26 June 2013	**ITEM: 9**
Standards and Audit Committee	
KEY FINANCIAL STATEMENT ISSUES	
Report of: Councillor John Kent	
Wards and communities affected: All	**Key Decision:** For information only
Accountable Head of Service: Sean Clark, Head of Corporate Finance	
Accountable Director: Martin Hone, Corporate Director of Finance & Corporate Governance	
This report is Public	
Purpose of Report: To inform the committee of material changes to the financial position of the Council over 2012/13 in advance of the financial statement that will be brought in front of the committee in July.	

EXECUTIVE SUMMARY

The Council is required to complete its financial statements by 30 June in any given year. There is no longer a requirement to bring the pre audited statements to the relevant committee for approval and so officers intend to present the accounts to the committee in July for information and to inform Members of the content in advance of requesting formal approval in September.

Officers are aware that there is a great deal of information in the statements and so offered to bring this report to the committee to provide some early detail on key aspects of interest for Members. This report sets out:

1. the process that officers have followed in the valuation of the Council's assets and the outcome of that exercise; and

2. the Council's reserves (subject to any further amendments between the time of writing and 28 June).

1. RECOMMENDATIONS:

1.1. **That the committee notes the content of this report.**

2. THE VALUATION OF FIXED ASSETS

2.1. Objective:

The objective of the annual revaluation exercise is to reflect current values of the Council's fixed assets as at the balance sheet date. This is to comply with the statutory requirement that the whole of Government Accounts should be prepared to present a 'true and fair view' and to 'conform to generally accepted accounting practice'

Following conversion to International Accounting Standards in 2010/11, the Council has amended its revaluation programme with a five-year rolling programme. This quinquennial (rolling) programme is to ensure that over a five-year period, full revaluations (i.e. 100%) of all of its assets are undertaken, with additional valuations carried out in the intervening years to capture any material changes in values.

2.2. 2012/13 Programme:

A full revaluation of Council's property portfolio was undertaken in 2012/13, which covered all asset types including those held and used for commercial, educational, community and residential purposes, as well as some unusual property types. The full revaluation entailed inspecting all the properties, as well as carrying out market research, having regard to all relevant factors and undertaking all work required in the course of any normal property valuation.

The 2012/13 valuation request generated 284 certificates for Non Dwelling Properties and 10,299 Housing Dwellings.

2.3. 2013/14 and Future years:

A five-year rolling programme has been implemented, effective from this year 2013/14, which entails:

a) Undertaking a full revaluation of approximately 20% of the Council's assets annually;

b) A full revaluation of all properties where there has been a material change of circumstances;

c) Undertaking a desktop review of the ten highest-value properties not valued by Depreciated Replacement Cost method (DRC); and

d) Carrying out a desktop revaluation of all properties revalued by the DRC method (A desktop review does not include an inspection but is based on the previous valuation amended by the general increase or decrease in values and costs appropriate to the property type and valuation method).

2.4. Valuation Bases:

Properties held as investments, for disposal, or surplus to requirements are valued to Fair Value (FV); and

Properties used for operational purposes are valued on Fair Value (Existing Use), with properties used for Community purposes valued on both an historic cost basis and Depreciated Replacement Cost Basis (DRC).

2.5. Valuation Methods – non dwellings:

Properties are valued according to normal professional valuation methods. These include investment, comparison, depreciated replacement cost (DRC also known as the contractor’s test), profits or accounts test, discounted cash flows and residual methods.

Depreciated replacement cost (DRC) is defined as ‘the current cost of reproduction or replacement of an asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation’ (DRC). It is a method of valuation, which may be used where direct market evidence is limited or unavailable and used where it is not reasonably viable to use comparative or investment methods.

2.6. Valuation Methods – dwellings:

The Beacon Method is used to derive the Existing Use Value – Social Housing, which is based on the value of the property assuming vacant possession, with an adjustment factor to reflect occupation by a secure tenant.

This method uses as its starting point dwelling sales mainly from owner-occupied market, including council house sales. A sample property, the “beacon” is selected, which is representative of the group – i.e. the most frequently occurring type of dwelling within the group, and a detailed inspection and valuation carried out. An adjustment factor, which is the relationship between the capitalised net rent (investment value) of a private dwelling and the equivalent public sector investment and is usually set by Government, is then applied to the cumulative total.

2.7. Valuation Facts and Figures

Valuation request (non-dwellings) – 334 properties. Certificates were received for 284 properties. The remaining balance (50) relates to either duplicate assets that were identified, schools that had merged (i.e. infants and juniors into a primary) and where asset ownership could not be confirmed. These 50 properties have been removed from the asset register.

Valuation request (dwellings) – 10,299 properties.

In addition 31 properties were transferred across from the former Development Corporation. GVA were requested to provide valuations for these properties dated the 31st March 2012 and 31st March 2013.

Total revaluation losses (Property, Plant and Equipment (PPE)) for the year come to the value of £1.988m. This can be further broken down as follows:

- Movement on Council Dwellings: £77.110m valuation increase

- Movement on Other Land & Buildings: £79.098m valuation decrease

  Material aspects of movement on Other Land & Buildings are as follows:

  - £37.571m – Schools – Land values previously overstated
  - £4.235m – Other education assets
  - £24.654m – Surplus Assets / Vacant Land (£5.486m relates to former Treetops site, £8.823, former Torells site and £5.010m for former Belmont Allotment site)
  - £9.621m – Former DC assets – (£6.089m relates to value changes as at 31st March 2013)

3. GENERAL FUND BALANCE AND RESERVES

3.1. Budget reports considered throughout the financial year reported that the Council was forecast to maintain the £8m as a general fund balance and that is now confirmed. In addition, officers have taken the opportunity to review the various reserves and rationalise and correct where necessary. The material issues are as follows:

a) Two new reserves have been set up to meet the commitments in the 2013/14 budget - £1m for schools improvements and £0.3m for NEETS;

b) The funding set aside at the beginning of 2012/13 for demographic and other budget pressures has been maintained in excess of £2m;

c) New reserves have been set up in line with a Cabinet commitment to carry forward unspent budgets for regeneration and organisational development;

d) A review of commutation receipts has taken place and now properly reflects the balance for 31 March 2013 (a number of receipts that should have been transferred to revenue in previous years had not been;

e) The reserve for MMI liabilities has been transferred to provisions and is in line with latest guidance; and

f) The Corporate Plan reserve has been increased with the purpose of meeting the Council's objectives.

4. HRA BALANCE AND RESERVES

4.1. The S151 Officer has set the HRA an optimum general balance of £1.7m. This was breached in 2011/12 due to the overspend on housing repairs and was £1.047m at the 1 April 2012. As at 31 March 2013, in line with budget reports considered throughout the year, the balance has now been brought back to £1.7m.

4.2. Members will be aware that an ambitious capital programme has been agreed for the Council's housing stock as well as a commitment to providing new affordable housing throughout the borough. The Major Repairs Reserve, Capital Receipts reserve and new Development Reserve are available for these purposes and are expected to be, as at 31 March 2013:

a) Major Repairs Reserve £3.103m;

b) Capital Receipts Reserve £0.870m; and

c) Development Reserve £3.556m.

4.3. The increased funding available within the HRA has come from a change to the national funding of the HRA – further significant surpluses are expected in 2013/14 that will also be set aside for these purposes.

5. ISSUES, OPTIONS AND ANALYSIS OF OPTIONS:

5.1. There is little that can be done to influence the valuation process of the Council's assets as methodology is set out in professional guidance.

5.2. The Council can influence how its reserves are set and used after following guidance from the S151 officer. The proposed changes in the 2012/13 accounts are in line with Council policy, accounting practice or Cabinet/Council direction.

6. REASONS FOR RECOMMENDATION:

6.1. This report is for information only to give Members of the committee information that impacts the accounts to a material degree.

7. CONSULTATION (including Overview and Scrutiny, if applicable)

7.1. There has been no consultation on the contents of this report.

8. IMPACT ON CORPORATE POLICIES, PRIORITIES, PERFORMANCE AND COMMUNITY IMPACT

8.1. The financial statement sets out the financial position of the Council. The allocation of funds to specific reserves earmarks them for set purposes and are designed to support the Council in meeting its operational and aspirational objectives.

9. IMPLICATIONS

9.1. Financial

Implications verified by: **Sean Clark**
Telephone and email: **01375 652010**
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These are included in the body of the report.

9.2. **<u>Legal</u>**

Implications verified by: **David Lawson**
Telephone and email: 01375 652087
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There are no direct legal implications arising from this report.

9.3. **<u>Diversity and Equality</u>**

Implications verified by: **David Lawson**
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There are no specific implications from this report.

9.4. **<u>Other implications</u> (where significant) – i.e. Section 17, Risk Assessment, Health Impact Assessment, Sustainability, IT, Environmental**

There are no specific implications from this report.

BACKGROUND PAPERS USED IN PREPARING THIS REPORT (include their location and identify whether any are exempt or protected by copyright):

- There are various working papers within accountancy.

APPENDICES TO THIS REPORT:

- None

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