

ABERDEEN CITY COUNCIL

COMMITTEE: Council
DATE: 13 June 2012
DIRECTOR: Stewart Carruth
TITLE OF REPORT: Draft Statement of Accounts 2011/12
REPORT NUMBER: CG/12/075

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide to elected members a copy of the Council's draft 2011/12 Statement of Accounts, which are subject to audit.
- 1.2 The Council is required by statute to annually present a set of draft accounts to Audit Scotland by 30 June and for elected members to receive a copy of these draft accounts by this due date.
- 1.3 This report provides an overview of the year-end financial position and the resources of the Council as at 31 March 2012, and will be followed by a report to Finance and Resources Committee on 21 June 2012 on the full year outturn for the Council,

2. RECOMMENDATION(S)

- 2.1 It is recommended that the Council:
 - a) note the Draft Statement of Accounts, and financial performance of the various Council accounts contained therein, which will be submitted to Audit Scotland by 30 June 2011;
 - b) note the overall positive outturn that has been achieved in 2011/12 and the surplus against budget that provides opportunities for the Council to continue to strengthen its balance sheet and financial position;
 - c) agree to set aside the full value of debt owed by the AECC Group to the Council to enable the most appropriate and tax efficient mechanism to be put in place during 2012/13 and thereby remove the debt burden from AECC;
 - d) agree that the Head of Finance and Head of Legal and Democratic Services be given delegated power to enter into and carry out the necessary transactions in connection with removal of the debt burden and the transfer of assets, as previously agreed by Council in December 2010;

- e) note that in accordance with the relevant strategies to maintain revenue balances the Council's objective of retaining recommended levels of uncommitted balances has been achieved;
- f) approve the various transfers between Council accounts and earmarking of sums against the General Fund, Housing Revenue Account and Common Good as at 31 March 2012 as detailed in paragraphs 5.3.16 and 5.3.20, including the sum of £557,000 from the 2011/12 budget surplus to support the Council's City of Culture 2017 bid; and
- g) note that the audited Statement of Accounts will be presented to the Audit and Risk Committee, along with the external auditor's report to members in the Autumn, and will come back to a Council meeting thereafter.

3. FINANCIAL IMPLICATIONS

- 3.1 The financial implications of the Draft Financial Statements are detailed throughout the body of the report. Particular attention should be drawn to the 2011/12 year end working balances that exist on the three main accounts, the General Fund, the Housing Revenue Account and the Common Good, which show the extent of commitments set against the fund balances held. These details can be seen at section 5.3.20 below.

4. OTHER IMPLICATIONS

- 4.1 Every organisation has to manage the risks inherent in the operation of services on the scale of the Council. The financial risks are minimised by the regular review of financial information by Services and corporately by Members. This report forms part of the end of year reporting cycle and seeks to clarify the overall operating conditions and outcomes that have resulted in the past year.

5. REPORT

- 5.1.1 There is a statutory requirement that an abstract of the accounts for each financial year be submitted to the Controller of Audit not later than 30 June in the next financial year.
- 5.1.2 In effect this means that Financial Statements for 2011/12, which are prepared in accordance with the relevant Accounting Codes of Practice, require to be submitted by 30 June 2012 to Audit Scotland.
- 5.1.3 There is also a requirement that the draft accounts be provided to Elected Members by 30 June each year.

5.1.4 For ease of reference the report is broken down into the following sections:

- 5.2 Link between the Statement of Accounts & General Fund Position
- 5.3 Revenue
- 5.4 Capital
- 5.5 Inspection and Audit of Accounts

5.2. Link between Statement of Accounts & General Fund Position

5.2.1 In the 2007 Budget the Chancellor announced that there would be a requirement for Local Authorities to adopt International Financial Reporting Standards from 2010/11.

5.2.2 The Statement of Accounts have been prepared in accordance with the International Financial Reporting Standard (IFRS) based *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12(the Code)*, The Statement of Accounts are also based on the *Service Reporting Code of Practice 2011/12 (SeRCOP)*.

5.2.3 In reading the Statement of Accounts members are asked to note the difference between the figures shown in the Comprehensive Income and Expenditure Statement and the actual performance of the Council against which it can be measured by the Council Tax payer, which is presented in the Movement in Reserves Statement.

5.2.4 The figure to be aware of is the one described in the Movement in Reserves Statement as “(Increase) / Decrease in the Year”, which is the actual movement on the individual Funds.

5.2.5 The importance of the difference cannot be over emphasised, the reason being that the Comprehensive Income and Expenditure Statement shows the financial performance for the year, measured in terms of the resources consumed and generated over the last 12 months. It takes account of the requirements of IFRS based accounting standards.

5.2.6 The impact of compliance with accounting standards is that many accounting entries are made which remove the obvious linkage between the figures presented in the Comprehensive Income and Expenditure Statement and the way in which the Council is required to account for itself within a framework of raising Council Tax.

5.2.7 The main differences are that in the Comprehensive Income and Expenditure Statement capital investment is accounted for as fixed assets are consumed, rather than as investment is financed; and retirement benefits are charged as future benefits are earned, rather than as amounts become payable to pension funds and pensioners.

5.2.8 The General Fund Balance compares the Council's spending against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure. It is upon this basis that the regular monitoring reports are prepared for Members' consideration during the year.

5.3. Revenue

5.3.1 Members are requested to draw their attention to the Explanatory Foreword in the Statement of Accounts which summarises the financial position of the Council across its various accounts and provides commentary on the performance of the Council during the Financial Year.

5.3.2 All of the figures are subject to the external audit process.

5.3.3 In summary, the actual performance against budget of the Council was:

	2011/12 Budget £'000	2011/12 Actual (Surplus) / Deficit £'000	(Favourable) / Adverse Movement £'000
General Fund	0	(3,909)	(3,909)
Housing Revenue Account	0	(420)	(420)
Common Good	268	(714)	(982)

5.3.4 The actual movement on the reserves for the year is influenced by use of reserves and balances in year and transfers between accounts.

5.3.5 For the Common Good, transactions relating to proper accounting practice are applied to reflect the actual change in value from year to year. This represents the sale of fixed assets and the revaluation of the investment properties that comprise the Common Good.

5.3.6 In relation to the General Fund a budget surplus was achieved of £3.9m following the review of all year end transactions and the requirement for the Council to retain provisions and set aside funds to support projects already subject to committee decisions.

5.3.7 The budget surplus is being recommended for use to provide resources to support the Council's bid for City of Culture in 2017 (£557,000) and to contribute to making provision for the non-repayment of debts owed by the AECC.

5.3.8 Following the conversion of £2 million of loan value to preference shares proper accounting practice is to recognise these at fair value, rather than historical cost. The value that the Council has put on these shares is £nil and has therefore made an adjustment in the General Fund to charge the value reduction.

5.3.9 The balance that AECC owes the Council therefore stands at £26.2 million and this is repayable in 2017 and 2021. Based on historical performance and on the basis that the recently prepared business plan for the AECC does not take into account repayment of the debt nor does it prepare AECC for making repayments it is considered highly likely that the loans will not be repaid. The normal accounting treatment that should be applied in this circumstance is that a provision is created to recognise the value that the Council believes is uncollectable, this principle is applied to all of the Council debts not just those outstanding from AECC. A specific provision for £26.2 million has therefore been created in the Council accounts.

5.3.10 This does not actually remove the debt burden from AECC, however it is recommended that the Council put in place the most appropriate and tax efficient mechanism during 2012/13 that thereby removes the debt burden from AECC. Due to the specific nature of the relationship between the Council and AECC both parties are seeking specialist tax and accounting advice.

5.3.11 A proportion of the budget surplus on the General Fund (£3.351 million) for 2011/12 has been utilised to enable the provision to be created.

5.3.12 The actual movement on the various Council accounts is as follows:

	2011/12 Actual (Surplus) / Deficit £'000	2011/12 Changes in Provisions £'000	2011/12 Change in Earmarked Reserves £'000	AECC Debt Provision £'000	2011/12 Accounting Transactions £'000	Actual (Favourable) / Adverse Movement on Account £'000
General Fund	(3,909)	(10,474)	(6,773)	28,200	-	7,044
Housing Revenue Account	(420)	-	-	-	(126)	(546)
Common Good	(714)	-	-	-	(5,956)	(6,670)

5.3.13 The balance on the various accounts (prior to earmarking sums) at 31 March 2012 can therefore be summarised as:

	1/4/12 Balance £'000	Movement in Year £'000	Transfers £'000	31/3/12 Balance £'000
General Fund	(35,466)	7,044	-	(28,422)
Housing Revenue Account	(6,877)	(546)	420	(7,003)
Common Good *	(67,183)	(6,670)	-	(73,853)

* The Common Good figures shown represent the value of investment properties held plus cash balances. The value of cash balances at 31 March 2012 is £7.051 million.

5.3.14 The transfers column referred to in the table above reflects a transfer approved by the Finance and Resources Committee in March 2012. This transfer was made to the General Fund, but is not shown in the above table against the General Fund as the sum was then transferred to the Capital Fund.

5.3.15 The Council can operate a Capital Fund, under the Local Government (Scotland) Act 1975 and make specific withdrawals – to pay for capital expenditure or the repayment of loan debt principal. It may also receive contributions from the sale of property and any other sums as directed by the Council.

5.3.16 In 2011/12 a value of £8.273 million has been transferred to the Capital Fund in order to mitigate future capital risks and to capture funding allocated as part of the budget for financial year 2011/12. It is recommended that the Council approve this transfer as part of the year end closure of the accounts.

5.3.17 The balance on the Capital Fund as at 31 March 2012 is £19.892 million.

5.3.18 The earmarking of the account balances is important to ensure that the funds associated with specific projects and for specific purposes are recognised and set aside for that use. Each year the Council has set aside funds in this way.

5.3.19 The General Fund, Housing Revenue Account and Common Good all have balances that require to be earmarked and these fall into specific categories – financial risks; specific contingent risks; unspent grant income; specific projects; and for the Devolved Education Management scheme.

5.3.20 A summary of the recommended earmarked sums as at 31 March 2012, included in the draft Statement of Accounts is shown in the table below

(note, commitments on the Common Good are set against its cash balances):

	General Fund £'000	Housing Revenue Account £'000	Common Good £'000
Balance as at 31/3/12	(28,422)	(7,003)	(7,051)
Earmarked Sums			
Contingent Risks:			
De-risk contingent liabilities	2,843		
Central Heating Leases		322	
Unspent Grant Income:			
Various grants received not yet spent	843		
Specific Projects:			
Energy Efficiency Fund	277		
Queens Links Reinstatement Fund	102		
City Development Company	1,345		
'The Green' Townscape Project	507		
Roads Maintenance	129		
Business Plan Service Options	4,164		
TIF Business Case	300		
Social Care OT Store	171		
Clashieknowe Project	200		
Waste Strategy	75		
Mobile Working	85		
Zero Waste	734		
Windfarm Start Up	100		
City Of Culture Bid	557		
Scottish Secure Tenancy		250	
Repairs & Maintenance		2,172	
Greenfern Development			289
Devolved Education Management			
Schools	2,400		
Community Education Centres	2,300		
Total Earmarked balance	17,132	2,744	289
Total Uncommitted balance	(11,290)	(4,259)	(6,762)
Recommended uncommitted balance	(11,290)	(3,866)	(4,945)

5.3.21 Recommended uncommitted balances are presently defined as:

- General Fund - the approved level is 2.5% of net (2012/13) revenue expenditure,
- Housing Revenue Account – 5% of (2012/13) gross expenditure;
- Common Good – cash balances should be maintained by using the Consumer Price Index (CPI) to annually uplift a sum previously approved by the Council.

5.3.22 It is recommended that the earmarked balance, as detailed at 5.3.20, is approved and set aside as at 31 March 2012.

5.4. Capital

5.4.1 Capital expenditure is undertaken by the Council having regard to the Prudential Code for Finance in Local Authorities and considerations, in all years, of affordability and sustainability.

5.4.2 Total capital expenditure in 2011/12 was £69.6 million, of which £37.7 million was spent on the Housing (HRA) programme and £31.9 million on the General Fund programme

5.4.3 The main service elements within the General Fund Capital programme comprise approximately £2 million on ICT and data projects, £3.8 million on infrastructure improvements to Roads & Transportation and £11.9 million on Corporate Accommodation projects, including £7.4 million on Marischal College. The remaining balance of £17.2 million being spent on various other capital projects

5.4.4 Examples of some of the main projects undertaken in 2011/12 included work on Marischal College, the data centre, equipment for the new schools, roads resurfacing works, 'Ness' and 'Hill of Tramaud' landfill sites and vehicles. Specific housing related projects included the construction of new affordable housing, extra care adaptations, and the modernisation programme.

5.4.5 The majority of costs were funded from a combination of finance through net borrowing (£19.5 million), the proceeds from the sale of assets (£4.7 million), and income from grants and contributions (£21.7 million), with the remainder being contributions from the revenue accounts (housing - £23.4 million; general fund - £0.3 million).

5.5. Inspection and Audit of the Accounts

5.5.1 Following submission of the draft accounts, upon being so requested by Audit Scotland, a notice of inspection will be placed in the press giving at least 14 days' public notice of the commencement of the period during which the accounts and other documents will be available for public inspection. The accounts and other documents require to be made available for a period of not less than 15 full days during ordinary business hours.

5.5.2 It is anticipated as in previous years, following the required timetable and notices, that the draft accounts will be available for public inspection in late July/early August.

5.5.3 It should be noted that the unaudited accounts are prepared according to the requirements of the IFRS based Code of Practice on Local Authority Accounting (the Code) and as a result are more complex and detailed than monitoring reports provided to Committee throughout the year.

5.5.4 An analysis of the accounts will be presented to the Audit and Risk Committee and Council once the audit process has been completed, along with the external auditor's report. The audit process is scheduled for completion by 30 September 2012.

6. IMPACT

6.1 It is the aim of the Council to maintain working balances to a level that provides sufficient scope to deal with unexpected or unforeseen events in order that this does not have a detrimental and immediate impact on service delivery. At its meeting of 10 February 2011 the Council agreed that a sum, equivalent to 2.5% of net revenue expenditure, approximately £11.3 million, be maintained by the Council.

7. REPORT AUTHOR DETAILS

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8. BACKGROUND PAPERS

Draft Financial Statements for Financial Year 2011/12;
Redetermination letters received from the Scottish Government;
Previous reports to Finance and Resources Committee on General Fund