

Subject: Final Annual Report and
Statement of Accounts -
2006/07

Status: For Publication

Report to: Accounts Committee

Date: 27th September 2007

Report of: The Head of Financial Service

Portfolio

Holder: Finance & Risk Management

Key Decision: No

Forward Plan General Exception Special Urgency

1. PURPOSE OF REPORT

1.1 The purpose of the report is to seek Member approval of the final audited Statement of Accounts and Annual Report for the year ended 31st March 2007. The Council has a statutory duty to approve the audited accounts by 30th September.

2. CORPORATE PRIORITIES

2.1 The matters discussed in this report are linked to and support the following corporate priority of a *Well-Managed Council*:

2.1.1 The Statement of Accounts show an improving financial position as demonstrated by:

- increase reserves – see note 32 on page 50
- increase in net equity – see Balance Sheet on page 34

2.1.2 The process followed has shown improvement since the previous year, ensuring that government returns and audit working papers were supplied within more acceptable time frames ensuring more time for quality assurance on the documents to reduce the level of errors, though there is still some way to go. This year there has also been better liaison between Accountancy and Audit staff to ensure that holiday periods did not impact negatively on the audit process.

3. RISK ASSESSMENT IMPLICATIONS

3.1 All the issues raised and the recommendation in this report involves risk considerations as set out below:

- *Level of General Fund Reserves:* The Council has set a level of General Fund reserves based on an assessment of potential risk which the Council is exposed to. The Council, through its Medium Term Financial Strategy, has made the assessment that the level of General Fund balances should be in the region of £500k to £750k.
- *External Audit:* The Auditor has stated that the accounts present fairly the financial position of the Authority and its income and expenditure for the year.

4. BACKGROUND AND OPTIONS

4.1 The audited Statement of Accounts for 2006/07 are attached as Appendix 1

4.2 The General Fund Reserves have improved by £61k since the draft presented to Members in June 2007. This is due to a correction to the Minimum Revenue Provision calculation reducing the charge to General Fund. In this case the auditor viewed the Council's accounting treatment as overly prudent.

4.3 However there have been a number of presentational changes. These are in the main of a technical nature and amongst other things include:

4.3.1 Treatment of Housing LSVT in the 2005/2006 comparative figures, as reflected in Note 1 to the Core Statements on page 36 –

4.3.1.1 Restating the effect of the transfer of assets between the impairment value (equivalent to the value of works required to bring the homes up to the decent homes standard) and the true loss on revaluation prior to the transfer.

4.3.1.2 Reclassifying the government grants received in relation to the LSVT to repay loans as an exceptional item in the HRA.

This has also affected the

- HRA Income & Expenditure Account on page 58,
- the main Income & Expenditure Account on page 32
- Note 13 on page 42
- and the Assets Note 14 on page 43.
- Fixed Asset Restatement Account Note 28 on page 49
- Capital Financing Account Note 29 on page 49

4.3.2 Some errors were identified in the 2006/2007 treatment of deferred charges written down and the government grants deferred written down to match depreciation on intangible assets. These amendments have reduced the net effect of deferred charges and deferred grants to the Income & Expenditure Net Cost of Services by £2.5m and £331k respectively. The reverse of this amendment can be seen at Note 13 on Page 42 which ensures that the net effect on General Fund reserves is nil. The effect on the Balance Sheet has

been between the Government Grants Deferred and the Capital Financing Account, resulting in a £260k movement in “Net Equity”, but no impact on reserves.

- 4.3.3 Inclusion of accounting policies relating to contingent liabilities and assets, prior period adjustments and post balance sheet events, along with an extension of the contingent assets note 33 to include the Council’s entitlement to Right to Buy receipts from Green Vale Homes over the first five years post-LSVT.
- 4.3.4 There have been changes to the classification of grants received in 2006/07 such as LABGIS and LPSA which have affected their portrayal in the Operational Summary on page 22, in the Income & Expenditure Account on page 32 and in the Cash Flow on page 35, the latter of which also affected the Government Grants listing at Note 40 on page 55.
- 4.3.5 Several other errors within the 2006/2007 Cash Flow Statement were also corrected, resulting in the net cash outflow from revenue activities rising from £837k in the draft accounts to £1.4m, the corresponding correction being to the capital cash grants received.
- 4.3.6 Note 9 regarding Officer emoluments has been amended to correctly reflect the definition of remuneration to employees, removing the employer’s side National Insurance from the calculation. This has reduced the number of staff reported in both years under this note.
- 4.3.7 Technical interpretations of the changes in the SORP 2006 have given rise to corrections to the Statement of Total Gains and Losses. The method of calculating this Statement is now far more simple than first expected and calculation in future years should be much more straight forward.

4.4 The main revenue accounts therefore show the following balances as at 31st March 2007:

	£000s
• GF	£686
• HRA	£1,150

- 4.5 As previously reported, the Housing Revenue Account, is to be transferred into General Fund on 1st April 2007 and utilized as per Note 34 on page 50. This will increase the General Fund Reserve to £811k, although as this is in excess of the maximum balance this will subsequently be reduced by a transfer to the Budget Volatility Reserve during 2007/2008.
- 4.6 The Group Accounts have been amended to reflect the above changes and an extra note has been supplied at page 70 to provide a breakdown of the tangible and intangible assets of the Group.

5. COMMENTS OF THE HEAD OF FINANCIAL SERVICES

- 5.1 The financial considerations are reported in the main body of the report.

- 5.2 The Annual Report, now added to the front of this Statement of Accounts, reflects the services delivered during the year and achievements against the Council's priorities.
- 5.3 The Statement of Accounts indicates a successful recovery from the position the Council was in 4 years previously. General Fund Reserves were progressing well towards the upper target level of £750k at 31st March 2007.
- 5.4 In indicating the scale of financial recovery it is instructive to examine the accounting ratios and key pieces of financial data.

Key financial data since 2001/2002

	2001/02 £000	2002/03 £000	2003/04 £000	2004/05 £000	2005/06 £000	2006/07 £000
Cash & Indebtedness	-27,562	-27,053	-25,163	-20,429	2,847	2,014
Current ratio (=b/c)	1.52	0.61	1.00	1.30	1.24	1.58
General Fund Balance	505	0	211	386	646	686

Current ratio, expresses a company's ability to repay short-term creditors out of its total current assets. It shows the number of times short-term liabilities are covered by current assets (1 is fully covered). From the above it can be seen that the Council's liabilities are now well covered.

Cash and indebtedness are significant in demonstrating overall effectiveness of the Council's management of its balance sheet and the reduction of debt since March 2004.

6. COMMENTS OF THE HEAD OF LEGAL AND DEMOCRATIC SERVICES

- 6.1 The Accounts and Audit Regulations (2003) states that the Council is required to approve the final audited accounts by 30th September 2007.

7. COMMENTS OF THE HEAD OF HUMAN RESOURCES

- 7.1 There are no direct Human Resources implications.

8. CONCLUSION

- 8.1 That the draft accounts as presented are fit for Member approval and final audit by the independent external auditor

9. RECOMMENDATION

- 9.1 That the Council's Annual Report and Statement of Accounts as presented are approved.

10. CONSULTATION CARRIED OUT

- 10.1 Executive Director of Resources
- 10.2 Members
- 10.3 Audit Commission

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Background Papers	
Document	Place of Inspection
Year end accounts working papers	Finance Department