

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

14 February 2007

Report of the Director of Finance

Part 1- Public

Matters for Information

1 CHANGES IN PRESENTATION TO THE STATEMENT OF ACCOUNTS

This report informs Members of changes to the presentation of the Statement of Accounts with effect from 2006/07.

1.1 Background

1.1.1 This year sees the introduction of a number of changes particularly in terms of presentation to the Accounts. These changes comprise:

- The removal of the notional capital financing charge.
- The replacement of the Consolidated Revenue Account with an Income and Expenditure Account and a Statement of Movement on the General Fund Balance.
- The replacement of the Statement of Total Movement in Reserves with a Statement of Recognised Gains and Losses.
- A change to the order in which the financial statements appear in the Accounts, being the four main statements, Income and Expenditure Account, Balance Sheet, Cashflow and Statement of Recognised Gains and Losses followed by the associated notes and then the Collection Fund and its notes.

1.1.2 These changes are being introduced in order to conform with UK Generally Accepted Accounting Practices and to make local authorities Accounts more akin to those found in the private sector.

1.1.3 Both CIPFA and the Audit Commission have advised that those Members with responsibility for the Accounts should be informed of the changes, to this end this report provides illustrative examples on how the Accounts will be changing with effect from 2006/07.

1.2 Income and Expenditure Account

- 1.2.1 This statement is fundamental to the understanding of a local authority's activities, in that it reports the net cost for the year of all of the functions for which the authority is responsible, and demonstrates how that cost has been financed from general government grants and income from local taxpayers.
- 1.2.2 It brings together expenditure and income relating to all of the local authority's functions, in three distinct sections, each divided by a sub-total. The first section provides segmental accounting information on the costs of the local authority's continuing operations, net of specific grants and income from fees and charges, to give the net cost of services. The second section comprises items of income and expenditure relating to the local authority as a whole. When added to the net cost of services these give the local authority's net operating expenditure. The third section shows the income from local taxation and general government grants in the period, to give the net deficit or surplus for the year.
- 1.2.3 **[Annex 1]** to this report shows the previous Consolidated Revenue Account (CRA) as presented in the 2005/06 Statement of Accounts and the new Income and Expenditure Account (IEA).
- 1.2.4 The first section, the Net Cost of Services, continues to provide segmental accounting information on the costs of the local authority's operations, but differs in three respects to the CRA:
- the removal of the notional capital financing charge;
 - depreciation in respect of assets funded from Government Grant is now attributed to the appropriate service expenditure; and
 - the Leisure Services Business Unit (LSBU) is now included within the Cultural, Environmental and Planning Services block.
- 1.2.5 The second section, Net Operating Expenditure, continues to provide details of items of income and expenditure relating to the authority as a whole, but differs in four respects to the CRA:
- the removal of the notional capital financing charge from Trading Undertakings;
 - the transfer of the LSBU from Trading Undertakings to the Cultural, Environmental and Planning Services block;
 - the discontinuation of the Asset Management Revenue Account; and
 - the inclusion of any gain or loss arising from the sale of a fixed asset, where the sum received differs from the net book value.

1.2.6 The third section deals with the amounts as part of the Government Grant Settlement, Council Tax and the surplus or deficit on the Collection Fund. Whereas the CRA had a section dealing with reserve movements and items required by statute before this section. These movements and items required by statute are now shown within the Statement of Movement in General Fund Balance and its associated note. This Statement shows the net movement on the General Fund Balance to be the same as on the CRA.

1.2.7 In essence it can be seen that this is a representation of the information, but gives the same end result.

1.3 Statement of Recognised Gains and Losses.

1.3.1 **[Annex 2]** shows both the current Statement of Total Movement in Reserves shown within the 2005/06 Statement of Accounts and the new Statement of Recognised Gains and Losses and associated notes. Again, in essence it can be seen that this is a representation of the information, but gives the same end result.

1.4 Legal Implications

1.4.1 For the purposes of local government legislation local authorities are required to comply with the Code of Practice on Local Authority Accounting in the United Kingdom, the SORP.

1.5 Financial and Value for Money Considerations

1.5.1 None.

1.6 Risk Assessment

1.6.1 The Statement of Accounts is a statutory document, therefore, failure to prepare and publish the Accounts in accordance with proper accounting practice and within the statutory timescale could adversely affect the Council's CPA rating.

Background papers:

contact: Paul Worden

Statement of Accounts 2005/06
SORP 2006

Sharon Shelton
Director of Finance