

CAMBRIDGE CITY COUNCIL

REPORT OF: Director of Resources
TO: Civic Affairs Committee 27/6/2012
WARDS: None directly affected

ANNUAL REPORT AND STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2012

1. INTRODUCTION

- 1.1. The Audit and Accounts Regulations govern the preparation, approval and publication of local authority accounts. There is a requirement for the Director of Resources to approve draft accounts by the 30 June in each year, and the audited accounts have to be approved by resolution of a committee of the Council (or the full Council) by 30 September. Under the Council's Constitution, this responsibility rests with the Civic Affairs Committee.
- 1.2. Although Civic Affairs are not required to formally approve the draft accounts by 30 June the Committee has previously agreed that they should be presented for review at this stage and that the accounting policies applied in their preparation are approved.
- 1.3. Changes to the accounts as a consequence of new or amended guidance on local authority accounting are highlighted.
- 1.4. Significant items of note in the 2011/12 accounts are also highlighted together with explanations of the differences in presentation between final outturn reporting to Scrutiny Committees (based on service portfolios) and the formal statement of accounts.

<p>In light of the scope and content of the draft accounts, if Members require detailed answers to specific questions it is requested wherever possible that these are notified to the Head of Accounting Services 2 working days prior to the meeting so that a full answer can be given.</p>
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2. RECOMMENDATIONS

- 2.1. That the contents of the draft Statement of Accounts presented at Appendix 1 be noted and that the accounting policies on which they are prepared be approved.

3. BACKGROUND

- 3.1. The Civic Affairs Committee has responsibility for corporate governance issues including audit and regulatory financial matters. The CIPFA publication *Audit Committees: Practical Guidance for Local Authorities* states that the review of the financial statements should focus on:

- The suitability of accounting policies and treatments
- Any changes in accounting policies and treatments
- Major judgemental areas

- 3.2. In addition the Committee should consider any significant adjustments and material weaknesses in internal control reported by the external auditor after completion of the audit.

- 3.3. The annual accounts of local authorities are prepared in accordance with the Code of Practice on Local Authority Accounting (The Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and on other relevant guidance relating to accounting and reporting standards. The Code, based on International Financial Reporting Standards (IFRS), is highly prescriptive both in terms of the main financial statements and the notes that accompany them.

- 3.4. The requirements and timetable to prepare, audit and publish the accounts are governed by the Accounts and Audit Regulations issued under powers contained in the Local Government Finance Act 1982. The Accounts and Audit Regulations 2011 require the accounts to be approved by the Chief Financial Officer by 30 June, and approved by a committee of the Council (or the full Council) and published by 30 September

- 3.5. .

- 3.6. The timetable for production of the Council's draft accounts was achieved once again this year. The production of accounts under IFRS (introduced in 2010/11) remains a complex task and one that requires significantly greater resources than previously. In addition, there was additional pressure on resources this year as a result in

changes in staffing supporting the closedown process as a consequence of implementation of the Departmental Business and Support Services Review outcomes.

- 3.7. A brief Annual Report, outlining the Council's services and summarising the Council's performance in 2011/12 is being presented alongside the Statement of Accounts. The Annual Report pages presented here are the latest draft, and may be further refined prior to publication in September 2012.

4. AUDIT OF THE ACCOUNTS AND REPORTING ARRANGEMENTS

- 4.1. The audit of the accounts, by the Audit Commission, is due to commence in late June 2012. Should any changes to the draft accounts be required at the conclusion of their work, these will be incorporated into the final version presented for approval and publication in September 2012.

- 4.2. Auditors are expected by the Audit Commission to seek a Letter of Representation from those charged with corporate governance. For the City Council this letter is signed by the Director of Resources (as Responsible Financial Officer) and the Chair of Civic Affairs. The auditors will rely on that letter, as well as the audit work carried out, when issuing their audit certificate. The final wording of the letter for the 2011/12 Statement of Accounts has not yet been agreed with the auditors, but is expected to include assurances that:

- All accounting records and other related information has been made available for the purposes of the audit and that all transactions have been properly reflected and recorded in the accounting records;
- There are no instances of known irregularities that have not been disclosed to the auditors;
- There are no instances of fraud, suspected fraud or allegations of fraud that could have a material effect on the financial statements that have not been disclosed to the auditors;
- There are no instances of non-compliance with laws or regulations and codes of practice, which would have a material effect on the finances or operations of the Council;
- The Council has complied with all aspects of contractual arrangements and with requirements of regulatory authorities where non-compliance could have a material effect on the financial statements;
- There are no material transactions with related parties, other than those which have been disclosed in the accounts;

- There are no significant events after the financial year end, which would require an adjustment to or disclosure in the accounts.

These assurances can be given.

- 4.3. It is anticipated that the audit of the accounts will be concluded in late August. At the meeting of Civic Affairs scheduled for 19 September 2012, Members will receive a formal report of the Audit Opinion, known as the ISA 260 report. This report must be presented even if the Audit Commission has no matters which it wishes to bring to the attention of those charged with governance. Members will then be asked to approve the Statement of Accounts. It is intended that the Letter of Representation will also be signed at that meeting and then the Audit Opinion can be signed in advance of the 30 September statutory deadline for publication.
- 4.4. The 2011/12 audit is the last being undertaken by the Audit Commission and it is therefore planned that Members will receive the external auditors' annual Audit and Inspection Letter by the end of October 2012. The Council's new auditors, Ernst and Young, are expected to be formally appointed in September 2012. Officers will be working closely with the new external auditors to ensure a smooth and efficient transfer.
- 4.5. The accounts and certain other related documents are available for inspection by members of the public for a period of 20 working days starting on 16 July 2012. Notice of the dates and times of availability have been published in the Cambridge Evening News and on the Council's website. In addition, electors (or their representatives) have the right to question the auditors about the accounts and to make certain objections in relation to unlawful items of account, failure to bring a sum into account or a loss or deficiency caused by wilful misconduct. The date set for exercise of these rights is 13 August 2012.
- 4.6. The final Annual Report and Statement of Accounts, including the Audit Opinion, will be published on the Council's website. A summary of the accounts, designed to be easier for the general public to interpret, will also be produced and published on the website. The draft accounts being presented at this meeting will also be made available on the Council's website, appropriately noted as being subject to audit.

5. PRESENTATION OF THE ACCOUNTS

5.1. The presentation of the statement of accounts is quite different to the financial reports presented to Members as part of the budgetary control cycle as the statutory accounts must be presented in line with regulation and accounting standards.

5.2. The main financial statements and notes of significance are summarised below:

- The Movement in Reserves Statement (page 9) allows Members to compare the actual surplus or deficit on the General Fund, and the separate ring-fenced Housing Revenue Account, with the budget.
- Total comprehensive income and expenditure as presented in the Movement in Reserves Statement is taken from the Comprehensive Income and Expenditure Statement (CIES). The analysis of service income and expenditure leading to the 'Cost of Services' totals is presented in line with CIPFA's Service Reporting Code of Practice (SERCOP).
- Items presented between 'Cost of Services' and the 'Surplus or deficit on the provision of services' include payments to the housing receipts capital pool, the surplus or deficit on disposal of assets, income, expenditure and movements in the value of the Council's investment properties and Council Tax and non-specific government grant income. Other comprehensive income and expenditure includes the movements in the revaluation reserve and the gains and losses on the pension scheme as assessed by the scheme actuary.
- Reserves, both General Fund and Housing Revenue Account, are an indication of the resources available to the Council to deliver services in the future. Information on the level of reserves can be found in the Balance Sheet and related notes and in the Movement in Reserves Statement and related notes.
- The Balance Sheet is presented on page 12. The bottom half of the balance sheet summarises the Council's reserves. Not all reserves can be used to deliver services and The Code reflects this by reporting reserves in two groups – 'usable' and 'unusable'. Usable reserves such as the General Fund reserve and earmarked reserves are those where members will be involved in deciding on the levels maintained and their use.

Unusable reserves such as the Capital Adjustment Account and the Revaluation Reserve aren't subject to such member influence.

- The accounts include a segmental reporting note (note 9). The note is based on the Council's own service management structures and reconciles the total performance reported to members, analysed by portfolio, at outturn to the results presented in the statement of accounts.
- The note highlights the total of transactions reflected in the CIES which are not reported to members as part of outturn. These transactions are those entries financed by usable and unusable reserves and which therefore do not impact on the Council's General Fund or Housing Revenue Account reserves (and hence the level of Council Tax or rents).

Examples include:

Transaction	Financed By	Usable / Unusable reserve
Payments to the Housing Receipts Capital pool	Capital Receipts Reserve	Usable
Movements in the value of investment properties	Capital Adjustment Account	Unusable
Movements in the value of property, plant and equipment not covered by previously accumulated gains held for that asset in the Revaluation Reserve	Capital Adjustment Account	Unusable
Revenue Expenditure Funded from Capital Under Statute (eg capital grants to outside bodies)	Capital Adjustment Account	Unusable
Adjustments reflecting the difference between pension contributions paid in the year and the cost of providing pensions as estimated by the Actuary	Pensions Reserve	Unusable

Members are updated on the level of usable reserves, such as the Capital Receipts Reserve and earmarked reserves, as part of the Medium Term Strategy and decisions on their use are made as part of the budget-setting process.

6. CHANGES IN ACCOUNTING POLICY AND NEW DISCLOSURE REQUIREMENTS

- 6.1. The following changes in accounting policies and disclosures, introduced in line with the Code of Practice on Local authority Accounting in the United Kingdom 2011/12 (The Code), are reflected in the statement of accounts:
- 6.2. **Exit Packages (Note 14)** – The Code has introduced a requirement to disclose the number of exit packages agreed (grouped in rising bands of £20,000 up to £100,000), analysed between compulsory redundancies and other departures. The Council is also required to disclose the total cost of packages disclosed in each band. The introduction of this disclosure mirrors existing requirements in central government. This note includes any capitalised pension cost due to be paid by the Council to the Cambridgeshire County Council pension scheme in relation to those aged over 55 at the time of their redundancy.
- 6.3. **Heritage Assets (Note 19)** – under The Code there is now a requirement for the statement of accounts to reflect the value of Heritage Assets. Heritage Assets are assets with historical, artistic, scientific, technological or geophysical or environmental qualities, which are held and maintained principally for their contribution to knowledge and culture. Previously heritage assets were not recognised in the balance sheet, as it was difficult to obtain cost information on them. The Council has recognised a number of items of Civic Regalia as heritage assets using an appropriate valuation method.
- 6.4. **Service Reporting in the Comprehensive Income and Expenditure Statement** – The Service Reporting Code of Practice has subdivided the previous single service line ‘Cultural, Environmental, Regulatory and Planning Services’ into three lines Cultural and Related Services, Environmental and Regulatory Services and Planning Services. Comparative figures for 2010/11 have been restated.

7. SIGNIFICANT ITEMS OF NOTE IN THE 2011/12 ACCOUNTS

Housing Revenue Account

- 7.1. New Housing Revenue Account Self-Financing arrangements were introduced from 1 April 2012. This new financial regime for the

- funding of Council dwellings replaces the old annual subsidy system under which the City Council had to pay a significant amount of its housing rent income to Central Government each year. The new arrangements will give the Council greater certainty and control over the funding of the HRA and will enable additional investment in the stock, including building new homes.
- 7.2. The self-financing arrangements required the Council to make a one-off settlement payment to central government of £213.6 million at the end of March 2012. This payment was financed by a number of fixed-rate maturity loans from the Public Works Loan Board.
 - 7.3. In statutory accounting terms the settlement payment has the status of Revenue Expenditure Funded from Capital Resource under Statute. It is therefore disclosed (on a separate line due to its significance) in the Cost of Services section of the Comprehensive Income and Expenditure Statement and in the HRA Income and Expenditure Account.
 - 7.4. To ensure that the payment has no impact on rents, a corresponding transfer is made from the Capital Adjustment Account to the Movement in Reserves.
 - 7.5. The net income on other HRA services recorded in the Comprehensive Income and Expenditure account is £3.3 million in 2011/12 compared to a net cost of £60.0 million for 2010/11. Revaluation losses of £6.9 million on the value of the housing stock, previously charged to the service, were reversed at 31 March 2012. Together with new revaluation losses of £3.1 million this lead to a net credit of £3.8 million being charged to the CIES. In 2010/11 net revaluation losses of £58.3 million were charged to the CIES.
 - 7.6. To ensure that these HRA valuation changes have no impact on rents, a corresponding transfer is made from the Capital Adjustment Account to the Movement in Reserves.

Non-HRA Valuations

- 7.7. Financing and investment income and expenditure includes a gain of £15.5 million on the fair value of investment properties. Of this gain, £8.4 million relates to the Lion Yard Shopping Centre which our external valuers consider has a higher market value given current economic conditions in which it is more difficult to fund new developments. An additional £5 million of the gain relates to land at Cowley Road which forms part of the Cambridge north eastern fringe

earmarked in the development plan for mixed use employment-led development. Total gains on investment properties were £7.7 million in 2010/11.

- 7.8. As before, to ensure that these valuation gains have no impact on the amount to be financed from Council Tax or rents, a corresponding transfer is made to the Capital Adjustment Account.

Icelandic Bank Deposits

- 7.9. The CIES reflects a net credit in respect of a reversal in impairment of £0.5 million on the Council's investments in Landsbanki Islands hf and Heritable Bank Plc. The Council has reviewed these impairments in line with the latest revision to CIPFA Local Authority Accounting Panel Bulletin 82 issued in June 2012. This bulletin reflects expected recoveries of 88% of claims in Heritable and 100% of claims in respect of Landsbanki.
- 7.10. The Council received £0.7 million from the administrators of Heritable during 2011/12 and £1.6 million in respect of Landsbanki. The estimated recoverable amounts for Heritable and Landsbanki are reflected in long term and short term investments shown in the balance sheet, as outlined in Note 25 to the accounts.

Pensions

- 7.11. The pension liability shown in the balance sheet at 31 March 2011 has increased by £21.0 million. This movement includes £19.6 million of net actuarial losses as reflected in the CIES and Movement in Reserves. This is due to poor asset returns and a fall in the real discount rate used to estimate liabilities. There were actuarial gains of £28.0 million reported in 2010/11.
- 7.12. Non-distributed pension costs of £161,000 are recorded in cost of services in 2011/12. The significant net credit of £22.7 million for 2010/11 included an amount of £23.5 million as a consequence of the June 2010 budget announcement that from 1 April 2011 public service pensions would be up-rated in line with the Consumer Price Index (CPI) rather than the Retail Prices Index (RPI).

8. IMPLICATIONS

- (a) **Financial Implications** None

- (b) **Staffing Implications** None
- (c) **Equal Opportunities Implications** None
- (d) **Environmental Implications** None
- (e) **Community Safety** None

9. **BACKGROUND PAPERS:** The following are the background papers that were used in the preparation of this report:

Closure of accounts working papers for the year 2011/12

To inspect these documents contact Charity Main on extension 8152.

The author of this report is Charity Main. The contact officers for queries on the report are Charity Main on extension 8152 or Julia Minns on extension 8134.

Report file:

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