CAMBRIDGE CITY COUNCIL

REPORT OF: Director of Business Transformation

TO: Civic Affairs Committee 25/6/2014

WARDS: None directly affected

ANNUAL REPORT AND STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2014

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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 Council's Chief Financial (Section 151) Officer 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 2013/14 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.

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 Finance 2 working days prior to the meeting so that a full answer can be given.

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 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. In addition, the deadline for the Whole of Government Accounts return, which is the return that the Council must complete based on the draft accounts to allow consolidation of the Council's accounts with other public bodies, has been bought forward by a month to 30 June.

3.6 A brief Annual Report, outlining the Council's services and summarising the Council's performance in 2013/14 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 2014.

4 AUDIT OF THE ACCOUNTS AND REPORTING ARRANGEMENTS

4.1 The 2013/14 audit of accounts will be undertaken by Ernst & Young.

4.2 Officers have had a number of meetings with the external audit team to agree the accounting approach to a number of the key accounting issues this year.

4.3 Auditing standards (International Auditing Standard 240) require external audit to update their knowledge of management processes and arrangements, and how Civic Affairs (as those charged with governance) gain assurance from management on these matters. Ernst & Young wrote to the Council's Section 151 officer and the Chair of Civic Affairs in February. The responses are attached at Appendix 2.

4.4 The audit of the accounts is due to commence on 11 August. Should any changes to draft accounts be required at the conclusion of external audit's work, these will be incorporated into the final version presented for approval and publication in September 2014.

4.5 In addition to the responses already given, 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 2013/14 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.

4.6 It is anticipated that the audit of the accounts will be concluded in September. At the meeting of Civic Affairs scheduled for 17 September 2014, 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.

4.7 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 14 August 2014. 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 12 September 2014.

4.8 The draft accounts are scheduled to be formally approved for issue by the Council's Section 151 officer after this meeting. These draft accounts will also be made available on the Council's website, appropriately noted as being subject to audit. Once audited, the final Annual Report and Statement of Accounts, including the audit opinion will also be published.

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 11) 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 remeasurement 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 14 of the statement of accounts. The bottom half of the balance sheet summarises the Councils 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 are not available to use to provide services. These reserves include those reserves that hold unrealised gains and losses (eg the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold; and reserves that hold timing differences (eg the Capital Adjustment Account) shown in the Movement in Reserves statement line 'Adjustments between accounting basis and funding basis under regulations.'

- 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	Pensions	Unusable

Transaction	Financed By	Usable / Unusable reserve
difference between pension contributions paid in the year and the cost of providing pensions as estimated by the Actuary	Reserve	

Members are updated on the level of usable reserves, such as the Capital Receipts Reserve and earmarked reserves, as part of the mid-year financial review (MFR) and decisions on their use are made as part of the budget-setting process.

6 FINANCIAL RESULTS FOR 2013/14

6.1 The Council's financial performance is summarised in the main financial statements.

6.2 The Movement in Reserves Statement (Page 11 of the statement of accounts) shows an overall increase in the Council's usable reserves of £19.8 million to £79.9 million.

6.3 There were net increases of £4.4 million in respect of the Capital Receipts Reserve and of £6.9 million in the Capital Grants Unapplied Reserve, both of which can only be used to support capital expenditure. The movement in the capital grants unapplied account reflects the £7.8 million Green Deal grant discussed in Section 8 below.

6.4 General Fund unallocated reserves increased by £1.2 million to £9.2 million. General Fund earmarked reserves increased by £3.7 million to £23.9 million. £3.2 million of this increase relates to the non-domestic rates retention scheme discussed in section 7.

6.5 HRA reserves increased by £3.4 million to £8.9 million. HRA earmarked reserves increased by £0.5 million to £4.3 million.

6.6 A more detailed analysis of the movement on both HRA and General Fund earmarked reserves is shown in note 5 (page 27 of the statement of accounts).

6.7 The Comprehensive Income and Expenditure Statement (Page 13 of the statement of accounts) shows a net surplus on the provision of services (measured according to proper accounting practice) of £19.8 million, compared to a net deficit of £5.2 million last year. HRA gross expenditure includes net credits of £6.7 million in respect of the reversal of revaluation losses on HRA properties previously debited to the income and expenditure account. Comparatively, in 2012/13, £4.0 million of revaluation losses were charged to the HRA. Taxation and non-specific grant income in 2013/14 includes capital grants of £7.8 million in respect of the Green Deal and £1.7 million in respect of the improvement works at Parkside Pools and Abbey Pools which were funded by Greenwich Leisure. These are discussed further in section 8.

6.8 The Balance Sheet shows that the Council's overall net assets at 31 March 2014 were £48.3 million higher than at 31 March 2013, at £533.5 million. There were significant increases in the value of long term assets held (£34.6 million), long term and short term investments (£15.6 million) and debtors (£13.8 million).

7 CHANGES IN ACCOUNTING POLICY AND TREATMENT

Business rates retention scheme

7.1 2013/14 saw the introduction of a business rates retention scheme. Under the scheme business rates income is shared 50% by central government , 40% by the City Council, 9% by the County Council and 1% by the Fire Authority. The Council is still responsible for the billing and collection of non-domestic rates with the monies being accounted for in the Collection Fund, before transfer in the appropriate proportions to the Council's own General Fund and the other government bodies.

7.2 The new arrangements also enable local authorities and fire and rescue authorities, collectively, to benefit directly from supporting local business growth as they will be able to keep half of any increases in business rates revenue above the baseline funding level calculated by central government.

7.3 Government has made an initial baseline funding level calculation for each authority, with the level of business rates receivable above that being taken by Government as a 'tariff' – which will be used to 'top-up' local authorities who would receive less than their funding level. Government intends that this will be fixed for 7 years (i.e. until 2020). Under this assessment the Council paid central government a tariff of £32.3 million in 2013/14 which is netted off the Council's share of business rates income shown in taxation and non-specific grant income.

7.4 Where business rates income exceeds that assumed in the baseline funding assessment the Council can keep 50% of its share of this increase, paying the other 50% as a ‘levy’ to central government.

7.5 Where business rates income falls by more than 7.5% of that assumed in the baseline, the Council receives a safety net payment.

7.6 The risk of reductions in business rates income due to rating valuation appeals now falls on the Council, in proportion to its share of business rates income. The Council is required to estimate for the City area a provision for the likely reduction in income due to successful appeals. In 2013/14 this provision must reflect the total estimated reduction in income for 2013/14 and any earlier periods.

7.7 The total provision for appeals for the area has been estimated at £7.6 million. The Council’s share of the provision is £3.0 million and is shown in Note 32 to the accounts.

7.8 The appeals provision is based on data from the Valuation Office Agency (VOA) about outstanding appeals and the average reductions in rateable value from settled appeals. Broadly the average reduction is 5% for the 2010 rating list and this has been used to estimate an appropriate provision. Where there is specific evidence about appeals on large premises being settled at much higher reductions, the provision has been based on this evidence.

7.9 There has been some debate nationally amongst practitioners and auditors in respect of the appropriate basis for business rates appeals provisions. Officers have already spoken to Ernst & Young’s technical team on this issue and believe that the approach taken is consistent with their viewpoint. However, officers understand that the Audit Commission intends to consult with audit firms to ensure that provisions have been calculated on a consistent basis nationally. This is therefore an area where further guidance may emerge as external audits commence and before the statutory deadline for council accounts to be audited at the end of September.

7.10 Members of Civic Affairs are asked to approve the current approach taken by officers.

7.11 Under statutory regulation the share of business rates income to be credited to the General Fund in 2013/14 was based on the estimate made in January 2013 of £37.3 million. As a result of a much larger appeals provision than was predicted at this stage, the actual business rates income due to the Council for 2013/14 is £34.1

million. The resulting deficit of £3.2 million will be payable by the Council back to the Collection Fund in 2014/15.

7.12 In February 2014 the Council approved creation of an earmarked reserve to manage the accounting for business rates retention and shares of surpluses and deficits. Therefore a contribution of £3.2 million has been made to the earmarked reserve in 2013/14 to fund the deficit payment in 2014/15.

7.13 The level of business rates income due to the Council for 2013/14 put it into a 'safety net' position and the Council has therefore reflected a debtor with central government of £1.4 million.

7.14 To some extent the position in respect of appeals in 2013/14 is exceptional, due to the need to create a provision for appeals for years prior to 2013/14. No provision existed under the old accounting regime as effectively business rates collection was accounted for on a cash basis. Now that the backdated appeals provision has been established, the movement in provision in future years should be based on the current year only plus any changes to the prior year provision.

Accounting for Pensions

7.15 The 2013/14 Code has introduced some changes in accounting for pensions as a result of amendments made to International Accounting Standard (IAS) 19 on Employee Benefits.

7.16 The standard renames the actuarial gains and losses included in other comprehensive income as 'remeasurements' and a net interest expense is recognised in the Income and Expenditure Statement as a financing cost. The interest expense is calculated by applying the discount rate to the net defined benefit asset or liability. This value replaces the finance charge and expected return on plan assets, where income is credited with the expected long-term yield on the assets in the fund.

7.17 These changes have no impact on the overall pension liability or the charges borne by the Council for pensions. The 2012/13 comparative figures have been restated, resulting in a net increase of £1.0 million in net interest and a corresponding reduction in other comprehensive income and expenditure in the CIES.

7.18 The Code has also introduced revised disclosures for pensions. These include more detail on the breakdown of the pension scheme assets as detailed in Note 39 on page 68 of the accounts.

8 OTHER SIGNIFICANT ITEMS OF NOTE IN THE 2013/14 ACCOUNTS

Icelandic Bank Deposits

8.1 The CIES reflects a reduction of £529,000 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 available information. The accounts reflect expected recoveries of 96.5% of claims in Heritable and 100% of claims in respect of LBI. The reduction in impairments results from an increase in the expected recovery percentage in respect of Heritable from 88% to 96.5% and the likelihood of the recovery of monies in LBI being over a shorter time period than previously expected.

8.2 The Council received £0.7 million from the administrators of Heritable during 2013/14 and £0.3 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.

Green Deal Grant

8.3 During March 2014 Cambridge City Council was awarded £7.8 million of Green Deal Communities funding by the Department of Energy and Climate Change (DECC) to help residents install insulation improvements to older and non-standard properties in the owner occupied and rental sectors.

8.4 The City Council is leading on a consortium on behalf of Cambridgeshire County Council, East Cambridgeshire District Council, Fenland District Council, Huntingdonshire District Council and South Cambridgeshire District Council. The funding will provide grants to householders to significantly reduce the cost of insulating solid wall, steel framed properties and park homes. The scheme will be delivered by local councils working in partnership with community partners and Green Deal providers to promote the scheme through a street by street process in targeted areas. The areas identified will focus on the private rented sector, off gas households and conservation areas across Cambridgeshire.

8.5 Although the grant was not received until April 2014 and is intended for use during 2014/15, officers have agreed with Ernst & Young that the Code’s requirements for recognition of the grant as a capital contribution in 2013/14 have been met. It has also been agreed that the Council will account for the entire grant in its accounts as the grant agreement, and the conditions contained within it, are with the Council, rather than the consortium partners as a whole. The Council is deemed to be acting as a principal rather than an agent.

8.6 The £7.8 million is included in taxation and non-specific grant income in the CIES and a corresponding debtor on the Council's balance sheet. As the grant remained unspent as at 31 March it is transferred in the Movement in Reserves Statement to be held as a capital grant unapplied.

Greenwich Leisure Capital Works at Parkside and Abbey Pools

8.7 Greenwich Leisure took over the running of the Council's leisure facilities in September 2013. Under the terms of the new contract Greenwich Leisure are making a number of enhancements to the Council's buildings, notably at Abbey and Parkside Pools. These enhanced facilities became operational in April 2014.

8.8 Following discussions with external audit on the most appropriate accounting treatment for this arrangement, these enhancements to Council buildings have been treated as donated assets. As the new areas were not operational as at 31 March , £1.7 million has been recognised in assets in the course of construction. A corresponding capital donation of £1.7 million has been recognised in taxation and non-specific grant income in the CIES and applied in the Movement in Reserves statement to fund the capital assets.

9 IMPLICATIONS

(a) **Financial Implications** Included in the report above.

(b) **Staffing Implications** None

(c) **Equality & Poverty 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 2013/14

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 David Walton on extension 8134.

Report file: O:\accounts\Committee Reports & Papers\Civic Affairs\June 2014\Statement of Accounts Report to Civic Affairs June 2014.docx

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