CAMBRIDGE CITY COUNCIL

REPORT OF:	Director of Resources	
TO:	Civic Affairs Committee	29/6/2011
WARDS:	None directly affected	

ANNUAL REPORT AND STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2011

1. INTRODUCTION

1.1. The 2010/11 Statement of Accounts is prepared under the first Code of Practice on Local Authority Accounting (The Code) to be based on International Financial Reporting Standards (IFRS). As a result there are some significant changes to the presentation of the accounts and to the accounting policies under which they are prepared.

1.2. In addition, the Audit and Accounts Regulations which govern the preparation, approval and publication of local authority accounts have also been revised in 2011. There is still a requirement for the Director of Resources to approve the accounts by the 30 June in each year, but the accounts now 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.

1.3. Although Civic Affairs are no longer required to approve the accounts by 30 June the accounts are presented to the Committee for review and for its agreement to the changes in accounting policies which have resulted from IFRS introduction.

1.4. The changes from the 2009/10 accounts previously presented under UK Generally Accepted Accounting Policies (UK GAAP) are explained.

1.5. Significant items of note in the 2010/11 accounts are also highlighted together with the differences in the presentation between final outturn reporting to Scrutiny Committees and the 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 Accounting Services 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 be noted and that the accounting policies on which they are prepared be approved.

3. BACKGROUND

3.1. 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 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.

3.2. 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.

3.3. The timetable for production of the Council's draft accounts was achieved once again this year, although this required significant additional resource and input principally from accountancy staff but also involving property and valuation services together with administrative support staff across the Council.

3.4. A brief Annual Report, outlining the Council's services and summarising the Council's performance in 2010/11 is being presented alongside the Statement of Accounts. The Annual Report pages presented here are the latest draft, which will be further refined prior to publication in September 2011.

4. AUDITOF THE ACCOUNTS AND REPORTING ARRANGEMENTS

4.1. The audit of the accounts, by the Audit Commission, is due to commence in early July 2011. Should any changes to the draft accounts be required at the conclusion of their work, these will be incorporated into the final version for approval and publication in September 2011.

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 is 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 2010/11 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 14 September 2011, 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. Members also receive an external auditors' annual Audit and Inspection Letter and have the opportunity to discuss with the auditors their findings and any issues identified from their work. The Audit Letter to Members 2011 is expected to be distributed to Members and presented to members of the Civic Affairs Committee in late 2011.

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 11 July 2011. 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 8 August 2011.

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, as subject to audit.

5. INTRODUCTION OF IFRS BASED ACCOUNTS

5.1. The Council's Statement of Accounts is prepared in accordance with The Code. The 2010/11 Code is the first to be based on International Financial Reporting Standards (IFRS).

5.2. In the 2007 Budget, the then-chancellor announced that the UK public sector would adopt IFRS, as this was seen as best practice and allowed for international comparisons to be made. In addition, the UK Accounting Standards Board (ASB) has been reviewing the future of UK GAAP and in the short to medium term all but the smallest organisations will be producing accounts based on IFRS. As a result CIPFA now produces the IFRS-based Code and this is overseen by the Financial Reporting Advisory Board (FRAB), the independent body that advised the government on accounting issues, rather than the ASB.

6. CHANGES TO PRESENTATION OF THE ACCOUNTS

6.1. The presentation of the 2010/11 accounts is quite different to previous statements. The main changes are summarised below:

- A new Movement in Reserves Statement (page 9) is now presented. This 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) which replaces both the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses (STRGL) presented under UK GAAP. The surplus or deficit on the provision of services is the equivalent of the bottom line figure on the old Income and Expenditure Account, with other comprehensive income and expenditure including the movements in the revaluation reserve and the actuarial gains and losses on the pension scheme that would previously have been presented in the STRGL.

- Reserves – including the General Fund and the 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 (page 12) is prepared under IFRS but the layout is very similar to that previously presented under UK GAAP. The bottom half of the balance sheet (reserves) is where the main changes have occurred. 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 now include a segmental reporting note (note 9). The note is based on the Council’s own service management structures and reconciles the total performance by portfolio reported to members 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, as part of the Medium Term Strategy and decisions on their use are made as part of the budget-setting process.

7. CHANGES IN ACCOUNTING POLICY

7.1. The introduction of the new IFRS based Code has meant that the statement of accounts has been prepared using a number of revised accounting policies. The most significant changes are summarised below and Members are asked to approve the introduction of these new policies.

7.2. **Short-term accumulating compensated absences (holiday pay) accrual** – Under the new Code the Council is required to accrue for any annual leave (and time-off-in-lieu and flexi leave) earned but not taken at the 31 March each year. This new accrual has no impact on the General Fund and HRA with these funds still incurring employee costs as before. Any difference is reflected in the Short term Accumulating Absences Adjustment Account. Returns at each of 31 March 2009, 2010 and 2011 have been submitted by services to collect the necessary data.

7.3. **Property leases (Council as lessee)** – under the revised Code, leases of property are accounted for as separate leases of land and buildings. The Council has three properties (Cherry Hinton Village Centre, Grafton East and Grafton West car parks) where this has resulted in the land elements being recognised as operating as opposed to finance leases and the value of the land therefore being removed from the Council's balance sheet. This has no legal or operational implications for the Council and no other accounting entries are required as the land is leased in for a peppercorn.

7.4. **Property leases (Council as lessor) –** Significant work was undertaken, with specialist support from Bidwells LLP, to review the accounting treatment of the Council's leased out commercial property portfolio. The only change identified was the reclassification of The Junction (which is leased out under a peppercorn lease) to property, plant and equipment (PPE) as it does not meet the definition of an investment property (held for rental income or capital appreciation).

7.5. **Short term equipment leases –** Officers propose to formalise existing practice where leases for equipment worth less than £15,000 are all treated as operating leases and therefore the value of the associated assets is not reflected on the balance sheet. A detailed review confirmed that the Council does not lease short term assets of significant value.

7.6. **Investment properties –** Under the Code, movements in the value of investment properties are now shown in the CIES as financing and investment income. Previously, changes in value were credited or charged to the revaluation reserve or to the income and expenditure account as appropriate. There is no change to General Fund or HRA balances as movements are transferred out via the Capital Adjustment Account. Rental income and expenditure on investment

7.7. **Non-current assets held for sale –** The revised Code has a more stringent definition for assets held for sale. Clay Farm and the K1 site have therefore been transferred to PPE and the Yasume Club to investment properties as they no longer meet the new definition. Officers do not propose to transfer right-to-buy sales to this category, as they do not believe that such sales meet the definition of assets held for sale right until the actual date of disposal. It is therefore proposed to reflect these disposals directly from the Council Dwellings asset category.

7.8. **Capital Grants and Contributions –** Capital contributions are now recognised as income when they become receivable. Previously, contributions were held in a deferred account and recognised as income over the life of the assets which they were used to fund. Neither the old or the new accounting policy had any impact on General Fund or HRA balances. Capital contributions where the conditions have not yet been met are still held as liabilities in the balance sheet but now as receipts in advance rather than creditors.

7.9. **Revenue grants** – Revenue grants are also now recognised as income when they become receivable rather than being matched to the associated expenditure. Where unspent grants were previously held as creditors officers have transferred these sums to specific earmarked reserves to be used against future expenditure. The sums involved are relatively small and have been previously approved for use in the delivery of specific services as part of the normal budget process.

7.10. **Component accounting (depreciation)** – the new Code requires the Council to identify those assets with significant components which have different useful economic lives and to depreciate those components separately. The Council only proposes to consider component depreciation for properties with a net book value of over £1 million. This includes properties like the Guildhall, Parkside and Abbey Pools, car parks, the Corn Exchange and the crematorium.

7.11. A model based on data obtained from the Building Cost Information Service (BCIS) run by the Royal Institute of Chartered Surveyors (RICS) was developed in conjunction with Bidwells to allow component depreciation. This model is presented in Appendix 2 and will be used to determine future component depreciation.

7.12. Component accounting is ‘prospective’ so unlike other aspects of IFRS only applies when there is a relevant event (subsequent expenditure or a revaluation for example) after 1 April 2010. As the Council calculates depreciation at 1 April each year the effects of component depreciation will filter through in following years. Detailed work was also undertaken to demonstrate that component depreciation in the housing stock is not required. This review work is presented in Appendix 3.

7.13. **Component accounting (derecognition)** – where subsequent expenditure on assets is capitalised The Code requires the deemed value of the replaced component(s) to be derecognised. This is a particular issue for the housing stock where there is significant capital spend each year. Appendix 3 details the work undertaken to estimate the value of the derecognised elements (including kitchens, bathrooms and boilers) based on Decent Homes guidance on useful economic lives and BCIS cost indices.

7.14. The move to IFRS has required the restating of two balance sheets (1 April 2009 and 31 March 2010) and the 2009/10 CIES together with the Movement in Reserves Statement. The impact of IFRS restatement on the Balance Sheets and the CIES is summarised in Appendices 4 and 5. Any changes in the CIES from the previously reported results are reversed out via the Movement on Reserves Statement leaving both General Fund and HRA balances unchanged from that previously reported at 31 March 2010.

8. SIGNIFICANT ITEMS OF NOTE IN THE 2010/11 ACCOUNTS

8.1. The net cost of service for the HRA was £59.3 million in 2010/11 compared to a restated net surplus of £21.6 million for 2009/10. Revaluation losses on the value of the housing stock of £22.3 million previously charged to the service were reversed at 31 March 2010. However, the proportion of vacant possession value used to calculate the value of the Council’s social housing was revised with effect from the 1 of April 2010 from 46% to 39% in line with Department of Communities and Local Government Guidance. Along with other movements in the year this lead to net revaluation losses of £58.3 million being charged to the CIES.

8.2. A further decrease in the value of the housing stock of £21.4 million has been debited to the revaluation reserve in the balance sheet.

8.3. A number of other revaluation losses have been charged to the General Fund. The most notable of these is £3.4 million for Grafton East car park charged to highways and transport services. The latest valuation reflects the fact that the recent significant capital spend on this car park has not increased its fair value, which is based on projected net future revenues.

8.4. To ensure that these changes have no impact on rents, or the amount to be raised from Council Tax, a corresponding transfer is made from the Capital Adjustment Account to the Movement in Reserves.

8.5. The CIES reflects an additional net impairment charge of £42,000 on the Council's investment in Landsbanki Islands hf. There is no revision required to impairment already charged in respect of Heritable Bank Plc. The Council has reviewed the impairments resulting from the failure of these banks in line with the revision to CIPFA Local Authority Accounting Panel Bulletin 82 issued in May 2011. This confirms the previous estimates that the Council may receive up to 84.98% of the principal and interest accrued to 6 October 2008 in Heritable and 94.86% of the principal and interest accrued to 22 April 2009 in Landsbanki. The increase in the Landsbanki impairment reflects an estimated additional three month delay in the receipt of dividends.

8.6. Decisions about the priority status of local council deposits have been made by the Icelandic courts. The Reykjavik District Court issued a verdict on 1 April 2011 confirming that local authorities' claims qualified for priority status under Article 112 of the Icelandic Bankruptcy Legislation. The decision is being appealed, however the current court ruling confirms the priority stance adopted by the LAAP bulletin and the Council.

8.7. The Council took advantage of Capital Finance Regulations, issued in March 2009, to defer the impact of the impairment on the General Fund.

8.8. Under the regulations the Council has charged the General Fund with the deferred balance of £2.0 million in 2010/11. This is reflected in the Movement in Reserves rather than the CIES.

8.9. The Council has received £0.6 million from the administrators of Heritable during 2010/11 and the estimated recoverable amounts for Heritable and Landsbanki are reflected in long term and short term investments held in the balance sheet as outlined in Note y to the accounts.

8.10. The pension liability held in the balance sheet at 31 March 2011 has decreased by £45.8 million. Of this reduction, £23.5 million relates to the UK budget announcement, on 22 June 2010, 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). This element of the overall reduction in pension liability has been credited as a reduction in expenditure against non-distributed costs in the CIES. To ensure that this has no impact on Council Tax or rents a corresponding transfer is made to the Pensions Reserve via the Movement in Reserves statement.

8.11. Net actuarial gains of £25.5 million for 2010/11 are reflected in the CIES and the Movement in Reserves. This is due to positive asset returns and falling long term inflation assumptions.

9. IMPLICATIONS

(a) **Financial Implications** None

(b) **Staffing Implications** None

(c) **Equal Opportunities Implications** None

(d) **Environmental Implications** None

(e) **Community Safety** None

10. **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 2010/11

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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