AUDIT & GOVERNANCE COMMITTEE

25th June 2015

Report of the Director of Finance

DRAFT ANNUAL STATEMENT OF ACCOUNTS & REPORT 2014/15

EXEMPT INFORMATION

None

PURPOSE

To receive the Draft Statement of Accounts (the Statement) for the financial year ended 31st March 2015.

RECOMMENDATION

That Members receive for review the Annual Statement of Accounts 2014/15.

EXECUTIVE SUMMARY

Current legislation, detailed in Accounts and Audit (England) Regulations 2011, requires the Council to prepare a Draft Statement of Accounts by 30th June each year (approved by the Council's Chief Finance Officer - the Executive Director Corporate Services), a Committee of the Council to approve the Statement by 30th September and for the Council to publish the Statement together with the Auditors' opinion by 30th September.

However, these deadlines are due to change as a result of the recently published Accounts and Audit Regulations 2015 – and will mean that the accounts will need to be prepared by 31st May and audited by 31st July - for the accounts prepared from 2017/18.

For 2014/15 the Finance team planned to bring forward the completion date for the Statutory Accounts – with a target completion date of 31st May in line with the new regulations. This was achieved with a first draft (subject to quality assurance review) sent on 29th May 2015 to Members of the Audit & Governance Committee, our External Auditors (Grant Thornton) and Capita Asset Services (to inform the Members' Seminar held on 2nd June 2015).

The final draft accounts once signed by the Executive Director Corporate Services, will be issued to the External Auditor on or before 30th June in compliance with the current regulations and are subject to the normal External Audit review by Grant Thornton.

Although there is no formal requirement for this Committee to approve the accounts prior to audit, it is considered best practice that Members have the opportunity to review the accounts. The Draft 2014/15 Statement of Accounts (subject to audit) is attached at **Appendix A**.

This Committee will be required to formally approve the final Statement of Accounts by the 30th September 2015, following the receipt of the External Auditors' 'The Audit Findings' report on the accounts.

Key issues affecting the 2014/15 accounts and the accounting process are detailed within the report.

RESOURCE IMPLICATIONS

For 2014/15, a revenue budget underspend for the General Fund of £1.5m is reported with an increase in General Fund closing balances of £0.3m. The Housing Revenue Account reports an underspend of £1.5m with an increase in Housing Revenue Account closing balances of £0.5m.

It should be noted that the Medium Term Financial Strategy, approved in February 2015, identified estimated balances of £3.8m (at 1st April 2015) compared to the draft actual closing balances of £4.9m - additional balances of £1.1m. For the HRA balances of £4.9m were forecast at 1st April 2015 compared to the actual balances of £6.0m - additional balances of £1.1m. Balances above the minimum will be required to provide additional funds for uncertainties regarding future Government funding arrangements.

The outturn for the 2014/15 capital programme identifies an underspend of £6.6m against the approved budget of £12.2m (actual spend £5.6m - no change since Provisional Outturn). However, it has been requested that £3.9m of scheme spend be re-profiled into 2015/16. This will result in an overall underspend of £2.7m for the 2014/15 capital programme.

LEGAL / RISK IMPLICATIONS

Current legislation, detailed in Accounts and Audit (England) Regulations 2011, requires a Committee of the Council to approve the Statement by 30th September 2014 and for the Council to publish the Statement together with the Auditors' opinion by 30th September 2015.

REPORT AUTHOR

Stefan Garner, Director of Finance

LIST OF BACKGROUND PAPERS

Capital Outturn Report 2014/15 - Cabinet, 18th June 2015
Performance Healthcheck (including Provisional Outturn Report 2014/15) - Cabinet, 18th June 2015

BACKGROUND INFORMATION

The Annual Statement of Accounts for the year ended 31st March 2015 has been prepared in accordance with the guidelines contained within the latest Code of Practice on Local Authority Accounting in the United Kingdom.

The Code is based on International Financial Reporting Standards (IFRS), and has been developed by the CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Accounting Standards (IAS) Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance. The latest edition of the Code (2014/15) applies for accounting periods commencing on or after 1st April 2014. It supersedes the 2013/14 Code.

In England and Wales, the Code is part of the 'proper practices' requirements governing the preparation of an authority's Statement of Accounts referred to in section 21(2) of the Local Government Act 2003. All English authorities to which section 21 applies and that are required to prepare a Statement of Accounts by the Accounts and Audit Regulations under section 27 of the Audit Commission Act 1998, therefore have a statutory duty to comply with the Code's requirements.

The changes for 2014/15 are principally around additional or changed disclosure notes, points of clarification and additional guidance – which have a minor impact within the following statements.

CHANGES IN ACCOUNTING POLICY FOR 2014/15

The need for changes in accounting policy can arise from:

(i) changes that are mandatory under the annual IFRS based *Code of Practice on Local Authority Accounting* and require a new or revised accounting policy to be adopted by all local authorities;

(ii) changes within the overall framework of the *Code of Practice* but where the policy to be adopted is discretionary and is dependent upon interpretation of local circumstances.

Changes reflected in the 2014/15 updated Code do, on the whole, have to be incorporated into the Council's accounts but do not necessarily impact on the accounting policies. This is because the changes for 2014/15 are principally around additional or changed disclosure notes, points of clarification and additional guidance.

None of the changes to the Code in 2014/15 require associated changes in accounting policy. There are no new accounting policies in 2014/15.

The Council's accounts for 2014/15 consist of the following:

- **Core Financial Statements:**

  - **Movement in Reserves Statement:** shows the movement in the year on the different reserves held by the Authority, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the Authority’s services. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council Tax setting and dwellings rent setting purposes.

    The Movement in Reserves Statement on page 12 shows a net General Fund surplus of £0.3m for the year. This was £1.5m lower than the planned transfer from balances in the original budget at the start of the year and has increased General Fund Balances of £4.6m (with the minimum approved level being £0.5m) brought forward from 2013/14, to produce a cumulative surplus of £4.9m carried forward to 2015/16 – and reflect the risks and uncertainties facing the Authority over the medium term.

  - **Comprehensive Income and Expenditure Account:** shows the accounting 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; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
    A surplus of £6.3m is reported for 2014/15 (£1.9m deficit 2013/14). This is mostly explained by revaluation changes (£3.7m) and reduced impairment (£2.2m) relating to Council Dwellings. In addition, there was a revaluation of the former Golf Course (£1.7m) as the site was reclassified as Assets Held for Sale during 2014/15 and is being marketed for sale following the Council’s Cabinet decision on 11th September 2014 to close the Golf Course with effect from 1st October 2014. The 2013/14 comparatives have been restated to reflect this discontinued operation.

  - **Balance Sheet:** shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are £105.1m (£98.8m 2013/14) which are matched by the reserves held by the Authority. Key items are:

    Long Term Assets

    The Council holds property, plant and equipment assets of £151.7m (£148.7m 2013/14) – mainly due to Council dwellings of £133.3m (£128.6m 2013/14).

    Working Capital

    Net working capital has increased to £23.4m (£20.0m 2013/14).

    Provisions, Reserves and Balances

    The working balances as at 31st March 2015 are £30.6m (£24.8m 2013/14) and comprise provisions, earmarked reserves, revenue balances and the unused element of capital receipts.

Working balances of £13.0m (£8.6m 2013/14) relate to capital (including the Capital Reserve of £8.9m). The £4.0m capital commitments from 2014/15 and previous years carried forward to 2015/16 will be required to be financed from these balances (£2.8m 2013/14).

Borrowing Facilities

The Authority borrows funds where necessary to meet both long term capital expenditure commitments and short-term cash flow demands. Funds are borrowed from the Government (Public Works Loan Board - PWLB) and from the commercial money market (banks, building societies and other lenders). The Authority's debt at 31st March 2015 was £65.1m (£65.1m 2013/14) and was all borrowed from the PWLB.

Pensions

The pension fund deficit has increased in the year to £48.9m (£39.8m 2013/14) and is required to be shown on the Balance Sheet of the Authority. This increase is as a result of less favourable financial assumptions at 31st March 2015 than at 31st March 2014. Falling bond yields have adversely affected value of the scheme's liabilities and though asset returns have been stronger than expected, the deficit has grown by 23%.
It should be noted that there has been no impact on the net cost to the taxpayer arising from this - other than as part of the planned increase in annual contributions (from 19.6% to 22.4% - including 16.5% p.a. plus an increasing lump sum element) arising from the formal valuation on 31st March 2013.

▪ **Cash Flow Statement:** shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

- **Supplementary Statements:**

▪ **Housing Revenue Account:** reflects the statutory requirement to maintain a separate account for Council Housing.
The overall revenue financial position relating to Council Housing as given on page 120 shows an increase in HRA balances for the year of £0.5m. This equates to an underspend of £1.5m when compared to the approved budget for the year. This has resulted in an increase in balances from £5.5m to £6.0m to be carried forward to 2015/16.

▪ **The Collection Fund:** shows the Council Tax income collected on behalf of Staffordshire County Council, the Office of the Police and Crime Commissioner (OPCC), the Stoke on Trent and Staffordshire Fire and Rescue Authority and this Authority's General Fund.

The fund also includes Non Domestic rates income under the Business Rates Retention Scheme. The main aim of the scheme is to give Authorities a greater incentive to grow businesses in the Borough. It does, however, also increase the financial risk due to non-collection and the volatility of the NNDR tax base. The scheme allows the Authority to retain a proportion of the total NNDR received. The local share retained by the Authority is 40% (less a tariff payment) with the remainder paid to precepting bodies - Central Government (50% share), Staffordshire County Council (9%) and the Stoke on Trent and Staffordshire Fire and Rescue Authority (1% share).

The Collection Fund, subject to collection of outstanding arrears, achieved the following:

- Council Tax – surplus of £1.3m (the Authority's share is 11%), of which £0.8m will be distributed to preceptors during 2015/16;
- NNDR – deficit of £0.4m (the Authority's share is 40% net of any applicable Levy of 50%).

The deficit relating to the NNDR collection fund resulted from the inclusion of an increased provision of **£3.8m (£1.0m - 2013/14)** with **£1.5m this Authority's share (£0.4m - 2013/14)** for appeals outstanding on the 31st March 2015 of **£61.7m (£21.7m - 2013/14)**.

The increase since 2013/14 is due to a large increase in appeal submissions in the last month of the financial year resulting from a deadline for appeal applications of 31st March 2015 - as any appeals received after 31st March will not be backdated to either the 2005 or 2010 Rating List.

This will mean that the forecast surplus (£0.7m share for this Authority) for 2014/15 included within the 2015/16 budget will not be available and will therefore need to be accounted for when the 2016/17 budget is set.

These accounting statements are supported by appropriate notes to the accounts including the Statement of Accounting Policies - this provides details of the framework within which the Council's accounts are prepared and published.

GENERAL FUND, HOUSING REVENUE ACCOUNT & CAPITAL OUTTURN

Below are details of the outturn fund balances for the General Fund and the Housing Revenue Account together with a summary of the outturn position on Capital Expenditure for the year.

GENERAL FUND

When compared to the final approved budget (which reflects decisions made by members during the financial year) an under-spend of £1.5m is reported, compared to the provisional outturn report projections in the following table. Closing General Fund balances as at 31st March 2015 were £4.9m:

General Fund Balances Movement 2014/15	**Final Outturn £'000**	**Projected Outturn £'000**	**Projected Outturn (following NNDR3) £'000**
Balances B/fwd.	4,569	4,569	4,569
Approved Budget transfer To / (From) balances	(1,196)	(1,196)	(1,196)
Outturn variance - Surplus	1,539	1,162	1,454
Balance C/fwd.	**4,912**	**4,535**	**4,827**
MTFS Forecast as at 1st April 2015	***3,831***	***3,831***	***3,831***
Additional Balances	***1,081***	***704***	***996***

When the 2014/15 budget was set it included the effects of the 2014/15 NNDR1 forecast business rates out turn on the levy calculation. A levy budget of £145k was included to pay over the surplus to the GBSLEP – the provisional outturn at Period 12 identified a payment of £358k due to the increased level of business rates forecast for the year.

A range of appeal scenarios were modelled – ranging from an appeal provision of £4.8m to £2.0m with the most likely model resulting in an appeal provision for Tamworth which will have to increase to c.£3.8m in 2014/15 from c.£1m in 2013/14. This will mean that the Council will not pay over any levy to the GBSLEP for 2014/15 but will also not be in a safety net position.

As a result of the increased appeals provision, there will be no levy payment – resulting in additional balances of c.£300k.

When the NNDR1 for 2014/15 was completed, net business rates income was forecast at £31.8m (basis of 2014/15 budget) – the NNDR3 outturn identifies net business rates income of £30.2m - a reduction of £1.6m (net of the increased appeal levels).

The main changes since the provisional outturn was prepared are due to the additional income received / reduced impairment levels relating to the Icelandic Investments (£74k) and an increase in recharges to the Housing Revenue Account following finalisation of year end costs (£88k).

In addition to these, the remainder of the favourable outturn variance of £1.5m is mainly attributable to savings made in the following areas:

Variance between Budget & Actual Outturn	£000s	£000s
Increased / Non-Budgeted Income*		
Levy Return - Greater Birmingham and Solihull LEP	(81)	
Additional S31 Grants re: Business Rate Relief	(204)	
Development Control - Planning Applications Fee Income	(168)	
Corporate Finance – Planned unspent Contingencies	(93)	
Car Parks – Additional fee income	(67)	
Commercial Property Management - Rents	(64)	
Additional income from HRA Recharges	(88)	
Council Tax - Court Costs /Fees Income	(60)	(825)
Savings / Underspends		
Benefits (Net Underspends)	(127)	
Joint Waste Arrangements - Savings	(92)	
Corporate Finance - Pension Payment Savings	(68)	
Levy payment under the Business Rates Retention scheme (due to increased appeals provision)	(145)	(432)
Other Variances - Net (Underspends) / Overspends		
Chief Executive	56	
Executive Director Corporate Services	(191)	
Community Services	(147)	(282)
Total (Favourable) / Unfavourable Variance		**(1,539)**

It should be noted that the Medium Term Financial Strategy identified required balances of £3.9m (at 1st April 2015) compared to the draft actual closing balances of £4.9m – the additional balances of £1m (the majority of which is windfall income / reduced levy - highlighted in the table above *) above this minimum will be required to provide additional funds for uncertainties regarding future Government funding arrangements.

Members should be aware that any unplanned call on the above balance could adversely affect the Authority's ability to resource activity within the Medium Term Financial Strategy period.

HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) is underspent against the approved budget for the year by £0.812m, £82k less than reported in the provisional outturn report. The Housing Revenue Account balances as at 31st March 2014 were £5.481m.

HRA Balances Movement 2013/14	Final Outturn £'000	Projected Outturn £'000
Balances B/fwd.	5,481	5,481
Approved Budget	(984)	(984)
Outturn variance - Surplus	1,460	1,538
Balance C/fwd.	**5,957**	**6,035**

The change since the provisional outturn was prepared is mainly due to an increase in recharges to the Housing Revenue Account following finalisation of year end costs, £88k.

In addition to these, the remainder of the outturn variance surplus of £1.9m shown above is mainly attributable to the following areas:

Variance between Budget and Actual Outturn	£000s	£000s
Increased / Non-Budgeted Income		
Return to Balances of Unspent Reserves	(76)	
Additional Council House Rent Income	(65)	(141)
Savings / (Underspends)		
Contribution to Housing Repairs Account - savings in Repairs & Maintenance costs across multiple contracts	(667)	
Unspent Contingency Budget	(100)	
Provisions for Bad Debts - lower than expected welfare reform impact	(298)	(1,065)
Other Variances - Net (Underspends) / Overspends		(254)
Total (Favourable) / Unfavourable Variance		**(1,460)**

It should be noted that the Medium Term Financial Strategy identified balances of £4.9m (at 1st April 2015) compared to the draft actual closing balances of £6.0m, which means additional balances of £1.1m.

CAPITAL OUTTURN

The outturn for the 2014/15 capital programme identifies an underspend of £6.6m against the approved budget of £12.2m (actual spend £5.6m - no change since Provisional Outturn). However, it has been requested that £3.9m of scheme spend be re-profiled into 2015/16. This will result in an overall underspend of £2.7m for the 2014/15 capital programme.

Full details are contained within the Capital Outturn Report reported to Cabinet on 18th June 2015.

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