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OXFORD CITY COUNCIL

To: Audit & Governance Committee

Date: 28th April 2009 **Item No:**

Report of: Heads of Finance

Title of Report: Statement of Accounts: Progress Report and new requirements

<u>Summary and Recommendations</u>

Purpose of report: To present to Members the progress with the Statement of Accounts 2008-9, the key issues to consider and to inform of new requirements.

Report Approved by:

Finance:Penny Gardner/Sarah Fogden
Legal: Lindsay Cane

Policy Framework: None

Recommendation(s): That members note progress on the Statement of Accounts to date and note the new requirements for the Accounts

Introduction

1. Audit & Governance Committee have requested periodic updates on progress with the statement of Accounts. This report details progress to date on the issues raised in the Audit Opinion and covers key points from 2008/09 that will affect the Statement of Accounts. The report covers changes to this year's accounts required by the Statement of Recommended Practice (SORP) and also discusses the new accounting requirements for the year ending March 2011.

Key Issues from Audit Opinion

2. The paragraphs below cover the most important issues raised in the Audit Opinion and detail progress made. The Finance closedown team meet weekly to review progress with the Statement and fortnightly with the Audit Commission to discuss the main issues.

Cashflow

3. Since November the Finance team have been working through the Cashflow statement. The detailed work has uncovered a number of areas where changes needed to be made in defining transactions that are cash. The principle procedural change introduced has been to "park" all journals undertaken by finance staff for review by more senior staff. This will have the benefit of reducing posting errors and preventing multiple entries.

4. The work has also uncovered the double counting that can occur in the cashflow statement as items like fuel and telephony equipment is charged between cost codes as real expenditure but is only a cash entry on one occasion. Finance have identified the issue but need to consider more how best to change the accounting treatment. The first step towards resolving this has been to separate out any recharge transactions onto an identifiable transaction type.

5. The cashflow report has been rewritten following the Agresso upgrade and fully tested. Unfortunately it is not possible to know whether the cashflow report and the work undertaken have produced the desired result of a balanced cashflow until later in the accounts process.

6. The cashflow will be reviewed in late April/early May, and an early decision will be taken as to whether to continue with this direct approach or move to the alternative indirect method. The early decision will give plenty of time to switch methods.

7. Finance have been working on the indirect method during the same period and have this as a back-up option.

Property Trading Accounts

8. The City Council as at the end of 2007/08 held commercial property to the value of £127m. In light of the Audit Opinion recommendation, and also actions from the 2007/08 inspection report on Asset Management, work is currently underway to present the income and associated expenditure as a trading operation in the Statement of Accounts for 2008/09.

9. As a first step towards obtaining greater clarity on the revenue income and expenditure associated with holding such a large asset portfolio, we anticipate producing the following statement:

Commercial Property trading account

	Income	Expenditure
Retail*	(x)	(x)
Agricultural	(x)	(x)
Residential	(x)	(x)
Offices	(x)	(x)
TOTAL	(x)	(x)

*further breakdown may be required

Key Issues for 2008/09

Property revaluation/Impairment

10. The downturn in the global economy and specifically property prices means that the Council needs to review the value of assets held and reduce the values to reflect the market downturn. The Council revalues each property on a 5 year rolling basis and fortunately the HRA Housing stock is included in this year's list, and will therefore have a full revaluation.

11. Valuations for this year (as at 31/03/09) will comply with Red Book Guidance (and RICS guidance issued Nov 2008) on valuing in times of market uncertainty (Practice Note, GN 5 in the Red Book). This would certainly apply at present, the issues are however a lack of transactional evidence, and furthermore, what evidence there is as to continuing falls in values.

12. As well as dealing with 2009 valuations, there is the question of what to do about valuations carried out in 2008, 2007 and possibly earlier. Clearly we must provide a realistic valuation of all the Councils property at 31 March 2009. It is neither practical or viable to revalue each property, given the likely time taken and fees involved. The proposal is therefore as follows:

13. Cluttons have valued all OCC properties over the past five years. In consultation with them, they suggest that we arrange to carry out a number of revaluations on a 'desktop' basis of properties above a given 'threshold value'.

14. Some groups of properties have been identified as not needing to be considered for impairment:- operational carparks, agricultural holdings, sports centres, pools and community centres (properties valued on the Depreciated Replacement Costs basis). These assets have a total value of £60m. For the remaining properties, a threshold has been set at a property value over £500,000, this will cover a total value of assets of £113m. For the rest of the properties, where individual values are

below £500,000, a beacon or an indexation approach will be carried out to revalue these properties. These properties have a total value of £26.8m. These groups of assets cover over 90% of the total value of assets, excluding those being revalued as part of the 5 year rolling programme.

15. This approach will cost approximately £9,000, and will be completed mid to end of May.

16. This approach has been discussed with the Audit Commission and agreed and is now underway. Whilst this will address the property values as at 31/03/09, the Council will need to review this approach in future years depending whether property prices recover or decline further.

<u>Single Status</u>

17. The Council in previous years has been unsure of the cost of Single Status and made a reserve in the accounts. The Single Status costing work has (subject to negotiations with the Unions) reached a conclusion. The Accounts will therefore reflect the Council's latest forecasts of Single Status.

<u>Iceland</u>

18. The treasury deposits tied up in Icelandic banks will need to be reflected in the accounts. Although central government has issued guidance that defers the write-off or creation of provisions until the 2010/11 accounts it is prudent to account for potential losses now. The Council has earmarked £900k of revenue underspend created in the "line by line" exercise to create a reserve. The outturn forecast for 2008/09 has been severely hit by the Concessionary Fares additional expenditure following the appeal process. Any underspend remaining after financing this will be ringfenced for Iceland. Cipfa have published guidance, and due to publish more in April, on accounting for Iceland and the Council awaits information (promised in April) from the creditor meetings before finalising the accounting entries for any potential losses.

SORP – what's new and amended this year

19. There have not been too many changes to this years SORP, but those main changes affecting us are:

20. The Section in the SORP on the Statement of Internal Control and the Statement on the System of Internal Financial Control has been amended to reflect CIPFA's latest published guidance

21. Deferred charges have been replaced by Revenue Expenditure Funded from Capital Under Statute. This is because in accordance with GAAP Deferred Charges can never be carried on the Balance Sheet. The new section reflects the current approach to accounting for expenditure that is not capital expenditure in accordance with GAAP but which statute allows to be funded from capital resources. Our accounting treatment already follows these principles.

22. Clarifications have been made to the Financial Instruments note, this was a new section in last years Statement of Accounts, and had raised questions of interpretation, which have now been clarified within the SORP. The clarification relates to Premiums and discounts which does not affect our accounts.

23. A new sentence prohibiting the revaluation of fixed assets on disposal has been added, therefore 'deathbed' revaluations are not permitted.

Capitalisation

24. Finance are currently reviewing the opportunities presented by the option to capitalise some expenditure. Capitalisation is the identification of spend within the revenue accounts that could be moved to the capital programme. The advantage of this approach is that the payment for the system may be spread over the life of the asset rather than the whole payment being incurred in the current year. This increases revenue balances in this year but repayment obviously needs to be built into the budget in future years.

25. An example would be, the purchase of the new combined HR/payroll system. Before capitalisation the whole £140k is spent from the Transformation Fund in year 1.

26. By opting to capitalise the expenditure, the Capital expenditure could be funded through prudential borrowing and the annual repayment of borrowing costs may be funded through staff efficiencies that the new system will bring. This brings an advantage in that it releases the revenue funding in the current year to pump prime other transformation projects or to deliver increased revenue balances that can be used for other expenditure pressures. The disadvantage is that any savings from the project need to be earmarked to repay borrowing and it is only when the borrowing is repaid that savings from the system introduction can be used to meet and Corporate Savings target.

27. Capitalisation of spend must be carefully thought through. Once a change in the Council's policy is made it will be in place for a number of years, the Council can not change the policy to suit circumstances each year. In addition the Council must have regard to its borrowing limits agreed in the Treasury Strategy and the administrative burden brought about by creating more assets through a capitalisation policy.

28. A full report of options for capitalisation and the impact will be brought to this committee in June.

Future changes to the Statement of Accounts

29. With the introduction of the IFRS (International Financial Reporting Standards) Local authorities will need to adopt these from 2010/11. The standard moves Local Government accounts to a more business accounting footing and will make accounts across sectors more comparable. Although the new accounts will relate to 2010/11, the 2009/10 accounts will need to be restated into the same format. This means in reality that opening balances as at 1st April 2009 need to be available in the new format. Whilst most of the actions associated with IFRS implementation can be put off until the second quarter of 2009/10 financial year, the key activity being undertaken now is calculating leave outstanding to each employee as at 31 March 2009. As the Council's leave year runs to 30th September, this is not an easy task and we currently have each service area collating information on outstanding leave, flexi and lieu time.

30. Aside from outstanding leave, the IFRS will require the City Council to review the accounting treatment of Assets and which costs can be capitalised (so a close link with the review of the capitalisation policy). The standard requires the Council to review and recognise all leases both as lessee and lessor. This will require close examination of property leases and other contractual obligations that may fall within leasing definitions.

31. The introduction of IFRS will bring many changes and it would be appropriate to fully brief this committee on the key changes during the Autumn and to present the project plan to achieve full compliance with IFRS.

Recommendation

32. Audit & Governance Committee is asked to note the progress on the Statement with key issues and the new reporting requirements.

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Background papers: None

Version number: 1.0