Audit Committee

Wednesday, 19th September, 2012
6.00 - 7.40 pm

Attendees	
Councillors:	Paul Massey (Chair), Colin Hay, Rowena Hay and Pat Thornton
Also in attendance:	Sarah Didcote (Group Accountant), Paul Jones (Head of Finance – GO Shared Services), Rob Milford (Head of Audit Cotswolds), Ian Pennington (KPMG Auditor), Martyn Scull (Group Accountant), Mark Sheldon (Director of Resources) and Rachael Tonkin (KPMG Auditor)

Minutes

1. APOLOGIES

Councillor Wall and Harman had given their apologies. Councillor Chard attended as a substitute for Councillor Wall.

2. DECLARATIONS OF INTEREST

No interests were declared.

3. MINUTES OF THE LAST MEETING

The minutes of the last meeting had been circulated with the agenda.

The Director of Resources reported back on the issue raised at the last meeting regarding the £100k journal threshold. He explained that journals are primarily used to correct errors in posting of income or expenditure. He assured members that this did not pose an opportunity for false payments to be made. He advised members that the ability to undertake journals was controlled by a robust process which allowed only certain staff to do journals with a further process for countersigning journals over £100k. Discussions across the four GO partners identified £100k as an appropriate level based on an assessment of the balance of risk and level of process. The threshold had always been £100k at Cheltenham Borough Council though other partners may have had other levels previously.

Upon a vote it was unanimously

RESOLVED that the minutes of the meeting held on the 20 June 2012 be agreed and signed as an accurate record.

4. PUBLIC QUESTIONS

No public questions had been received.

5. REVIEW OF THE ANNUAL STATEMENT OF ACCOUNTS

The Director of Resources introduced the item by explaining to members that contrary to previous years the annual statement of accounts had not been printed for all members but instead made available on the website and in the members room, given the increasing size of the documentation. Officers would make a PowerPoint presentation of particular highlights of the documentation.

Group Accountant, Martyn Scull, tabled amendments to pages 14, 21 and 92 of the statement of accounts. The amendments to pages 21 and 92 were presentational only, there had been no changes to the figures simply how they had been presented following a suggestion by KPMG. The amendment to page 14 had been a change to the capital expenditure which had previously not included the loan to the Airport. This had since been added. (Annex 1).

Group Accountants, Sarah Didcote and Martyn Scull introduced the PowerPoint presentation (Annex 2) and talked through each slide.

Officers provided the following responses to questions from members of the committee;

- There was a £30k limit for Disabled Facilities Grants and if Social Services were unable to provide top-up funding any shortfall could be met with a loan from the Council. Limits differed for private properties and social housing and these loans were usually repaid on death or sale of the property. Such loans were currently being treated as capital expenditure and when repaid as capital receipts. Officers would look at whether these loans needed to be disclosed elsewhere in the accounts.
- The cost of any borrowing was passed on to those to whom we loaned monies, the Council was not making a loss and was prohibited by law to make a profit.
- In terms of the subsidy buy-out the Government would continue to get 75% of any RTB monies, though there were a number of deductions that could be made (admin costs, etc). There was a new piece of legislation that would relax the restrictions on any monies from the sale of surplus assets but the Council would need to prove any such monies were to be used for regeneration.
- The decision to borrow £27.4m for the HRA self financing settlement was made by Council and was based on the business case which had been presented and showed that over a 30 year period it would be of significant benefit.
- The valuation of the Airport was based on the runway and buildings and the reduction in value was as a result of the declining property values since 2008.
- The Code had never previously required for heritage assets to be included, probably due to the difficulty around valuations. There would be no cash loss if any pieces were claimed back though this would impact the Net assets. The majority of pieces were donated a long, long time ago and some had been impossible to value.
- There were so many heritage assets that it would not be possible to value them all given the cost associated with such an undertaking. With these assets there was the potential for valuations to change over time.

Resolved

To approve the Statement of Accounts for 2011/12 including the Annual Governance Statement for 2011/12.

To authorise the chair of the Audit Committee to sign the Statement of Accounts in order to formally signify the Council's approval of the accounts.

6. AUDIT HIGHLIGHTS MEMORANDUM (ISA 260)

The KPMG Auditor introduced the report as circulated. In order to provide some context to the report he first explained that at the same time as what was always a busy period of accounting the council had launched the new GO financial system. KPMG had known for some time that this would pose additional risks and in recognition of this the council had brought in additional resources. Officers had done a good job inspite of the situation and whilst the accounts couldn't be descried as excellent as they had the year before, they had been produced in advance of the deadline and subject to the receipt of a signed management representation letter, KPMG would be issuing an unqualified audit opinion on the accounts

The KPMG Auditors gave the following responses to questions from members of the committee;

- The audit was undertaken on the old system as the new system (Agresso) had not gone live until 1 April 2012. The issue, as expected, was that officers were not able to dedicate as much time as they previously had as a result of the additional pressure of implementing a new system.
- In relation to item 2 / appendix 1 (the timeliness of bank reconciliations) the issue had been that the systems were not interfacing. Officers were working hard to rectify the issue, meet the deadline of the 31 October and then undertake weekly reconciliations.
- Instances where the responsible officer had been listed as 'GO Corporate team member' had been made, as given the restructure it had not been possible to name an individual at the time. Individuals had since been identified.
- It was doubtful that the quality of accounts this year would negatively impact the audit fee from Grant Thornton as this had already been set. This fee would likely reduce in the coming years by approximately 40% as the Audit Commission reduced their operating costs. KPMG had incurred overruns and this would be discussed with the Director of Resources.
- KPMG had concluded that the two Elector Challenges did not impact on the statement of accounts and these would be resolved with a letter to the challenger.
- Any outstanding issues from this year and any still outstanding from the previous year would be highlighted to Grant Thornton to monitor through to conclusion.
- The appendices did focus on property but this was because KPMG had less issues with day to day transactions and more with the technical area of fixed assets.

Rachael Tonkin, KPMG Auditor, had been asked to produce a report on the handover process between KPMG and the new external auditors Grant Thornton. Rather than produce a separate report she has chosen to include the information in this report (page 12). The table summarised the approach and timetable of the audit handover.

The Chairman acknowledged that this would be the last meeting that KPMG would attend and took the opportunity to formally register thanks for the support they had provided over the years. He felt they had served the council well and set high standards for Grant Thornton to follow.

Councillor Chard thanked all the council officers involved in the production of the statement of accounts for their efforts in difficult circumstances. He hoped next year would be easier for all concerned.

Upon a vote it was unanimously

RESOLVED that the management representation letter be agreed and signed by the Chairman of the Audit Committee.

7. INTERNAL AUDIT MONITORING REPORT

The Head of Audit Cotswolds introduced the report as circulated with the agenda. This was a standard item designed to inform members of the Audit Committee about highlights of the work completed by internal audit and comment on the assurances provided by this work.

He talked members through some of the key points contained within the report. The GO ICT Host (Centre of Excellence) review had been deferred until the end of the year to allow for continued implementation. Audit Cotswolds would be relying on their colleagues within Forest of Dean Internal Audit to ensure that the GO audit plan was delivered with minimal duplication and liaison was ongoing as to the best way of approaching this. The same approach had been taken with UBICO and a separate plan produced. Internal audit had also been involved in the new risk management system, in a consultancy capacity and would be undertaking a review later in the year. Appendix 1 summarised the work completed to date and the future AGS process going forward.

The Head of Audit Cotswolds gave the following responses to member questions;

- It was envisaged that GO Shared Services and Ubico would complete a certificate of assurance but this would very much be trial and error initially. The KPMG Auditor commented that the GO Partners would need to agree a consistent approach rather than four separate approaches.
- The Gifts & Hospitality and Equalities items to be added to the Significant Issues Action Plan were the result of an internal reviews that had identified issues rather than as a result of changes to legislation.
- The operation audit days identified for GO and Ubico in item 3.7 did not include residual days for retained services and was based on historic knowledge. This would no doubt be evolutionary but these days and the associated fees had been agreed as part of Service Level Agreements and additional days would impact the budget.

Upon a vote it was unanimously

RESOLVED that the report be noted.

8. WORK PROGRAMME

The work programme had been circulated with the agenda.

No additions were made by members.

In response to a query raised by a member of the Committee the Chairman assured members that it was systemic for the Overview & Scrutiny Committee to refer issues to the Audit Committee and vice versa. The process had not changed as a result of the move from three to one O&S Committee.

9. ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION

The Director of Resources provided an update on the GO restructure. A number of people had taken voluntary redundancy so there had been no compulsory redundancies and all posts had been filled. When considering the proposed structure, the Senior Leadership Team at CBC had raised concerns about the resilience of the Payroll function and as a result more resource had been put into the administration of the Payroll function. Whilst somewhat premature he was confident that savings would be realised and a high quality, resilient service delivered.

10. DATE OF NEXT MEETING

The next meeting was scheduled for the 09 January 2013.

Paul Massey
Chairman

This page is intentionally left blank

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the cost in the year of providing services, in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; and this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2010/11				2011/12		
Gross expenditure	Gross income	Net expenditure		Gross expenditure	Gross income	Net expenditure
£'000	£'000	£'000		£'000	£'000	£'000
			Continuing Operations			
9,743	(8,482)	1,261	Central Services to the public	9,877	(8,747)	1,130
10,604	(3,737)	6,867	Cultural and related services	10,017	(3,500)	6,517
7,724	(4,231)	3,493	Environment & Regulatory services	7,449	(4,524)	2,925
3,630	(1,657)	1,973	Planning services	2,989	(1,475)	1,514
4,814	(6,174)	(1,360)	Highways and Transport services	4,590	(6,158)	(1,568)
60,565	(17,057)	43,508	Local Authority housing (HRA)	17,233	(18,052)	(819)
-	-	-	Exceptional item - HRA self financing settlement (note 8)	27,414	-	27,414
34,068	(33,167)	901	Other housing services	34,808	(33,579)	1,229
2,668	(311)	2,357	Corporate & Democratic core	2,384	(361)	2,023
(11,026)	(150)	(11,176)	Non Distributed costs	1,656	(150)	1,506
122,790	**(74,966)**	**47,824**	**Total Cost of Continuing Operations excluding concessionary fares transferred to Gloucestershire County Council 1 April 2011**	**118,417**	**(76,546)**	**41,871**
2,337	(642)	1,695	Concessionary Fares	-	-	-
125,127	**(75,608)**	**49,519**	**Cost of Services**	**118,417**	**(76,546)**	**41,871**
1,328	(281)	1,047	Other operating expenditure *(note 12)*	882	(676)	206
4,492	(1,350)	3,142	Financing and Investment Income and Expenditure *(note 13)*	518	(1,399)	(881)
(2,714)	-	(2,714)	Exceptional item- Release of reversal of impairment losses on Icelandic bank deposits *(note 8)*	(253)	-	(253)
(25)	-	(25)	Exceptional item - CBC v. Laird case	-	-	-
-	(17,519)	(17,519)	Taxation and non-specific grant income *(note 14)*		(15,905)	(15,905)
128,208	**(94,758)**	**33,450**	**(Surplus) or Deficit on the provision of services**	**119,564**	**(94,526)**	**25,038**
		(1,265)	(Surplus) / Deficit on revaluation of non-current assets *(note 34)*			(1,555)
		(21,417)	Actuarial (gains) / losses on pension fund assets / liabilities *(note 42)*			8,230
		(22,682)	**Other Comprehensive Income and Expenditure**			**6,675**
		10,768	**Total Comprehensive Income and Expenditure**			**31,713**

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the cost in the year of providing group services, in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; and this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2010/11				2011/12		
Gross expenditure £'000	**Gross income £'000**	**Net expenditure £'000**		**Gross expenditure £'000**	**Gross income £'000**	**Net expenditure £'000**
			Continuing Operations			
9,743	(8,482)	1,261	Central Services to the public	9,877	(8,747)	1,130
10,604	(3,737)	6,867	Cultural and related services	9,926	(3,474)	6,452
7,724	(4,231)	3,493	Environment & Regulatory services	7,540	(4,550)	2,990
3,630	(1,657)	1,973	Planning services	2,989	(1,475)	1,514
4,814	(6,174)	(1,360)	Highways and Transport services	4,590	(6,158)	(1,568)
-	-	-	Exceptional item - HRA self financing settlement	27,414	-	27,414
60,637	(17,057)	43,580	Local Authority housing (HRA)	17,233	(18,079)	(846)
34,068	(34,151)	(83)	Other housing services	34,808	(33,969)	839
2,668	(311)	2,357	Corporate & Democratic core	2,384	(361)	2,023
(11,026)	(150)	(11,176)	Non Distributed costs	1,656	(150)	1,506
122,862	**(75,950)**	**46,912**	**Total Cost of Continuing Operations excluding Concessionary Fares transferred to Gloucestershire County Council 1 April 2011**	**118,417**	**(76,963)**	**41,454**
2,337	(642)	1,695	Concessionary Fares	-	-	-
125,199	**(76,692)**	**48,607**	**Cost of Services**	**118,417**	**(76,963)**	**41,454**
252	(281)	(29)	Other operating expenditure *(note 12)*	882	(676)	206
4,596	(1,354)	3,242	Financing and Investment Income and Expenditure	518	(1,573)	(1,055)
(2,714)	-	(2,714)	Exceptional item- Impairment losses on Icelandic bank deposits *(note 8)*	(253)	-	(253)
(25)	-	(25)	Exceptional item - CBC v. Laird case	-	-	-
-	(17,519)	(17,519)	Taxation and non-specific grant income *(note 52)*	-	(17,011)	(17,011)
127,308	**(95,746)**	**31,562**	**(Surplus) or Deficit on the provision of services**	**119,564**	**(96,223)**	**23,341**
		(362)	Share of Surplus or deficit of Joint Ventures			(56)
		17	Tax expenses of Joint ventures			-
		31,217	**Group (Surplus) or Deficit**			**23,285**
		(1,283)	(Surplus) / Deficit on revaluation of non-current assets			4,712
		(28,431)	Actuarial (gains) / losses on pension fund assets / liabilities *(note 49)*			9,543
		-	Share of other comprehensive income and expenditure of Joint Ventures			-
		(29,714)	**Other Comprehensive Income and Expenditure**			**14,255**
		1,503	**Total Comprehensive Income and Expenditure**			**37,540**

Change to Designation of Private Drainage

The Flood and Water Management Act 2010 changed the designation of the majority of private drainage to public sewers on October 1st 2011. Responsibility for these newly transferred public sewers falls to Severn Trent Water. From Building Control's point of view this means that the council needs to invest more time in identifying drainage systems and this has a cost to the service. The cost, so far, does not appear to be substantial but this change will have a long period of 'development' before a fully functioning system is operational.

CAPITAL EXPENDITURE

In 2011/12 the council spent £13.029m on capital projects and grants, compared with the revised budget of £9.244m.

Included in the expenditure for the year was £4.740m on major repairs and maintenance of council houses, £0.349m on disabled adaptations within the council housing stock, £0.653m on private sector disabled facility grants and adaptation support grants, £0.090m on other grants mainly for private sector housing improvements, £1.790m on housing enabling through partnership working with Cheltenham Borough Homes (CBH) which included the Brighton Road redevelopment scheme, £1.983 million on vehicles and plant and a capital loan to Gloucestershire Airport of £1.195m towards the runway safety project..

In addition a further £27.414m has been spent from the Housing Revenue Account in respect of the settlement payment made by the local housing authority to the Secretary of State for the commencement of self-financing of the Housing Revenue Account.

The major variances between the revised budget and outturn position are in respect of the Art Gallery and Museum Development which is being financed from lottery funding and reserves, the purchase of Vehicles and recycling caddies and delays in progress of the transformational improvement programme at St Pauls.

Like most local authorities, the council has been paying for a proportion of its capital expenditure from the proceeds of the sale of its assets. As a result of the downward trend in the economy and housing market specifically, this source of financing has been significantly reduced and only £1.102m of capital receipts were available to finance capital expenditure in 2011/12. The remaining sources of finance were Government Grants £0.423m, developer contributions and partnership funding £0.999m, with £1.065m coming from revenue financing.

During 2011/12 the council took out £4.7m of new borrowing to finance housing enabling, vehicles and recycling caddies, the Everyman Theatre restoration and the Airport loan.

During the year the council sold 9 dwellings under the 'right to buy' scheme.

This page is intentionally left blank

Audit Committee, 19 September 2012

2011/12 Statement of Accounts

Key changes and highlights

Martyn Scull
Group Accountant

Sarah Didcote
Group Accountant

1

Areas to be covered

- Legal background
- Changes to Code of Practice for 2011/12 statement
- Financial highlights
- Differences between Management Accounts and Statement of Accounts
- Questions

2

The Legal Framework

- Audit Commission Act 1998 – requirement to prepare an annual Statement of Accounts
- Local Government Act 2003 - accounts to be prepared in accordance with 'proper accounting practices' and the Accounts and Audit Regulations 2003 (as amended in 2011)
- Proper accounting practices are defined by the CIPFA *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12* (the 'Code') (previously the SORP)
- Local Government & Housing Act 1989 - separate Housing Revenue Account (HRA) - 'ring-fenced'
- Statutory requirement to maintain a separate Collection Fund for council tax and business rates

3

Code of Practice on Local Authority Accounting – the rules!

- Accounts must be prepared in accordance with the Code
- From 2010/11 the Code is based on International Financial Reporting Standards (IFRS)
- Additional requirements for 2011/12 e.g. Heritage Assets
- 2011/12 Code guidance notes have 827 pages
- 2011/12 Statement of Accounts has 130 pages (65 pages in 2005/06)

4

Main Presentational Changes

- Heritage Assets – recognised in Financial Statements for the first time
- Related party disclosures – amended definitions and disclosures
- New disclosure for the number and cost of agreed exit packages
- Additional disclosure requirements for 'soft' loans
- New disclosure requirements in relation to Trust Funds (reinstatement of previous SORP requirement)

5

Financial highlights in 2011/12 - General Fund Revenue Expenditure

- **Enhancing and Protecting our Environment £3.103 million**
  Includes Parks & Gardens, Allotments, Refuse collection, Recycling, Pollution control, Pest control, Shopmobility
- **Strengthening our Economy £371,000**
  Includes Business & Economic development, Tourism, Twinning
- **Strengthening our Communities £4.897 million**
  Includes disabled facilities grants, Homelessness, Single Advice contract, crime and disorder, leisure @, sports development
- **Enhancing the provision of Arts & Culture £2.186 million**
  Includes Art Gallery & Museum, Town Hall & Pump Rooms, Everyman Theatre, Arts grants/enabling

Page 11 provides a further breakdown of revenue expenditure in 2011/12 by council priority.

6

Financial highlights in 2011/12 – General Fund

- Overall under-spend compared to revised budget for the GF of £150,000, included in the GF balance of £2.253 million at year end.
- Overall reduction in Net Assets of £31.7 million, mainly as a result of :

  Increased long term borrowing to fund buy out of HRA subsidy of £27.4 million

  Increase in Pensions liability of £8.4 million

  Offset by-
  Revaluation gains on property assets of £2.9 million
  Increased value of Icelandic bank investments of £0.3 million
- Earmarked reserves reduced by £1.2 million.

7

Financial highlights 2011/12 - Capital

- £13 million spent on capital items, including:

  £4.7 m - housing stock
  £1.8 m - provision of affordable housing
  £1.2 m - recycling vehicles, bins and caddies
  £1.0 m - contribution towards the Art Gallery & Museum redevelopment
  £1.25 m - towards the Everyman redevelopment project
  £1.20 m - loan to Gloucestershire Airport for the runway project
- £2.4 million in capital receipts were received, of which £1 million was used to fund capital expenditure and £0.5 million paid to the national HRA capital receipts pool
- £1 million in partnership funding was used
- £4.7 million in prudential borrowing

8

Financial highlights 2011/12 – Housing Revenue Account (HRA)

- Under-spend compared to revised budget for the HRA of £391,000
- Overall reduction in HRA balance from £3.7 million to £3.1 million
- HRA Self Financing Settlement - £27.4 million
- 9 properties sold, 1 addition

9

Financial highlights 2011/12 – Group Accounts

- Group accounts show net assets of £204 million, a reduction of £38 million:
  - £31.7 m reduction in GF reserves
  - £6.2 m downward revaluation in Glos. Airport
- Property, Plant & Equipment includes £3.6 million for CBH dwellings under construction

10

Icelandic Bank investments

- Repayments of £6.7 million received in 2011/12, as shown Page 69
- Increase in value of remaining loans of £0.4 million
- Interest due of £0.380 million credited to I&E and transferred to reserves for future possible debt repayment
- Of the original £11 million invested an estimated £10.4 million (94%) will currently be recovered, subject to exchange rate fluctuations
- But no interest is receivable from the claim to the repayment dates

11

Ongoing / Future Plans

- Commissioning
- Civic Pride
- Gloucestershire Airport – Runway project
- Bridging the Gap
- Art Gallery & Museum Redevelopment
- St Pauls Regeneration
- HRA Self Financing
- Flood Relief Work
- Sale of North Place and Portland Street Car Parks

Pages 13 – 17 provide details

12

Difference between Management Accounts and Statement of Accounts

- **£150k surplus** on Management accounts (page 9), as reported to Council June 2012
- **£25 million deficit** on Comprehensive Income & Expenditure Statement (page 21)

Comprehensive Income & Expenditure Statement includes:

- Housing Revenue Account (HRA) - £26.6 million deficit
- Items such as depreciation, capital grants, gains or losses on asset disposals, and additional pension costs. These items are are taken out of the surplus or deficit of the I&E in the Movement in Reserves Statement, so they do not impact on council tax

Management accounts include:

- Items such as debt repayments, revenue funding of capital expenditure and transfers to and from earmarked reserves. These items are added to the surplus or deficit of the I&E in the Movement in Reserves Statement, to ensure they do impact on council tax

13

Any Questions?

14

This page is intentionally left blank