	<p style="text-align: center;">General Purposes Committee Thursday 26th June 2008</p> <p style="text-align: center;">Report from the Director of Finance and Corporate Resources</p>
For Information	
SUPPLEMENTARY REPORT - 2007/2008 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 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. SUMMARY

- 1.1 Members have received a report on the 2007/08 accounts which sets out the legal and accounting requirements in relation to their approval and publication, including the requirement that they are approved by General Purposes Committee by 30th June 2008.
- 1.2 The accounts are in the process of being finalised and a draft is attached to this supplementary report. The main items that still need to be added are the cash flow statement, showing movement of cash during the year, and the group accounts which combine the council's accounts with Brent Housing Partnership's.
- 1.3 Prior to the beginning of the financial year, members set revenue and capital budgets, council tax, housing rents, borrowing and so on. This is a very public and open process for which members are fully accountable. However, there is less focus on, and public accountability for, how these funds have actually been spent by the year end. This is partly because of ever increasing and complex accounting requirements which mean the accounts themselves are difficult to understand by anybody but finance specialists.
- 1.4 As a consequence, the government and the Audit Commission have sought to make councils more accountable for what they have spent during the preceding year 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 way in which the accounts are reported is also to the Use of Resources element of Comprehensive Performance Assessment.

1.5 A number of measures have been taken in Brent to support this drive for increased accountability, including:

- Production of this explanatory report which is intended to help members understand the main elements of the accounts;
- Reporting to the Executive and Performance and Finance Select Committee on the overall outturn for 2007/08, combining financial data with activity and performance data for the year;
- Publication of a plain English summary of the accounts as part of the council's Annual Review. This will be circulated with The Brent Magazine in September.

In addition, members should note that as part of the move to compliance with International Financial Reporting Standards, which could by itself increase the complexity of the accounts, the Chartered Institute of Public Finance and Accountancy is carrying out a review of how requirements can be changed to make the accounts simpler and more meaningful to councillors, the public and other stakeholders.

1.6 Councils have also been required in recent years to achieve closing of accounts much earlier than previously. Over the past four years, the statutory deadline for closing accounts has moved forward from end of September to end of June and the deadline for audited accounts has moved from end of December to end of September. Members should note that there is a trade-off between the speed of closing accounts and the amount of checking that can be done. The council has 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 General Fund balances shown in the accounts at the end of 2007/08 are £9.055m, 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. Any changes to the balances position will also be reported to the Executive as part of the performance and finance review process.

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;
- An Annual Governance Statement which sets out the overall governance arrangements for the authority, including the system of internal control;
- 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 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 2007/08 – the Cash Flow Statement.
- Related to these core statements are over 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 foreword summarises the outturn on the revenue account, capital programme and Housing Revenue Account. It includes an explanation of variations from budget. Further details will be reported in the outturn Performance and Finance Review report to the Executive on 14th July.

5. STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS (page 13)

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 24th 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. ANNUAL GOVERNANCE STATEMENT (pages 15 to 27)

6.1 The Annual Governance Statement replaces the Statement of Internal Control which was included in previous years' accounts. The annual governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and the way in which it accounts to, leads and engages with the community. The system of internal control remains an important aspect of the overall annual governance framework. The statement is subject to consideration at the Audit Committee on 25th June after which it will be signed by the Leader of the Council and Chief Executive.

6.2 The statement sets out the governance framework and the processes in place to review and maintain its effectiveness. Significant governance issues identified are as follows:

- Given the increasing number of services delivered jointly within the LAA, the need to ensure partnership governance arrangements are adequate;
- The need to ensure clear links between risks and corporate objectives, consistency of scoring of risks, and appropriate reporting arrangements;
- The difficulties faced by Adult Social Care in managing its budget in 2007/08 and measures put in place to address these in 2008/09;
- Governance arrangements to be put in place for delivery of the council-wide transformation agenda aimed at improving performance to achieve an excellent CPA rating and delivering a number of key projects.

6.3 The Director of Finance and Corporate resources will feed back comments of the Audit Committee to this meeting.

7. STATEMENT OF ACCOUNTING POLICIES (pages 28 to 32)

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 33 to 36)

8.1 The Income and Expenditure Account was introduced in 2006/07. It replaced what was previously known as the Consolidated Revenue Account. It covers all income and expenditure on the council's General Fund, including 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 new presentation introduced in 2006/07 brought councils' accounting practice into line with the UK GAAP (Generally Accepted Accounting Practices). The two major areas of difference between GAAP and local authority accounting were treatment of capital investment and retirement benefits. This means that the in-year deficit for the year based on GAAP, shown in the Income and Expenditure Account on page 33 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 34 of the accounts.

Table 1 Conversion from GAAP basis to local authority funding basis

	2007/08 £'000
Deficit for the year using generally accepted accounting practices	1,189
Accounting adjustments to align with council funding arrangements	(5,033)
Increase in General Fund balance (includes both schools and general balances)	(3,844)

Details of how the £5.033m adjustment is calculated are given on page 35 of the accounts.

8.4 Table 2 below shows the overall movement in balances in 2007/08, divided between schools and general balances¹. The net surplus for the year of £3.844m represents a £4.696m improvement in school balances and a £852k reduction in general balances.² Overall, general balances are £9.055m and school balances are £13.730m at 31st March 2008.

¹ The split between school and general balances is on page 34 of the accounts.

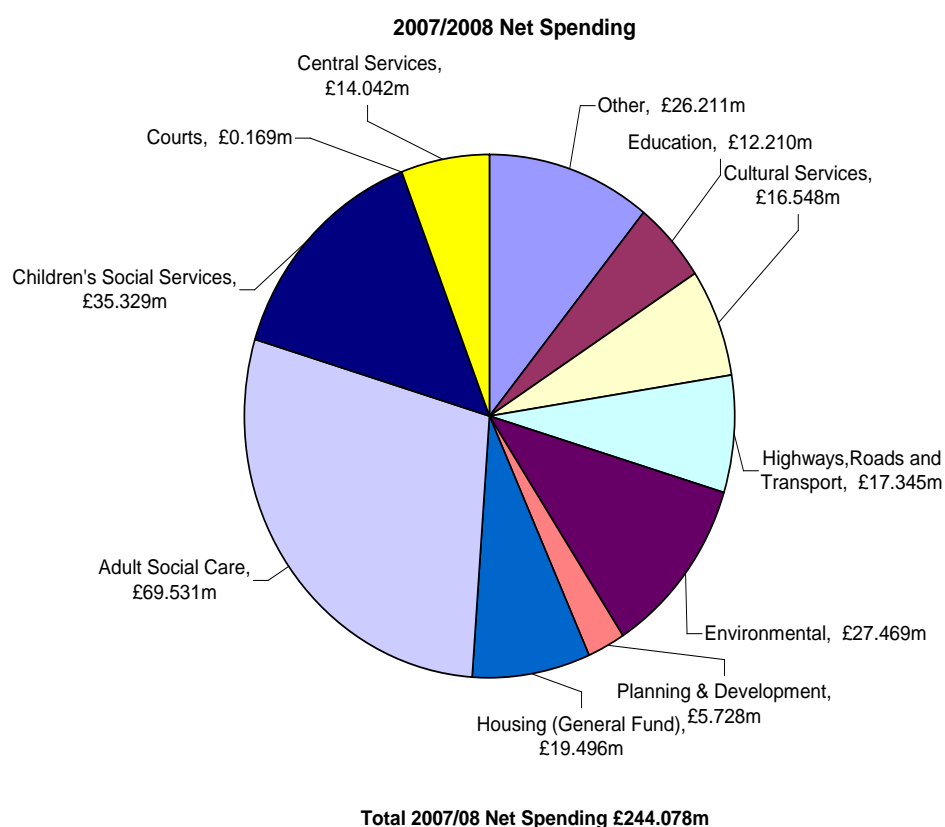
² The £852k reduction in general balances compares with budgeted use of balances in the 2007/08 budget of £1.624m

Table 2 Movement in general and school balances in 2007/08

	General balances £'000	School balances £'000	Total £'000
Balances at 31 st March 2007	9,907	9,034	18,941
Surplus/(deficit) on revenue account during 2007/08	(852)	4,696	3,844
Balances at 31st March 2008	9,055	13,730	22,785

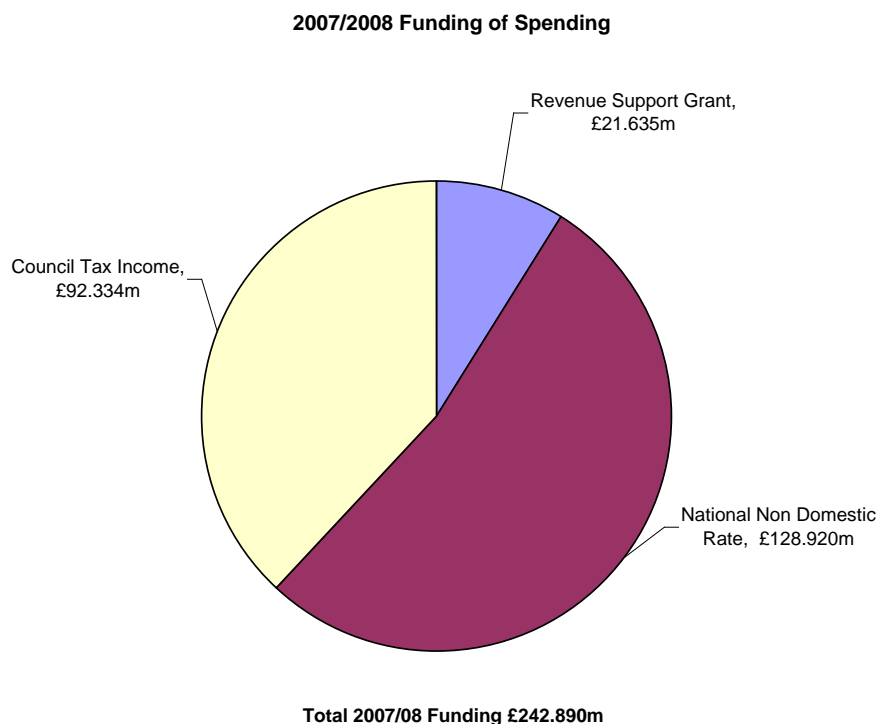
8.5 The detail of the Income and Expenditure Account shows net spending on each of the council's services and how it was funded. Chart 1 below shows how the council's net spending in 2007/08 of £244.078m was distributed between council services, using the CIPFA service categories. This excludes council housing, which is self-financing from rents and grants, and schools spending, which is funded from the Dedicated Schools Grant.

Chart 1



8.6 Chart 2 shows sources of the £242.890m raised to pay for the council's services.³

Chart 2



9. THE CONSOLIDATED BALANCE SHEET⁴ (pages 37 to 38)

- 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 include a 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 31st March 2008 the net worth of the council was £425.296m. The key items within the Balance Sheet are included in Table 3 below.

³ 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.

⁴ 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).

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

	2007/08 @31 st March 2008 £'000	2006/07 @31 st March 2007 £'000
What the council owns or is owed (assets):		
Fixed assets we own such as land, building, vehicles, infrastructure and equipment	1,393,740	1,240,877
Amount owed to us by other people/organisations (less provision for bad debts)	65,192	60,747
The amount we hold in investments	111,434	92,020
The amount we have paid in premia for debt we have redeemed	38,595	42,260
Other assets	6,600	8,151
Total we own and are owed	1,615,561	1,444,055
What the council owes (liabilities):		
We owe other people/organisations	84,136	73,721
We have outstanding loans	621,480	603,757
We have to meet future years pension costs	341,520	363,200
We have received capital grants for assets	123,371	108,608
We have other liabilities such as cash overdrawn and provisions	19,758	19,587
Total amount we owe	1,190,265	1,168,873
Total the council is worth	425,296	275,182

9.3 The Consolidated Balance Sheet shows an increase in the net worth of the council (total assets less liabilities). The Statement of Recognised Gains and Losses (page 36 of the accounts) sets out the factors that have given rise to this change. The principal factors are a surplus arising from revaluation of assets and actuarial gains arising principally from changes in assumptions underlying the calculation of the present value of pension liabilities, which offset poorer returns on Pension Fund assets than expected.

10. CASH FLOW STATEMENT (to follow)

10.1 The cash flow statement summarises the total cash transactions of the council during the year. It is currently being completed and will be circulated at the committee meeting.

11. NOTES TO THE CORE FINANCIAL STATEMENTS (INCLUDING DETAILS OF CAPITAL SPENDING AND FINANCING) (pages 40 to 75)

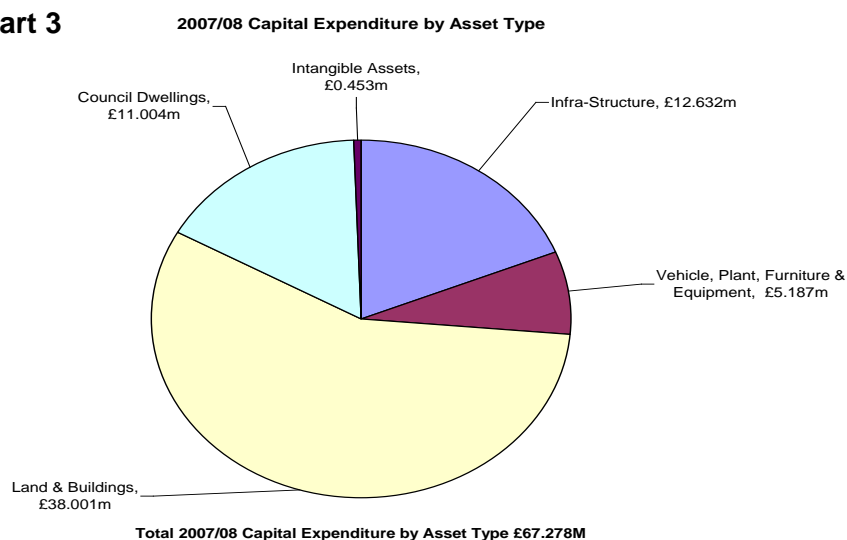
11.1 The notes to the core financial statements – the Income and Expenditure Account, the Consolidated Balance Sheet, and the Cash Flow Statement – are included in a single section of the accounts. They explain items within the core financial statements. There have been changes to reporting requirements which has resulted in the addition of new notes. In particular,

the council is now required to provide a very detailed note on risks associated with short term investments (Note 41).

11.2 Notes 23 and 24 (pages 52 and 53) include details of the council's capital spending and the way it was financed. The total spent on capital in 2007/08 was £77.490m. Of this, £67.278m 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.

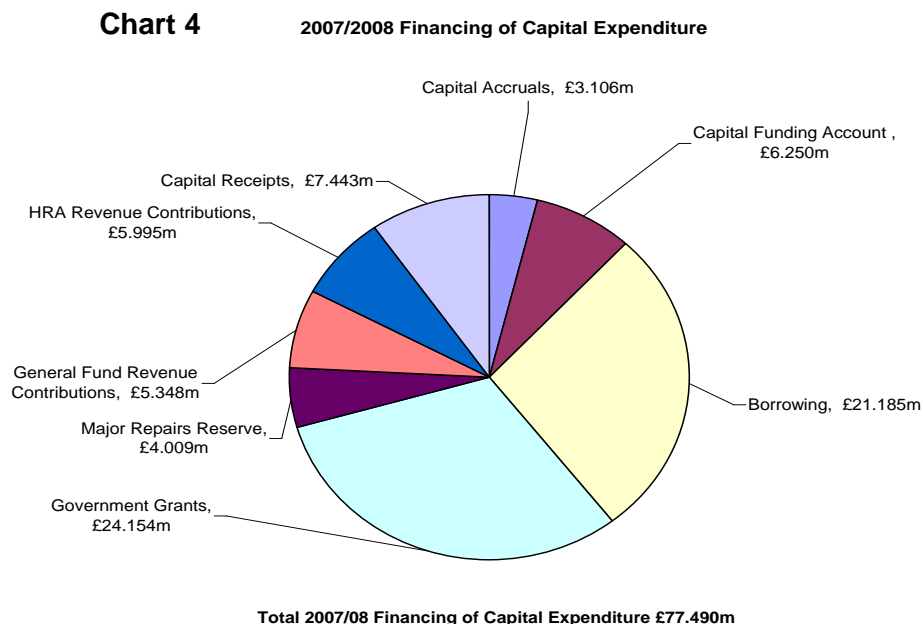
11.3 Chart 3 shows how the £67.278m spent on council assets was allocated to different asset types.

Chart 3



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

Chart 4



12. THE HOUSING REVENUE ACCOUNT (pages 76 to 80)

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 (£4.863m in 2007/08) has to be adjusted to bring it into line with council financing requirements. The surplus after making these adjustments is £1.616m – the difference between balances brought forward of £893k and balances carried forward of £2.509m.

12.2 Table 4 below shows the calculation of the surplus.

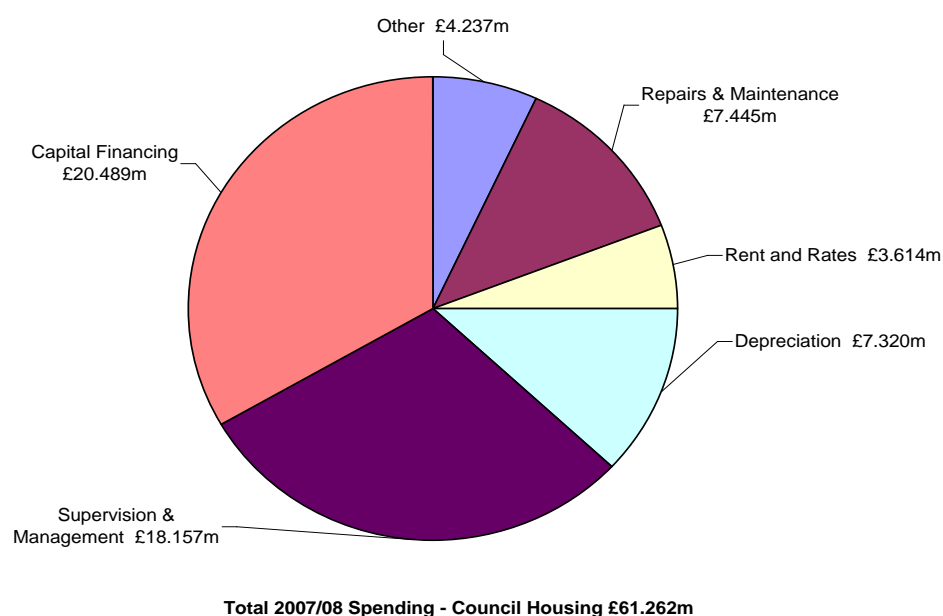
Table 4 Movements on the HRA in 2007/08

		£'000
Income to the HRA		(62,878)
Expenditure on HRA services	37,113	
Financing expenditure	21,000	
Other items included in net surplus calculation	<u>(98)</u>	<u>58,015</u>
Surplus on HRA services		(4,863)
Less proper accounting adjustments		<u>3,247</u>
Surplus for the year		(1,616)
Balances brought forward from last year		<u>(893)</u>
Balances at 31 March 2008		(2,509)

12.3 Chart 5 below shows the breakdown of the £61.262m (£58.015m plus £3.247m accounting adjustments) spent on council housing in 2007/08.

Chart 5

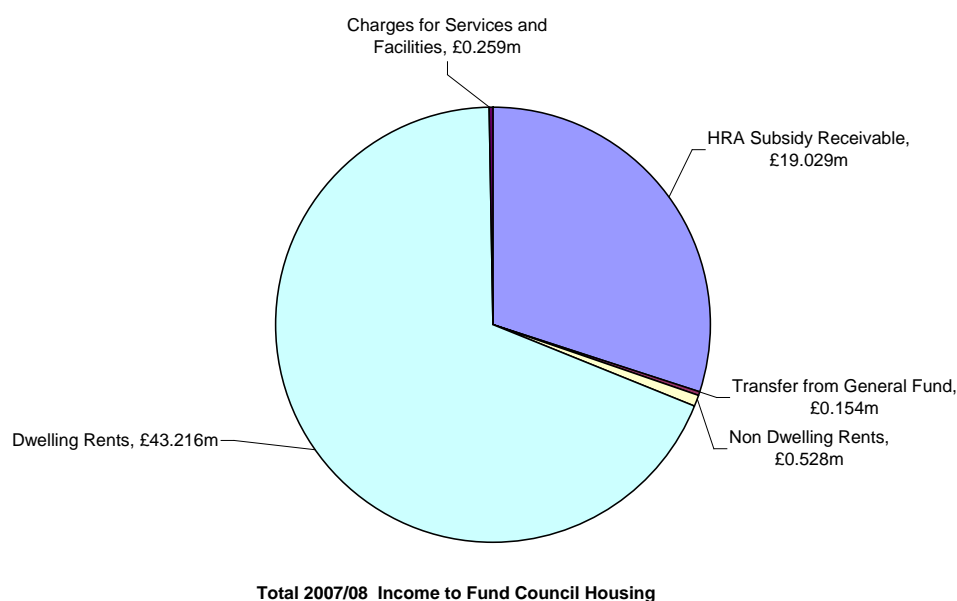
2007/08 Spending - Council Housing



12.4 Chart 6 shows sources of the £62.878m raised to fund spending on council housing.

Chart 6

2007/2008 - Income to Fund Council Housing



13. THE COLLECTION FUND (pages 81 to 83)

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 and the government then distributes to local government as part of the grant settlement. £93.485m of the total £122.019m paid out of the Collection Fund was allocated to Brent Council; the balance of £28.534m 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)⁵ falls with the legal definition of group accounts.

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

⁵ 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.

together with BHP's profit & loss account. The group accounts are in the process of being finalised.

15. FINANCIAL IMPLICATIONS

15.1 This report wholly relates to the council'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