

FINANCIAL REPORTING IN LOCAL GOVERNMENT

Professional 2 examination 5 June 2001

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 trial balance has been extracted from the financial ledgers of Watersfield County Council as at 31 March 2000.

	£000	£000
Net operational assets	486,820	
General Fund balance		15,929
Sale of assets		4,431
Loans received		117,602
Loans repaid	98,010	
Stock	7,240	
Short-term debtors	7,498	
Short-term investments	2,594	
Cash and bank	195	
Creditors		4,429
Finance lease		300
Long term borrowing		226,163
Fixed asset restatement reserve		198,980
Capital financing reserve		13,101
Usable capital receipts reserve		11,583
Education Services net expenditure	445,176	
Planning Services net expenditure	57,534	
Social Services net expenditure	90,189	
Highways Services net expenditure	23,235	
Precepts to other authorities	4,749	
Interest paid	21,992	
Interest received		548
Revenue support grant		212,462
NNDR		93,288
Council tax		344,486
Suspense		1,930
	1,245,232	1,245,232

Additional information

- (i) A capital grant amounting to £2,000,000 has been received to help fund a new educational asset costing £4,000,000. The asset is expected to have a life of 20 years. The new asset is reflected in the net operational assets figure in the trial balance and the grant received has been credited to suspense.
- (ii) Capital expenditure for the year (included in the trial balance) has largely been financed through the use of the authority's basic credit approval, which has been included in the loan transactions above.

The finance lease of £300,000 was taken out with a lease term of 5 years and annual payment of £70,000 which in 1999/2000 has been debited to the suspense account.

The remaining financing of capital expenditure that has yet to be reflected in the trial balance is as follows:

	£000
Use of capital receipts	3,000
Direct revenue finance	990

- (iii) Asset rentals for the year, excluding note (i), are equal to the sum of depreciation and notional interest, being:

£000

Depreciation	9,903
Notional interest	27,969

(iv) Service committees are to be charged the following asset rentals:

	£000
Education	27,033
Planning	2,253
Social Services	5,412
Highways	3,174

(v) The MRP for the year has been calculated as £10,301,000.

(vi) Operational assets with a book value of £5,439,000 have been sold in the year. The proceeds of sale have been recorded as "sale of assets" in the ledgers. The assets have not been written out of the accounts.

(vii) A claim is being made against the Council in respect of a pensioner tripping up over loose paving flags. The outcome of the claim is unknown but it is likely that the Council will have to pay compensation in the region of £100,000.

• **Requirement for question 1**

- | | | |
|-----|--|----|
| (a) | Prepare the Asset Management Revenue Account for the year ended 31 March 2000; | 5 |
| (b) | Prepare the consolidated revenue account for the year ended 31 March 2000; and | 9 |
| (c) | Prepare the consolidated balance sheet as at 31 March 2000. | 11 |

(25)

2

The following balance sheet relates to Blue Mountain County Council for the year ended 31 March.

	2000 £000	1999 £000
Net fixed assets	1,048,315	1,030,016
Long term investments	30,000	30,000
Stock	3,000	4,500
Debtors	26,870	27,000
Cash	1,800	
Short term borrowing	(2,000)	(3,000)
Creditors	(71,940)	(54,000)
Bank overdraft		(3,000)
Long term loans	(343,000)	(373,000)
	<u>693,045</u>	<u>658,516</u>
Fixed asset restatement reserve	485,000	480,000
Usable capital receipts	17,000	15,000
Capital financing reserve	175,000	139,900
General fund	16,045	23,616
	<u>693,045</u>	<u>658,516</u>

The following information is also available:

- (i) Notional interest for 1999/2000 was calculated as £27,993,000, depreciation was £10,002,000 and the Asset Management Revenue Account (AMRA) adjustment was a credit to the Consolidated Revenue Account of £9,995,000.
- (ii) Internal financing of capital consisted of £3,000,000 from Direct Revenue Funding and £15,000,000 of Capital Receipts.
- (iii) The MRP for the year has been calculated as £27,102,000.
- (iv) Revenue activities resulted in the following cash flows:

Revenue expenditure	
	£000
Employees	189,001
Other	81,000

Revenue income

	£000
RSG	153,000
Council tax	65,000
NNDR	72,000
Interest	3100
Grants	25,000
Fees and charges	12,000

- **Requirement for question 2**

- (a) Prepare a reconciliation of the revenue surplus/(deficit) to net cash flow from operating activities for the year ended 31 March 2000. *10*

 - (b) Prepare a Cash Flow Statement for the year ended 31 March 2000. *15*
- (25)*

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

The following information relating to Seaglade County Council Pension Fund has been extracted from the ledgers and represents the balances as at 31 March 2000:

	£000	£000
Opening value of the fund		195,052
Transfer values	3,213	1,794
Contributions from employers		53,249
Contributions from employees		41,272
Pensions	29,760	
Admitted bodies pensions	2,340	
Lump sums	22,150	
Death grants	1,437	
Admitted bodies grants	908	
Admitted bodies lump sums	3,468	
Administrative costs	6,789	
Refunds of contributions	897	
Debtors	3,102	
Creditors		1,679
Cash	9,173	
Cash received from admitted bodies for benefits		5,000
Investments at 1 April 1999		
- equities	81,376	
- property	17,219	
- government stock	60,392	
Investments purchased 1999/2000		
- equities	26,000	
- property	12,050	
- government stock	65,561	
Proceeds of sale of investments		
- equities		14,392
- property		10,749
- government stock		8,302
Investment income		
- equities		8,134
- property		2,033
- government stock		4,179
	345,835	345,835

Additional information

1 Sale proceeds shown above resulted in the following profits and losses on realisation:

	Profit	Loss
	£000	£000
Equities	6,734	3,128
Properties	4,729	2,106
Government stock	4,273	1,943

2 The market value of investments held at 31 March 2000 was:

Equities £103,249,000
 Property £31,021,000
 Government stock £121,239,000

3 2% of the net profit on properties is payable to the property management company.

4 Employees contributions of £5,456,000 are still outstanding together with pension payments of £3,564,000 and additional pension payments of £450,000.

5 Additional benefits paid in the year relate to admitted bodies. The fund is fully reimbursed by the admitted bodies.

• **Requirement for question 3**

- (a) Prepare the Pension Fund Account for Seaglade County Council for the year ended 31 March 2000 together with the Net Asset Statement at that date. 20
- (b) What are the main objectives of the pension funds' financial statements and what items are required to be excluded by regulations in these statements? 5

(25)

4

Humbug City Council is responsible for the provision of social housing in its area. In accordance with relevant legislation it keeps a separate Housing Revenue Account (HRA).

The following information is available for the housing activities of Humbug City Council for the 1999/2000 financial year.

Receipts	£
Advances to the HRA	1,500,000
Sale of council houses	400,000
Rents from dwellings	27,980,000
HRA Subsidy	7,850,000
Mortgage interest	58,000
Payments	£
Repairs and maintenance	9,246,000
Supervision and management	3,780,000
Rent rebates	17,650,000
Debt management expenses	215,000
Rent, rates, taxes and other charges	256,000

Additional information

- (i) At the beginning of the year, advances to the HRA stood at £60,490,000. Opening reserved capital receipts amounted to £2,990,000 and the provision for credit liabilities was £4,140,000.
- (ii) The consolidated loans pool rate of interest for 1999/2000 is 8%. Interest payable on average cash balances during the year has been calculated as £286,000.
- (iii) Rent arrears were £1,673,000 at 1 April 1999 and stood at £1,474,000 at 31 March 2000.

- **Requirement for question 4**

- (a) Calculate the capital financing charges to be included in the Housing Revenue Account for 1999/2000. 7
 - (b) Prepare the Housing Revenue Account for 1999/2000. 5
 - (c) Outline briefly the reasons for keeping a Housing Revenue Account. 4
 - (d) Explain the difference between the capital financing charges included in the Housing Revenue Account and asset rentals. 4
 - (e) Consider the impact of Resource Accounting on the HRA. 5
- (25)

5

The Councillors of Forest County Council regularly request papers from experts in different departments to help them understand the complex and changing issues surrounding local government. Your Chief Executive has just received the following memo.

MEMORANDUM

To: Steven Quirrel, Chief Executive
 From: Graham Branch, Councillor for Leafy Ward
 Date: 5 June 2001

Subject: Funding and Accountability Issues

At a recent committee meeting funding and accountability issues relating to Forest County Council were briefly discussed. I gathered that our main source of revenue funding is from Central Government and that one of the key ways we are held accountable for this funding is through our Annual Report and Statement of Accounts.

However, I am sure the story is more complicated than this and would greatly appreciate some further guidance. In particular, I am keen to know whether we are obliged to produce an Annual Report and if there is specific guidance on what it should contain. I am also unsure as to the contents of the Statement of Accounts.

Does capital funding come by the same route as revenue funding? If not, could you explain how the Borough obtains the funds for purchasing buildings and equipment?

- **Requirement for question 5**

Draft a response on behalf of the Chief Executive which addresses the following:

- | | | |
|-----|---|---|
| (a) | The main sources of revenue funding for Forest County Council. | 4 |
| (b) | The requirement to produce an Annual Report and its contents. | 4 |
| (c) | The contents of the Statement of Accounts for Forest County Council and where the revenue funding identified in (a) is accounted for. | 8 |
| (d) | Other ways in which Forest County Council is held accountable for its revenue funding. | 5 |
| (e) | Methods of funding capital expenditure and how they are controlled. | 4 |

(25)