

To: Audit and Governance Committee **Item No:**

Date: 28th June 2012

Report of: Head of Finance

Title of Report: Statement of Accounts for the Year Ending 31st March 2012

Summary and Recommendations

Purpose of report: To present the Council's Statement of Accounts for the year ending 31st March 2012 to the Audit and Governance Committee.

Key decision? No

Executive lead member: Councillor Ed Turner

Policy Framework: Budget

Recommendation(s): That the Committee note the contents of the Statement of Accounts certified by the Executive Director (Organisational Development and Corporate Services) prior to their submission to the external auditors

AppendixA - Statement of Accounts 2011/12

1 **Approval of the Statement of Accounts**

The Statement of Accounts for 2011/12 are attached at Appendix A. The Accounts and Audit Regulations 2011 require that the responsible financial officer of a larger relevant body must, no later than 30th June immediately following the year end, sign and date the Statement certifying that it presents a true and fair view of the financial position of the body at the end of the year to which it relates.

Following scrutiny by external audit the authority must then, by the 30th September approve the Statement of Accounts.

2 **The Explanatory Foreword**

The explanatory forward shown on pages 7 - 20 of the Statement, explains the more significant features of the accounts. It is based on the information contained within the Statement and fulfills a similar purpose to a directors' report in company accounts.

3 **Major Changes Affecting the Statement of Accounts**

The Council's accounting policies are set out in Note 1 (page 29) to the Statement. Whilst largely unchanged from last year there are some changes and events that have taken place over the year which have a material impact on the understanding of the Accounts. These are set out in paragraphs 4-10 below:

4 **Heritage Assets** (notes 44 – 48 page 95)

A heritage asset is an asset with historical, cultural, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. The Accounting Code requires the Authority for the first time in 2011-12 to carry heritage assets on its Balance Sheet at valuation and restate the Accounts for 2010-11 for comparative purposes. The Council has identified heritage assets with a total value of £2.4 million as at 1 April 2011 including:

- Great Mace and plate, silver plaques and cutlery
- Furniture
- Civic Regalia
- Firearms
- Pictures and drawings
- Memorial gardens and city walls
- Mayor's car number plate.

Some assets have an indeterminable life and cannot be depreciated whilst others such as the Mayor's car number plate are valued at market value.

5 **HRA Self Financing**

On the 28 March 2012 the Council borrowed £198.5 million from the Public Works Loans Board and made a payment of the same amount to

the Department of Communities and Local Government. This transaction allowed the Council to buy its way out of the Housing Subsidy system under the Government's 'self financing proposals'. In exchange for this one-off payment the Council will no longer need to pay negative Housing Subsidy to the Government of around £13 million per annum. This is shown as a separate item in the Council's Housing Revenue Account.

6 Total borrowing for the Council including all Public Works Loan Board debt was £202.2 million as at 31 March 2012.

7 **Interest in Acquired Companies**

On 23 September 2011 the Council entered into a partnership with Grosvenor Developments Limited to form Barton Oxford LLP, a joint venture vehicle to develop social and affordable housing on land owned by the Council at Barton. The Council has a 50% interest in the Company and shares profits and losses and therefore is required to prepare group accounts for the first time. The Council received £0.5 million as part payment of its costs of establishing the company in 2011-12 and transferred the land with a value of £0.8 million to the LLP on 31 October 2011. The value will be repaid with interest by January 2019. At the 31 March 2012 the company had net liabilities of £8,363 50% of which has been incorporated into the Council's Group Accounts (page 112).

8 **Icelandic Banking Losses**

In October 2008 a number of Icelandic banks filed for administration. The Council held deposits with two of these banks, Glitnir and Heritable of £1.5 million and £3 million respectively. Developments over the last year are as follows:

Glitnir - In November 2011 the priority status appeal in relation to the Council's original £1.5 million deposit with the Icelandic bank Glitnir was confirmed by the Icelandic Supreme Court. On 15 March 2012, the Council received four of the five foreign currency repayments due from Glitnir Bank totalling £1.2 million. The repayment date of the fifth currency (in Icelandic Krona (ISK)) is still to be confirmed as changes to Icelandic law are required to allow ISK to be transferred out of Iceland. Once this has been resolved, it is expected that we will receive close to 100% of our initial deposit.

Heritable Bank - In respect of the Council's £3 million deposits with Heritable bank, the Council continues to receive repayments and it is expected that approximately 90% will be received. £2.1 million has been received to-date.

9 The Council had capitalised all of the banking losses and funded these by prudential borrowing at a cost of around £0.2 million per annum. Going forward the Council will repay its prudential borrowing and relieve itself from the debt charge. In addition a balance of £0.3 million which

was held in a reserve specifically created to fund these payments is no longer required and has been released to revenue.

10 Pension Funds

The Council's liability to provide for the cost of past employment benefits to staff have increased in the year ended 31 March 2012.

The liability reported as at 31 March 2011 was £53.2 million. The revised liability as at the 31 March 2012 is £97.9 million. The increase is due to a number of factors, the most significant of which is an actuarial loss of £45.2 million due to a significant increase in the estimated liabilities of the fund with only a small increase in fair value of the assets. More information regarding the Defined Benefit Pension Scheme can be found in note 40 of the Statement of Accounts (page 87). The past history of the movement on the pension liability is disclosed and shows that over the past five years the liability has been as high as £145.6 million. The rise this year is therefore disappointing but can be seen to be £47.7 million lower than the peak experienced.

11 General Fund Revenue

The Council set a budget for spending on General Fund services of £25.8 million, to be financed by Grant funding of £13.4 million and Council Tax of £12.4 million. Included within the budget was provision for a transfer of £0.8 million to the General Fund Working Balance as shown below:

	Approved Budget 11/12 £000	Net Expenditure 11/12 £000	Variance £000
Directorates			
Chief Executive	5,065	5,070	5
City Regeneration	4,897	2,376	-2,521
City Services	7,369	5,149	-2,220
Finance & Efficiency	6,461	6,063	-398
Total Expenditure	23,792	18,658	-5,134
SLAs And Capital Charges	(1,640)	(1,642)	-2
Corporate Below the Line Budgets	2,810	2,404	-406
Net General Fund	24,962	19,420	-5,542
Net transfer to reserves	0	5,542	5,542
(Use of)/ transfer to Balances	816	816	0
Net Budget Requirement	25,778	25,778	0
External Funding	13,399	13,399	0
Council Tax	12,355	12,355	0
Collection Fund surplus	24	24	0
Total Funding Available	25,778	25,778	0

- 12 The Council's outturn position was favourable at year end. It overachieved against the budgeted position by some £0.5 million which has subsequently been transferred to an earmarked reserve for funding the future Capital Programme and was able to add £0.8 million to the working balance in line with the budget. Due to a number of variances in service expenditure the Council was able to transfer an amount of £5.5 million to earmarked reserves, details of which are discussed in more detail below.
- 13 The most notable variations within the budget are detailed below:

Chief Execs – Overall adverse variance of £5k

Adverse

- Overspend on service expenditure in People and Equalities such as occupational health and payroll - £0.13 million
- Shortfall in Town Hall income of £0.12 million

Favourable

- Slippage on museum refurbishment project £0.15 million
- Supplies and service favourable variances in Policy and Communication - £0.1 million
- Law and Governance unspent elections reserve - £0.037 million

City Regeneration- Overall favourable variance of £(2,521k)

Favourable

- £1.2 million of unused grants/budgetary provision mainly associated with Housing and Communities activities e.g. HOWD additional grant, Communities external grant provision, Connecting Communities grant etc now transferred to earmarked reserves for future years
- £0.4 million associated with salary savings arising from vacancies predominately within Housing and Communities during the year.
- Savings associated with Council Offices repairs and maintenance, public utility and rates expenditure £0.2 million
- Favourable landlord rent reviews during the financial year, together with a release back to revenue of a previous rent review liability that was not realised £1 million

Adverse

- Reduction in Planning/Building Regulations income £0.1 million
- Overspend on Homelessness e.g private rented accommodation £0.1 million

City Services – Overall favourable variance of £(2,020k)

Favourable

- Income re HMO licenses to be used in 2012/13 - £0.4 million
- Government grants received in respect of sports activities, air quality and contaminated land to be used in 2012-13 £0.7 million

- Additional income from off street parking - £0.1 million
- Additional work in engineering services £0.4 million
- Underspends on salaries and additional external tree work income in street scene £0.4 million

Finance and Efficiency- Overall favourable variance of £(398k)

Favourable

- Underspends on ICT projects relating to Servitor and MS Office implementation £0.1 m
- Slippage on Procure to Pay Project to be implemented in 2012-13 - £0.1 million
- Release of Icelandic reserve no longer required - £0.2 million

Corporate – Overall favourable variance of £(408k)

Adverse

- Reduced interest charged to HRA on cash balances due to lower interest rates and less cash balances - £0.1 million
- Interest paid on outstanding debt higher than budgeted - £0.1 million
- Funding for capital projects and vehicles higher than budgeted £1.2 million. The higher level of funding of capital projects in the order of £0.7 million was largely to mitigate the need to undertake prudential borrowing
- Increase in provision to cover court costs £0.3 million

Favourable

- Investment income up due to increased investment returns - £0.1 million
- Underspends on contingencies for employee inflation, contingencies for savings, , homelessness and redundancy subsequently transferred to reserves £2.1 million subsequently transferred to reserves

14 At the 31st March 2012 the General Fund Working Balance stood at £5.242 million

Contingencies Reserves and Balances

- 15 The analysis of the net transfer to reserves of £5.542 million is shown in Note 8 page 57 to the accounts and takes earmarked reserves to £12.365 million. Most notable transfers include:
- £1.8 million is in respect of budgeted provisions and contingencies which were not used in year including, employee inflation £350k and provisions for unachieved savings £606k, homelessness £300k and redundancy costs £500k
 - £0.3 million release of the reserve established to fund borrowing costs on the capitalisation of Icelandic banking losses which following a legal ruling is no longer required

- £1.9 million is in respect of grants received by the authority in the year which are credited to a reserve pending spend in future years, further details of which can be shown in Note 34
- £1.2 million is in respect of underspends on services which have been carried forward to be used in 2012-13 of which an amount of £643k requires CEB approval
- £0.4 million is in respect of income that has been received in respect of HMO license applications the work for which will be progressed in 2012-13
- An additional transfer to the insurance fund to fund potential liabilities arising from claims by Municipal Mutual Insurance has been made of £0.3 million
- Residual balances, representing surpluses on the Councils General Fund totalling approximately £0.5 million have been transferred to a reserve to fund the capital programme, in addition to the £0.5 million in respect of New Homes Bonus grant received in year.

16 **Housing Revenue Account (page 103)**

The HRA was budgeted to make a surplus of £0.5 million for 2011/12. The outturn position was £0.6 million, a favourable variance of £0.1 million. Notable variations include:

- Additional rental income of £0.3 million arising from increased re-lets and weekly rents moving to target rent
- Saving on provision for a rent review on Southfield Park of £0.2 million. The review is coming to fruition and it is considered that the current provision of £1.3 million will be sufficient to cover accrued rental charges
- An overspend on day-to-day repairs caused by additional gas maintenance works - £0.4 million

At 31st March 2012 the HRA working balance stood at £2.62 million.

17 **Capital Programme**

The Council's budgeted capital spend for 2011/12 was approximately £35 million. Actual spend was £21 million; a variation of £14 million, of which approximately £11 million was carried forward as slippage to be spent in future years. Notable variations include the following:

- slippage on the construction of the Competition Swimming Pool at Blackbird Leys of £7.8 million due to a Judicial Review on the Council's decision to progress the project
- £3 million of variations on HRA related schemes including slippage of £0.7 million in relation to works to Tower Blocks, £1 million underspend relating to the construction of Cardinal House and £1.2 million of slippage on other improvement works such as doors, windows and heating.

- £0.8 million underspend in respect of 'city development' infrastructure schemes including development fees for land at Barton £0.5 million which were subsequently charged to revenue.
- £0.5 million slippage on repairs and refurbishment of corporate buildings including Rosehill Community Centre of £0.2 million
- £0.8 million underspend on Play Barton and £0.2 million of other play area slippage
- £0.3 million of slippage on ICT related projects

18 At the 31st March 2012 capital receipts unapplied stood at £12.95 million, which will be used to fund future years capital programme

19 **Financial Implications**

These are covered within the main body of the report

20 **Legal Implications**

These are covered within the body of the report

21 **Risk Implications**

There are no risks associated with the recommendations in this report

22 **Communications**

The Council's accounts are subject to external audit by the Audit Commission, the local address of which is Unit 5, Isis Business Centre, Horspath Road, Cowley, Oxford, OX4 2RD. Members of the public and local government electors have certain rights in the audit process:-

1. From Monday 9th July 2012 to Friday 3rd August 2012 between 9.30am and 4.30 pm any person may inspect the accounts of the Council for the year ended 31st March 2012 and certain related documents (comprising books, deeds, contracts, bills, vouchers and receipts) at the address given at the end of this report. They may also make copies of the accounts and documents.
2. From 9.30am on Monday 6th August 2012 until the conclusion of the audit process, a local government elector for the area of the Council, or her/his representative, may ask the auditor questions about the accounts. Please contact the Horspath Road address given above to make arrangements to ask any questions.
3. From 9.30am on Monday 6th August 2012 until the conclusion of the audit process, a local government elector for the area of the Council, or her/his representative, may object to the Council's accounts asking that the auditor issue a report in the public interest (under Section 8 of the Audit Commission Act 1998) and/or apply to the court for a declaration that an item in the accounts is contrary to law (under Section 17 of the Audit Commission Act 1998). Written notice of a proposed objection and the grounds on which it is made must be sent to the auditor at the address given above and copied to me at the address given below.

The draft statement of accounts can also be found on the Councils website from Monday 2nd July (www.oxford.gov.uk).

Name and contact details of author:-

Name: Nigel Kennedy

Job title: Head of Finance

Service Area / Department Finance and Efficiency

Tel: 01865 272708 e-mail: nkennedy@oxford.gov.uk