

Report of the Director of Resources

Report to Corporate Governance and Audit Committee

Date: 23 April 2012

Subject: Update on Changes to Accounting Practice impacting on the 2011/12 Accounts.

Are specific electoral Wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, name(s) of Ward(s):		
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, Access to Information Procedure Rule number:		
Appendix number:		

Summary of main issues

For 2011/12 there are only two major changes to accounting practice and legislation which impact on the Council's accounts. These are the amendments to the Housing Revenue Account (HRA) subsidy scheme and a new requirement to account for heritage assets. These changes primarily impact on the balance sheet resulting in a reduction in Housing debt of £112m and the recognition of approximately £43m of heritage assets.

Recommendations

Members of the Corporate Governance and Audit committee are asked to note the impact of the new accounting and legislative requirements on the Council's 2011/12 accounts.

1 To Purpose of this report

- 1.1 This report outlines the major changes to legislation and accounting practice which will impact on the 2011/12 accounts.

2 Background information

- 2.1 The Accounts and Audit (England) Regulations 2011 require Local Government accounts to be compiled based on the Statement of Recommended Practice for Local Government (The Code). The Code incorporates applicable changes made to both International Financial Reporting Standards and legislation.

3.0 Main issues

- 3.1 For 2011/12 there have been two significant changes which will impact on the Council's accounts:

- Amendments to legislation in respect of the Housing Subsidy Scheme;
- Accounting for heritage assets.

Neither of these requirements will impact on the Council's bottom line.

3.2 Amendments to the Housing Subsidy Scheme

- 3.2.1 As part of the Localism Act 2011 the government is ending the current housing subsidy regime and replacing it with a system where Housing Revenue Accounts (HRAs) must meet their costs (other than for existing PFI schemes) from their own income. To ensure that HRAs can be a viable going concern, the government has determined a sustainable level of debt for each housing authority based on its expected future income and spending needs. This has resulted in a situation where some authorities are deemed to have too much of the overall national housing debt, and others not enough. The government has therefore determined a settlement which is neutral to itself, by which some authorities will have some of their external debt repaid by the government, and others will be required to make capital payments to the government. Under this settlement, Leeds will have £112m of its loans repaid by the government. Any costs which arise on early redemption of these loans will also be met by the government. The government has also determined that the HRA self financing settlement transactions would take place on 28th March.
- 3.2.2 As the borrowing to be repaid is in respect of Government loans, no actual cash has changed hands. However the Council's accounts are required to recognise the following transactions:
- A £142m capital grant will be recognised as income within the HRA Income and Expenditure account along with a £30m of costs (premiums) arising on the repaid loans. Overall the HRA will therefore show a decrease in net expenditure of £112m, representing the total grant income less the premiums expenditure.
 - The impact of this additional net £112m in the revenue account is reversed under statute via the Statement of Movement on the HRA Reserve and used to write down the Council's debt. There will therefore be no bottom line impact on the HRA's reserves.
 - The HRA is consolidated into the Council's Comprehensive Income and Expenditure Account (I&E A/c). Consequently the Council's overall I&E A/c will also recognise the £112m decrease in net expenditure and the subsequent reversal under statute.
 - Long term borrowing will be reduced by £112m with a corresponding entry in the Capital Adjustment Account.
- 3.2.3 In future years the Council will no longer be able to claim subsidy and be required to fund all its expenditure, including managing any remaining debt, from its own income.

3.3 Accounting for Heritage Assets

- 3.3.1 The Code defines heritage assets as those assets with historical, artistic, cultural, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture, and are intended to be preserved for future generations. Examples would include historic buildings, art exhibits and Sites of Special Scientific Interest. Previously such assets were recognised on the balance sheet at depreciated historic cost or at nil value. The new Code requires heritage assets to be valued and recognised on a separate line in the council's balance sheet.
- 3.3.2 In order to identify the Council's heritage assets all directorates were contacted and identified the following groups of assets:
- Historic buildings with no operational use
 - Art works and museum exhibits
 - Civic regalia
 - Scheduled ancient monuments, archaeological sites and a battlefield site
 - War memorials
 - Public statues
 - The Leodis photographic archive
 - Sites of Special Scientific Interest
- 3.3.3 Once identified the assets, where practical, should be held at current value (i.e. market value). However as expert valuations for some of these types of assets can be very expensive to obtain, the rules on valuation methods are less strict than for other types of fixed assets. Consequently, if a full valuation is not available then an insurance valuation can be used. If no valuation can be obtainable at a reasonable cost, heritage assets can be held at historic cost. If neither current valuation nor historic cost is available then heritage assets do not have to be recognised on the balance sheet.
- 3.3.4 It is proposed that only those heritage assets with a significant value will be recognised on the balance sheet. Initial indications are that this will be just five buildings and the most valuable art works. For the remaining art works and museum exhibits and for the civic regalia we have current insurance valuations for the collections as a whole but not for individual items. These global insurance valuations will be given in the disclosure notes but the assets will not be recognised in the balance sheet. The remaining heritage assets are considered either to have minimal financial value or to be impractical to value.
- 3.3.5 The five buildings which will now be classed as heritage assets have been judged by the council's surveyors to be too unique in nature for a current valuation to be practicable, and they will all therefore be held at historic cost. The five buildings are: Lotherton Hall, Armley Mills, Thwaite Mills, Kirkstall Abbey and Temple Newsam House. An initial assessment of the historic cost required to be recognised on these assets is only around £1m.
- 3.3.6 The council will also be recognising £40m of art exhibits. These are the items within the council's collection which are valuable enough to have individual insurance valuations. Art exhibits were previously classed as community assets,

which are held at historic cost. As all of these items were acquired many years ago, in some cases by donation, the historic cost recorded for them was nil. In addition, one further high value item (a silver wine cooler) was purchased during 2011/12 for £2m and will also be recognised on the Council's Balance Sheet.

3.3.7 In addition to the above heritage assets, the council owns a number of operational heritage assets including listed buildings, bridges and the rights to the 'U1' vehicle registration. Operational heritage assets are those assets which have heritage characteristics but which are also used for operational purposes. For example the Civic Hall is not classed as a heritage asset even though it is an historically important building, because it is used for operational purposes as the council's headquarters building. **Appendix 1** provides details of major operational heritage buildings. These assets will continue to be recognised as operational assets on the Balance Sheet.

3.3.8 We are also required to include new disclosure notes in the accounts about our heritage assets, whether or not these have been valued and included on the balance sheet. The new disclosures include non-financial information such as an explanation of the nature and scale of our collections, and our policies on acquisitions, preservation and allowing public access. A draft version of the non-financial information in the heritage assets disclosure note is attached as **Appendix 2**.

3.4 All significant amendments to accounting practice and / or legislation impact on the Council's Accounts are discussed and agreed with KPMG prior to implementation. KPMG provide assurance to members of this Committee that the accounts comply with proper practice as part of their audit opinion.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This report has no direct issues requiring consultation or engagement.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 This report has no direct equality and diversity / cohesion issues.

4.3 Council policies and City Priorities

4.3.1 The terms of reference of the Corporate Governance & Audit Committee require the Committee to consider the adequacy of the Council's policies and practices to ensure compliance with statutory and other guidance.

4.4 Resources and value for money

4.4.1 There are no direct resource or value for money issues raised by this report.

4.5 Legal Implications, Access to Information and Call In

4.5.1 The Accounts and Audit (England) Regulations 2011 require Local Government accounts to be compiled based on the Statement of Recommended Practice for Local Government (The Code). The Code incorporates applicable changes made to both International Financial Reporting Standards and legislation. The report does not require a key or major decision and is therefore not subject to call-in.

4.6 Risk Management

- 4.6.1 The Council's external auditors provide a risk assessment on the Council's financial resilience and the accounts process as part of their interim audit. As part of the interim report, officers are able to outline the processes put in place to mitigate any risks identified.

5 Conclusions

- 5.1 In respect of the amendments to the HRA subsidy scheme the main change for 2011/12 is the requirement to recognise the transactions used to write down the debt and the resulting reduction of HRA debt of £112m. There is no overall impact of these transactions on the Council's bottom line. The future self financing arrangements for the HRA will have a significant impact on the HRA's funding arrangements and financial plan and have been the subject of a separate report to the Executive Board (HRA Self Financing and Business Plan 10th February 2012).
- 5.2 Whilst the Council owns a large number of heritage assets only those deemed to have a significant value will be disclosed on the balance sheet. The Council also has a number of heritage assets which it uses in the provision of services. These assets will continue to be disclosed as operational assets. The requirement to account for heritage assets will increase the value of the Council's balance sheet by some £43m but these assets are not subject to depreciation and as such will have no impact on the Council's bottom line.
- 5.3 External Audit provide independent assurance that, in their opinion, the accounts reflect proper accounting practice. This opinion is due to be reported to this Committee in September but members will also receive their initial views as to our compliance with these new accounting requirements as part of their interim report in May.

6 Recommendations

- 6.1 Members of the Corporate Governance and Audit committee are asked:
- To note the impact of the new accounting and legislative requirements on the Council's 2011/12 accounts.

7 Background documents¹

- 7.1 The Code of Practice on Local Authority Accounting in the UK 2011.
- 7.2 The Localism Act 2011.
- 7.3 HRA Self Financing and Business Plan report - Executive Board 10th Feb 2012.

¹ The background documents listed in this section are available for inspection on request for a period of four years following the date of the relevant meeting. Accordingly this list does not include documents containing exempt or confidential information, or any published works. Requests to inspect any background documents should be submitted to the report author.

Listed operational heritage assets

Grade 1

- § Leeds Town Hall
- § Kirkgate Market
- § The Corn Exchange
- § Otley Bridge (scheduled as an ancient monument)
- § Wetherby Bridge (schedules as an ancient monument)

Grade 2*

- § Civic Hall
- § Temple Newsam Stables
- § Leeds Grand Theatre
- § Pudsey Cemetery

DRAFT – Extract from heritage assets disclosure note

Historic Buildings

The council owns four historic buildings which are classified as heritage assets. These are Kirkstall Abbey, Temple Newsam House, Lotherton Hall, and Armley Mills. The council also leases Thwaite Mills from the British Waterways Board, which is recognised as the council's heritage asset.

All of these five buildings are open to the public. Details of opening times and admission charges are available from the council's website.

Civic Regalia

The Council owns a number of items of civic regalia, including items such as the mayoral chains, civic plate and gifts presented to the council. The council has an overall insurance valuation of £1.1m for its collection of civic regalia, but no valuations for individual items. The council has determined that the cost of valuing individual items would not be justifiable, and thus does not recognise these items as assets on its balance sheet. There is no regular public access to view items of civic regalia, but access for groups can be arranged on request.

Museum Exhibits and Works of Art

The Council owns approximately 1.3 million separate works of art and exhibits. It is not practicable to individually value each item. The Council individually values any asset which is considered to be of significantly high value. This includes any asset where the value is likely to have a value in excess of £1m. Currently the total value of individually valued assets is £42.5m. These valuations are undertaken by comparison with UK auction sales and individual insurance valuations undertaken where the exhibit/work of art has been lent out to other institutions.

These individual valuations are included within a general insurance valuation of £100.8m. The remaining £58.3m represents the collective value of the rest of the council's collection. The vast majority of this has not been individually valued and hence cannot be disclosed on the balance sheet, although £5.1m of recent acquisitions where cost information is available are included on the balance sheet.

The Council also manages, and owns a substantial portion of, the Leodis photographic archive of Leeds, which is a collection of approximately 58,000 images of Leeds.

The council has an acquisition and disposal policy which is approved annually. This policy is accessible from the Museums and Galleries homepage. Information is also available at this location on the preservation and management of existing exhibits and works of art.

Monuments and Archaeological Sites

There are a number of monuments and archaeological sites within the authority. There is no feasible way to value these assets and therefore they are not included on the balance sheet. Public access to these sites varies depending on their location.

War memorials

The Council owns a number of war memorials, it is anticipated that these will be held in perpetuity and for this reason they have little or no realisable value and hence are not included on the balance sheet.

Further information of the location of these war memorials is available on the Leeds City Council website.

http://www.leeds.gov.uk/Leisure_and_culture/Local_history_and_heritage/Memorial_maintenance.aspx

Public statues

The council owns two public statues which are of sufficient importance to be grade II* listed. These are the statue of the Black Prince in City Square and the memorial to Queen Victoria on Woodhouse Moor.

Battlefields

Adwalton Moor lies partially within the boundaries of Leeds City Council on land owned by the council. In 1643 this was the site of an important battle in the English Civil War. This battlefield is included in English Heritage's list of prominent battlefields. General public access is not possible as the site is used as farmland.

Births Marriages and Deaths

The Council provides access to a comprehensive collection of legal records. These are accessible from the Leeds City Council website. Given the nature of these records there is little scope for valuation and so these are not included on the balance sheet.

Further details of the records available can be found at

<http://www.leeds.gov.uk/page.aspx?pageidentifier=4CF7733EA3B3F6EC80256E150052D0C1>

Sites of Special Scientific Interest

There are a number of sites of special scientific interest within the Council boundary. Information relating to their location and public access arrangements is available from the parks and wildlife section of the Leeds City Council website.

<http://www.leeds.gov.uk/Page.aspx?pageidentifier=3507A53B666278C280256E0D004C146E>