

To: Audit and Governance Committee

Date: 27th June 2013

Report of: Head of Finance

Title of Report: Statement of Accounts for the Year Ending 31st March 2013

Summary and Recommendations

Purpose of report: To present the Council's Statement of Accounts for the year ending 31st March 2013 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 Head of Finance (Section 151 Officer) prior to their submission to the external auditors

Appendix A - Statement of Accounts 2012/13

1 **Approval of the Statement of Accounts**

The Statement of Accounts for 2012/13 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 fulfils 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 on page 29 in Note 1 to the Statement of Accounts. These Policies are largely unchanged from last year. However there are some changes and events that have taken place over the year which have a material impact on the understanding of the Accounts.

□ **Restatement of the Accounts for 2011/12**

In preparing the Statement for this financial year the Council became aware of some issues that are material in value, but do not have an impact on the overall 'bottom line' position of the Council's finances. They may nonetheless have an impact on the reading of the accounts. Under paragraph 3.3.2.18 of the Code of Practice on Local Authority Accounting where the change is considered material then the Council is required to restate the accounts for the prior financial year, (if the error occurred before the earliest prior period presented) by restating the opening Balance Sheet. The following explains the areas affected:

□ **Finance Leases where the Authority is Lessor**

This refers to property which the Council owns and leases out to third parties. Normal accounting practice under paragraph 4.2.2.16 of the Code is for a debtor to be created based on the net investment in the lease at the date of inception of the lease (i.e. the rent at the time the property was leased out). In preparing the statements for last year under the new International Financial Reporting Standards (IFRS) the Council based the calculation of the debtor on the current rent as opposed to the inception rent. This had the effect of overstating the long term debtor shown in the Balance Sheet at 31 March 2012 by £4.1 million. The restated

position for the 1 April 2012 shows the long term debtor decreasing in the Balance Sheet, shown on page 25, with a compensating adjustment to the deferred capital receipts reserve, included within unusable reserves.

□ Finance Leases where the Authority is Lessee

The Council leases St Aldates Chambers which is used as an administrative building. The lease is considered to be a Finance Lease and as such is required by International Financial Reporting Standards (IFRS) to be included in the Council's Balance Sheet at the lower of the minimum lease payments on inception or the fair value. The St Aldates Chambers lease has therefore featured in the Council's Balance Sheet since the implementation of IFRS in 2009. However, the entries made for the introduction of St Aldates Chambers were based on the current rent in 2009 (£225,000) rather than the rent on inception (£30,350).

To correct this issue the Balance Sheet figures for 2012/13 have been restated as at 1 April 2012. The assets net book value of £1,964,284 based on the current rent has been restated with a net book value of £153,608 based on the inception rent.

While this amendment is significant in terms of the values in the Balance Sheet the impact on the bottom line of the Council's revenues is nil.

□ Operational Leases

A number of property leases (24) categorised as finance leases in 2011/12 were discovered to be operational. An amount of £0.3 million has been removed from the debtors balance with a compensating adjustment to deferred capital receipts.

□ Lord Mayors Deposit Scheme

The Council makes payments to Landlords to cover rental deposits in cases where homeless families are placed in temporary private sector accommodation. This acts as a guarantee for the landlord should the tenant default or damage the property. In cases where damage is caused every effort is made to recover the sum of money from the family but in the majority of cases, this is not achieved.

In accounting terms an amount equivalent to the deposit paid to the Landlord is set up as a 'debtor' as an amount being owed to the Council from the family. Due to the uncertainty of collection an equivalent bad debt provision is set up hence cancelling the income out. On reviewing the accounting treatment this year it transpires that due to double counting, an overstatement of both the debtor and bad debt provision in respect of these deposits was made in

previous financial years in the order of £2.3 million. This has been corrected in this year's accounts by restating the opening Balance Sheet as at 1 April 2012 for the debtor and bad debt provision and this is shown on page 25. Since the restatement affects both the provision and debtor to the same degree there is no effect on the Council's overall bottom line.

- **Material Changes**

- **Pension Fund**

- The Council's liability to provide for the cost of past employment benefits to staff have decreased in the year ended 31 March 2013.

- The liability reported as at 31 March 2012 was £97.9 million. The revised liability as at the 31 March 2013 is £88.3 million. The decrease is due to a number of factors, the most significant of which is an actuarial gain of £11.4 million due to a significant increase in the estimated assets of the fund with a smaller increase in fair value of the liabilities. More information regarding the Defined Benefit Pension Scheme can be found in note 40 of the Statement of Accounts (page 92). 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 fall this year can be seen to be £57.3 million lower than the peak experienced.

4 **General Fund Revenue Outturn 2012/13**

The Council set a budget for spending on General Fund services of £24.1 million, to be financed by Grant funding of £11.7 million and Council Tax Requirement of £12.4 million. Included within the budget was provision for a transfer of £1.6 million from the General Fund Working Balance.

The average Council Tax for a Band D property was set at £262.96, a nil percent Council Tax increase on the previous year.

The table below summarises the outturn position in the format used for 2012/13 internal reporting and as reported to the City Executive Board on 12th June 2013

	NET APPROVED BUDGET 2012/13	NET EXPENDITURE 2012/13	VARIANCE
	£000's	£000's	£000's
Chief Executive	1,443	1,329	(114)
City			
Regeneration	641	(30)	(671)
Community Services	7,312	6,394	(918)
Organisational Development	12,962	13,423	461
Total Ex' SLA's & Capital Charges	22,358	21,116	(1,242)
SLA's and Capital Charges	(1,276)	738	2,014
Corporate Budgets	2,606	(622)	(3,228)
Net General Fund Expenditure	23,688	21,232	(2,456)
Net Transfers to reserves	2,047	4,886	2,839
(Use of)/ transfer to Balances	(1,622)	(1,622)	0
Net Budget Requirement	24,113	24,496	383
External Funding	11,719	12,028	309
Council Tax	12,587	12,661	74
Parish Precept	(193)	(193)	0
Total Funding	24,113	24,496	383

Major variations include:

**Chief Executive
Favourable**

- £0.1 million slippage on the educational attainment project.

City Regeneration

Favourable

- £0.3 million salary savings arising from vacancies predominately within Housing and Communities during the year.
- £0.6 million increased income following landlord rent reviews during the financial year together with additional rental income from the letting of Ramsay House.

Adverse

- £0.2 million under achievement of Planning/Building Regulations income.

Community Services

Favourable

- £0.1 million increased off street car parking income due mainly to St Clements car park being open for 11 months longer than anticipated.
- £0.4 million additional engineering works income due to increased agency work.
- £0.4 million reduced employee costs following street cleansing restructure and reduced pension fund contributions.

Organisational Development and Corporate Services

Favourable

- £0.1 million reduced salary expenses arising from vacant posts in Finance and reduced costs in external and internal audit fees.

Adverse

- £0.3 million due to £0.2 million cost of Emergency Planning flood works, plus salary overspends and a shortfall in Legal Hub budgeted income.
- £0.3 million due to a shortfall in Town Hall and post room income, as well as additional spending on Town Hall and facilities supplies and services.

SLA's, Capital Charges and Corporate Budgets

Favourable

- £0.7 million due to underspends in local Housing Benefit expenditure representing 0.7% of expenditure.
- £0.3 million associated with SLA charges within Corporate and Democratic Core, interest payments and enhanced/early retirement pension payments.

Net Transfers to General Fund Earmarked Reserves

The analysis of the net transfer to reserves of £4.9 million is shown in Note 8 (page 59) to the accounts. The most notable transfers are detailed below in paragraph 5.

5 Reserves

Earmarked General Fund Reserves – As at 31 March 2013 these stood at £15.6 million, as shown on page 59 of the Statement of Accounts. In 2012/13 the Council made a net transfer in of £4.9 million with key movements including:

- **The Employee Cost Reserve** - This has increased due to a budgeted £0.5 million contribution taking the total reserve to £1.7 million. This reserve will be used going forward to fund pressures identified in the Council's Medium Term Financial Plan.
- **Grants Reserve** - under accounting rules grants are transferred to earmarked reserves and then released to revenue as money is spent, if the grant has conditions attached to it. The net movement in this reserve is a net reduction of around £1.6 million, £0.6 million of which has been released and £1.2 million has been transferred to an earmarked reserve which is more appropriate for the description largely relating to the Housing and Communities Services.
- **Homelessness** - an amount of £0.65 million has been transferred to this reserve in line with the budget.
- **Flood Reserve** - £0.15 million. This reserve has been established to cushion the revenue account against future flooding in the city.
- **Insurance Reserves** - as at 31 March 2013 these stood at £1.7 million to cover uninsured excesses and future liabilities including those arising from the administrative arrangements of the Council's previous insurers Municipal Mutual Insurance (MMI).
- **Westgate Redevelopment Reserve** - in conjunction with the Westgate Oxford Alliance (a joint venture between Crown Estates and Land Securities) the Council intends to undertake the development of the Westgate Shopping Centre within the city centre. The venture is a key project for the City Council in developing the Westgate area. To assist with parking provision throughout the development period the Council have set aside a surplus from General Fund activities of around £3.3 million to fund temporary car parking.

HRA Earmarked Reserves - As at 31 March 2013 these stood at £1.2 million following a net transfer in, of £0.5 million. The committed projects reserve includes £0.25 million in respect of stock condition survey, £0.1 million in respect of future pay increases, £0.1 million in respect of the alley gating project, £0.2 million in respect of capital projects and £0.2 million in respect of a structure review of the Major Projects Team.

6 Balances

The General Fund Working Balance - this has decreased with the budgeted transfer of £1.623 million and as at 31 March 2013 stands at £3.6 million.

The HRA Working Balance - As at 31 March 2013 this has increased from £2.6 million to £3.7 million.

7 Icelandic Banking Losses—Update

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. A further £284,000 has been received in this financial year, totalling £2.4 million received to date.

8 The Housing Revenue Account Income and Expenditure Statement

The HRA Income and Expenditure Statement (page 105 of the Statement of Accounts) shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practice, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost.

The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the Housing Revenue Account Statement, a snapshot of which is shown below:

	Budget £000	Actual £000	Variance £000
Net Income	(40,393)	(40,730)	(337)
Expenditure			
Tenancy Management	15,264	11,722	(3,542)
Repairs and Maintenance	11,481	12,106	625
Total	26,745	23,828	(2,917)
Appropriations	8,514	15,824	7,310
Net (surplus)/deficit	(5,134)	(1,078)	4,056
Working Balance	(2,620)	(3,698)	(1,078)

The HRA was budgeted to make a surplus of £5.1 million for 2012/13. The outturn position as shown was a surplus of £1.1 million, an adverse variance of £4 million. This £1.1 million surplus was subsequently transferred to the HRA working balance which now stands at approximately £3.7 million. Notable variations include:

Income

- £0.8 million increase in dwelling rents due to the lower number of Right To Buy disposals than budgeted for. In addition non-dwelling income from shops and garages was also up mainly due to favourable rent reviews, off set by;
- £0.5 million shortfall in fees charged to Capital due to a reduction in the overall Capital Programme.

Tenancy Management Cost

Tenancy Management Costs show a favourable variation of £3.5 million over the original budget due to:

- £1.2 million release of the provision for the rent review on Southfield Park following a successful negotiation.
- £2.2 million reduced depreciation charge (see appropriations below).

Repairs and Maintenance

- £0.6 million overspent due to day to day responsive repairs and increased night time call out costs being higher than anticipated, repairs to a fire damaged property and emergency repairs expenditure.

Appropriations

£7.3 million overspend against budget due to:

- £1.1 million favourable variation due to the interest rate payable on the £198 million on self-financing debt being 0.5% lower than budgeted.
- Revenue Contributions were £1.3 million adverse. Revenue contributions together with depreciation provide the resources for financing the capital programme. Overall this represents a favourable variance on the HRA of around £0.8 million, which is the equivalent amount of slippage on the HRA capital programme.
- £7 million transferred to the Major Repairs Reserves for future funding of the Capital Programme.
- £0.5 million net transfers to earmarked reserves to cover future expenditure.
- £0.2 million additional subsidy in respect of 2011/12 following the audit of the end of year subsidy claim.
- £0.2 million other favourable changes in investment interest.

9 Capital Outturn 2012/13

The Council's budgeted capital spend for 2012/13 was approximately £28 million, actual spend was £16 million; a variation of £12 million. Of this variation approximately £8 million related to the Competition Swimming Pool at Blackbird Leys which was delayed pending the outcome of a number of judicial reviews. The remaining £4 million relates to other slippage that will be carried forward to be spent in future years. Notable variations include the following:

- £0.2 million slippage on disabled facilities grants.
- £1.7 million slippage on Covered Market improvements, Broad Street upgrade and roof repairs to 44-46 George Street, Depot Relocation Feasibility study, various Parks and Leisure buildings and conference/Fire Alarm works to the Town Hall.
- £1.4 million slippage on Leisure projects including general Leisure centre improvements, Lye Valley and Chiswell Valley walkways, Sports Pavilions improvements and upgrades on tennis courts and existing multi-use games areas.
- £0.4 million slippage due to delays in purchasing replacement vehicles and plant and repairs and maintenance to park and ride car parks.
- £0.8 million slippage on Housing related capital projects including tower block refurbishment.

10 Funding the Capital Programme

The General Fund Capital Programme totalled £8.8 million and was funded through a combination of Capital Receipts (£1.5 million), Government Grants (£1.3 million), the largest of which was in respect of Disabled Facilities £0.5 million, Direct Revenue Funding

from the General Fund (£4.3 million), Prudential Borrowing (£1.1 million), Developer Contributions (£0.6 million). The Housing Programme was financed totally from Housing Revenue in the order of £7.6 million.

11 Capital Receipts

At the 31st March 2013 capital receipts unapplied stood at £17.22 million, which will be used to fund future years Capital Programme

12 Financial Implications

These are covered within the main body of the report.

13 Legal Implications.

These are covered within the body of the report

14 Risk Implications

There are no risks associated with the recommendations in this report.

15 Communications

The Council's accounts are subject to external audit by Ernst & Young LLP, the local address of which is Ernst & Young LLP, Apex Plaza, Forbury Road, Reading, RG1 1YE. Members of the public and local government electors have certain rights in the audit process:-

1. From Monday 8th July 2013 to Friday 2nd August 2013 between 9.30am and 4.30pm 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 notice. They may also make copies of the accounts and documents.
2. From 9.30am on Monday 5th August 2013 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 address given above to make arrangements to ask any questions.
3. From 9.30am on Monday 5th 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 Friday 28th June 2013. (www.oxford.gov.uk).

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