FINANCIAL REPORTING IN LOCAL GOVERNMENT

Professional 2
June 2001

MARKING SCHEME

Question 1

(a)

AMRA

		£000		£000	
½	Depn note iii	9,903	Asset rents – note iii	37,872	½
½	Depn – note i	200	Asset rentals –note i	440	½
½	External interest	21,992	Tfr from govt grants deferred	100	*1*
1	Finance lease interest	17			
½	Transfer to CRA: C I & E	6,300			
		38,412		38,412	

(5)

(b) **Consolidated revenue account for the year ended 31 March 2000**

Net expenditure

		£000	
Education	(445,176 + 27,033 + 440)	472,649	*1*
Social services	(90,189 + 5,412)	95,601	½
Highways	(23,235 + 3,174 + 100)	26,509	*1*
Planning	(57, 534 + 2,253)	59,787	½
		654,546	
Net cost of services			
Corporate income and expenditure			
- Precepts paid to Parish Councils		4,749	½
- Interest received		(548)	½
- Asset management revenue account		(6,300)	½
Net operating expenditure		652,447	
Appropriations			
- Contributions to capital financing reserve		990	*1*
- MRP adjustment (10,301 – 9,903 – 200 depreciation)		198	*1*
- Government grant deferred account		100	*1*
Amount to be met from government grant and local taxpayers		653,735	
Demands on collection fund (council tax)		(344,486)	
Revenue support grant		(212,462)	
Contributions from NNDR pool		(93,288)	
(Surplus) / deficit for year		3,499	
General fund balance brought forward		(15,929)	
General fund balance carried forward		**12,430**	½
		Correct format/presentation	*1*

(9)

Consolidated balance sheet as at 31 March 2000

	£000	£000	
Net tangible fixed assets (486,820-200-5,439-9,903)		471,278	*1½*
Current assets			
Stock and WIP	7,240		
Debtors	7,498		
ST Investments	2,594		
Cash in hand	195		
	17,527		
Creditors due within one year			
Creditors (4,429 + 57)	(4,486)		
Net current assets		13,041	
Total assets less current liabilities		484,319	
Long term borrowing (226,163 + 117,602 – 98,010)		(245,755)	*1*
Finance lease (300-53-57)		(190)	*2*
Government grants deferred (2,000-100)		(1,900)	*1*
Provisions for liabilities and charges		(100)	*1*
Net assets		**236,374**	
Financed by:			
Fixed Asset Restatement Reserve (198,980-5,439)		193,541	*½*
Capital Financing Reserve (13,101+100+3,000+990+198)		17,389	*2*
Useable Capital Receipts (11,583-3,000+4,431)		13,014	*1*
Balances			
General Fund		12,430	*½*
		236,374	
		Correct format/presentation	*½*
			(11)
			(25)

Working 1 - Depreciation on grant asset

	£000	
New asset at cost	4,000	
Asset life	20	years
Depn charge	200	

Working 2 - Notional interest on education fixed assets

	£000	
Opening GCRC	4,000	
Interest rate	6	%
	240	

Working 3 - Government grant

	£000	
Government Grant	2,000	
Asset Life	20	years
Amount to be taken to AMRA	100	

Accounting entries required:

Dr Suspense	2,000
Cr Government Grant Deferred Account	2,000
Dr Government Grant Deferred Account	100
Cr AMRA	100
Dr CRA: Appropriations	100
Cr Capital Financing Reserve	100

Working 4 - Finance lease

Split annual payment between interest and principal using sum of digits method

N(N+1)/2 = 5(5+1)/2 = 15

Finance charge = 300,000 – (70,000*5)
= 50,000

yr 1 5/15*50,000 = 16667 interest + 53333 principal
yr 2 4/15*50,000 = 13,333 interest + 56,667 principal

		£000
Dr AMRA		17
Dr LT Liabilities		53
Cr Suspense a/c	70	
Dr LT Liability	57	
Cr Creditors		57

Question 2

Reconciliation of net surplus /(deficit) to cash i nflow

	£000	£000	
General fund deficit (16,045-23,616)		(7,571)	½
Add items not resulting in cash flow			
Depreciation	10,002		*1*
Additional MRP (27,102-10,002)	17,100		*2*
Direct revenue financing	3,000		*1*
		30,102	
Movements in working capital			
Increase in creditors (71,940 – 54,000)	17,940		½
Decrease in debtors (26,870 – 27,000)	130		½
Decrease in stock (3,000 – 4,500)	1,500		½
		19,570	
Add revenue costs of financing			
Net interest (17,998-3,100 (working 1))		14,898	*3*
Cash inflow from revenue		**56,999**	
		Presentation	*1*
			(10)

Working 1

AMRA Reconstruction

AMRA

		£000			£000
Depreciation	10,002		Asset rentals	37,995	
Actual interest*		**17,998**	(10,002+ 27,993)		
AMRA Adjustment	9,995				
		37,995			37,995

Cashflow Statement for the year ended 31 March 2000

	£000	£000	
Revenue activities			
Cash outflows			
Cash paid to employees	(189,001)		½
Other operating cash payments	(81,000)		½
Cash inflows		(270,001)	
Council Tax receipts	65,000		½
Non-domestic rates income	72,000		½
Revenue support grants	153,000		½
Other government grants	25,000		½
Cash received for goods and services	12,000		½
		327,000	
Net cash inflow from revenue activities		**56,999**	
Returns on investments and servicing of finance			
Interest paid	(17,998)		*1*
Interest received	3,100		½
		(14,898)	
Capital activities			
Purchase of assets (working 2)	(23,301)		*3*
Sale of fixed assets (working 3)	17,000		*3*
		(6,301)	
Management of liquid resources			
Net decrease in short term borrowing		(1,000)	*1*
Financing			
Movement in loans		(30,000)	½
Net increase in cash		**4,800**	
		Presentation	*2*
			(15)

Working 2

Fixed Assets

	£000		£000
Opening balance	1,030,016	Depreciation	10,002
FARR	5,000		
Additions	**23,301**		
		Closing balance	1,048,315
	1,058,317		1,058,317

Fixed Asset Restatement Reserve

	£000		£000
		Opening balance	480,000
		Fixed assets	5,000
Closing balance	485,000		
	485,000		485,000

Working 3

Usable Capital Receipts

	£000		£000
		Opening balance	15,000
Used capital receipts – cfr	15,000		
		Cash received	**17,000**
Closing balance	17,000		
	32,000		32,000

Question 3

Pension Fund Account for the year ended 31 March 2000

	£000	£000	
Contributions and benefits			
Contributions receivable			
- from employers		53,249	
- from employees (41,272+5,456)		46,728	*1*
Transfers in		1,794	
Other income (5,000 +2,166)		7,166	*1*
		108,937	
Benefits payable			
Pensions payable (29,760+2,340+3,564+450)	36,114		*1*
Lump sums (22,150+ 3,468+1,437+908)	27,963		*1*
Payments to and on account of leavers			
Refunds of contributions	897		*½*
Transfers out	3,213		
Administration and other expenses (see below*)	6,841		
		(75,208)	
Net additions/(withdrawals) from dealing with members		33,909	
Returns on investments			
Investment income (8,134+2,033+4,179)		14,346	*1*
Change in market value of investments (8,559+17,795)		26,354	*4*
Net increase/(decrease) in fund during the year		74,609	
Opening net assets of the scheme		195,052	*½*
Closing net assets of the scheme		**269,661**	

*Administration and other expenses (per trial balance)	6,789	
Investment management expenses (2% *2,623)	52	*1*
	6,841	
	Presentation	*1*

Net Asset Statement as at 31 March 2000

	£000	£000	
Equities		103,249	*1*
Property		31,021	*1*
Government stock		121,239	*1*
		255,509	
Debtors (3,102+5,456+2,166)	10,724		*1½*
Cash	9,173		
Creditors (1,679+3,564+450+52)	(5,745)	14,152	*2*
Net Assets of the Scheme		**269,661**	
Presentation			*1½*
			(20)

Workings

	Equities	Property	Government stocks	
	£000	£000	£000	
Sales	14,392	10,749	8,302	
Less book value*	10,786	8,126	5,972	
Profit/loss	3,606	2,623	2,330	**8,559**

*Balancing figure

	Equities	Property	Government stocks	
Opening MV	81,376	17,219	60,392	
Additions	26,000	12,050	65561	
Disposals (from above)	(10,786)	(8,126)	(5,972)	
	96,590	21,143	119,981	
Closing MV	103,249	31,021	121,239	
Unrealised Gain	**6,659**	**9,878**	**1,258**	**17,795**

(b)

Objectives of pension fund's financial statements:

- To provide information about the financial position and financial adaptability of the fund
- Shows the results of stewardship of management
- Shows disposition of assets at period end.

Items to exclude are liabilities to pay pensions and other benefits in the future. This is reported separately in the actuary's statement.

5
(25)

Question 4

(a) Calculation of Capital Financing Charges

Principal

	£	
Calculation 1 - Item 8 Determination		
Opening advances	60,490,000	½
Less: PCL	-4,140,000	½
Less: Principal repaid during year	0	
Adjusted opening credit ceiling	56,350,000	
	x 2%	½
	1,127,000	

<u>Calculation 2 - Minimum Revenue Provision</u>

Opening advances	60,490,000	½
Less: Opening RCR	-2,990,000	½
Opening credit ceiling	57,500,000	
	x 2%	½
	1,150,000	
Higher of 2 calculations is MRP therefore:		½
Principal element =	**<u>1,150,000</u>**	

Interest

Mid-year credit ceiling x consolidated rate of interest

MYCC =	Opening credit ceiling	57,500,000	½
	- 0.5 RCR during year	-150,000 *	½
	+ 0.5 Advances during year	750,000	½
	- 0.5 Principal charged	-575,000	½
		57,525,000	
CRI		x 8%	½
Interest element =		**<u>4,602,000</u>**	

***** (£400k*75%=£300k/2=£150k)

Debt Charges

	£	
Principal	1,150,000	
Interest	4,602,000	
Debt management expenses	215,000	½
Interest on notional cash balances	286,000	½
Total debt charges	6,253,000	
Total part (a)		*(7)*

(b)

Housing Revenue Account for Humbug City Council for the year ended 31 March 2000

	£	
Income		
Dwellings rents (27,980k-1,673k+1,474k)	27,781,000	*1*
Non-dwelling rents	0	
Charges for services and facilities	0	
HRA subsidy	7,850,000	½
Mortgage interest	58,000	½
	35,689,000	
Expenditure		
Repairs and maintenance	9,246,000	½
Supervision and management	3,780,000	½
Rents, rates, taxes and other charges	256,000	½
Rent rebates	17,650,000	½
Bad debts	0	
Capital financing costs	6,253,000	½
Capital expenditure charged to revenue	0	
	37,185,000	
Change in reserve balance	(1,496,000)	
Format / presentation		½
		(5)

(c)

Reasons for keeping a Housing Revenue Account

- Separate HRA required by the 1989 Local Government and Housing Act.
- To prevent cross subsidisation between housing landlord function and other services.
- Housing should be funded from rents and other income housing specific income such as housing subsidy.
- Council tax should not be used to fund the landlord function.
- Transfers between HRA and General Fund only allowed in certain limited and prescribed circumstances.

(1 mark per point up to a maximum of 4)

(d)

Difference between capital financing charges and asset rentals

- Capital financing charges are debt charges ie based on debt outstanding less amounts set aside to repay debt.
- Asset rentals are charged on all other general fund assets to reflect the cost of using the asset.
- Asset rentals consist of depreciation and notional interest.
- Notional interest is based on the NBV of assets x the cost of capital (usually 6%).
- HRA Capital financing charges do not include an amount for depreciation.
- Depreciation on housing assets is simply debited to the AMRA and credited to the asset on the balance sheet.
- Under resource accounting HRA Capital Financing Charges to be replaced with the equivalent of asset rentals (see below).

(1 mark per point up to a maximum of 4)

(e)

Impact of Resource Accounting

- Explanation of resource accounting.
- Shadow accounts to be produced for 2000/01, full resource accounts in 2001/02.

(up to 2 marks for explanation of resource accounting)

- HRA already operates on accruals basis so that side of it has no impact.
- Current debt charges replaced with capital charges consistent with general fund capital charges.
- Rent rebates to be dealt with outside the HRA.
- New element of Housing Subsidy – "Major Repairs Allowance" (an attempt to maintain the condition of the stock).
- Format of the HRA will be similar to CRA with 3 divisions (net cost of services, net operating expenditure and appropriations).
- All housing stock must be considered for depreciation and depreciation charged will hit the HRA bottom line. The major repair allowance (MRA) can be used as a measure of depreciation and therefore depreciation will be funded by the Housing Subsidy.
- Negative housing subsidy must be paid into a national 'pool' rather than into the Authority's general fund.

(1 mark per point up to a maximum of 3)

(5)

(25)

Question 5

(a)

Sources of revenue funding for Forest County Council

- Council tax (collected by district and paid to county in form of precept)
- NNDR (direct from Central Government)
- Revenue Support Grant (from Central Government based on SSA)
- Specific Government Grants
- Fees and Charges

(½ per revenue source, ½ for explanation up to maximum of 4 marks)

(b)

Requirement to produce annual reports and contents of annual reports

- No statutory requirement to produce annual reports although most authorities do.
- Guidance issued in 1980 by Dept of Environment (Code of Practice on local authority annual reports) although not legally enforceable.
- Objective of annual report is to give clear information to tax payers about the authority's activities, to ease comparisons between authorities and to help elected members make judgements about the performance of their authority.
- It should account for the resource costs and the performance and the efficiency of the authority.
- Should be designed as a statement of stewardship for public and councillors.
- Certain key statistics and indicators should be compiled.
- Report should be published as soon as possible after the accounts are published.
- Will include key accounting statements ie CRA and CBS, Cash flow statement.

(1 marks per point up to a maximum of 4)

(c)

Contents of the statement of accounts

- An explanatory forward
- Statement of accounting policies
- Accounting statements
- Notes to the accounts
- Statement of responsibilities for the statement of accounts

Accounting statements

- Consolidated Revenue Account
- Housing Revenue Account (not for County Councils though)
- Collection Fund or equivalent in Scotland
- Consolidated Balance Sheet
- Statement of Total Movements in Reserves
- Cash Flow Statement
- Group Accounts
- Pension Fund Account and Net Assets Statement (where appropriate)
- Summary DSO Revenue and Appropriation Account (Scotland Only)

(½ mark per point up to maximum of 6 marks for identification of contents)

Revenue funding accounted for:

- Council Tax – collection in Collection Fund of district, paid into CRA of County as Corporate Income
- RSG and NNDR – CRA under 'Amounts to be funded by government grant and local taxpayers)
- Specific government grants – in Service Revenue Accounts and then consolidated into CRA into net cost of services

(1 mark per point up to a maximum of 2)
(8)

(d)

Other forms of accountability

A wide variety of points could be made. Suggestions are:

- Calculation of performance indicators (formerly Citizens Charter and now Best Value Indicators)
- Grant claims
- Statistical returns
- Specific reviews eg Social Services Joint Review or BV Reviews

(1 mark per point well explained up to a maximum of 5)

(e)

Capital funding and control

- Loans – limited by BCAs and SCA and ACL set by Central Government.
- Capital Receipts – still reserve 75% of housing capital receipts (if use RCR count against credit approvals).
- Grants from Government, EU or other bodies – amounts limited, often bid for funding, may be linked to outputs.
- PFI / PPP – to receive RSG support for PFI must prove significant transfer or risk to private sector.
- Leasing – alternative to capital expenditure, finance leases count towards credit approvals.

(1 mark per point up to a maximum of 4)

(25)