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OXFORD CITY COUNCIL

To: Audit & Governance Committee

Date: 30th June 2009 **Item No:**

Report of: Head of Finance

Title of Report: Statement of Accounts 2008-2009

Summary and Recommendations

Purpose of report: To seek approval for the publication of the 2008-2009 Statement of Accounts and its submission to the external auditor.

Report Approved by:

Finance: Sarah Fogden/Penny Gardner
Legal: Jeremy Thomas

Policy Framework: Financial stability

Recommendation(s): The Committee is recommended**:**

(a) To consider and approve the Statement of Accounts for 2008/09 for submission to the Auditor and publication as part of the annual report.

(b) To commend the accounts to Council

1. Attached to this report is the Statement of Accounts (unaudited) for 2008/09.

2. The Council has a statutory duty to publish its Statement of Accounts by 30th June 2009.

3. The Statement of Accounts has been prepared in accordance with the SORP (Statement of Recommended Practice) for local authority accounting.

Progress on Statement & information sharing with Audit & Governance

4. Audit & Governance committee received a progress report on the accounts on 28th April 2009. A sub group of Audit & Governance met with officers on 17th June for a discussion around the key issues. The key issues are discussed in detail below and in the explanatory foreword to the Accounts

Property Impairment

5. The general decline in the property market has required the City Council to review valuations of assets to reflect the economic downturn. The process for revaluation of assets was laid out in the April report. Cluttons have completed their work and the end result of all capital transactions is an impairment charge to the Incomes and Expenditure account of £30m in relation to the HRA and £27m for the General Fund. As such large sums are not allowed to impact on the revenue position of the Council and on Council Tax, these sums are reversed out through the revaluation reserve, and written back out of Income & Expenditure via the Statement of Movement on the General Fund Balances.

6. The other main issue to note is that the Council has long adopted a policy of writing down capital expenditure valued at less than 15% of the asset value. The spend is therefore not treated as spend that enhances the asset. This means that all Capital spend on Council Housing has been treated as impairment. The Council has declared this as a departure from the SORP and will seek to change the policy in future years. There is no net impact on asset valuations in 2008-2009 as the whole of the Council stock has been revalued as at 31st March 2009 so all capital expenditure in year has been taken in account in that valuation. The Audit Commission are reviewing the accounting treatment of this and their review may result in an amendment to the accounts.

Capitalisation Policy

7. At the April committee the Council outlined its proposals to review its capitalisation policy. The detailed work carried out on fixed rate assets has confirmed that the Council in general complies with SORP. As there is a need to review the writing down of Capital expenditure to develop a more robust policy (see above), the Council has deferred a change in capitalisation policy to the 2009/10 accounts and will make changes in line with the new IFRS (International Financial Reporting Standards). This will have the consequence of releasing fewer balances for general use in the 2009/10 financial year of approximately

£250k. As this sum would have been funded from revenue resources over future years, the long term financial position of the Council remains unchanged.

8. Any change in accounting policy will come to a meeting of this Committee to approve.

Prudential Borrowing

9. Members requested a summary of the Prudential borrowing undertaken and planned. A summary table is attached at Appendix 1.

10. This table shows that up to £20m of investment is planned (has been funded) through Prudential borrowing and this commits the Council to between £870k and £2.6m of revenue repayments over the next 10 years.

Property Trading note

11. The accounts include a Property trading note. This shows the income & expenditure relating to investment properties and analyses the figures according to asset type.

Iceland

12. The Council had £4.5m invested with the failed Icelandic banks. Advice received suggests that the Council can expect to recover all but £1,072 of this.

13. Accounting regulations require that the difference between the amount we will recover, and the value of the investment on our balance sheet, is recognised as an impairment (reduction in value). This would normally be charged to the Income and Expenditure Account, but Capital Finance Regulations introduced in 2008 allow us to defer the impact on General Fund balances until 2010/11 by transferring the impairment to a Financial Instruments Adjustment Account.

14. The calculation of the impairment is not as straightforward as taking the percentage of the original investment we will not receive. The value of the investment includes interest due up to October 2008. The amounts we will recover are discounted back (using the interest rate that the deposit originally attracted) from the date we expect to receive them to their value at 31.03.09, reflecting that cash in the future is worth less than cash today.

15. For Oxford City Council, the impairment in 2008-09 is £1072k. Interest receivable for 2008-09, 2009-10 and 2010-11 is credited to the Financial Instruments Adjustments Account (FIAA). At the end of the 2010-11, the relief from impairment afforded by the Capital Finance Regulations ends, and the balance on the FIAA is charged to the Income and Expenditure Account. For OCC this is calculated at £653k. This value would of course have to be adjusted sh0uld assumptions about the timing or amounts due change.

Pensions

16. Section 10 of the accounts details the accounting for pensions. Table 10.2 shows the City Council pension deficit as £95m up from £53m in 07/08. The pension deficit is included in Income & Expenditure and reversed out through the Statement of Movement in General Fund balances so as not to hit Council Tax. The projected deficit will however increase the Council contribution to the Pension Fund at the triannual review effective April 2011. Early figures from the administrators suggest an increase in contributions of £4-5m per annum.

Cash flow

17. The correct note is shown in the accounts.

Service Expenditure Variations

18. The Income & Expenditure Account shown at 5.1 shows a much higher net cost of services than in previous years. This is because of the large figures impacting on this area from Impairment of assets and Pensions. The largest difference other than these entries is the increased expenditure on Concessionary Fares up to £3.9m in 2008/9 from £2.1m in 2007/8.

19. Tables 5.2 and 5.3 show how the Income & Expenditure account is reconciled back to the use of General Fund reserves. The use of General Fund reserves is the figure provided in the monthly financial monitoring.

Annual Report

20. A summarised version of these accounts will be published as part of the annual report included elsewhere on this agenda.

Recommendation

21. Audit & Governance Committee are recommended to approve the accounts for publication and submission to the auditors.

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Background papers: Statement of Accounts 2008/09 – Accounting update and progression of 2007/08 issues
Audit & Governance 28th April 2009

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