

CAMBRIDGE CITY COUNCIL

REPORT OF: Director of Resources

TO: Civic Affairs Committee

26/6/2013

WARDS: None directly affected

ANNUAL REPORT AND STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2013

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 for the audited accounts 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 the Civic Affairs Committee are not required to formally approve the draft accounts by 30 June the Committee has previously agreed that the accounts should be presented for review at this stage and that the accounting policies and treatments 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 in this report.
- 1.4. Significant items of note in the 2012/13 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 are noted and that the accounting policies and treatments on which they are prepared are 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 must 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 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 resource than previously. This

additional workload can only be met within existing resources by staff working additional hours.

- 3.6 A brief Annual Report, outlining the Council's services and summarising the Council's performance in 2012/13 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 2012/13 audit is the first to be undertaken by Ernst and Young, following the outsourcing of work previously undertaken by the Audit Commission.
- 4.2 Local Audit Commission staff transferred across to Ernst and Young, and although the Council's audit team this year is made up of ex-Audit Commission staff, they are all new to the Council. Officers have been working hard with the audit team to familiarise them with the Council and its systems as well as understanding the ways in which the Ernst and Young approach differs from that adopted previously. This has included a significant piece of work to provide transactional data from the Council's financial management system, Oracle Financials, for 2012/13.
- 4.3 The audit of the accounts is due to commence in late June 2013. Should any changes to 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 2013.
- 4.4 Auditors are expected, under professional auditing standards, to seek a Letter of Representation from those charged with corporate governance. This letter is normally signed by the Section 151 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 wording of the letter for the 2012/13 Statement of Accounts has not yet been agreed with the auditors, but it 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.

- 4.5 It is anticipated that the audit of the accounts will be concluded by early September. At the meeting of Civic Affairs scheduled for 19 September 2013, members will receive a formal report of the Audit opinion, known as the ISA 260 report. Members will then be asked to approve the Statement of Accounts. It is intended that the final Letter of Representation will also be signed at that meeting and then the Audit Opinion can be signed and issued in advance of the 30 September statutory deadline for publication.
- 4.6 The accounts and certain other related documents will be available for inspection by members of the public for a period of 20 working days starting on 6 August 2013. Notice of the dates and times of availability will be published in the Cambridge 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 4 September 2013.
- 4.7 The final Annual Report and Statement of Accounts, including the Audit Opinion, will be published on the Council's website.
- 4.8 The draft accounts are scheduled to be formally approved for issue by the Director of Resources on 21 June 2013. These draft accounts will also be made available on the Council's website, appropriately noted as being subject to audit. Any differences between the draft

accounts included with the agenda papers and those approved for issue will be tabled at the meeting.

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 statutory 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 charged or credited to usable and unusable reserves and which therefore do not impact on the Council’s General Fund or Housing Revenue Account (HRA) 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 FINANCIAL RESULTS FOR 2012/13

- 6.1 The Council's financial performance is summarised in the main financial statements.
- 6.2 The Movement in Reserves Statement (Page 9 of the statement of accounts) shows an overall increase in the Council's usable reserves of £4.7 million to £60.2 million.
- 6.3 There were net increases of £2.8 million in respect of the Capital Receipts Reserve and £3.9 million in respect of the Major Repairs Reserve and a reduction of £1.1 million in the Capital Grants Unapplied Reserve, all of which can only be used to support capital expenditure. There was therefore a net reduction in other usable reserves of £0.9 million.
- 6.4 The Comprehensive Income and Expenditure Statement (Page 11 of the statement of accounts) shows a net deficit on the provision of services (measured according to proper accounting practice) of £7.2 million, compared to £197.5 million last year. The comparative figure for 2011/12 included the HRA self-financing payment to Central Government of £213.6 million and gains in the value of investment properties of £15.5 million compared to only £2.3 million in 2012/13.
- 6.5 The Balance Sheet shows that the Council's overall net assets at 31 March 2013 were £2.0 million lower than at 31 March 2012, at £491.4 million. There were increases in the value of long term assets held and short term investments and cash balances, but these were offset by increases in the pension liability and capital grants receipts in advance.

7 CHANGES IN ACCOUNTING POLICY AND TREATMENT

Housing Revenue Account (HRA) Self-Financing

- 7.1 The Code did not introduce any significant new accounting requirements for 2012/13. However, there are some changes in accounting resulting from HRA self-financing.

- 7.2 Self-financing arrangements were introduced from 1 April 2012. This new financial regime for the funding of Council dwellings replaced the old annual subsidy system under which the City Council had to pay a significant amount of housing rent income to Central Government each year. The technical accounting changes resulting from self-financing are covered in the regulatory determinations issued by the Department for Communities and Local Government (CLG).
- 7.3 Prior to self-financing, and in line with practice for the General Fund, all depreciation, impairment and revaluation losses and revaluation and impairment loss reversals reflected in the CIES were reversed via a corresponding transfer from the Capital Adjustment Account to the Movement in Reserves so that they had no impact on usable HRA reserves.
- 7.4 The main change in 2012/13, as the regulations are currently written, is that the charges in respect of non-dwellings fall on the HRA balance, as the reversal of these charges is no longer permitted. In relation to non-dwelling depreciation, the impact on revenue balances is mirrored by an equal increase in the Major Repairs Reserve Balance (effectively a transfer from revenue to capital); however any impairment and valuation loss entries for non-dwellings (net of any charge to the revaluation reserve) should have a real impact on the level of HRA reserves.
- 7.5 Council officers of this and other authorities could foresee some potential practical technical accounting issues with these arrangements and contacted both CIPFA and the CLG about these in late 2012. CIPFA referred the query to CLG who effectively responded that they could not assist. The Council is continuing to engage with the Chartered Institute of Housing and the CIPFA Housing Panel on these issues, along with other local authorities.
- 7.6 As a result of the regulations, as they currently stand, a specific issue has arisen in the 2012/13 statement of accounts in respect of the accounting treatment of a number of housing properties earmarked for redevelopment under the Council's '146 Programme'. During the year these properties have been transferred from those available to rent as they no longer meet the definition of 'dwellings.' As a result of the accounting entries required under the new regime a net credit would theoretically be due to HRA reserves of £0.97 million in respect of these properties. The net credit predominantly results from the reversal of previous losses charged to the CIES. However, as the original losses were charged before self-financing commenced, they did not result in a real charge to HRA reserves.

Officers do not therefore believe that it is appropriate to credit HRA reserves in respect of reversal of a charge that those reserves did not bear in the first instance. Officers' key concern is that such an adjustment to HRA reserves is not cash-backed and should not, therefore, be included within a reserve defined as 'usable'.

- 7.7 In respect of these transactions Officers have therefore currently adopted the previous accounting treatment and reversed the net credit in the Movement in Reserves Statement. This is on the basis that not to do so would be misleading in that it would materially overstate the amount of money available to the HRA to use from its Reserves. The accounting policies as set out in the draft accounts have been revised to reflect this approach and External Audit have already been made aware of the issue. Continued efforts will be made prior to final approval of the accounts in September 2013 to resolve this issue.
- 7.8 Members of Civic Affairs are asked to approve the current prudent approach taken by Officers.

Restatement of 2011/12 – HRA dwelling revaluation losses

- 7.9 The accounting entries in respect of the reversal of revaluation losses previously charged to the CIES in respect of HRA dwellings have been reviewed. As a result of this review an additional net credit of £502,000 is required to HRA expenditure in respect of the reversal of gains previously credited to the Revaluation Reserve in error. This restatement has no effect on the balance on the HRA as at 31 March 2012 as previously reported.

8 SIGNIFICANT ITEMS OF NOTE IN THE 2012/13 ACCOUNTS

Icelandic Bank Deposits

- 8.1 The CIES reflects an increase of £64,000 in the impairment on the Council's deposits in LBI hf (the previously named Landsbanki Islands hf) and Heritable Bank Plc. The Council has reviewed these impairments in line with the latest revision to the CIPFA Local Authority Accounting Bulletin 82 issued in June 2013. This bulletin reflects expected recoveries of between 86% and 90% (with calculations based on the mid-point) of claims in Heritable and 100% of claims in respect of LBI. These recoveries are unchanged from those used in the 2011/12 accounts, but are now expected over a slightly longer period than before.

8.2 The Council received £0.4 million from the administrators of Heritable during 2012/13 and £0.9 million in respect of LBI. The estimated recoverable amounts for Heritable and LBI are reflected in long term and short term investments shown in the balance sheet, as outlined in Note 25 to the accounts.

Assets Held for Sale

8.3 Long Term assets held for sale at 31 March 2013 include £3.1 million in respect of the Council's holding of land at Clay Farm which is to be disposed of for market housing. In determining the value to be included in assets held for sale, the most up to date estimate available has been used, which is that market housing will account for approximately 50% of the site. However, this proportion could change as detailed plans for the site are finalised and approved.

9 IMPLICATIONS

- (a) **Financial Implications** None
- (b) **Staffing Implications** None
- (c) **Equal Opportunities Implications** None
- (d) **Environmental Implications** None
- (e) **Procurement** None
- (f) **Consultation and communication**

As detailed in the report the draft accounts will be published on the Council's website. The Notice of Public Rights will be published in the Cambridge News and on the website.

- (g) **Community Safety**

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

Draft Statement of Accounts 2012/13

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: O:\accounts\Committee Reports & Papers\Civic Affairs\June 2013\Statement of Accounts Report to Civic Affairs June 2013.doc

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