

Audit Committee – 25 June 2007

Statement of Accounts 2006/07 – Restatement of 2005/06

Summary of report

This report summarises changes to accounting practice in respect of the annual statement of accounts that the Authority is required to comply with, in accordance with the Accounts & Audit Regulations (Amendments) 2006. It has been necessary to restate the 2005/06 statement of accounts for use as comparatives for 2006/07.

Recommendations

1. To note the changes in accounting practice and guidance and the impact of this in respect of the annual statutory statement of accounts.
2. To note the restated 2005/6 accounts at **Appendix 1**.



Carole Evans – Executive Director (CFO)

13 June 2007

Governance

Councils must produce annual accounts in line with the Accounts and Audit Regulations 2003, as amended 2006 and in a timely fashion on an annual basis.

Statement of Recommended Practice (SORP) changes are intended to make the accounts more accessible and align with UK accounting standards, enabling citizens to gain a greater understanding of council finances. The relevant changes in accounting practice / SORP 2006 and restatement of 2005/06 Accounts are set out below.

The SORP 2006 includes some major changes to local authority financial statements. These changes are intended to make the financial statements easier to read and bring them more in line with practices in the private sector. These changes include:

- Replacement of the consolidated revenue account with an income and expenditure account and a reconciliation to the general fund – this means that this statement will now conform with UK generally accepted accounting practice (UKGAAP).
- Replacement of the statement of total movements in reserves with a statement of total recognised gains and losses (STRGL), intended to make this statement more relevant to the movements in the year on the balance sheet. This has also been done so that local authority accounts converge with UK GAAP.
- Removal of the requirement for capital charges in order to comply with UK GAAP.
- There is no longer a requirement to have an AMRA (Asset management revenue account), resulting in the charges previously shown within this account being shown on the face of the income and expenditure account and reconciliation to the general fund.

Statement of Accounts



Appendix 1 for Audit Committee Meeting on 25 June 2007



Walsall Council

Main financial statements for 2005/06 Restated

Income and expenditure account

2005/06			2006/07	
Net Expenditure	Service	Gross Expenditure	Gross Income	Net Expenditure
£m		£m	£m	£m
1.588	Central services to the public			0.000
	Cultural, environmental & planning services			0.000
34.642	Education services			0.000
164.043	Highways, roads & transport services			0.000
11.099	Housing services (general fund)			0.000
11.212	Social care			0.000
89.530	Court services			0.000
0.340	Corporate & democratic core			0.000
8.836	Non-distributed costs.			0.000
(4.248)				0.000
317.042	Net cost of services	0.000	0.000	0.000
(0.205)	(Gain) or loss on disposal of fixed assets			
0.079	Environment Agency Levy			
12.235	West Midlands Transport Levy			
	(Surplus) or Deficit on trading undertakings not included in Net Cost of Services			
1.865	Interest payable and similar charges			
7.695	Amounts payable into the Housing Capital Receipts Pool			
0.432	Interest and investment income			
(1.242)	Pensions interest cost and expected return on pensions assets			
8.063				
345.964	Net Operating Expenditure			0.000
(87.670)	Income from the Collection Fund			
(170.686)	Government Grants			
	Distribution from non-domestic rate pool			
(84.114)				
3.494	(Surplus) or deficit for the year			0.000

Statement of movement on the general fund balance (SMGFB)

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise council tax on a different accounting basis, the main differences being:

Capital investment is accounted for as it is financed rather than when the fixed assets are consumed. Retirement benefits are charged as amounts become payable to the pension fund and pensioners, rather than as future benefits are earned.

The General Fund balance shows whether the Council has over or under spent against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2005/06 Net Expenditure £m		2006/07 Net Expenditure £m
3.494	(Surplus) or deficit from Income and Expenditure Account	0.000
(23.413)	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year	0.000
23.561	Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year	0.000
(2.274)	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year	0.000
1.368	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	0.000
(6.628)	General Fund Balance brought forward	(5.260)
(5.260)	General Fund Balance carried forward	0.000
0.000	Amount of General Fund Balance held by governors under schemes to finance schools	0.000
(5.260)	Amount of General Fund Balance generally available for new expenditure	0.000
(5.260)		0.000

Note of Reconciling items for SMGFB

2005/06 Net Expenditure £m		2006/07 Net Expenditure	
		£m	£m
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year		
(0.039)	Amortisation of intangible fixed assets		
(20.809)	Depreciation and impairment of fixed assets		
21.708	Government Grants Deferred amortisation		
(8.154)	Write downs of deferred charges to be financed from capital resources		
0.205	Net gain or loss on sale of fixed assets		
(16.324)	Net charges made for retirement benefits in accordance with FRS 17		
(23.413)			0.000
	Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year		
5.880	Minimum revenue provision for capital financing		
1.557	Capital Expenditure charged in year to the General Fund Balance		
(0.432)	Transfer from Usable Capital Receipts equal to the amount payable into the Housing Capital Receipts Pool		
16.556	Employer's contributions payable to West Midlands Pension Fund and retirement benefits payable direct to pensioners		
23.561			0.000
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
0.626	Any voluntary provision for repayment of debt		
(2.900)	Net transfer to or from earmarked reserves		
(2.274)			0.000
(2.126)	Net additional amount required to be credited to the General Fund balance for the year	0.000	0.000
3.494	(Surplus) or deficit from Income and Expenditure Account	0.000	0.000
(6.628)	General Fund Balance brought forward	(5.260)	(5.260)
(5.260)	General Fund Balance carried forward	(5.260)	(5.260)

Balance Sheet

This statement summarises the council's financial position as at 31 March 2007. It shows the balances and reserves at the council's disposal, fixed assets and current assets employed in operations and the council's long term borrowing position.

31-Mar-06 £m	Balance sheet	31-Mar-07 £m	Notes
	Fixed assets		
0.161	Intangible fixed assets		22
864.228	Tangible fixed assets		23
864.389	Total fixed assets	0.000	
20.546	Long term investments		24
11.725	Long term debtors		25
3.347	Deferred premiums on the early repayment of debt		26
35.618	Total long term assets	0.000	
	Current assets		
0.757	Stocks and work in progress		27
50.770	Debtors		28
36.156	Investments		29
1.688	Landfill Allowance Trading Scheme		30
2.578	Cash and bank		31
91.949	Total current assets	0.000	
991.956	Total assets	0.000	
	Current liabilities		
(3.139)	Bank overdraft		31
(0.365)	Borrowing repayable on demand or within 12 months		32
(1.481)	Landfill Allowance Trading Scheme		30
(43.914)	Creditors		33
(48.899)	Total current liabilities	0.000	
943.057	Total assets less current liabilities	0.000	0.000
	Long term liabilities		
(225.345)	Long term borrowing		34
(10.628)	Provisions		35
(31.631)	Government Grants deferred and contributions		36
(0.885)	Deferred Liabilities		37 ??
(4.903)	Deferred discounts on early repayment of debt		38
(236.550)	Liability related to defined benefit pension scheme		20
(509.942)	Total long term liabilities	0.000	
433.115	Total assets less liabilities	0.000	0.000

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31-Mar-06 £m		31-Mar-07 £m	Notes
	Financed by:		
	Revenue reserves		
(5.260)	General Fund reserve		39
0.799	Collection Fund reserve		40
(21.441)	Earmarked reserves		41
(25.902)	Total revenue reserves	0.000	0.000
	Capital reserves		
(26.211)	Usable capital receipts reserve		42
(2.752)	Deferred capital receipts		???
(320.029)	Capital financing account		43
(294.772)	Fixed asset restatement account		44
(643.764)	Total capital reserves	0.000	0.000
236.551	Pensions reserve	0.000	21
(433.115)	Total net worth	0.000	0.000

Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses of the council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the costs of retirement benefits.

2005/06 £m		2006/07 £m
3.494	(Surplus) or deficit on the Income and Expenditure Account	0.000
(13.804)	(Surplus) or deficit arising on revaluation of fixed assets	
(0.106)	Actuarial (gains) and losses on pension fund assets and liabilities	
0.010	(Surplus) or deficit arising from collection fund	
38.512	Any other (gains) and losses required to be included in the STRGL	
28.106	Total recognised (gains) and losses for the year	0.000

Cashflow Statement

Cash inflow occurs when cash receipts exceed cash payments and cash outflow where cash payments exceed receipts.

2005/06 £m	Cashflow statement	2006/07 £m
	Revenue activities	
	Cash outflows	
278.156	Cash paid to employees	
266.416	Other operating costs	
63.560	NNDR payments to national pool	
58.596	Housing benefit paid	
21.805	Precepts	
688.533		0.000
	Cash inflows	
(1.792)	Rent	
(77.166)	Council tax/community charge	
0.000	Precept income	
(84.114)	NNDR from pool	
(63.553)	NNDR collected	
(170.684)	Revenue support grant	
(82.646)	DWP grants for benefits	
(114.827)	Other government grants	
(97.233)	Operating cash receipts & income	
(692.015)		0.000
(3.482)	Revenue activities net cashflow	0.000
	Servicing of finance	
9.866	Interest paid	
0.000	Interest element of finance lease rentals	
(4.964)	Interest received	
4.902		0.000
	Capital activities	
0	Purchase of fixed assets	
3.000	Purchase of long term investments	
60.082	Other capital cash payments	
63.082		0.000
(5.372)	Sale of fixed assets	
(31.516)	Capital grants	
(0.456)	Other capital cash receipts	
(37.344)		0.000
27.158	Net cash outflow/(inflow) before financing	0.000
	Financing	
6.370	Repayments of amounts borrowed	
(29.596)	New loans raised	0.000
3.932	Net change in cash and equivalents	0.000

Main financial statements – Original 2005/06 Statements

Consolidated Revenue Account

2004/05 Net Expenditure £m	Service	2005/06		
		Gross Expenditure £m	Gross Income £m	Net Expenditure £m
1.704	Central services to the public	6.046	4.370	1.676
42.575	Cultural, environmental & planning services	80.681	32.222	48.459
184.886	Education services	253.486	60.563	192.923
13.246	Highways, roads & transport services	18.659	6.044	12.615
9.477	Housing services (general fund)	97.153	85.242	11.911
85.987	Social care	150.815	58.980	91.835
0.833	Court services	0.462	0.121	0.341
8.014	Corporate & democratic core	13.819	4.983	8.836
1.073	Non-distributed costs.	(9.066)	0	(9.066)
347.795	Net cost of general fund services	612.055	252.525	359.530
	Other operating costs:			
0.074	Environment Agency Levy			0.079
11.381	West Midlands Transport Levy			12.235
(0.725)	Interest and investment income (Surpluses) / Deficits on trading undertakings (See Note 2)			(1.010)
1.699	Contribution of housing capital receipts to government pool			1.887
0	Pension interest costs & expected return on pensions assets (see note 19)			0.432
7.377	Transfer from Asset Management Revenue Account (See Note 3)			8.063
(25.797)				(34.815)
341.804	Net operating expenditure			346.402
	Appropriations to or from reserves:			
(3.749)	Capital financing account (MRP adjustment)			7.133
0	Capital expenditure financed from revenue			1.557
(0.042)	Miscellaneous balances			0
(5.081)	Other earmarked reserves			(2.446)
	Transfer from useable capital receipts equal to contribution to housing pooled capital receipts			(0.432)
0	Pension reserve (see note 41)			0.232
(8.386)	Schools			0.037
3.275	Community associations			(0.884)
0.628	Deferred charges			(8.154)
(4.899)				
323.550	Amount to be met from government grants and local taxation			343.445

Non-distributed costs are showing a credit of £9.066 million. Within this £8.700 million is due to changes to the scheme benefits introduced in April 2005 for the West Midlands Authorities Pension Fund.

The assumption used by the actuary in calculating this figure was that there would be a take up of 50% of employees asking for the maximum lump sum available on the pension scheme.

2004/05 Net Expenditure £m	Service	2005/06		
		Gross Expenditure £m	Gross Income £m	Net Expenditure £m
0	This was financed by:			0
(84.530)	Collection fund surplus			(87.670)
(70.510)	Council tax			(84.114)
(166.273)	Non-domestic rate income			(170.684)
0	Revenue support grant			(0.002)
(321.313)	RSG support from balances			(342.470)
2.237	(Surplus)/ deficit for the year			0.975
(8.865)	General reserve balances at start of the year			(6.628)
0	Allocation to earmarked reserves			0.393
(6.628)	Leaving year end general reserves of: (See Note 33)			(5.260)

Consolidated Balance Sheet

This statement summarises the council's financial position as at 31 March 2006. It shows the balances and reserves at the council's disposal, fixed assets and current assets employed in operations and the council's long term borrowing position.

31 March 2005 £m	Consolidated balance sheet	31 March 2006 £m	Notes
	Long term assets		
0.082	Intangible fixed assets	0.161	20
859.052	Tangible fixed assets	864.228	21
17.546	Long term investments	20.546	22
12.845	Long term debtors	11.725	23
889.525		896.660	
	Current assets		
1.011	Stocks and work in progress	0.757	24
53.415	Debtors	50.723	25
46.587	Investments	36.156	26
0	Landfill Allowance Trading Scheme	1.688	27
2.814	Cash in hand	2.578	28
103.827		91.902	
	Current liabilities		
(9.874)	Cash overdrawn	(3.139)	28
	Borrowing repayable on demand or within		
(2.986)	12 months	(0.365)	29
0	Landfill Allowance Trading Scheme	(1.481)	27
(50.112)	Creditors	(43.914)	30
(62.972)		(48.899)	
930.380	Total assets less current liabilities	939.663	939.663
	Long term liabilities		
(199.498)	Long term borrowing	(225.345)	31
(8.494)	Provisions	(10.628)	32
(236.676)	Defined benefit pension scheme	(236.550)	41
		(472.523)	
485.712	Total assets less liabilities	467.140	467.140
	Revenue Reserves		
(6.628)	General Fund reserve	(5.260)	33
0.789	Collection Fund reserve	0.846	34
(22.183)	Other earmarked reserves	(21.441)	35
		(25.855)	
	Capital Reserves		
(27.992)	Usable capital receipts reserve	(26.211)	36
(3.999)	Deferred credits	(3.637)	37
(2.070)	Deferred premiums reserve	(1.556)	38
(317.647)	Capital financing account	(320.029)	39
	Deferred government grants and contributions	(31.631)	39
(22.064)		(294.772)	40
(320.594)	Fixed asset restatement account		
		(677.836)	
236.676	Pensions reserve	236.551	41
(485.712)	Total reserves and balances	(467.140)	(467.140)

Statement of total movement in reserves

This statement brings together all the recognised gains and losses of the authority during the year and identifies those which have and have not been recognised in the consolidated revenue account. The statement separates the movements between revenue and capital reserves.

2004/05 £m	Statement of total movements in reserves	2005/06 £m	
(0.111)	General Fund surplus / (deficit) (See note 33)	(0.975)	
(2.126)	Housing Revenue Account surplus / (deficit)	0	
(1.384)	Add back movements on earmarked revenue reserves	(1.192)	
(21.797)	Deduct appropriation from pension reserves	(16.324)	
13.411	Increase/(decrease) on the pensions reserve (See Note 41)	16.556	
(74.360)	Actuarial gains and losses relating to pensions (See note 41)	(0.106)	
(86.367)	Total increase/(decrease) in revenue resources (See Notes 33-35 & 41)		(2.041)
0.541	Increase / (decrease) in useable capital receipts	(2.021)	
4.348	Increase / (decrease) in unapplied capital grants and contributions	0.241	
(0.987)	Deferred Credits	(0.876)	
3.902	Total increase/(decrease) in realised capital resources (See Notes 36, 37, 38)		(2.656)
(31.460)	Gains/(losses) on revaluation of fixed assets	(25.366)	
-	Impairment losses on fixed assets due to general changes in prices	0	
-	Gains/(losses) on market value of investments	0	
(31.460)	Total unrealised increase/(decrease) in value of fixed assets (See Note 40)		(25.366)
(0.992)	Value of assets sold, decommissioned or realised (See Note 40)	(0.456)	(0.456)
0.276	Capital receipts set aside	0	
2.511	Revenue resources set aside	2.382	
1.530	Movement on government grants deferred	9.567	
4.317	Total increase/(decrease) in amounts set aside to finance capital investment (See Note 39)		11.949
(110.600)	Total recognised gains and losses	(18.570)	(18.570)

The Cashflow Statement

Cash inflow occurs when cash receipts exceed cash payments and cash outflow where cash payments exceed receipts.

2004/05 £m	Cashflow statement	2005/06 £m	
	Revenue activities		
	Cash outflows		
241.275	Cash paid to employees	278.156	
222.306	Other operating costs	266.416	
59.447	NNDR payments to national pool	63.560	
54.459	Housing benefit paid	58.596	
21.595	Precepts	21.805	
599.082			688.533
	Cash inflows		
(1.891)	Rent	(1.792)	
(73.056)	Council tax/community charge	(77.166)	
	Precept income	0	
(73.384)	NNDR from pool	(84.114)	
(59.465)	NNDR collected	(63.553)	
(166.273)	Revenue support grant	(170.684)	
(80.110)	DWP grants for benefits	(82.646)	
(103.858)	Other government grants	(114.827)	
(54.770)	Operating cash receipts & income	(97.233)	
(612.807)			(692.015)
(13.275)	Revenue activities net cashflow		(3.482)
	Servicing of finance		
9.114	Interest paid	9.866	
0	Interest element of finance lease rentals	0	
(3.016)	Interest received	(4.964)	
6.098			4.902
	Capital activities		
0	Purchase of fixed assets	0	
9.000	Purchase of long term investments	3.000	
46.989	Other capital cash payments	60.082	
55.989			63.082
(3.424)	Sale of fixed assets	(5.372)	
(17.053)	Capital grants	(31.516)	
(1.470)	Other capital cash receipts	(0.456)	
(21.947)			(37.344)
(26.415)	Net cash outflow/(inflow) before financing		27.158
	Financing		
83.820	Repayments of amounts borrowed	6.370	
(97.469)	New loans raised	(29.596)	(23.226)
12.766	Net change in cash and equivalents		3.932

The above changes have no effect on the net budget requirement or council tax.

Due to the changes within SORP 2006 there is a requirement for Walsall to restate the financial statements from 2005/06 to allow for like for like comparison with the 2006/07 accounts. A copy of the restated 2005/06 accounts is included as **Appendix 1**. A detailed presentation on the above will be provided at Audit Committee at their meeting on 25 June 2007.

Resource and legal considerations

The SORP is updated on an annual basis. The preparation of annual accounts and allied audit issues comprises a major aspect of the finance service's plan each year and is budgeted for, as is the respective external audit fee.

Performance management and risk management issues

A comprehensive risk assessment is undertaken as part of the annual final accounts process. Part of this identifies changes to rules and regulations and to ensure compliance.

Corporate finance manages the final accounts process through the operation of the final accounts steering group, comprised of senior and technical officers within the council. This is overseen by the Head of Corporate and Strategic Finance.

Understanding of the financial statements and interaction with the general public is becoming more important and greater emphasis is being placed on this in the CPA Use of Resources assessment 2007.

Equality implications

Improving ease of understanding of the accounts is intended to make the annual statement of accounts more readily accessible to the general public. The accounts will be available, on request in different format for example, hard copy, soft copy via the web site, Braille, and in different languages.

Consultation

Consultation on the changes has taken place widely within the council, and briefing sessions have been held for both members (Audit Committee received a presentation during March 2007 on the main changes) and officers.

Background papers

Statement of Recommended Practice (SORP) 2006; Audit and Accounts Regulations 2003, amended 2006; Restated Accounts 2005/6

Author

Vicky Buckley, Head of Corporate & Strategic Finance

☎ 01922 652349

✉ buckleyv@walsall.gov.uk