

FINANCIAL REPORTING IN LOCAL GOVERNMENT

Professional 2 examination **7 December 1999**

From 10.00 am to 1.00 pm
plus ten minutes reading time from 9.50 am to 10.00 am.

Instructions to candidates

*Answer **four** questions in total: **both** questions from **Section A**, and **two** questions from **Section B**. The marks available for each question are shown in italics in the right-hand margin.*

All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examinations room.

Formula sheets, statistical tables, graph paper and cash analysis paper are available from the invigilator, where applicable.

SECTION A (Answer both questions)**1**

The following balances relate to Debston City Council for the year 31 March 1999.

Gross Spending	£000
Education and Community Service	299,500
Highways & Transport	20,000
Planning & Development Services	11,900
Environmental Services	11,000
Leisure & Cultural Services	See note (i)
Other Services	23,000
Housing Revenue Account	98,000
Net Fixed Assets	1,030,016
Fixed assets restatement reserve	480,000
General fund reserve	1,000
1998/99 MRP adjustment	17,100 (debit)
Long term investments	30,000
Stock & Wip	3,000
Short term borrowing	2,000
Long term borrowing	343,000
Creditors	54,000
Overdraft	1,000
Usable capital receipts	15,000
Capital financing reserve	157,000
Revenue support grant	153,000
Deferred government grants	10,000
Debtors	27,000
Cash in hand	2,000
Interest received	3,100
1998/99 DSO surplus	1,900
Housing revenue account reserve	3,000 (credit)
Earmarked reserves	15,000
Precepts paid to parish councils	900
Council tax	65,000
National non-domestic rates	72,000
Service income	
Education and Community Service	80,500
Highway & Transport	7,000
Planning & Development	3,900
Environmental Services	1,800
Leisure & Cultural Services	see note (i)
Other Services	14,000
Housing Revenue Account	97,000

Additional Information

- (i) The following details relate to the Leisure & Cultural Services Department for the year:

	£000
Premises related expenditure	1,900
Income	6,200
Supplies & Services	3,979
Employees related expenditure	12,500
Transport	900
Asset rentals	5,050
Other	650

Internal Audit have identified that a new small Cultural Events office that became operational on 1 April 1998 has been omitted from the asset rentals. The office has a net current cost of £80,000 and is to be depreciated over an estimated useful life of 5 years, by which time it is expected to have a nil scrap value. It is standard practice in Debston to base notional interest on net current cost at 1 April, and to round up asset rentals to the nearest £000.

The Council is divided into business units, which can “buy” and “sell” services to each other. The Leisure & Cultural Services expenditure includes £60,000 for services provided to them by Education & Community Services. At 31 March 1999 this amount was still outstanding.

- (ii) On 31 March 1999, Debston bought school equipment totalling £18,000,000. It has to be financed by using all available usable capital receipts, with the balance financed from revenue. The transaction will not affect 1998/99 asset rentals, and has yet to be recorded.
- (iii) On 31 March 1999 Debston received a specific government grant towards the construction of an experimental residential establishment for children with behavioural problems. The grant is for £800,000 towards the construction of the residential accommodation. The residences have been built, and will become operational in September 1999, by when the construction of the rest of the establishment will have been completed.
- (iv) The following details relate to the 1998/99 AMRA. The double entry for these transactions has been completed and they are included within the figures above. You must complete the accounting by calculating and entering into the accounts, the AMRA balance produced;
- Total asset rentals, excluding note (i) above, were £37,979,000.

- Depreciation for 1998/99 is £9,986,000, excluding note (i) above.
 - Total interest paid by Debston was £17,998,000 for the year.
 - The Council had one deferred government grant at 1 April 1998. It is for work on a business and retail park for development, it totalled £40,000,000 originally, and is being amortised over 20 years.
- (v) A Highways & Transport debtor of £70,000 has been deemed uncollectable and must be written off.
- (vi) Fixed assets are revalued on a rolling programme. Where assets are revalued during a month, any necessary revaluations are entered into the accounts as at the end of that month, and so only affect asset rentals from the start of the following month.

For March 1999, you have the following details from your valuers:

Asset	Current Book Value	New Valuation	Notes
87-89 High Street (Social Services offices)	£3,000,000	£3,300,000	Valuation likely to fall back by about £200,000 in the next couple of months
King Road vehicle maintenance depot	£2,300,000	£2,615,000	Site and buildings only – excludes equipment and plant. Permanent increase

• **Requirement for question 1**

- (a) Produce a Service Revenue Account for the Leisure & Cultural Services Department. 4
- (b) Explain your treatment of note (vi) identifying any further information you would like to have. 2
- (c) Produce the 1998/99 Consolidated Revenue Account and Balance Sheet for Debston City Council. 19
- (25)

2

Barmwell, Donton, Uston, Wellham and Wallford are five broadly similar metropolitan authorities in North Western England. They are in the same Audit Commission family and consider themselves fair comparators, although Wellham is generally felt to be “leafier” and more affluent than the other four.

You have recently been appointed to the post of Technical Accountant in Uston. Members and key senior officers have recently been given internet access and been given a half day course on using the web. The Director of Education has logged on to the Audit Commission website and has downloaded the performance indicator information in the attached appendix. She wants to respond to a suggestion by some of the members that the performance of the education service in Uston is lagging behind those of its four comparator authorities.

The Director wants your help to carry out a balanced review of her service in the areas covered by these PIs. In particular she wants you to let her have a paper which:

- (i) Reviews the figures she has pulled off the Commission’s website using whatever analytical techniques you consider appropriate.
- (ii) Identifies any key areas relating to expenditure figures, where local authority accounting practices might vary between authorities to a degree which could influence the results of this type of comparative analysis.
- (iii) Suggests what additional information she might try to obtain in order to supplement the PI information she has pulled down, which might improve the authority’s evaluation of the results of the comparative study.

- **Requirement for question 2**

You are required to produce the paper as requested by the Director of Education.

(25)

(Note: Further information is given over leaf)

Appendix – Performance Indicator Information from the Audit Commission Website

Authority	K2 %	K3A %	K3B %	K4A %	K4B %
Barmwell	66	7	11	3	3
Donton	75	10	9	1	2
Uston	86	6	16	9	4
Wellham	82	8	7	4	1
Wallford	66	11	8	4	4
Average (national)	74	9	11	4	3
75 th Percentile	89	11	14	4	4

Authority	K6A £	K6B £	K6C £	K6D £	K20 £
Barmwell	2,601	1,872	2,522	3,680	461
Donton	1,371	1,614	2,201	2,794	355
Uston	2,187	1,749	2,378	3,194	423
Wellham	1,895	1,628	2,295	2,887	386
Wallford	1,902	1,564	2,195	2,743	438
Average (national)	2,803	1,746	2,365	3,308	384
75 th Percentile	2,266	1,786	2,471	3,527	409

Authority	K7A %	K7B %	K7C %	K8 %
Barmwell	76	57	44	30
Donton	76	63	59	40
Uston	78	51	48	27
Wellham	84	71	67	51
Wallford	74	55	43	25
Average (national)	77	64	56	38
75 th Percentile	81	68	64	44

KEY:

- K2 percentage of secondary pupils in local authority schools
- K3A percentage of unfilled places – primary schools
- K3B percentage of unfilled places – secondary schools
- K4A percentage of pupils in excess of school capacity – primary
- K4B percentage of pupils in excess of school capacity – secondary
- K6A expenditure per pupils in local authority schools – under 5s
- K6B expenditure per pupil in local authority schools – primary 5s and over
- K6C expenditure per pupil in local authority schools – secondary under 16s
- K6D expenditure per pupil in local authority schools –secondary 16s and over

Percentage of key stage tests/assessments in local authority schools where national average achieved or bettered:

- K7A at key stage 1
- K7B at key stage 2
- K7C at key stage 3

- K8 percentage of pupils in local authority schools getting 5 or more A – C grade G.C.S.Es.

- K20 Total net spending per head of population on education (including adult)

SECTION B (Answer two questions)**3**

Graffshire County Council operates a superannuation fund on behalf of its employees and those of the Fund's admitted bodies. The following details relate to the Fund for the year ended 31 March 1999.

Net assets at 1 April 1998 **£000****Investment assets**

Government stocks	68,210
UK Equities	56,210
Overseas equities	15,702
Properties	58,000
	<hr/>
	198,122

Net current assets	20,552
Fund balance	<hr/>
	218,674

Ledger balances as at 31 March 1999 **£000**

Pensions	25,888
Lump sums	3,254
Grants	8,558
Debtors	12,110
Creditors	2,080
Cash	4,890
Employers contributions	13,776
Employees contributions	8,993
Transfer values in	80
Transfer values out	48
Refunds of contributions	7
Admitted bodies contributions	1,879
Investment income	14,333
Administration and other costs	300
Debt management expenses	85

Transactions involving investments in 1998/99:

Purchases: Government stocks	8,550
UK equities	6,320
Sales: Government stocks	3,500
Overseas equities	4,230

Properties

888

Additional Information:

- (i) Sales of investment assets generated the following profits and losses on realisation:

	Profit	Loss
	£000	£000
Government stocks	1,800	260
Overseas equities	784	199
Properties	22	112

The unrealised gain in market value of the investments sold was £301,000 at the start of the year.

- (ii) The year end market value of those investments held at the end of the year that were also being held at the start of the year were:

	£000
Government stocks	64,364
UK equities	55,420
Overseas equities	14,202
Properties	57,500

- (iii) An admitted body has paid grants of £80,000 above those available to the other pensioners. This is included in the figures above. The extra cost however, is to be met wholly by the admitted body and this has yet to be entered in the accounts.

- (iv) The fund auditors have identified that transfer values inwards of £17,000 have been incorrectly recorded as employee contributions.

- (v) Transfer values need to be adjusted to take account of two recent leavers:

P Cash	left 30 March 1999	transfer value £28,000
S Barker	left 31 March 1999	transfer value £52,000

- (vi) The Fund owes Graffshire CC £77,000 for administration costs of the scheme.

- (vii) A pension underpayment relating to 1998/99 of £3,000 has been identified and is to be paid to the pensioner concerned.

• **Requirement for question 3**

- (a) Prepare the Superannuation Fund account for 1998/99 and the Fund Net Assets Statement as at 31 March 1999. 16
- (b) Explain the significance for local authority pensions schemes of each of the following:
- Government permission to let funding drop below 100%;
 - The information added to pension fund reports by the actuaries report;
 - The accounting impact of the difference between a defined benefits scheme and a defined contributions scheme. 9
- (25)

4

The following are extracts from the accounts of Geldless Unitary Council:

Cashflows

Payments	£000
To employees	35,987
Other operating costs	27,876
 Receipts	
Precepts	35,980
Revenue Support grant	30,750
Other grants	15,000

Additional information

- (i) The Council raised £27,500,000 of National Non Domestic Rate, incurring £120,000 of collection costs (collection costs are already included in other operating costs). Geldless received £20,000,000 from the National Pool.
- (ii) Housing Benefit payments amounted to £15,000,000.
- (iii) The Unitary Council received £2,573,000 interest on its investments.
- (iv) During the year, the Council made land sales of £1,500,000.
- (v) Expenditure on fixed assets amounted to £2,650,000, however after the accounts were closed down it has been discovered that included in this sum is a contractor's account for £35,000 which remains outstanding at the year end. Capital expenditure was financed by loan and capital receipt.
- (vi) At the year end, the Council had loans outstanding of £23,760,000. The equivalent figure at the start of the year was £22,980,000. Loans repaid during the year amounted to £120,000.
- (vii) The Council's Consolidated Revenue Account shows a net surplus of £467,000.
- (viii) The Council's Asset Management Revenue Account is as follows:

	£000		£000
Depreciation	3,200	Asset Rentals	10,457
External Interest	1,357		

To Consolidated

Revenue Account	<u>5,900</u>	<u>10,457</u>
	10,457	10,457

(ix) The Council calculates its Minimum Revenue Provision to be £4,123,000.

(x) Net current Assets on the Balance Sheet are as follows:

	1 April 1998	31 March 1999
	£000	£000
Stock	2,437	2,567
Debtors	3,678	2,845
Creditors	3,544	3,945
Short term investment	5,500	8,738
Cash	9,430	2,560

• **Requirement for question 4**

- (a) Produce a Cashflow Statement for the year ended 31 March 1999. 13
- (b) Produce a reconciliation of net surplus to annual cash inflow. 6
- (c) Briefly comment on Geldless Unitary Council's financial position from the information that you have prepared above. 6
- (25)

5

Cllr Mrs Anna Henman ACA
The Hollies
Courtland

Dear Director of Finance,

I have been trying to get to grips with the accounts and finance of Courtland District Council since my election at the recent by-election in North Ward. I need some points clarifying so that I can contribute fully to the Finance Committee. Please explain for me the following:

- (i) Who are the accounts for? I have prepared accounts for commercial organisations and been clear that the target is to meet the information needs of the share holder, but who are our Authority's accounts aimed at?
- (ii) Can you define for me the role of the Internal Audit Section in local authorities, and explain the extent of their independence, given that I understand they are part of your Department and appear to report directly to you?
- (iii) What are the accounting entries when we sell a fixed asset? And could you explain why the entries differ from the treatment of asset disposals in commercial organisations? I had a short discussion with the capital accountant yesterday and she told me we don't calculate a gain or loss on disposal, which is at odds with my commercial accounting experience.
- (iv) I am confused about where we get the funding for the purchase of fixed assets. I gather there are several sources – can you give me a list of them with a brief explanation of each please?
- (v) What are the reporting requirements for DSO's for 1998/99? How much detail of their activities has to go into our annual accounts?
- (vi) In our "members summary account" balance sheet I see we have a single entry, "net fixed assets". What are the main categories of local authority fixed assets, and how is the value of each type of asset set?

- **Requirement for question 5**

Draft a reply to the above letter, on behalf of the Director of Finance.

(25)