

**To:** Audit and Governance Committee

**Date:** 26<sup>th</sup> June 2014 **Item No:**

**Report of:** Head of Finance

**Title of Report:** Statement of Accounts for the Year Ending 31<sup>st</sup> March 2014

## **Summary and Recommendations**

**Purpose of report:** To present the Council's Statement of Accounts for the year ending 31<sup>st</sup> March 2014 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 Council's external auditors.

## **Appendix A – Statement of Accounts 2013/14**

### **Approval of the Statement of Accounts**

1. The Statement of Accounts for 2013/14 is attached at Appendix A. The Accounts and Audit Regulations 2011 require that the Council's responsible officer must, no later than 30<sup>th</sup> 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 Council at the end of the year to which it relates.
2. Following scrutiny by external audit the authority must then, by 30<sup>th</sup> September, approve the Statement of Accounts.

### **The Explanatory Foreword**

3. The explanatory foreword, shown on pages 7 – 22 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.

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

4. The Council's accounting policies are set out on pages 103-118 of the Statement of Accounts. These Policies are largely unchanged from last year. However, there are some changes that have taken place over the year which have a material impact on the understanding of the Accounts.

#### **Pension Fund**

5. The Council's liability to provide for the cost of past employment benefits to staff increased in the year ended 31 March 2014.
6. The liability reported as at 31 March 2013 was £89.3 million. The revised liability as at the 31 March 2014 is £107.3 million. The increase is due to a number of factors, the most significant of which are actuarial losses of £13.4 million (due to significant losses arising from changes in inflation estimates and life expectancy, offset by gains in the defined benefit obligation) and net interest costs. The overall liability this year can be seen to be £38.3 million lower than the peak experienced.

#### **Localisation of Council Tax Benefit**

7. Council Tax Benefit was replaced with a new system of Council Tax Support in April 2013. The previous Council Tax Benefit Grant paid by Central Government has been subsumed into the Council's Formula Grant (after a reduction of 10%) from 2013/14 and from 2014/15 is not separately identifiable. The scheme can be set locally, although with some stipulations such as pensioners not being disadvantaged. The Council Tax Reduction Scheme for Oxford City Council was agreed by City Executive Board on 5<sup>th</sup> December 2012 and largely replicates the previous benefit system, although it is implemented by awarding discounts to council taxpayers. Thus for 2013/14 onwards the Council's band D equivalent council tax will be lower than in previous years and the revenue account will not be charged with the cost of council tax benefits.

#### **Business Rates Retention**

8. For 2013/14 the Council received the amount calculated on the NNDR1 Form submitted to Government in January 2013. Any difference between this and in-year activity forms the NNDR Collection Fund balance for the year and is distributed in subsequent financial years. Since there is a deficit on the NNDR Collection Fund for 2013/14 of £1.5 million due to the level of appeals, the Council has set aside an amount equivalent to its share of the deficit (£0.6 million) in Earmarked Reserves so that there is no pressure on the General Fund resulting from this in future financial years.
9. Business Rates yield can vary due to appeals, losses on collection and business closures or start-ups. Hence the resulting amount of income derived from Retained Business Rates can also vary. This risk is now not

entirely borne by Central Government but is shared between Central Government, Oxford City Council, and Oxfordshire County Council in the percentages 50% / 40% / 10% respectively. The Government have set a “safety net” which applies if business rate income falls by more than 7.5% in comparison to baseline funding. In the Council’s case this safety net will kick should business rate income fall below the baseline by £410k. This new scheme has therefore led to changes in accounting in the Comprehensive Income and Expenditure Statement, the Movement in Reserves statement, and the Collection Fund from 2013/14 onwards as well as shifting the balance of risk between central and local government.

#### **Transfer of Non-Dwelling Assets**

10. During the year the Council transferred its non-dwelling Housing Revenue Account (HRA) assets (shops and garages) from the HRA to the General Fund. This was approved by Council with an effective date of 1<sup>st</sup> April 2013, and will result in additional net income being received by the General Fund on an on-going basis.

#### **Transfer of HRA Balances**

11. At 1st April 2013, the HRA held £7.0 million in the Major Repairs Reserve. Legislation allowed the Council to transfer the £7.0 million from HRA reserves into the General Fund and the Council took the opportunity to do this and then moved the £7.0 million into earmarked reserves. This was a one-off opportunity and the legislative ability to effect this transfer has subsequently been removed.

#### **General Fund Revenue Outturn 2013/14**

12. The Council set a budget for spending on General Fund services of £25.0 million, to be financed by Grant funding of £8.2 million, Business Rates income of £5.7 million and Council Tax of £11.1 million.
13. The Council Tax for a Band D property was set at £268.19, a 1.99% increase on the previous year.
14. During the year the Council transferred its non-dwelling HRA assets from the HRA to the General Fund which was approved by Council in September 2013. The budget was revised for 2013/14 resulting in a budgeted surplus of £1.3 million, being the net income related to these assets.
15. The table below summarises the outturn position in the format used for 2013/14 internal reporting and as reported to the City Executive Board on 3<sup>rd</sup> July 2014.

	NET APPROVED BUDGET 2013/14 £000	NET REVISED BUDGET 2013/14 £000	NET EXPENDITURE 2013/14 £000	VARIANCE £000
City Regeneration	(283)	(103)	(370)	(267)
Community Services	8,296	8,836	8,083	(753)
Organisational Development & Corporate Services	13,066	13,156	13,173	17
<b>Total Ex' SLA's &amp; Capital Charges</b>	<b>21,079</b>	<b>21,889</b>	<b>20,886</b>	<b>(1,003)</b>
SLA's and Capital Charges	1,612	447	-763	(1,210)
Corporate Contingencies	2,336	1,974	-	(1,974)
<b>Net General Fund Expenditure</b>	<b>25,027</b>	<b>24,310</b>	<b>20,123</b>	<b>(4,187)</b>
Net Transfers (to)/from Reserves	-	(605)	4,766	5,371
<b>Net Budget Requirement</b>	<b>25,027</b>	<b>23,705</b>	<b>24,889</b>	<b>1,184</b>
Government Funding	8,219	8,219	8,305	86
Business Rates	5,661	5,661	5,470	(191)
Council Tax	11,301	11,301	11,302	1
Parish Precept	(154)	(154)	(188)	(34)
<b>Total Funding</b>	<b>25,027</b>	<b>25,027</b>	<b>24,889</b>	<b>-138</b>

### **City Regeneration Favourable**

16. Regeneration and Major Projects had a favourable outturn of £0.411 million primarily due to additional income generated from commercial properties rent reviews and new properties being brought into use.

### **Adverse**

17. City Development was £0.141 million overspent primarily as a result of Building Control Fees being lower than budgeted.

### **Community Services Favourable**

18. Direct Services had a favourable outturn position of £0.823 million largely caused by staffing vacancies (£0.45 million) a surplus (£0.3 million) from off-street car parking primarily due to demand continuing despite increased charges, and additional external works income, including street cleansing and engineering, all of which is partly offset by additional costs relating to rates, the depot lease, and an internal income pressure relating to motor transport.

### **Adverse**

19. Policy, Culture and communication had a £0.071 million overspend due primarily to additional costs relating to the Christmas Light Festival.

### **Organisational Development and Corporate Services Favourable**

20. The Directorate had an outturn position of £13.173 million which is an adverse variance of £0.017 million against the revised budget. This arose from minor variances in income and suppliers and services across the Directorate.

### **SLA's, Capital Charges and Corporate Budgets Favourable**

21. £0.7 million additional interest receivable due largely to changes in the interest rates charged to the HRA.
22. Corporate budgets of around £0.2 million for global budget pressures, such as inflation on utility charges, which did not have to be used

23. £2 million contingency budgets which did not need to be used due to the Council's success in achieving its efficiency targets.

### **Net Transfers to Reserves**

24. An analysis of the net transfer to reserves of £12.7 million is shown in Note 7 (page 43) to the accounts. The most notable transfers are detailed below in paragraph 6.

### **Housing Revenue Account Revenue Outturn 2013/14**

25. The HRA Income and Expenditure Statement (page 85 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.
26. The increase or decrease in the year, using the basis for which rents are raised, is shown in the Movement on the Housing Revenue Account Statement, a snapshot of which is shown below:

	<b>Budget £000</b>	<b>Actual £000</b>	<b>Variance £000</b>
<b>Net Income</b>	<b>(42,817)</b>	<b>(42,261)</b>	<b>556</b>
<b>Expenditure</b>			
Tenancy Management	16,877	16,686	(191)
Repairs and Maintenance	9,992	9,545	(447)
<b>Total</b>	<b>26,869</b>	<b>26,231</b>	<b>(638)</b>
Appropriations	19,078	15,728	(3,350)
<b>Net (surplus)/deficit</b>	<b>3,130</b>	<b>(302)</b>	<b>(3,432)</b>
<b>Working Balance</b>	<b>(5,670)</b>	<b>(4,000)</b>	<b>1,670</b>

27. The HRA was budgeted to make a contribution from working balances of £3.1 million for 2013/14. The outturn position as shown was a contribution to working balances of £0.3 million, a favourable variance of £3.4 million. This £0.3 million transfer to the HRA working balance leaves the balance standing at £4.0 million. Notable variations include:

### **Net Income**

28. The adverse variance of £0.6 million due to:
- The transfer of non-dwelling assets (i.e. garages and shops) from the HRA to the General Fund, offset by
  - Higher dwelling rental income due to voids being less than originally budgeted and the impact of Right to Buy disposals being less than budgeted.

### **Tenancy Management Cost**

29. Tenancy Management Costs show a favourable variation of £0.2 million over the original budget due to additional interest costs of £0.7 million, offset by reductions in Bad Debt Provision of £0.3 million and savings of £0.6 million on service expenditure primarily in respect of public utility costs, consultancy fees, salary costs of the Major Projects Team, and savings associated with recharges for overhead costs.

### **Repairs and Maintenance**

30. Responsive and Cyclical Repairs costs were underspent primarily due to savings associated with service contract payments

### **Appropriations**

31. The brought forward HRA balance was originally budgeted at £8.8 million but the actual brought forward was £3.7 million because of a higher transfer to capital reserves made at the end of 2012/13. This has resulted in lower transfers into capital reserves being made in 2013/14 compared to the budget.

### **Earmarked Reserves**

32. **General Fund Earmarked Reserves** – As at 31<sup>st</sup> March 2013 these stood at £15.6 million, as shown on page 43 of the Statement of Accounts. In 2013/14 the Council made a net transfer into reserves of £12.7 million bringing the balance to £28.3 million as at 31<sup>st</sup> March 2014. Key movements include:
33. **Revenue Contribution to Capital Reserve** - This has increased from £1.6 million to £6.9 million during the year. This reserve will be used going forward to support future Capital Schemes.
34. **Property Fund Reserve** – The Council intends to invest in property to deliver an on-going revenue benefit to the General Fund; this reserve of £7.0 million has been set up to support this process.
35. **Indirect Property Fund Reserve** – The Council has invested £3 million in property funds in the year in order to gain a revenue return in the future and is in the process of increasing this investment. Since there is risk involved in these types of investments, an earmarked reserve of £0.4 million has been set up to mitigate against these.
36. **NNDR Retention Reserve** – £0.6 million. The new Business Rates retention system places additional risks on Council's increasing the fluctuations between years of surplus or deficit on the NNDR Collection Fund; this reserve will be used to balance out the fluctuations between years and mitigate the pressure on the General Fund.
37. **HRA Earmarked Reserves** - As at 31 March 2014 these stood at £8.5 million following a net transfer into the reserves of £7.2 million. A new reserve – The HRA Capital Financing Reserve – has been set up with a transfer of £7.7 million which will be used going forward to support future Housing Revenue Account Capital Schemes.

38. **Insurance Reserves** - as at 31 March 2014 these stood at £1.5 million and are held to cover uninsured excesses and future liabilities including those arising from the administrative arrangements of the Council's previous insurers Municipal Mutual Insurance (MMI). Of this balance, £1.3 million is related to HRA liabilities and £0.2 million is related to General Fund.

### **Working Balances**

39. **General Fund Working Balance** – this is £3.6 million as at 31<sup>st</sup> March 2014 and has remained static since 31<sup>st</sup> March 2013.
40. **HRA Working Balance** – The in-year HRA surplus of £0.3 million has been added to the HRA working balance increasing it from £3.7 million to £4.0 million as at 31<sup>st</sup> March 2014.

### **Contingencies and Provisions**

41. As at 31 March 2014 the Council has made financial provision of £3.9 million for expenditure likely to be incurred some time in the future. Included in this figure are the following amounts:
- Rent Deposit Scheme – £1.3 million - this provision covers deposits paid on behalf of tenants placed in private rented properties by the Council. The provision assumes a write off of approximately 86% of the debt.
  - Singletree Repairs and Maintenance - £0.3 million – a provision to cover major works in respect of a leaseholder property. When the leasehold property is resold a percentage of the resale value is paid into the provision.
  - Council Tax Court Costs - £0.4 million. This provision is against court costs that have been raised against outstanding Council Tax arrears.
  - Provision for NNDR Appeals – £1.7 million. Following the reform of Business Rates, the risk of Appeals is shared between Central Government, the Council, and Oxfordshire County Council. This is a new provision for this year and relates to the Council's potential liability for the cost of appeals. The Council's share of the overall collection fund deficit has been transferred to earmarked reserves.

### **Capital Outturn 2013/14**

42. The Council's budgeted capital spend for 2013/14 was approximately £43 million, actual spend was £22 million; a variation of £21 million. Of this variation approximately £5 million related to the Competition Swimming Pool at Blackbird Leys and another £5 million to Homes and Communities Agency (HCA) New Build. The remaining £11 million relates to other slippage that will be carried forward to be spent in future years. Other notable slippage includes the following:
- £0.4 million Museum of Oxford Development;
  - £0.3 million Superconnected cities;
  - £0.4 million Rose Hill Community Centre
  - £0.3 million 23-25 Broad Street

- £5.0 million Homelessness Property Acquisitions
- £0.7 million Town Hall works
- £0.4 million Leisure Centre Improvement
- £1.0 million Develop new burial space
- £0.6 million Sports Pavilions
- £1.5 million Horspath Road Depot
- £0.6 million Homes at Barton

43. The Council is in the process of implementing a Capital Gateway process which will closely track the delivery of capital projects against some predefined criteria. It is anticipated that this process will improve capital programme delivery in the future.

#### **Funding the Capital Programme**

44. The General Fund Capital Programme spend totalled £11.0 million and was funded through a combination of capital receipts (£2.5 million), Government Grants (£0.9 million), Direct Revenue Funding from the General Fund (£4.5 million), Prudential Borrowing (£2.7 million), Developer Contributions (£0.4 million).

45. The Housing Programme was financed £9.8 million from Housing Revenue Resources and £1.0 million from grant from the Homes and Communities Agency.

#### **Capital Receipts**

46. As at 31 March 2014 the Council held approximately £22.4 million usable capital receipts: £3.9 million having been used to finance the Capital Programme. The remaining receipts will be used over the life of the medium term plan.

#### **Icelandic Banking Losses - Update**

47. 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** - 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. £1.2 million has been received to date.
- **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 £421,000 has been received in this financial year, totalling £2.8 million received to date.

#### **The Collection Fund**

48. The Collection Fund (page 91 of the Statement of Accounts) is the Council's statement reflecting its statutory obligation as a Billing Authority

to maintain a separate Collection Fund. The Statement shows the transactions the Council as a Billing Authority has undertaken in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and Non-Domestic Rates.

49. The Collection Fund Balance at the end of the year was £0.1 million net deficit. This represents a £1.5 million deficit on the Business Rates and £1.4 million surplus on the Council Tax element. The Council Tax balance is shared between the major preceptors, Oxford City Council, Oxfordshire County Council and Thames Valley Police and Crime Commissioner in proportion to their precept. The Business Rates balance from 31<sup>st</sup> March 2014 is shared between Central Government, Oxford City Council and Oxfordshire County Council in the percentages 50% / 40% / 10% respectively. There are no balances shown for Business rates for 2012/13 because prior to 2013/14 any balance was settled by Central Government. The following table shows the proportionate shares: -

	<b>Council Tax</b>	<b>Business Rates</b>	<b>Total</b>	<b>Council Tax</b>
	<b>2013/14</b>	<b>2013/14</b>	<b>2013/14</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Oxford City Council	234	(600)	(366)	88
Oxfordshire County Council	1,018	(150)	868	385
Police and Crime Commissioner (Thames Valley)	135	-	135	51
Central Government	-	(749)	(749)	-
<b>Total</b>	<b>1,387</b>	<b>(1,499)</b>	<b>(112)</b>	<b>524</b>

50. The main reasons for the surplus on the Council Tax Collection Fund balance are:
51. The allowance for non-collection was increased with the introduction of the Council Tax Reduction Scheme, however rates remained as per previous years
52. A lot of work was undertaken during the year to remove exemptions and discounts that people are not entitled to with the result that the collectible debt increased over the projections.
53. The main reason for the Business Rates Collection Fund deficit of £1.5 million is the estimated cost of backdated appeals being charged to the Collection Fund in 2013/14.

#### **Financial Implications**

54. These are covered within the main body of the report.

#### **Legal Implications**

55. These are covered within the main body of the report.

#### **Risk Implications**

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

### **Communication**

57. 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: -
58. From Tuesday 22<sup>nd</sup> July 2014 to Monday 18<sup>th</sup> August 2014 between 9.30am and 4.30pm any person may inspect the accounts of the Council for the year ended 31<sup>st</sup> March 2014 and certain related documents (comprising books, deeds, contracts, bills, vouchers and receipts) at the address given below. They may also make copies of the accounts and documents.
59. From 9.30am on Tuesday 19<sup>th</sup> August 2014 until the conclusion of the audit process, a local government elector for the area of the Council, or his / her representative, may ask the auditor questions about the accounts. Please contact the address given above to make arrangements to ask any questions.
60. From 9.30am on Tuesday 19<sup>th</sup> August 2014 until the conclusion of the audit process, a local government elector for the area of the Council or his / her 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 below.
61. The address for communications, inspections, and objections in relation to the audit and inspection of accounts is: - Oxford City Council, St Aldates Chambers, OX1 1BX.

#### **Name and contact details of author:-**

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**Background papers: None**

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