

**COUNCIL
25 SEPTEMBER 2002**

**STATEMENT OF ACCOUNTS 2001/02
(Director of Corporate Services - Finance)**

1 PURPOSE OF DECISION

- 1.1 The Council's Statement of Accounts must be approved by a resolution of the Council within six months of the period to which they relate. The Accounts are then subject to audit by the Council's external auditors, KPMG. This report presents the Council's draft Statement of Accounts for 2001/02, subject to audit, and outlines the provisions and reserves included with them. This is a standard report that was formerly presented to the Management and Resources Sub-Committee in September each year.

2 RECOMMENDATIONS

- 2.1 **That the Statement of Accounts 2001/02 (attached) be approved;**
- 2.2 **That the out-turn expenditure for the year be noted and the provisions (£0.263m per section 4.2) and earmarked balances (£5.273m per section 4.3) be approved;**
- 2.3 **That the use of £0.070m from the Structural Changes Earmarked Reserve be approved for the Customer Contact Initiative (paragraph 4.3.4), as requested by the Executive.**

3 REASONS FOR RECOMMENDATIONS

- 3.1 This is a standard report that was formerly presented to the Management and Resources Sub-Committee in September each year. The agreement of full Council is required to the proposal to release funds from the Structural Changes Earmarked Reserve for consultants fees.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 Aside from the establishment of new provisions and earmarked reserves, the Statement of Accounts is a factual document detailing the Council's income and expenditure in 2001/02 and the balance sheet at 31 March 2002. No specific funds have been established for the Customer Contact initiative.

5 SUPPORTING INFORMATION

5.1 Medium-Term Financial Strategy

5.1.1 A key Council objective is to achieve a “soft landing” in balancing its expenditure to the level of annually generated resources in the medium-term. An important factor in achieving this is the careful and planned use of balances to support the revenue budget over the next three to four years. To facilitate this, the Council’s policy in recent years has been to maximise the opportunities to increase revenue balances at the expense of capital resources wherever possible. Since 1998, this approach has added £7m to general revenue balances, providing greater financial flexibility, as revenue balances can be used to fund either revenue or capital expenditure whereas capital resources can only be used to fund capital expenditure.

5.2 Out-turn Expenditure 2001/02

5.2.1 Provisional out-turn expenditure was reported to the Executive on 18 June as £88.712m for the General Fund and £0.243m for the Housing Revenue Account. Details of the actual expenditure compared with the projected out-turn are shown in Table 1. For comparative purposes, and in accordance with common accounting practice, the original projections have been adjusted to include final capital charges, corporate recharges and deferred charges, which have a nil effect overall.

Table 1: Comparison of Actual and Projected Out-turn Expenditure 2001/02

	Projected Out-turn	Projected Out-turn Restated	Actual Out- turn	Transfers to Earmarked Reserves	Other Changes
	£000	£000	£000	£000	£000
Corporate	6,529	7,425	7,300	-194	69
Education	60,180	58,310	57,725	-527	-58
Environment	18,405	19,325	19,343	0	18
Leisure	8,773	8,966	8,997	0	31
Social Services & Housing	23,165	26,659	26,879	0	220
Non-Departmental Budgets	-28,340	-31,973	-32,661	0	-688
General Fund Total	88,712	88,712	87,583	-721	-408
Housing Revenue Account	243	243	255	0	12
Total Net Expenditure	88,955	88,955	87,838	-721	-396

5.2.2 Actual out-turn expenditure was not significantly different from the projected figures for most services, with the greatest changes relating to Non-Departmental budgets in order to continue with the policy of adding to balances where possible. The most significant reasons for the variations are set out below. Out-turn expenditure for the Housing Revenue Account was very close to the level predicted.

5.2.3 The most significant change since the provisional out-turn was reported relates to a change of financing, to maximise revenue balances at the expense of capital resources. When setting the 2001/02 budget, the Council elected to fund £0.5m of repairs and maintenance in the Housing Revenue Account from the Major Repairs Allowance. This meant that the Council was not able to make full use of the transitional relief to the General Fund through the negative housing subsidy. It was

acknowledged at that stage that this approach would need to be re-evaluated during the year when the final out-turn was known. At the end of the financial year, it was decided to fund the repairs and maintenance expenditure from capital receipts, rather than from the Major Repairs Allowance. This allows full use to be made of the transitional arrangements to increase the negative housing subsidy transfer to the General Fund by £0.5m, with no impact on the Housing Revenue Account. The 2002/03 budget already assumes that full use will be made of the transitional arrangements, and hence this technical change in financing in 2001/02 represents a one-off opportunity.

5.2.4 Other changes since the provisional out-turn were as follows:

Corporate

- Underspend on insurance excesses (-£0.194m) which is transferred to the Insurance Fund
- Increase in provision for bad or doubtful debts that can not be apportioned to individual services (£0.081m)

Education

- Underspend of match funding for Standards Fund grants, which can be spent until the end of August (-£0.253m). This sum has been carried forward into 2002/03 to match the grant allocation.
- Underspend on school budgets (-£0.274m) which is automatically transferred to school reserves

Social Services and Housing

- Additional investment interest (£0.108m) was achieved through an agreement with Health for advance payment of section 28A grant, however this should properly be shown against investment income in non-departmental budgets in the final out-turn. Consequently there is a reduction in income of this amount for Social Services and Housing matched by an increase in investment income in non-departmental budgets, compared with the provisional out-turn.
- Deficit on the Building Maintenance contract due to the approved one-off redundancy payments (£0.111m) involved in restructuring Bracknell Forest Services. This is being funded from within the overall General Fund budget, rather than from the Structural Changes Earmarked Reserve, as the out-turn position gives sufficient flexibility to allow this.

Non-Departmental Budgets

- Transfer of investment income from Social Services and Housing, as described above (-£0.108m)
- Additional investment income (-£0.057m)

5.3 Provisions

- 5.3.1 The Council's balances contain specific provisions for known liabilities where the timing or amount of the liability is uncertain. These are considered each year as part of the budget cycle to ensure adequacy and need, and are again reviewed at the year end, in considering the annual accounts.

5.3.2 In previous years there existed a number of such provisions, however changes in accounting rules now mean that these have largely been re-classified as Earmarked Reserves. The only provision that remains in the Council's accounts is for the maintenance of section 106 land, which totals £0.263m. This represents cash transferred to the Council when it takes responsibility for a package of land, and is designed to cover the maintenance costs for a period of normally five years.

5.4 Revenue Balances

5.4.1 These are the reserves of the authority at 31 March 2002 consisting of Earmarked Reserves and the General Reserve.

Earmarked Reserves

5.4.2 Earmarked Reserves are sums of money which have been set aside for specific items of expenditure. These are excluded from general balances available to support revenue or capital expenditure. Earmarked Reserves totalling £5.273m, a decrease of £0.144m on last year's figure, are proposed and are detailed in Table 2.

Table 2: Earmarked Reserves

	31 March 2002 £'000
Insurance Fund	849
Development Claims	500
Regeneration of Bracknell Town Centre	369
Budget Carry Forwards	253
Exceptional environmental conditions	500
Structural Changes	1,000
Corporate Innovations	250
School Reserves	1,311
Education Library Service	109
Repairs Small Business Units	132
Earmarked Balances	5,273

5.4.3 The only new reserve proposed is for Corporate Innovations (£0.250m). A report to the Executive on 10 September on the Customer Contact Initiative highlighted the need for funding of £0.070m for preparatory consultancy work to progress this major project, which is likely to result in significant changes in staffing structures in the future. The use of the Structural Changes Earmarked Reserve established by the Strategy and Policy Committee in September 2000 is limited to redundancy or other one-off severance costs incurred as a consequence of new staffing arrangements. Clearly, however, other major initiatives are also likely to require additional costs in the preparatory and implementation phases. To fund such costs, it is proposed to transfer £0.250m from the Structural Changes Earmarked Reserve to establish a new reserve for Corporate Innovations, to be controlled by the Executive. This can be used to pump prime projects impacting on more than one department that are likely to result in significant structural changes in the future.

5.4.4 Pending the external audit of the accounts and the formal establishment of the Corporate Innovations reserve, Council is requested to relax the rules relating to the Structural Changes Earmarked Reserve to allow the sum of £0.070m needed in the immediate future for the Customer Contact Initiative to be funded from this source.

General Revenue Reserve

- 5.4.5 When the provisional out-turn was reported to the Executive in June, General Fund revenue balances were predicted to be £11.6m at 31 March 2002 and Housing Revenue Account balances were estimated at £0.134m. As a result of the technical adjustments and variations outlined in the report, the actual balances shown in the attached Statement of Accounts are £12.555m and £0.123m respectively.
- 5.4.6 Subject to the Council's approval to the proposals set out above, the movement in General Fund revenue balances during 2001/02 can be summarised as follows.

Table 3: Movement in General Revenue Balances

	£m
Actual balances @ 31/3/2001	13.7
Budgeted use of balances in 2001/02	-2.1
Full use of transitional arrangements under Resource Accounting	0.5
Other revenue budget underspends	0.3
Balances transferred from BCC	0.1
Net movements in earmarked balances	0.1
General Revenue Balances @ 31/3/2002	12.6

- 5.4.7 In setting the 2002/03 budget, Members approved the use of £2.7m from general revenue reserves. Against this, a further £0.3m has been received from Reading Borough Council from the former County Council's balances since 31 March. General reserves are therefore estimated to be £10.2m by 31 March 2003, subject to the 2002/03 outturn. Of this, £6.2m is available to support revenue expenditure, with £4m being the minimum prudent level required. This is £1.3m higher than previously estimated (the difference being explained in table 3 and by the additional sum received from Reading), and will assist in achieving a "soft landing" in the medium-term.
- 5.4.8 The level of reserves on the Housing Revenue Account, being below the minimum prudent level of £0.3m, is a matter of some concern. It is known that this was adversely affected by the low level of investment income in 2001/02, which is expected to be at least partially recovered in the current year. However, it will be important to give careful consideration to this matter in determining the 2002/03 budget proposals for the Housing Revenue Account.

5.5 Audit of Accounts

- 5.5.1 The Council's external auditors, KPMG, are currently undertaking their audit of the 2001/02 accounts. Any significant changes that are required to be made to the accounts resulting from the audit will be reported to the Council at a future meeting.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 The Accounts and Audit Regulations 1996 require the Council to approve accounts from 1996/97 onwards.

Borough Finance Officer

- 6.2 The Statement of Accounts is the published document including the balance sheet, revenue accounts, cash flow statement together with notes which expand and explain the information in these statements.

Access Implications

- 6.3 None.

Background Papers

Draft Statement of Accounts 2001/02

“Customer Contact Initiative” report to Executive 10 September 2002

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