

## ABERDEEN CITY COUNCIL

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**COMMITTEE:** Council

**DATE:** 26 June 2013

**DIRECTOR:** Stewart Carruth

**TITLE OF REPORT:** Draft Statement of Accounts 2012/13

**REPORT NUMBER:** CG/13/078

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### 1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide to Elected Members a copy of the Council's draft 2012/13 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 2013.

### 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 2013;
  - b) note the overall positive outturn that has been achieved in 2012/13 and the surplus against budget that provides opportunities for the Council to continue to strengthen its balance sheet and financial position;
  - c) 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;
  - d) 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 2013 as detailed in paragraphs 5.3.12 and 5.3.16, including the sum £5.541 million to fund the financial risk reserve and £2 million to mitigate specific Welfare Reform risks;
  - e) agree to revise the total value of capital funding to be carried forward into 2013/14 to £16.978 million, for projects detailed in paragraph 5.4.7; and

- f) 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 be presented to a Council meeting thereafter.

### **3. FINANCIAL IMPLICATIONS**

- 3.1 The financial implications of the draft Statement of Accounts are detailed throughout the body of the report. Particular attention should be drawn to the 2012/13 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 5.3.16 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 CMT and Elected 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 the draft Statement of Accounts for 2012/13, which are prepared in accordance with the relevant Accounting Codes of Practice, require to be submitted by 30 June 2013 to Audit Scotland.
- 5.1.3 There is also a requirement that the draft Statement of 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 The Statement of Accounts has been prepared in accordance with the International Financial Reporting Standard (IFRS) based *Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code)*, The Statement of Accounts are also based on the *Service Reporting Code of Practice 2012/13 (SeRCOP)*.
- 5.2.2 In reading the Statement of Accounts Elected 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.
- 5.2.3 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.
- 5.2.4 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.
- 5.2.5 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.
- 5.2.6 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.
- 5.2.7 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 Elected Members’ consideration during the year.

### 5.3. Revenue

5.3.1 Elected 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:

	<b>2012/13 Budget £'000</b>	<b>2012/13 Actual (Surplus) / Deficit £'000</b>	<b>(Favourable) / Adverse Movement £'000</b>
General Fund	0	(5,695)	(5,695)
Housing Revenue Account	0	(1,277)	(1,277)
Common Good	349	(623)	(972)

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 £5.7m 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 decisions.

5.3.7 In accordance with the decision taken at the October 2012 meeting of the Finance and Resources Committee the budget surplus can provide a sum of £5.541 million to create a Financial Risk Reserve. This is in line with the Reserves Strategy of the Council and provides financial protection against growth or cost pressures specifically identified in the Budget setting process for 2013/14 and 5-year business plan update.

5.3.8 The balance of the surplus generated has been earmarked to de-risk the Council Balance Sheet to the extent of guarantees given during the year.

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

	2012/13 Actual (Surplus) / Deficit £'000	2012/13 Changes in Earmarked Reserves £'000	2012/13 Retention of Police Reserves £'000	2012/13 Retention of Fire Reserves £'000	2012/13 Accounting Transactions £'000	Actual (Favourable) / Adverse Movement on Account £'000
General Fund	(5,695)	(3,998)	(4,831)	(413)	-	(14,937)
Housing Revenue Account	(1,277)	-	-	-	(130)	(1,407)
Common Good	(623)	-	-	-	(3,689)	(4,312)

5.3.10 The balance on the various accounts (prior to earmarking sums) at 31 March 2013 can therefore be summarised as:

	1/4/12 Balance £'000	Movement in Year £'000	Transfers £'000	31/3/13 Balance £'000
General Fund	(31,373)	(14,937)	-	(46,310)
Housing Revenue Account	(7,003)	(1,407)	-	(8,410)
Common Good *	(73,853)	(4,312)	-	(78,165)

\* The Common Good figures shown represent the value of investment properties held plus cash balances. The value of cash balances at 31 March 2013 is £7.853 million.

5.3.11 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.

5.3.12 In 2012/13 a value of £15.336 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 2012/13. It is recommended that the Council approve this transfer as part of the year end closure of the accounts.

5.3.13 The balance on the Capital Fund as at 31 March 2013 is £45.169 million.

5.3.14 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.

5.3.15 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. The General Fund has an additional category as at 31 March 2013 due to the national changes to the Police and Fire Services, and this relates to the return of their closing reserves.

5.3.16 A summary of the recommended earmarked sums as at 31 March 2013, 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):

	<b>General Fund £'000</b>	<b>Housing Revenue Account £'000</b>	<b>Common Good £'000</b>
<b>Balance as at 31/3/13</b>	<b>(46,310)</b>	<b>(8,410)</b>	<b>(7,853)</b>
Earmarked Sums			
Financial Risks:			
Financial Risk Fund	5,541		
Welfare Reform	2,000		
Contingent Risks:			
De-risk contingent liabilities	5,762		
Central Heating Leases		452	
Unspent Grant Income:			
Various grants received not yet spent	2,302		
Specific Projects:			
Energy Efficiency Fund	670		
Queens Links Reinstatement Fund	102		
City Development Company	1,345		
'The Green' Townscape Project	326		
Roads Maintenance	129		
Business Plan Service Options	3,762		
TIF Business Case	300		
Social Care OT Store	34		
Clashieknowe Project	200		
Waste Strategy	75		
Mobile Working	153		
Zero Waste	350		
Windfarm Start Up	100		
City Of Culture Bid	592		
ICT Projects	1,650		
Mortuary Fridges	47		
Windmill Brae Lighting	10		
Property Improvements	260		
Local Autism Action Plan	35		
Star Awards	30		
Affordable Housing		57	
Purchase of Land		305	

	<b>General Fund £'000</b>	<b>Housing Revenue Account £'000</b>	<b>Common Good £'000</b>
Repairs & Maintenance		1,617	
Greenfern Development			289
Devolved Education Management			
Schools	1,800		
Community Education Centres	2,200		
Police and Fire Closing Reserves			
Grampian Joint Police Board	4,831		
Grampian Joint Fire & Rescue Board	413		
<b>Total Earmarked balance</b>	<b>35,019</b>	<b>2,431</b>	<b>289</b>
<b>Total Uncommitted balance</b>	<b>(11,291)</b>	<b>(5,979)</b>	<b>(7,564)</b>
<b>Recommended uncommitted balance</b>	<b>(11,290)</b>	<b>(4,200)</b>	<b>(5,400)</b>

5.3.17 Recommended uncommitted balances are presently defined as:

- General Fund - the approved level is £11.290 million;
- Housing Revenue Account – 5% of gross expenditure (moving to 10% over three years ) and as at 31/3/13 recommended as £4.200 million;
- Common Good – cash balances should be maintained by using the Consumer Price Index (CPI) to annually uplift a sum previously approved by the Council.

5.3.18 It is recommended that the earmarked balance, as detailed at 5.3.16, is approved and set aside as at 31 March 2013.

#### **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 2012/13 was £63.5 million, of which £37 million was spent on the Housing (HRA) programme and £26.5 million on the General Fund programme

5.4.3 Examples of some of the main projects undertaken in 2012/13 included work on roads resurfacing works, Duthie Park and Winter Gardens and 'Ness' landfill site. Specific housing related projects included the modernisation programme, heating system replacement and structural work on multi-storey blocks.

- 5.4.4 The majority of costs were funded from a combination of finance through net borrowing (£16.5 million), the proceeds from the sale of assets (£6.5 million), and income from grants and contributions (£18.1 million), with the remainder being contributions from the revenue accounts (housing - £21.5 million; general fund - £0.9 million).
- 5.4.5 Overall there was a significant underspend against the capital programme budget and it is important that funding is secured to enable the completion of projects that were not completed in 2012/13.
- 5.4.6 At its meeting of 25 April 2013 the Finance and Resources Committee did agree to funding of £15.894 million being carried forward. Following finalisation and review of the programme in the latter stages of the year end process updated information is now available and it is requested that the Council revise the carry forward value to £16.978 million.
- 5.4.7 The projects comprise the following:

<b>Description</b>	<b>C/f £'000</b>	<b>Description</b>	<b>C/f £'000</b>
Data Centre Move	22	Land Acquisition	554
Police Capital Grant	1,705	Hydrogen Buses	400
Schools-Bucksburn/Newhills	522	City Broadband	949
Schools-Riverbank	164	St Nicholas House Demolition	21
Children Complex Needs	700	Duthie Park/Winter Gardens	158
Tullos Pool Refurbishment	671	Private Sector Housing Grant	62
Woodside Pitch	82	Ness Landfill Site	455
Property Condition & Suitability	2,675	Hill of Tramaud – Change of Law	408
Access from North	113	Victoria House	1,180
Western Peripheral Route	3,945	Integrated Drugs Service	650
Corp. Office Accommodation	1,000	Marchburn House	86
Road Infrastructure	456	<b>Total</b>	<b>16,978</b>

## **5.5. Inspection and Audit of the Accounts**

- 5.5.1 Following submission of the draft Statement of 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 2013.

## **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 4 October 2012 the Finance and Resources Committee agreed that a sum of £11.3 million be maintained as the uncommitted General Fund balance. This is equivalent to 2.7% of 2013/14 net revenue expenditure budget.

## **7. REPORT AUTHOR DETAILS**

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## **8. BACKGROUND PAPERS**

Draft Statement of Accounts for Financial Year 2012/13;  
Redetermination letters received from the Scottish Government;  
Previous monitoring reports to Finance and Resources Committee.