

# FINANCIAL REPORTING IN LOCAL GOVERNMENT

**Professional 2**  
**December 2000**

## MARKING SCHEME



Question 1

(a)

AMRA				
	£000		£000	
1 Depn - GF	36,002	Asset rents - GF	135,080	1½
½ Depn - HRA	3,500	Debt charges - HRA	37,600	½
½ External interest	127,875	Tfr from govt grants deferred	60	1
½ Transfer to CRA: C I & E	5,363			
	<u>172,740</u>		<u>172,740</u>	
				<i>Presentation/format</i> ½

(6)

(b)

**Consolidated revenue account**

		<b>Gross expenditure £000</b>	<b>Income £000</b>	<b>Net expenditure £000</b>	
Education, libraries & arts	( 500,550 + 82,100 )	582,650	(200,600)	382,050	½
Social services	( 355,910 + 31,644 )	387,554	(175,000)	212,554	½
Highways & transport	( 46,900 + 3,500 )	50,400	(10,000)	40,400	½
Planning & development services	( 15,460 + 876 )	16,336	(4,300)	12,036	½
Environment services	( 14,320 + 7,160 )	21,480	(2,600)	18,880	½
Leisure & other services	( 5,800 + 9,800 )	15,600	(3,100)	12,500	½
<b>Net cost of general fund services</b>		<b>1,074,020</b>	<b>(395,600)</b>	<b>678,420</b>	
Housing revenue account	( 281,400 + 37,600 )	319,000	(318,000)	1,000	½
<b>Net cost of services</b>		<b>1,393,020</b>	<b>(713,600)</b>	<b>679,420</b>	
Corporate income and expenditure					
- Precepts paid to Parish Councils				60	½
- Net surplus from DSOs				(50)	½
- Interest received				(5,850)	½
- Asset management revenue account				(5,363)	½
<b>Net operating expenditure</b>				<b>668,217</b>	
Appropriations					
- Deficit transferred to HRA balances				(1,000)	½
- Surplus transferred to DSO balances				50	½
- Contributions to capital financing reserve					
- MRP adjustment				23,098	1
- Government grant deferred account				60	1
<b>Amount to be met from government grant and local taxpayers</b>				<b>690,425</b>	
Demands on collection fund (council tax)				(162,500)	½
Revenue support grant				(309,000)	½
Contributions from NNDR pool				(208,175)	½
<b>(Surplus) / deficit for year</b>				<b>10,750</b>	
General fund balance brought forward				(11,500)	
<b>General fund balance carried forward</b>				<b>(750)</b>	

*Correct format/presentation* 1

(11)

**Consolidated Balance Sheet**

	<b>£000</b>	<b>£000</b>	<b>£000</b>	
Net Tangible Fixed Assets (1,690,800 - 36,002 - 3,500)			1,651,298	<i>1</i>
Investments			85,000	
<b>Total Fixed Assets</b>			<b>1,736,298</b>	
Current Assets				
- Stock and WIP	40,500			
- Debtors	52,475			<i>1</i>
- Cash In Hand	125			
		93,100		
Current Liabilities				
- Creditors	(6,600)			
- Bank Overdraft	(1,500)			
		(8,100)		
<b>Net Current Assets</b>			<b>85,000</b>	
<b>Total Assets Less Current Liabilities</b>			<b>1,821,298</b>	
Long Term Borrowing			(1,705,000)	
Government Grants Deferred			(240)	<i>1</i>
<b>Net Assets</b>			<b>116,058</b>	
<b>Financed By:</b>				
Fixed Asset Restatement Reserve		4,000		
Capital Financing Reserve (77,450+60+250+23,098)		100,858		<i>1½</i>
Useable Capital Receipts		5,750		<i>1</i>
Balances				
- DSOs		2,050		<i>½</i>
- HRA		2,500		<i>½</i>
- General Fund		750		<i>½</i>
Earmarked Reserves		150		
			<b>116,058</b>	
				<i>Correct format/presentation 1</i>
				<i>(8)</i>
				<i>(25)</i>

**Working 1 - Depreciation on P & D S fixed assets**

	<b>£000</b>
Fixed Assets at GCRC at 1 April 1999	10,050
Asset Life	25 years
Depn charge	<u>402</u>
New assets at cost	550
Asset Life	5 years
Depn charge	<u>110</u>
Total depn charge for Planning & Development Services	<u><u>512</u></u>

**Working 2 - Notional Interest on P & D S fixed assets**

	<b>£000</b>
Opening GCRC	10,050
- Opening Accumulated Depreciation	<u>(4, 020)</u>
Opening NCRC	6,030
+ Assets purchased during year	550
- Depreciation charged during the year	<u>(512)</u>
	6,068
Interest rate	<u>6 %</u>
	<u>364</u>

**Working 3 - Capital Charges (General Fund)**

	<b>Depn £000</b>	<b>Notional Interest £000</b>	<b>Total £000</b>
Education, Libraries & Arts	15,210	66,890	<b>82,100</b>
Social Services	14,330	17,314	<b>31,644</b>
Highways & Transport	2,450	1,050	<b>3,500</b>
Planning & Development Services	512	364	<b>876</b>
Environment Services	1,500	5,660	<b>7,160</b>
Leisure & Other Services	2,000	7,800	<b>9,800</b>
	<u>36,002</u>	<u>99,078</u>	<u><b>135,080</b></u>

Accounting entries required:

**Depreciation**

Dr Service Revenue Accounts	36,002
Cr AMRA	36,002
Dr AMRA	36,002
Cr NFA	36,002

**Notional Interest**

Dr Service Revenue Accounts	99,078
Cr AMRA	99,078

**Working 4 - Government Grant**

	<b>£000</b>
Government Grant due	300
Asset Life	5 years
Amount to be taken to AMRA	<u>60</u>

Accounting entries required:

Dr Debtors	300
Cr Government Grant Deferred Account	300
Dr Government Grant Deferred Account	60
Cr AMRA	60
Dr CRA: Appropriations	60
Cr Capital Financing Reserve	60

**Working 5 - Financing new asset from UCR**

	<b>£000</b>
Asset at cost	550
Amount financed from Government Grant	<u>300</u>
Amount to be financed from UCR	<u>250</u>

Accounting entries required:

Dr Useable Capital Receipts	250
Cr Capital Financing Reserve	250

**Working 6 - MRP Adjustment**

	<b>£000</b>	<b>£000</b>
MRP (General Fund)	57,000	
MRP (Housing)	<u>5,600</u>	
Total MRP for Hillsgdown		62,600
Depreciation (General Fund)	36,002	
Depreciation (Housing)	<u>3,500</u>	
		(39,502)
MRP Adjustment		<u>23,098</u>

Accounting entries required:

Dr CRA: Appropriations	23,098
Cr Capital Financing Reserve	23,098

**Working 7 - HRA Debt Charges**

	<b>£000</b>	<b>£000</b>
HRA MRP	5,600	
HRA Interest	<u>32,000</u>	
		37,600

Accounting entries required:

Dr Housing Revenue Account	37,600
Cr AMRA	37,600

**Working 8 - Depreciation on HRA Assets**

Accounting entries required:

Dr AMRA	3,500
Cr Accumulated Depreciation	3,500

**Question 2**

**Henfield District Council**

**(a) Collection Fund for the year ended 31 March 2000**

	£000	£000	
<b>Income</b>			
Income from Council Tax		764,920	1½
Transfers from General Fund			
- Council Tax Benefits		106,700	½
- Prompt Payment Discounts		5,400	
Income collectable from business ratepayers		670,620	1½
Contributions			
- towards previous year's Collection Fund deficit		650	½
		<hr/>	
		1,548,290	
<b>Expenditure</b>			
Precepts and Demands			
- County Council	(650,900)		½
- District Council	<hr/> (224,600)		½
		(875,500)	
Business rate			
- payment to national pool	(667,120)		
- costs of collection	<hr/> (3,500)		½
		(670,620)	
Bad and doubtful debts			
- write offs	(1,450)		
- provisions	<hr/> (250)		½
		(1,700)	
Contributions			
- towards previous years surplus		<hr/> 0	
		(1,547,820)	
		<hr/>	
Movement on fund balance		470	

*(Maximum 6 marks for Collection Fund)*



## Supporting Notes

### 1. Council Tax Income

	£000	£000	
Total Council Tax collectable (W1)		955,730	1/2
Less: Losses and reductions			
- exemptions	(66,300)		1/2
- reduced assessments	(12,410)		1/2
- prompt payment discounts	(5,400)		1/2
		(84,110)	
Less: Benefits		(106,700)	1/2
Transfer to Collection Fund		764,920	
			(2 1/2)

### 2. NNDR Income

	£000	£000	
Total due from business ratepayers (W2)		713,200	1/2
Less: Losses and reductions			
- rateable value reductions	(25,700)		1/2
- mandatory relief	(16,880)		1/2
		(42,580)	
Transfer to Collection Fund		670,620	
			(1 1/2)

### 3. Payment to NNDR Pool

	£000	
Income collectable from business ratepayers	670,620	1/2
Less: Cost of collection	(3,500)	1/2
Payment to NNDR Pool	667,120	
		(1)

### 4. Bad Debt Provision

	£000	
Write offs		
- Council Tax	1,100	1/2
- NNDR	350	
	1,450	
Provision at 31 March 2000	2,750	
Provision at 1 April 1999	(2,500)	1/2
Increase in provision	250	
		(1)

(Maximum of 6 marks for supporting notes)  
(12)

**Workings**

**W1 Determination of Total Council Tax Collectable**

	<b>£000</b>
Receipts of Council Tax	750,200
+Opening Prepayments	11,360
-Closing Prepayments	(8,740)
-Opening Arrears	(55,800)
+Closing Arrears	67,900
	<hr/> 764,920
+Exemptions	66,300
+Reduced Assessments	12,410
+Prompt Payment Discounts	5,400
+Council Tax Benefits	106,700
	<hr/> 955,730

**W2 Determination of Total Due from Business Ratepayers**

	<b>£000</b>
Receipts of NNDR	674,150
+Opening Prepayments	3,620
-Closing Prepayments	(4,500)
-Opening Arrears	(32,450)
+Closing Arrears	29,800
	<hr/> 670,620
+Rateable Value Reductions	25,700
+Mandatory Relief	16,880
	<hr/> 713,200

(b)

- Surplus on Collection Fund must be distributed to precepting bodies (including District Council).
- Usually distributed pro-rata on precepts.
- District element of surplus is a credit entry into the Consolidated Revenue Account as 'Transfers from Collection Fund' and will therefore increase the General Fund surplus (or reduce the deficit) for the year.
- Any deficit should be met in the following year by contributions from the precepting authorities.
- An estimate of the surplus is made prior to the start of the financial year and this is taken account of when setting the Council Tax for the year (ie a predicted surplus on the Collection Fund reduces the amount to be funded from council tax payers).

*maximum 3 marks to be awarded for identification of issues and clarity of explanation*  
(3)

(c)

<b><i>Revenue Income</i></b>	<b><i>Determined by</i></b>	
• Revenue Support Grant	Standard Spending Assessment (Central Government's assessment of the authorities need to spend)	1½
• NNDR	Rate per £ set by Central Government. Collected by authorities on behalf of CG and distributed to authorities based on population	1
• Council Tax	Authority determines. Total budget - all other sources of income = amount to be funded from council tax	1½
• Specific grants	Central Govt Dept determines amount available and conditions to be met.	1
• Sales, Fees and Charges	Some discretionary ie set by the authority. Some set by statute.	1
• Housing rents	Local authority discretion: any increase above guideline rent set by government will lead to a reduction in refund of housing benefit.	1
• Housing subsidy	Central Government determine amount by reference to notional housing revenue account.	1

***Central Government controls on revenue spending***

• Reserve capping powers	
• Council Tax Benefit Subsidy Limitation	
• Other relevant comments	2
	(10)
	(25)

### Question 3

- (a) FRSs and SSAPs do not apply directly to LAs but are applied through the SORP (The Code of Practice on Local Authority Accounting: A Statement of Recommended Practice)

SORP is based on approved accounting standards except where these are inconsistent with specific statutory requirements

ASB issues a negative assurance stating that the SORP has been developed in accordance with the ASB's Code of Practice and does not contain any fundamental points of principle which are unacceptable in current accounting practice

'True and fair view' is a requirement of the Companies Acts and therefore does not apply to Local Authorities

'Presents fairly' is the LA equivalent of 'true and fair view'

SORP requires that statement of accounts presents fairly the financial position of the authority at the accounting date and its income and expenditure for the year

Any other relevant comments

*1 mark per point up to a maximum of 5*

- (b) Specific points should be addressed accordingly:

- (i) SSAP2 (Disclosure of Accounting Policies) accruals concept states that goods received should be accounted for in the year they relate to. SSAP9 (Stocks and Long-Term Contracts) describes how unused stocks should be accounted for.

A creditor of £24,000 should be raised for the goods. The goods used (£5,000) should be charged as operating expenses, and the stock valuation should be raised by £19,000 for the unused goods remaining in store.

DR	Operating Expenses	£5,000
DR	Stock	£19,000
CR	Creditors	£24,000

*1 mark for explanation/justification, 1 mark for accounting entries*

- (ii) Accounting practice requires that income and expenditure is reported and published gross, i.e. income and expenditure should not be netted off against each other. In order to show income and expenditure correctly in this case:

DR	Operating Expenses	£8,000
CR	Operating Income	£8,000

*1 mark for explanation/justification, 1 mark for accounting entries*

- (iii) SSAP2 (Disclosure of Accounting Policies) requires prudence when reporting income. £27,000 of income will not now be received and should therefore be written off to the relevant Service Revenue Account as bad debt expense.

DR	Service Revenue Account (Bad Debts)	£27,000
CR	Debtors	£27,000

*½ mark for explanation/justification, ½ mark for accounting entries*

- (iv) SSAP4 (Accounting for Government Grants) deals specifically with the treatment of capital and revenue grants. ½

Capital grants should be treated as Deferred Income and released to the Revenue Account (via AMRA) over the life of the asset. Amounts released to the Revenue Account are then transferred to CFR to prevent funding of revenue from capital.

DR	Cash/Bank	£800,000
CR	Government Grant Deferred Account	£800,000

DR	Government Grant Deferred Account	£80,000
CR	AMRA	£80,000

DR	Consolidated Revenue A/c – Appropriations	£80,000
CR	Capital Financing Reserve	£80,000

*1 mark for discussion, 2 marks for accounting entries*

Revenue grants should be matched to the expenditure incurred. Assuming the relevant expenditure has been incurred in 1999/2000 the following entries would be required:

DR	Cash / Bank	£60,000
CR	Service Revenue Account (operating income)	£60,000

*1 mark for explanation/justification, 1 mark for accounting entries*

- (v) SSAP24 (Accounting for Pension Costs) defines “defined contribution” and “defined benefit” pension schemes and explains how to account for them.

Additional pension costs not covered by the Superannuation Fund should be charged to the Service Revenue Account where the employee last worked.

DR	SRA (Social Services)	£39,000
CR	Cash / Suspense	£39,000

*1/2 mark for explanation/justification, 1/2 mark for accounting entries*

- (vi) FRS 5 (Reporting the Substance of Transactions) and SSAP 21 (Accounting for leases and hire purchase contracts) require asset acquired by finance lease to be accounted for as assets 'owned' by the company. 1

- Capitalise the asset at fair value

DR	Fixed Assets	£240,000	
CR	Long term liabilities	£240,000	1

- Depreciate the asset (£240k / 6 years)

DR	AMRA	£40,000	
CR	Fixed Assets	£40,000	
DR	Service Revenue Account	£40,000	
CR	AMRA	£40,000	1

- Split the annual payment between interest and principal using sum of digit methods (or actuarial method).

$$n(n+1)/2 \quad 6 \times (6 + 1) = 42 / 2 = \underline{21}$$

Finance charge = £30,000 (£270,000 - £240,000)

	Interest	Principal	Total
Year 1: $6/21 \times £30,000 = £8,571$	+	£36,429	= £45,000
Year 2: $5/21 \times £30,000 = £7,143$	+	£37,857	= £45,000

DR	AMRA (External Interest)	£8,571	
DR	Long term liabilities	£36,429	
CR	Suspense	£45,000	2 1/2

- Split outstanding liability between < 1 year and > 1 year

DR	Long term liabilities	£37,857	
CR	Short term liabilities	£37,857	1/2

- (vii) FRS 12 Provisions, Contingent Liabilities and Contingent Assets applies to LA accounts from 1 April 1999. *1/2*

A provision is a liability of uncertain timing or amount and should therefore meet the rules of recognition for a liability ie present obligation, requirement to transfer economic benefits etc *1*

DR Service Revenue Account	£200,000	
CR Provisions for liabilities and charges	£200,000	<i>1</i>

*(20)*

*(25)*



**Question 4**

(a)

	1999/2000	Points	1998/99	Points	1997/98	Points	Total	
<b>Company A</b>								
Current ratio	136:123=1.11	1	118:132=0.89	0	118:113=1.04	1	2	1½
Acid test	114:123=0.93	1	100:132=0.76	0	90:113=0.80	0	1	1½
Post tax profits		1		1		0	2	½
<b>Total</b>							<b>5</b>	
<b>Company B</b>								
Current ratio	117:89=1.31	1	104:90=1.16	1	102:84=1.21	1	3	1½
Acid test	87:89=0.98	1	76:90=0.84	0	76:84=0.90	1	2	1½
Post tax profits		1		1		1	3	½
<b>Total</b>							<b>8</b>	
<b>Company C</b>								
Current ratio	132:91=1.45	1	132:108=1.22	1	115:92=1.25	1	3	1½
Acid test	97:91=1.07	1	98:108=0.91	1	85:92=0.92	1	3	1½
Post tax profits		1		1		1	3	½
<b>Total</b>							<b>9</b>	

Companies B & C can be invited to tender on financial criteria.

½

(11)

(b)

	<b>X Ltd</b>	<b>Points</b>	<b>Y Ltd</b>	<b>Points</b>	<b>Z Ltd</b>	<b>Points</b>	
Staff	6/30=20%	5	10/59=17%	5	21/99=21%	10	1½
Contract		0		5		10	½
Price*		20.91		17.14		6.95	4½
<b>Total</b>		<b>25.91</b>		<b>27.14</b>		<b>26.95</b>	

Company Y should be offered the contract.

½  
(7)

*Note: Students may interpret the last paragraph of the question in other ways, leading to a rounding of percentages, which may result in different points scores, the effect of which may be to change the recommendation to Company Z – full credit should also be given for recommending Company Z in these circumstances.*

\* Price Notes:

X Ltd	225,375
Y Ltd	241,095
Z Ltd	<u>283,530</u>
Total	750,000

Average Price = 250,000

225,375 = 9.85% less than the mean, hence points =  $15 + (9.85 \times (2\% \times 30)) = 20.91$

241,095 = 3.56% less than the mean, hence points =  $15 + (3.56 \times (2\% \times 30)) = 17.14$

283,530 = 13.41% greater than the mean, hence points =  $15 - (13.41 \times (2\% \times 30)) = 6.95$

(c)

<b>Responsibility</b>	<b>Explanation</b>	
Drawing up the contract specification	Detailed description of the service/goods/works, e.g. tasks, times, frequencies, materials, etc including minimum standards Conditions, including client & contractor responsibilities Provides a benchmark against which the tenders can be assessed.	2
Estimate of realistic cost	Based on the provision of the service/goods/works detailed in the contract specification	1
Publication of notice	To inform interested parties of the service to be tendered	1/2
Send questionnaire and outline details	To obtain information to allow short-listing of contractors who will be invited to submit tenders	1
Review questionnaire	To reject potential tenderers that do not meet minimum standards of financial standing or technical capacity	1/2
Invitation to tender	Sending details to approved potential tenderers	1/2
Tender evaluation	Review all tenders on the basis of cost and quality and conclude with a preferred bidder	1/2
Announcement of award	Notification to successful and unsuccessful tenderer	1
		(7)
		(25)

## Question 5

### (a) Role and responsibilities of Chief Financial Officer

OLM Reference – Block 1, Study Unit 2

There are a number of appropriate structures which could be adopted. However the answer should cover the following key areas:

- provision of financial management advice
- preparation of accounts and associated grant claims in accordance with relevant guidance
- provision of internal audit function
- provision of income collection and payment systems
- budgetary control (capital and revenue budgets)
- cash flow management
- financial planning
- insurance and risk management
- performance indicators / measures

Also:

- usually Section 151 Officer (LG Act 1972) – responsible for proper administration of the affairs of the authority
- Legal responsibility under LG Act 1988 (Section 114) to report unlawful expenditure or an unbalanced budget
- Fiduciary responsibility to taxpayers (not just council members) – established by Attorney General v De Winton 1906
- Accounts and Audit Regs 1996 impose responsibilities relating to accounting control, form of accounts, internal audit & power to obtain documents and access information from officers
- CIPFA Statement (1993) – *Role of Chief Finance Officer in Financial Administration in Local Government* emphasises need for CFO to have full access to council and chief officers in order to fulfil their responsibilities

*½ mark per point and 1 for explanation up to a maximum of 15*

### (b) Devolved financial management

OLM Reference – Block 5, Study Unit 24

The exact definition will vary but should refer to:

- The shifting of the decision making process away from the centre to front-line services
- Front line service managers being responsible for budgets and budget monitoring

2

**(c) Advantages of Devolved Financial Management**

- Alignment of financial and managerial responsibility
- Enables front line staff to respond more quickly to needs of clients
- Fosters ownership of budgets
- Clearer accountability
- Any other appropriate points

*½ mark per point up to a maximum of 2*

**Disadvantages**

- Costly to set up due to training requirements
- Devolving financial responsibility to non-finance experts
- More difficult for the centre to control and influence
- Any other appropriate points

*½ mark per point up to a maximum of 2*

**(4)**

**(d) Impact on the role of the Chief Financial Officer**

- Still maintains all statutory responsibilities
- Quality assurance role eg are budgets being spent prudently
- Coordination role re budgeting
- Sets parameters eg cash limited budgets
- Power to access documents and information becomes more important
- Any other appropriate points

*1 mark per point up to a maximum of 4 marks*

**(25)**