CALDERDALE MBC

WARDS AFFECTED ALL

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AUDIT COMMITTEE

29 June 2015

STATEMENT OF ACCOUNTS FOR THE YEAR ENDING 31ST MARCH 2015 REPORT OF THE HEAD OF FINANCE

1 ISSUE

This report presents the Council's statement of accounts for the year ended 31st March 2015 for Members' consideration and information. In particular, the report tries to show how the Council's directorate budget and spending is reflected in the financial accounts. There will be a short oral summary of the key points and matters of interest at the meeting.

2 NEED FOR A DECISION

The Head of Finance has certified the statements as giving a true and fair view of the Council's financial position at the balance sheet date, and of its financial performance during the year. Members are asked to consider the main accounting statements and accompanying disclosure notes.

Following the introduction of the Accounts and Audit regulations 2011, there is no longer any need for Members to give formal approval of the draft accounts. Members are, however, asked to consider the procedure for publishing the draft statements in future.

3 RECOMMENDATION

It is recommended that Members:

- note the report and attached statement of accounts.
- approve the applied accounting policies selected by the Head of Finance (paragraph 7.4)
- approve the procedure for the future publication of the draft accounts (paragraph 5.5)

N Broadbent
Head of Finance

4 BACKGROUND AND DETAILS

Background

4.1 The accounts now presented are the Council's financial accounts for the year ended 31st March 2015. They contain a number of entries which, despite their close involvement with budget setting and monitoring, Members will not be used to seeing. This is because there are two broad types of accounting information – management accounts (with which Members will be familiar as they are geared towards the needs of internal users), and financial accounts (less familiar, geared towards the perceived needs of external users of accounting information).

4.2 Management accounts are constructed around the way the Council is organised to deliver services and so reflect the directorate structure. Such accounts are used to help all levels of management assess performance, plan and control the activities of the Council, and assist in decision making. Monitoring reports covering spend to date; forecasts for the year; and the impact on future year budgets are regularly presented to Cabinet during the year. Outturn reports identifying the costs of services provided during the year, how this has been paid for and the movement on reserves and balances (revenue outturn report), and money spent on fixed assets, how this has been financed and funding carried forward for future schemes (capital outturn report) have already been considered by Cabinet.

4.3 This report presents the Council's financial accounts which are incorporated into the Statement of Accounts. The Statement of Accounts includes three main accounting statements: –

- The comprehensive income and expenditure statement for the year ended 31 March.
- The movement in reserves statement.
- The Balance Sheet as at 31 March.

The following diagram shows how these accounting statements are related, and the relevant sums involved.

Comprehensive Income and Expenditure Statement (£'000)	
Surplus or Deficit on the Provision of Services	62,923
Other Comprehensive Income and Expenditure	-11,892
Total Comprehensive Income and Expenditure	**51,031**

	Movement in Reserves statement
7,312	Effect on usable reserves
-58,343	Effect on unusable reserves
-51,031	**Change in Total Net Worth**

Balance Sheet (Change in Assets less Liabilities)	
Change in net assets (excl cash)	-48,879
Change in cash and cash equivalents	-2,152
Change in net worth	**-51,031**

Cashflow Statement
Net (increase) / decrease in cash and cash equivalents

The *comprehensive income and expenditure statement* shows the accounting cost of providing services during the year (what resources have been used and what income has been generated to pay for them). The concept of "use of resources" embraces a number of costs which are not chargeable against council tax. These include, for example, depreciation charges for using up a building's life for one year, and commitments payable in the future for pension and holiday entitlement earned during the year. The accounting entries which don't impact on council tax are reversed out to reserves in the *movement in reserves statement* which maps how the accounting costs are adjusted back to the charge against council tax, and shows which reserves are used to achieve this. The *balance sheet shows* the net worth of the authority at 31st March, balancing its assets and liabilities against its reserves. Reserves are split between usable reserves (which can be used to meet future revenue and capital expenditure, or manage council tax levels), and unusable reserves (reflecting the above accounting adjustments through the movement in reserves statement).

Two sides, same coin

4.4 Although the management accounts and financial accounts look very different and serve different purposes, they are really just different ways of looking at the same core financial information.

4.5 For members, the most important issue is probably how spending has compared to budget, and what the impact on balances and potential future council tax charges will be. This was all reported to Cabinet in the outturn report on the 15th June. That report showed service spend being £6.699m less than funding available. Of this, a net £3.546m was put into specific,earmarked reserves; £1.023m was carried forward as underspendings for directorates to spend in 2015/16, and the remaining £2.130m was added to general balances (£1.026m better than anticipated).

4.6 The following table explains how the net service expenditure by directorate as detailed in the outturn report is translated into the financial accounts.

	TOTALS	Chief Executives Office	Communities and Service Support	Adult, Health and Social Care	Economy and Environment	Children and Young People	Levies and Central A/c Adjs	Not reported entries
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Per outturn report								
Directorate net service expenditure	**163,598**	**3,900**	**20,508**	**51,204**	**35,198**	**45,807**	**6,981**	**0**
Funding	**-170,297**	**0**	**0**	**0**	**0**	**0**	**-170,297**	**0**
Net increase before reserves	**-6,699**	**3,900**	**20,508**	**51,204**	**35,198**	**45,807**	**-163,316**	**0**
Per the Statement of Accounts								
Net Cost of Services	209,293	3,828	20,088	51,204	35,581	44,199	9,665	44,728
Other operating expenditure	18,778	0	0	0	-370	0	456	18,692
Financing / Investment Income & Expenditure	15,661	-11	0	0	-535	-35	7,876	8,366
Taxation and non specific grant income	-180,809	0	0	0	0	0	-170,297	-10,512
Total deficit on the provision of services	62,923	3,817	20,088	51,204	34,676	44,164	-152,300	61,274
Other expenditure and adjustments	-69,622	83	420	0	522	1,643	-11,016	-61,274
Net increase before reserves	**-6,699**	**3,900**	**20,508**	**51,204**	**35,198**	**45,807**	**-163,316**	**0**
Transfers to earmarked reserves	3,546	729	210	418	-1,288	2,752	725	0
Transfers to reserves - service underspends	1,023	83	376	401	123	40	0	
Movement in balances	**-2,130**	**4,712**	**21,094**	**52,023**	**34,033**	**48,599**	**-162,591**	**0**

4.7 Whereas in the management accounts the net surplus before contributing to reserves is £6,699k, in the comprehensive income and expenditure statement, there is a deficit in the provision of services of £62,923k. The difference is £69,622k which relates to those financial accounting entries not required to be met by council tax. These entries relate to depreciation and asset valuation changes; pensions; and holiday pay. In particular, the deficit in the provision of services includes large losses on the disposal of fixed assets, reflecting the transfer of school land and buildings for those schools which have transferred to academies (these assets are effectively given away to the new trusts); and significant impairment of school land values.

4.8 All of these contribute to the large figure of £61,274k shown under the heading “not reported items”. These (eventually) balance back to nil, and have no effect on council tax levels and so in effect were included in the outturn report at a net nil.

4.9 The progression from financial accounting deficit to management accounting surplus to increase in balances is all set out in the movement in reserves statement.

4.10 There is a disclosure note within the Statement of Accounts: note 27 “service analysis” in the section “Disclosure Notes – Technical and other disclosures”. This explains how the management accounts are reflected in the financial statements and is similar to the above table.

4.11 The balance sheet summarises all the assets (what the Council owns or is owed by others) and liabilities (what the council owes to others) at the year end. This is matched by reserves. Not all the reserves can be used to deliver services. Usable reserves include general balances, earmarked reserves, capital receipts and grants. Members can influence how these should be spent. The unusable reserves are not spendable reserves, and are not available for such Member influence and discretion.

5 PUBLICATION AND PRESENTATION OF THE STATEMENT OF ACCOUNTS

5.1 Currently, the draft statements have to be signed by the Head of Finance before the 30th June. There is then a period for the exercise of public rights. This is a 20 day period during which the public can examine the accounts and supporting documents, and after which they can raise objections with the auditor. This period must be advertised for 14 days before commencing.

5.2 From 2015/16 accounts, there is a new process. This will require publication of the unaudited accounts by 30th June together with a statement saying that as from the next day, for 30 working days, the public can both access documents and raise objections with the auditor. The 14 day advertising period has effectively been lost and subsumed into the period during which the accounts are available for inspection.

5.3 From the financial year 2017/18, the date for publication advances to 31st May. As we already meet this deadline it makes sense, and is good practice, to publish the accounts once they are ready. Accordingly, it is the intention in future to publish these on the website and announce the period of inspection by 31st May. This means that we will be accustomed to meeting the more challenging deadline when it comes in in 2017/18.

5.4 As Audit Committee tends not to meet until late June/early July, this would mean that the accounts would have been on deposit for a few weeks before formal presentation of them. This, in itself, is not a problem unless Members wish to consider the statements formally before publishing, in which case a special meeting of the Audit Committee would need to be convened in May.

5.5 The recommendation in this report is that the accounts be prepared, published on the website, and circulated to Audit Committee members by the end of May, pending formal presentation at the first available Audit Committee. There is no specific requirement for Audit committee to consider the draft accounts (only the audited accounts need presenting), but it is considered good practice to do so, and it is assumed that Members would wish to continue with this.

6 CONSULTATION

The Council is one of the earliest in the country to finalise its accounts, and is already meeting the more challenging timetable being introduced nationally. Prompt closure is made possible only through having well developed, established processes which are delivered to a tight timetable with the support, goodwill, professionalism and hard work of staff in all directorates, but principally finance teams, providers of financial services, (e.g. payments, cashiers, payroll, income) and others, (e.g. ICT, Valuers).

7 FINANCIAL IMPLICATIONS

7.1 This report is primarily for information. The financial implications and major issues arising as a result of the closure of accounts have been fully reported to Cabinet. In order to understand the statement of accounts, the best place to begin is the explanatory foreword on pages 3 – 15. This summarises the current financial climate within which the Council is now operating; the financial performance for the year; and provides a helpful commentary on the main financial statements, explaining what they mean and what the main changes and significant events have been during the year. The main points to highlight are: -

7.2 <u>Comprehensive Income and Expenditure Statement</u>

The comprehensive income and expenditure statement on page 17 shows the financial performance for the year measured in terms of resources used and generated. It is akin to a company's profit and loss account. It is split into two parts: -

- The deficit on the provision of services is £62.923m. It is not unusual for this to be in deficit as the statement includes costs for which the Council does not have to raise council tax in the year (for example depreciation charges and certain retirement benefit costs). In order to reconcile back to the actual impact on balances (i.e. to balance back to the net expenditure which does have to be met by council tax), there is a "movement in reserves statement" (page 16), and ultimately it is the bottom line of this statement which will be of most interest to Members and will inform future financial planning decisions by identifying sources of available funding carried forward such as reserves and balances.
- The second part is "other comprehensive income and expenditure" which includes other recognised gains during the year due to asset and liability valuation changes rather than economic performance. These may crystallise at a future date. For example, property valuation increases will only be realised once a property has been disposed of at its book value.

The outturn position previously reported shows year end balances of £12.642m to be carried forward into 2015/16. This is shown in the movement in reserves statement. This statement shows the required statutory adjustments to total comprehensive income and expenditure to arrive at the amount impacting on balances held for council taxpayers.

7.3 <u>Balance Sheet</u>

The balance sheet on page 18 summarises the fixed and net current assets used to deliver services; the long term indebtedness of the Council, and how this "net worth" is represented in terms of reserves and balances.

Members will note that the notional "value" of the Council has fallen to £180.2m from £231.2m. This is due primarily to two factors: -

- An increase in the notional pension fund deficit. This figure is very susceptible to changes in the discount rate used to value pension liabilities, with a small decrease of only 0.1% increasing the liability by £15m. This has been partly offset by;
- A small net increase in usable reserves due to putting money into earmarked reserves and increased general balances.

Pension Fund Reserve

Pensions are accounted for under IAS 19. The main difficulty with the standard is that it is a snapshot at the balance sheet date and the calculation is quite sensitive to the assumptions made. As a result, the reported figures can be quite volatile (and indeed have proved to be so, with the deficit varying between £279m and £198m over the last two years).

The deficit is an estimate at the balance sheet date of the amount that will need to be found in the future to pay for pension entitlements already earned. Although there is a net deficit, this does not mean that the pension fund is broke, or that contributions will rocket. Pension contributions are determined by the actuary based on the triennial reviews. These reviews allow for a much longer term view of the pension fund. Following revisions to the scheme, the Council is paying an employer rate which is expected to remain fairly static for current service. Deficits arising on past service are being addressed by one off sums paid over the course of the next 22 years.

Balances and Earmarked Reserves

Overall General Fund balances at 31 March 2015 amounted to £12.642m. £5.5m of this has already been set aside to deliver balanced budgets over the next three financial years. Cabinet Members have also agreed to fund overspends on winter maintenance costs (£497k) and lost car parking income (£235k) in 14/15. This will reduce available balances by £732k, leaving a further £1.4m above the policy minimum level of £5m in order to maintain flexible solutions to assessed risks and corporate priorities in the coming year. Pending use, surplus balances can be invested, and the investment income earned will have a beneficial effect on future council tax levels.

Although some reserves are created through specific Member resolutions e.g. Staying Well and Welfare Reform, most reserves are created by directorates under budget delegations. These are reported in more detail in the outturn report. Earmarked reserves have again increased following a period in which they were in decline.

7.4 Accounting Policies

All financial transactions are recorded based on applying accounting policies. These policies are fully disclosed in the statement of accounts. Members approve these for the coming financial year. Any changes during the year are highlighted in the accounting statements and brought to Members attention in this report.

In 2014/15, following issue and adoption of a suite of standards relating to group accounts, the Council has determined that, due to the level of control it exerts, 2 schools in the ownership of school governing bodies should be brought onto the council's balance sheet.

One change already identified for 2015/16 follows the adoption of IFRS 13. This will have a marginal effect on the way surplus assets are valued. This will now be based on exit price, rather than existing use based on the latest use of the asset.

Any further amendments to the accounting policies will be notified to Members in due course. In the meantime, Members are asked to formally approve the existing accounting policies, amended as notified, for 2015/16.

8 EQUAL OPPORTUNITIES IMPLICATIONS

None arising from this report.

9 CONCLUSION

Overall financial performance, budget management and reporting continue to be strong, and the Council has a healthy financial base from which to address future budget challenges.

N Broadbent
Head of Finance
Reference: ACC/AG/JLC
Date: 9 June 2015

FOR FURTHER INFORMATION ON THIS REPORT CONTACT: Alan Goodwin
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DOCUMENTS USED IN THE PREPARATION OF THE REPORT:
Statement of Accounts and closedown working papers.

DOCUMENTS ARE AVAILABLE FOR INSPECTION AT:
Finance Services, Westgate House, Halifax