending in 2006/07 of £231.130m<sup>3</sup> was distributed between council services, using the CIPFA service categories. This excludes council housing, which is self-financing from rents and grants, and schools spending, which is funded from the Dedicated Schools Grant.



8.6 Chart 2 shows sources of the £235.514m raised to pay for the council's services.<sup>4</sup>



<sup>3</sup> £238.312m net spending using GAAP reduced by £7.182m to bring in line with local government funding arrangements.

<sup>4</sup> 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.

8.7 Members should note that net spending and funding reduced significantly in 2006/07. The reason for this was the introduction of the Dedicated Schools Grant to fund schools. Previously schools were funded from the council's mainline resources.

## 9. THE CONSOLIDATED BALANCE SHEET<sup>5</sup> (pages 33 to 35)

9.1 The Balance Sheet shows the overall worth of the council – the assets 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. The accounts also for the first time include the Statement of Recognised Gains and Losses – which measures changes to the net worth of the council.

9.2 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 31<sup>st</sup> March 2007 the net worth of the council was £280.872 million. The key items within the Balance Sheet are included in Table 3 below.

**Table 3 Assets and liabilities – the council's balance sheet**

	2006/07 @31 <sup>st</sup> March 2007 £'000	2005/06 @31 <sup>st</sup> March 2006 £'000
<b>What the council owns or is owed (assets):</b>		
Fixed assets we own such as land, building, vehicles, infrastructure and equipment	1,240,877	1,451,284
Amount owed to us by other people/organisations	61,779	68,035
The amount we hold in investments	91,041	99,623
The amount we have paid in premia for debt we have redeemed	42,260	21,144
Other assets	8,151	8,071
<b>Total we own and are owed</b>	<b>1,444,108</b>	<b>1,648,157</b>
<b>What the council owes (liabilities):</b>		
We owe other people/organisations	74,737	72,190
We have outstanding loans	603,757	571,757
We have to meet future years pension costs	363,200	359,790
We have received capital grants for assets	108,608	91,277
We have other liabilities such as cash overdrawn and provisions	12,934	19,069
<b>Total amount we owe</b>	<b>1,163,236</b>	<b>1,114,083</b>
<b>Total the council is worth</b>	<b>280,872</b>	<b>534,074</b>

<sup>5</sup> This section of the report also covers the Statement of Recognised Gains and Losses which explains changes in the net worth of the council (net assets less liabilities).

9.3 The Consolidated Balance Sheet shows a significant reduction in the net worth of the council (total assets less liabilities). The Statement of Recognised Gains and Losses (page 33 of the accounts) sets out the factors that have given rise to this change in valuation. The most significant item is a reduction in the value of fixed assets resulting from revaluations of £255.819m. Details of these changes are provided in Note 23 on page 49 of the accounts. The reduction is accounted for by changes to the valuation basis for council dwellings. Two factors caused this, as follows:

- a. Council dwelling stock had last been valued at 31<sup>st</sup> March 2002 and up-rated in line with Land Registry index for movements in house prices in Brent. The properties were revalued at 31<sup>st</sup> March 2006 and this showed that the indices used had over-provided for inflation in the value of the dwelling stock.
- b. The discounted value of properties used in calculating the Existing Use Value of tenanted properties has been reduced. The discount is applied because the rents charged in social housing are less than market rents and therefore depress the value of the properties. Previously the council had calculated the discounted value as 47% of the market value. Guidance issued by the Department of Communities and Local Government has advised councils that the default discounted factor in London should now be 37%, reflecting the fact that market rents have increased much faster than social housing rents in recent years.

## **10. CASH FLOW STATEMENT (page 36)**

10.1 The cash flow statement summarises the total cash transactions of the council during the year. The increase in cash held by the council during 2006/07 of £5.619m is the difference between net cash overdrawn at 31<sup>st</sup> March 2006 of £5.224m and net cash at bank at 31<sup>st</sup> March 2007 of £395k (see cash overdrawn, cash at bank and cash in hand in the Consolidated Balance Sheet on page 34).<sup>6</sup>

## **11. NOTES TO THE CORE FINANCIAL STATEMENTS (INCLUDING DETAILS OF CAPITAL SPENDING AND FINANCING) (pages 37 to 63)**

11.1 The notes to the core financial statements – the Income and Expenditure Account, the Consolidated Balance Sheet, and the Cash Flow Statement – have been consolidated into a single section of the accounts. They explain items within the core financial statements.

11.2 Notes 23 and 24 (pages 49 and 50) include details of the council's capital spending and the way it was financed. The total spent on capital in 2006/07 was £80.852m. Table 4 below compares spending on capital in 2005/06 and 2006/07. The principal areas of change in spending between years were as follows:

- Finance and Corporate Resources has increased in line with allocations for priority 1 backlog repairs.

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<sup>6</sup> Net cash overdrawn in 2005/06 and net cash at bank in 2006/07 are both adjusted for cash in hand.



- In 2005/06 central items included significant SRB expenditure; these programmes wound down significantly in 2006/07.
- Children's & Families 2005/06 spending included spending on libraries which were transferred to Environment and Culture in 2006/07;
- Environment & Culture spending in 2005/06 included the council's contribution to Willesden Sports Centre PFI and the Wembley Stadium access road; funding for these was no longer required in 2006/07;
- Housing General Fund spending on social housing grant reduced in anticipation of provision of affordable homes as part of the housing PFI scheme;
- Housing Revenue Account capital expenditure has reduced in line with the profiled Major Repairs Reserve and Arms Length Management Organisation budgets.

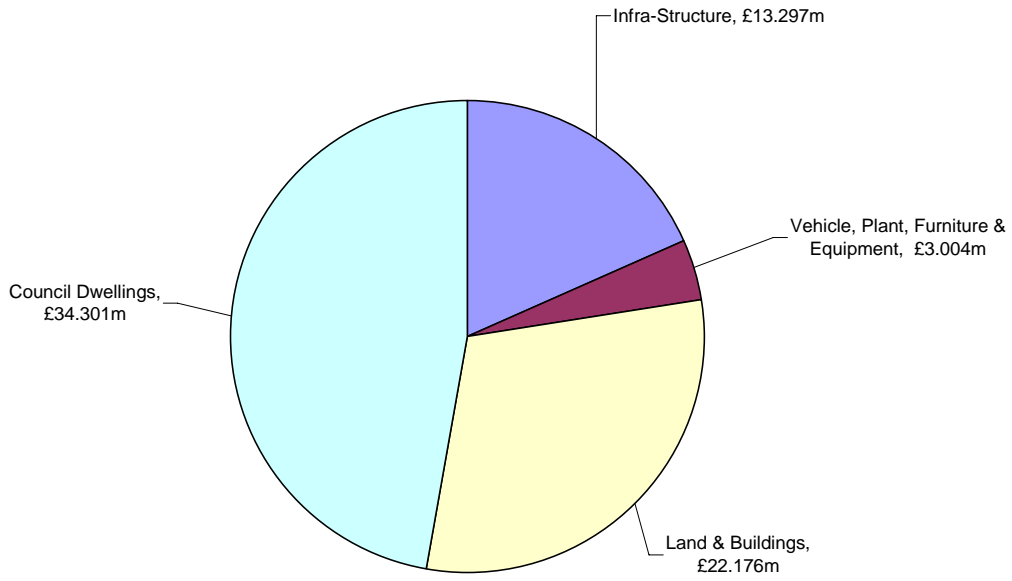
**Table 4 Capital spending**

<b>Departments</b>	<b>2006/07 £'000</b>	<b>2005/06 £'000</b>
Corporate Units	292	216
Finance & Corporate Resources	2,052	1,402
Central items	2,624	21,969
Children & Families	15,627	18,056
Environment & Culture	14,837	22,061
Housing – General Fund	10,688	11,543
Housing – HRA	34,301	38,638
Adult Community Care	431	238
<b>Total capital spend</b>	<b>80,852</b>	<b>114,123</b>

- 11.3 Of the total £80.852m spent on capital in 2006/07, £72.779m 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, housing association grants, private sector renewal grants, and disabled facilities grants.
- 11.4 Chart 3 shows how the £72.779m spent on council assets was allocated to different asset types.

**Chart 3**

**2006/07 Capital Expenditure by Asset Type**

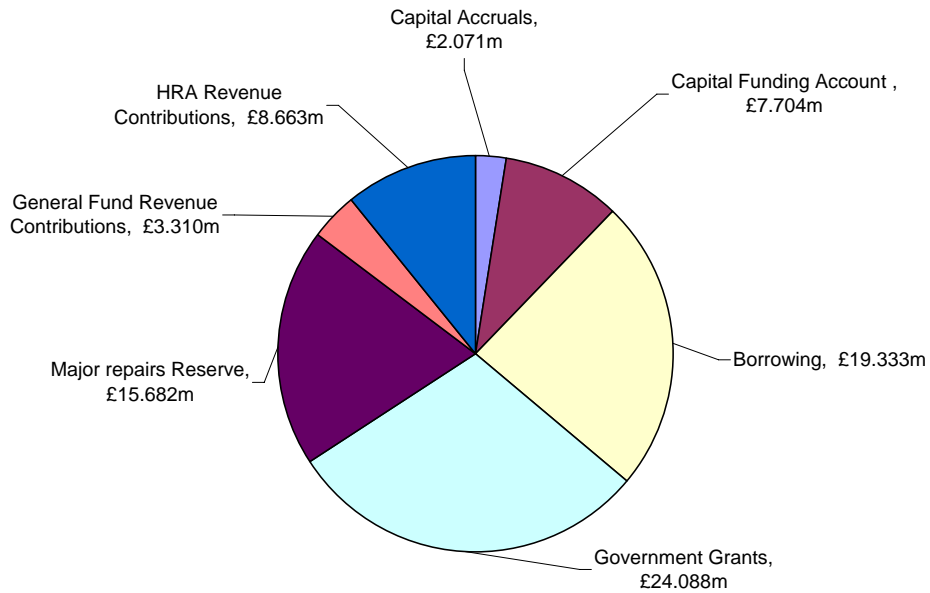


**Total 2006/07 Capital Expenditure by Asset Type £72.779m**

11.5 Chart 4 shows sources of financing for the total capital spending.

**Chart 4**

**2006/2007 Financing of Capital Expenditure**



**Total 2006/07 Financing of Capital Expenditure £80.852m**

## 12. THE HOUSING REVENUE ACCOUNT (pages 64 to 69)

12.1 The Housing Revenue Account shows spending on council housing and how it was financed. As with the main Income and Expenditure Account, the requirement to align accounting practice with UK GAAP means that the reported surplus on the HRA (£5.675m in 2006/07) has to be adjusted to bring it into line with council financing requirements. The surplus after making these adjustments is £115k – the difference between balances brought forward of £778k and balances carried forward of £893k.

12.2 Table 5 below shows the calculation of the surplus.

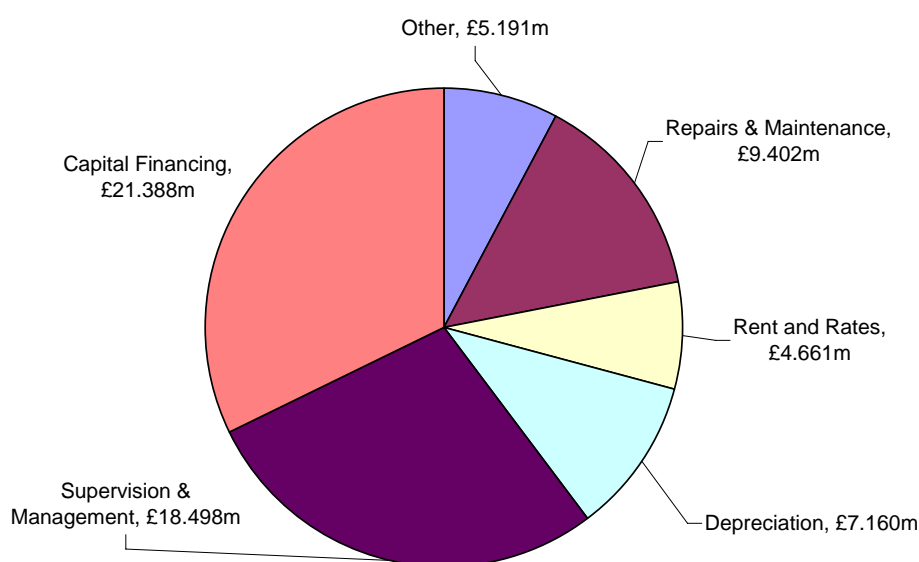
**Table 5 Movements on the HRA in 2006/07**

		<b>£'000</b>
Income to the HRA		(66,415)
Expenditure on HRA services	40,464	
Financing expenditure	21,388	
Other expenditure included in net surplus calculation	<u>(1,112)</u>	<u>60,740</u>
Surplus on HRA services		(5,675)
Less proper accounting adjustments		<u>5,560</u>
<b>Surplus for the year</b>		<b>(115)</b>
Balances brought forward from last year		<u>(778)</u>
<b>Balances at 31 March 2007</b>		<b>(893)</b>

12.3 Chart 5 below shows the breakdown of the £66.300m (£60.740m plus £5.560m accounting adjustments) spent on council housing in 2006/07.

**Chart 5**

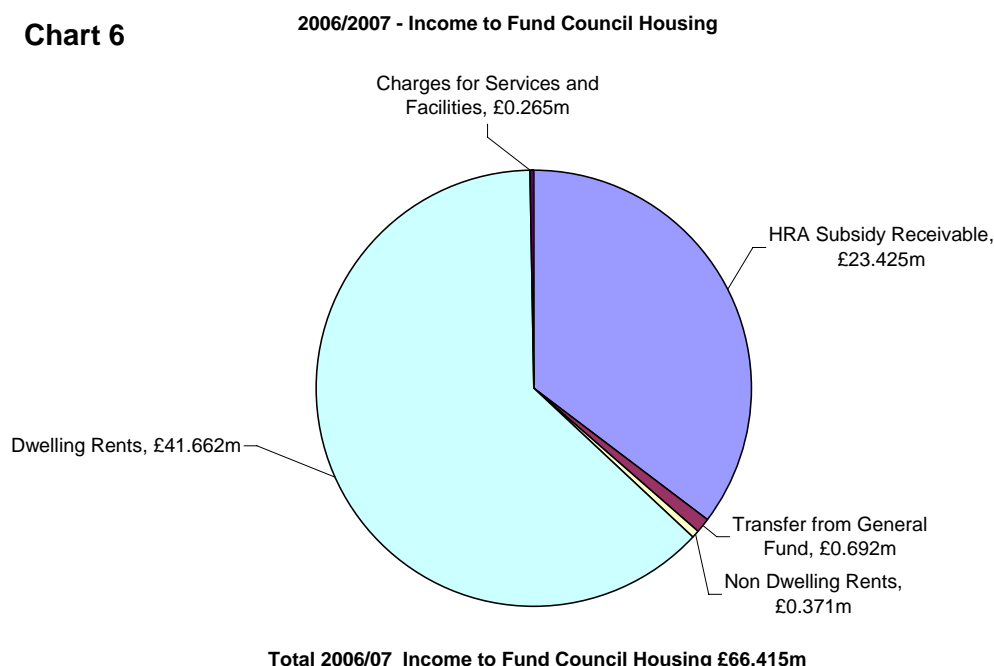
**2006/07 Spending - Council Housing**



**Total 2006/07 Spending - Council Housing £66.300m**

12.4 Chart 6 shows sources of the £66.415m raised to fund spending on council housing.

**Chart 6**



### **13. THE COLLECTION FUND (pages 70 to 72)**

13.1 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. £89.357m of the total £116.500m paid out of the Collection Fund was allocated to Brent Council; the balance of £27.143m was allocated to the GLA.

### **14. GROUP ACCOUNTS (To follow)**

14.1 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 (BHP)<sup>7</sup> falls with the legal definition of group accounts.

<sup>7</sup> 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.

14.2 The group accounts pull together the activities of the council and BHP into a number of key statements including the group Income and Expenditure Account which incorporates the council's Income and Expenditure Account together with BHP's profit & loss account.

## **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 2006.  
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.

**DUNCAN McLEOD**  
**Director of Finance and Corporate Resources**