AUDIT & GOVERNANCE COMMITTEE

26th June 2014

Report of the Director of Finance

DRAFT ANNUAL STATEMENT OF ACCOUNTS & REPORT 2013/14

EXEMPT INFORMATION
None

PURPOSE

To receive the Draft Statement of Accounts (the Statement) for the financial year ended 31st March 2014.

RECOMMENDATION

That Members receive for review the Annual Statement of Accounts 2013/14.

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.

The 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 regulations and are subject to the normal External Audit review by the Audit Commission.

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 2013/14 Statement of Accounts (subject to audit) are being finalised and will be circulated prior to the meeting.

This Committee will be required to formally approve the final Statement of Accounts by the 30th September 2014, following the receipt of the External Auditors' 'The Audit Findings' report on the accounts.

Key issues affecting the 2013/14 accounts and the accounting process are detailed within the report.

RESOURCE IMPLICATIONS

For 2013/14, a revenue budget underspend for the General Fund of £0.706m is reported with a reduction in General Fund closing balances of £0.049m. The Housing Revenue Account reports an underspend of £0.812m with an increase in Housing Revenue Account closing balances of £0.214m.

It should be noted that the Medium Term Financial Strategy identified required balances of £4.427m (at 1st April 2014) compared to the draft actual closing balances of £4.570m - additional balances of £0.143m. For the HRA balances of £5.300m were forecast at 1st April 2014 compared to the actual balances of £5.481m - additional balances of £0.181m. Balances above the minimum will be required to provide additional funds for uncertainties regarding future Government funding arrangements.

The outturn for the 2013/14 capital programme identifies an underspend of £3.827m against the approved budget of £12.757m (actual spend £8.941m - £11k change since Provisional Outturn). However, it has been requested that £2.848m of scheme spend be re-profiled into 2014/15. This will result in an overall underspend of £0.979m for the 2013/14 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 2014.

REPORT AUTHOR

Stefan Garner, Director of Finance

LIST OF BACKGROUND PAPERS

Capital Outturn Report 2013/14 - Cabinet, 19th June 2014
Performance Healthcheck (including Provisional Outturn Report 2013/14) - Cabinet, 19th June 2014

BACKGROUND INFORMATION

The Annual Statement of Accounts for the year ended 31st March 2014 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 (2013/14) applies for accounting periods commencing on or after 1st April 2013. It supersedes the 2012/13 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 2013/14 Code has introduced some changes in accounting practice for defined benefit pensions, the introduction of the Business Rates Retention Scheme from 1st April 2013 and to the valuation of Property, Plant and Equipment (PPE).

IAS19 Employee Benefits

There have been several significant changes in relation to the international accounting standard IAS19 Employee Benefits which will require a change of accounting policy and a restatement of the 2012/13 accounts. However, these changes will not alter the usable reserves. This has resulted in changes to accounting treatment for financial years starting on or after 1 January 2013.

The main changes are as follows:

Expected Return on Assets
This is in relation to the return on Pension Scheme assets. Advance credit for anticipated outperformance of return seeking assets (such as equities) is no longer permitted by IAS19.

This has been replaced with an equivalent figure calculated using a discount rate (as opposed to using a figure calculated using expected return on assets assumptions).

Asset Disclosures
IAS19 requires a much more detailed breakdown of the pension fund assets. The values of the assets, broken down into different classes that distinguish between the nature and risk now need to be disclosed. A further breakdown is also needed showing those assets which have a quoted market price and those which do not. The disclosure included in the Council’s 2012/13 published financial statements only showed the main categories of equities, bonds, property and cash as required. As a result of the change some of these categories are split further.

Disclosure Presentation
In order to be consistent with the new requirements of IAS19 the disclosures in relation to the Council’s defined benefit pension scheme have changed from those published in 2012/13. By making these changes to the accounting standard, it is intended that the presentation of the information is easier for the user to understand.

Business Rates

Following the introduction of the Business Rates Retention Scheme, billing authorities need to operate a Collection Fund to account for business rates in a similar way that council tax is accounted for, subject to ongoing government guidance and legislation. The Accounting Policies have been amended to reflect this.

From 1/4/2013, the Council has been retaining a share of the business rates it collects and has paid shares out to Central Government and the County Council (and Fire Service). This is different to the arrangement that was in place up to 2012/13 as the NDR account may now have a surplus or deficit in year, which is to be recognised in the Comprehensive Income and Expenditure account on an accruals basis, similar to the arrangements for Council Tax. Also similar to Council Tax, there is a statutory over-ride to reverse out the surplus or deficit in year so that only the budgeted amount of income is credited to the General Fund. Although this is a major change to the accounting for NDR, it does not require a change to the accounting policies which already contain relevant articles for revenue recognition and the primacy of legislative requirements

IAS 16: Property, Plant & Equipment (PPE)

IAS 16: Property, Plant & Equipment (PPE) – IFRS post-implementation review. The code has been expanded to provide some clarity over frequency of revaluation of PPE assets, although this clarity is still open to interpretation. The accounting policy has been expanded to incorporate an evidenced, ‘whole-category’ review annually as well as the cyclical revaluations to ensure that the carrying value does not differ materially from fair value at the year end.

The Code now explicitly requires all of a class of assets to be revalued within a short period. The Council uses a five year rolling programme of valuation within the asset class of other land and buildings; this does not strictly meet the Code requirements. The rolling valuation programme is supplemented with reviews of, for example, impairment, enhancement and material change in market conditions by the Council’s professional valuers. Although not strictly adhering to the specific provisions of the Code, this will satisfy the general provision of the Code in providing adequate assurance that the balance sheet is fairly stated. This is a national issue with many Councils being in the same position. Discussions have already been held with the Council’s external auditors regarding the approach for future years.

CHANGES IN ACCOUNTING POLICY FOR 2013/14

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.

The changes required to the Council's accounting policies for 2013/14 therefore arise from an updated IFRS based *Code of Practice on Local Authority Accounting* issued by CIPFA in April 2013.

Many of the changes reflected in the 2013/14 code have to be incorporated into the Council's accounts but do not necessarily impact on its accounting policies. This is because the changes are principally around additional or changed disclosure notes, points of clarification and additional guidance etc.

There is only one change to the accounting policies for 2013/14 compared to 2012/13, this is described below.

The 2013/14 Code follows amendments to International Accounting Standard 19 – Employee Benefits (IAS19) and changes the accounting requirements for defined benefit pension liabilities. In June 2011 the International Accounting Standards Board (IASB) issued a new version of IAS19. This applies to financial years starting on or after 1 January 2013.

The main changes are a reallocation of amounts charged in the comprehensive income and expenditure statement (CIES) and additional disclosures, although these changes have no overall impact on the Council's General Fund and the amount payable by local tax payers.

This change in policy will be applied retrospectively and will therefore amend 2012/13 comparatives to the financial statements (as well as the supporting notes) as detailed below:

Comprehensive Income & Expenditure Statement	**2012/13 £000**	**Change £000**	**2012/13 Restated £000**
Cost of Services	**5,124**	0	**5,124**
Other Operating Expenditure	310	0	**310**
Financing & Investment Income & Expenditure (FIIE)	234	467	**701**
Taxation & Non Specific Grant Income	(9,774)	0	(9,774)
(Surplus) or Deficit on Provision of Services	**(4,106)**	**467**	**(3,639)**
Surplus or Deficit on Revaluation of Property, Plant & Equipment Assets	(1,960)	0	**(1,960)**
Actuarial Gains / Losses on Pension Assets / Liabilities	5,514	(467)	**5,047**
Other Comprehensive Income & Expenditure	**3,554**	**(467)**	**3,087**
Total Comprehensive Income & Expenditure	**(552)**	**0**	**(552)**

Movement in Reserves Statement 2012/13	General Fund Balance £000	Change £000	General Fund Balance £000 Restated	Housing Revenue Account £000	Change £000	Housing Revenue Account £000 Restated
Balance as at 01 April 2012	4,721	-	4,721	4,487	-	4,487
Movement in reserves during 2012/13						
(Surplus) or deficit on the provision of services	(2,097)	(370)	(2,467)	6,203	(97)	6,106
Other Comprehensive Income & Expenditure	-	-	-	-	-	-
Total Comprehensive Income & Expenditure	**(2,097)**	**(370)**	**(2,467)**	**6,203**	**(97)**	**6,106**
Adjustments between accounting basis & funding basis under regulations (Note 7)	1,695	370	2,065	(2,329)	97	(2,232)
Net (Increase) / Decrease before transfers to Earmarked Reserves	**(402)**	**-**	**(402)**	**3,874**	**-**	**3,874**
Transfers to/(from) Earmarked Reserves (Note 8)	300	-	300	(3,094)	-	(3,094)
Increase / (Decrease) in 2012/13	**(102)**	**-**	**(102)**	**780**	**-**	**780**
Balance as at 31 March 2013	**4,619**	**-**	**4,619**	**5,267**	**-**	**5,267**

The key change is that the interest cost and expected return on assets components of profit are now combined into a net figure. In effect this means that the expected return has been replaced by a figure that would be applicable if the expected return on assets assumption was equal to the discount rate. An employer can therefore no longer show higher profits where a scheme invests in assets expected to generate higher returns (or lower profits where it invests in assets expected to generate lower returns).

Whilst some disclosure requirements have been removed new requirements have been added. The additions include:

- Enhanced descriptions of the nature of the scheme, the regulatory regime under which it operates, third parties responsible for scheme governance, and the risks posed to the employer.
- Figures illustrating the sensitivity of the scheme's pension liabilities to changes in actuarial assumptions.
- Information about the profile of the scheme's liabilities, including the weighted average duration of the pension obligation.
- Details of a scheme's funding policy, including the expected contributions to the scheme for the next year.
- A more detailed breakdown of scheme assets. The aim of this change is to split assets into classes that distinguish the nature and risk of those assets and to provide a detailed breakdown showing those with a quoted price in an active market and those that do not.

The pension fund deficit has increased in the year to £39.769m (2012/13 £34.415m) as financial assumptions are less favourable at 31st March 2014 than the previous year - this is required to be shown on the Balance Sheet of the Authority. The increased liability is as a result of a fall in real bond yields which was partially offset by strong asset returns – as reflected in the Actuarial Gains / Losses on Pension Assets / Liabilities line of the Comprehensive Income & Expenditure Account.

The Council's accounts for 2013/14 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.
  - **Comprehensive Income & 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.
  - **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 matched by the reserves held by the Authority.
  - **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 Collection Fund:** shows the non-domestic rates and council tax income collected on behalf of Staffordshire County Council, the Police Authority, the Fire & Rescue Authority and this Council's General Fund.

    The local government finance system has been revised from 2013/14 with the introduction of the business rates retention scheme. The main aim of the scheme is to give Councils 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 Council to retain a proportion of the total NNDR received. The local share retained by the Council is 40% (less a tariff payment) with the remainder paid to precepting bodies - Central Government (50% share), Staffordshire County Council (9%) and the Fire & Rescue Authority (1% share).

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 £706k is reported, £70k more than reported in the provisional outturn report. Closing General Fund balances as at 31st March 2014 were £4.570m:

General Fund Balances Movement 2013/14	Final Outturn £'000	Projected Outturn £'000
Balances B/fwd.	4,619	4,619
Approved Budget transfer To / (From) balances	(755)	(755)
Approved Budget Changes during year	-	-
Outturn variance - Surplus	706	636
Balance C/fwd.	**4,570**	**4,500**

The main changes since the provisional outturn was prepared are due to:

- Lower income from Marmion House rental than expected, £21k;
- Reversal of the capitalization due to reduced impairment of Icelandic deposits following an improvement in the financial position and additional receipts from Heritable Bank, £110k; offset by
- A net reduction in the Business Rates levy (£194k) / increased reserve contribution (£88k) provided in the provisional outturn, £106k;
- A net increase in recharges to the Housing Revenue Account following finalisation of year end costs, £106k;

In addition to these, the remainder of the favourable outturn variance of £0.706m is mainly attributable to savings made in the following areas:

- planned 'quick win' savings identified of £173k;
- savings in joint waste arrangement costs, £155k;
- planned unspent contingency of £150k;
- Additional Planning applications income of £101k;
- Additional Council tax court costs of £94k;
- Salary savings from posts held vacant of £85k;
- Write back of unused reserves, £56k;
- increased car park income of £49k;
- Legal fees from increased conveyancing & right to buy sales of £40k;
- Commercial property rents of £39k (backdated rent due); and
- Civil parking enforcement - £28k; offset by
- Cost of the levy payment of £355k under the new Business Rates Retention scheme.

It should be noted that the Medium Term Financial Strategy identified required balances of £4.427m (at 1st April 2014) compared to the draft actual closing balances of £4.570m – the additional balances of £143k 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.	5,267	5,267
Approved Budget	(598)	(598)
Approved Budget Changes during year	0	0
Outturn variance - Surplus	812	894
Balance C/fwd.	**5,481**	**5,563**

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, £106k; offset by
- Increased interest on higher than expected balances, £16k.

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

- additional interest on balances, £45k;
- Council House Rents income higher than budget due to a quicker turnaround of void properties reducing overall void levels, £35k;
- Savings in Repairs & Maintenance costs across multiple contracts, £0.5m;
- Unspent contingency budget, £100k; and
- Lower than planned welfare reform costs, £50k.

It should be noted that the Medium Term Financial Strategy identified balances of £5.300m (at 1st April 2014) compared to the draft actual closing balances of £5.481m, which means additional balances of £181k.

CAPITAL OUTTURN

The outturn for the 2013/14 capital programme identifies an underspend of £3.827m against the approved budget of £12.757m (actual spend £8.930m - £11k change since Provisional Outturn). However, it has been requested that £2.848m of scheme spend be re-profiled into 2014/15. This will result in an overall underspend of £0.979m for the 2013/14 capital programme. Full details are contained within the Capital Outturn Report reported to Cabinet on 19th June 2014.

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