

FINANCIAL REPORTING IN LOCAL GOVERNMENT

**Professional 2 examination
June 1999**

MARKING SCHEME

The logo for CIPFA (Chartered Institute of Public Finance and Accountancy) features the letters 'CIPFA' in a serif font. The letter 'I' is replaced by a stylized, curved line that loops around the top of the 'P' and extends to the left, resembling a signature or a decorative flourish.

Question 1

(a) Housing Revenue Account for the year ended 31 March 1999.

Income	Workings	£000
Rents	9140 - 42 + 57	9,155
Service charges		525
Mortgage Interest	15 - 2 + 3	16
		9,696
Expenditure		
Repairs		3,027
S & M	1450 + (240*(2800/3000))	1,674
Rebates		2,050
CFC	See below	<u>2,561</u>
		9,312
Surplus for year		384
Balance b/f		<u>25</u>
Balance c/f		409

6

Calculation of capital Financing Charges:

MRP = 31870000 - 3147000@2% = 574460 2

Item 8 = 31870000 - 7042000 - 1000000@2% = 476560 2

Therefore use MRP

Interest on Mid Year Credit Ceiling:

		£
Opening credit ceiling		28,723,000
+ half advances	0.5*120000	60,000
- half reserved capital receipts	0.5((0.75*282000) + (0.5*25000))	(112,000)
- half HRA set aside	0.5*574460	<u>(287,230)</u>
		28,383,770
	@7%	1,986,864
		(say 1,987k)

5

Capital Financing charges:	£000
IMYCC	1987
MRP	<u>574</u>

2561

(b) *Report format etc 1 mark*

Advantages include:

- A big capital receipt.
- Reduction in expenditure such as repairs and maintenance that may rise in future years.
- Transfers potential future problems eg repairs as properties age.
- 'Specialist' Housing Association.

Disadvantages include:

- Loss of control.
- Loss of a significant service - consequences on support services.
- At present the HRA breaks even.
- Reallocation of central charges.

Sale process:

- Negotiations with tenants culminating in a ballot.
- Inform staff and Trade Unions.
- Calculate sale value... use of professional advisors likely.
- Inform secretary of state and seek sanction.
- Consider implications of dealing with only one tenderer.
- Coding structure implications.

(1 mark per relevant point up to a maximum of 9)

(10)

Question 2

This answer assumes that students will continue to use the old set aside procedures. Examiners are aware that the rules were amended in September 1998. Full credit will be given to students who use these new rules.

(a) *Answer should be in note form explaining journal with some (but not extensive) narrative.*

Asset rental in (iii)

To be depreciated 280000 - 30000 = 250000

		£	
Depreciation	250000/5	50000	
Notional interest	280000*6%	16800	
Asset rental		66800 (say 67k)	3

Relevant journals:

Dr Fixed assets 280000
Cr Creditors 280000

Dr Usable Capital receipts 280000
Cr Capital Financing reserve 280000

Being the asset purchase 1

Dr Highway expenditure 67000
Cr AMRA 67000

Being the additional asset rental 1

Dr Depreciation (AMRA) 50000
Cr Net Fixed Assets 50000

Being the additional depreciation 1

Land sale in (iv)

Relevant journals:

Dr FARR 2000000
Cr Fixed assets 2000000

Being the writing off of the assets 1

Dr Debtors 6000000

Cr UCR 6000000

Being the proceeds of sale 1

Dr UCR 3000000

Cr CFR 3000000

Being the set aside amount 1

Stock in (iv)

Dr Education revenue account 2000

Cr Education Stock 2000

Being the write off of obsolete stock 1

MRP Adjustment

Depreciation 4250 + 50 4300k

less MRP 6000k

Therefore MRP adjustment = 1700k

Dr Consolidated Revenue Act show that
'appropriations' 1700000

Cr Capital Financing Reserve 1700000 2

Being the additional MRP charge

AMRA transfer

Asset Rentals 10108 + 67 10175k

Less

Depreciation 4300k

Interest 2147k

Adjustment to CRA 3728k

Dr AMRA 3728000

Cr Consolidated Revenue Act show that
'corporate income' 3728000

Being the balancing off of the AMRA

(b)

Consolidated Revenue Account for the year ended 31 March 1999

		£000
Net expenditure		
Education	37500 + 2	37502
Leisure		11000
Highways & Transport	17700 + 67	17767
Social services		24510
Planning		3000
Environmental protection		9750
		103529
Corporate income and expenditure		
Interest		(800)
DSO surplus		(127)
AMRA adjustment		(3728)
		98874
Appropriations		
MRP		1700
		100574
Income		
RSG		50700
NNDR		24080
CT		32040
		6246
Balance B/f		1500
Balance C/f		7746

5

Consolidated balance sheet as at 31 March 1999

		£000	
Net Fixed Assets	247000 + 280-4300-2000	240,980	
Investments		11,500	
			252,480
Stock	2470-2	2,468	
Cash		2,150	
Debtors	5310+6000	11,310	
less creditors	3470 + 280	(3,750)	
			12,178
less long term borrowing		(150,000)	(150,000)
		114,658	114,658

General fund		7746	
FARR	79217-2000	77217	
UCR	7427+3000-280	10147	
CFR	14568+3000+1700 + 280	<u>19548</u>	
		114658	
			5
			(10)
			(25)

Question 3

(a)

- Loan
- Use of capital receipts
- Direct Revenue Financing
- Private Finance Initiative
- National Lottery
- Gov't Capital grants
- EU grants

(1 mark per point to max of 5)

(b)

Loan

- Explanation of the credit approval system
- Have we/can we get the Basic Credit Approval?
- Supplementary credit Approval unlikely for such a project
- Need to consider the interest repayment at authority level

(1 mark per point to a max of 3)

Use of capital receipts

- Do we have them available?
- Must consider the entire capital programme and its call on receipts
- Is it possible to generate receipts (but remember to set aside)
- Small loss of investment interest to the council, but largely revenue neutral

(1 mark per point to a max of 3)

Direct Revenue Financing

- Highly unlikely at this amount!

1

Private Finance Initiative

- Explanation of the term *2*
- Effectively off balance sheet *1*
- Detailed consideration of FRS 5 *2*
- Appreciation that PFI is likely to include revenue contracts for operation of centre *2*

(1 mark per point to a max of 7)

National Lottery

- Available on application
- Will not cover revenue implications
- Amortise amount over useful life (40 years?)

(1 mark per point to a max of 3)

Government Grants/EU grants

- Possibility (likelihood?) of competing to gain
- Will not cover revenue implications
- Possible need for 'matched' funding
- Amortise over useful life

(1 mark per point to a max of 3)

(25)

Question 4

- (a) There are a number of lists in the OL Material (eg SU6.2 & SU25.1). Feature should include “recent, reliable, relevant, accurate” or “consistent, complete, timely, cheap to prepare, relevant” or “understandable”, useful to user, accurate, timely, comparable, bring about accountability”

Techniques include profiling, out turn estimates etc.

(1 mark per principle to 6 max)

(b)

- Being held to account for spending decisions
- Lines of accountability often not obvious in local government
- The requirement to provide VFM
- Accountability is central to “Best Value”
- The stewardship role of local government
- Accountability to Members, Central Government and the wider public

(1 mark per point to 6 max)

(c)

- Audited via the Audit Commission
- Validation and opinion final accounts (LG Act 1982)
- VFM (LG Act 1982)
- Questions and objections (LG Act 1982)
- Surcharge and disallowance (LG Act 1982)
- Stop powers and judicial review (LGHA 1989)
- Validation of Performance Indicators (LG Act 1992)
- Certification of Grant claims

(1 mark per point to 6 max)

(d)

- Mention of CIPFA guidance
- Corporate governance problematic in local government
- Members role in governance
- Use of audit Committees popular but not required
- Lack of “non executive directors” in local government as compared with Cadbury requirements
- Governance required for a wider set of interest groups
- Public role, citizen’s juries, the power to question and object to the accounts.

(1 mark per point to 7)

(25)

Question 5

Part (a) see SU1:3, feedback to activity 3.

User	Needs
Central Government	Info to ensure statutory obligations have been met.
	Info of total spending
The public	Info to assess the performance, that taxation is justified, that council provides VFM
Managers	Info to prepare budgets and evaluate past performance
Employees	To assess Councils' performance
Suppliers	To assess credit worthiness
Competitors	Info about policies and performance of contractors
Lenders/ investors	Info to evaluate rate of return/ credit worthiness

1 mark for each user group and 1 mark for info. need to a maximum of 12

Part (b)

(i)	Dr Cash	£56,000		
	Cr GovtGrants deferred		£56,000	1
	Dr Govt grants deferred	£7,000		
	Cr amra		£7,000	1
	Dr cash	£88,000		
	Cr CFR		£88,000	1
(ii)	Dr FARR	£400,000		
	Cr land		£400,000	1
	Dr community assets	£300,000		2
	Dr Buildings	£150,000		
	Cr FARR		£450,000	
(iii)	A finance lease -	val. v lease charges owned for asset life not cancellable		2

Financial Reporting in Local Government
Marking Scheme

June 1999

	Dr fixed assets	£10,000		
	Cr deferred liabilities		£10,000	1
	Dr interest payable	£1,037		
	Dr deferred liabilities	£1,563		2
	Cr cash		£2,600	
(iv)	2% * (loans os - reserved cap receipts) or 2%* (loans os - pcl - repay 'ts of principle) "the greater of"			2
				(13)
				(25)