

<b>MEETING:</b>	<b>Audit and Governance Committee</b>
<b>MEETING DATE:</b>	<b>29 September 2014</b>
<b>TITLE OF REPORT:</b>	<b>Statement of Accounts</b>
<b>REPORT BY:</b>	<b>Chief Finance Officer</b>

## **1. Classification**

Open

## **2. Key Decision**

This is not a key decision.

## **3. Wards Affected**

County-wide

## **4. Purpose**

To seek the Audit and Governance Committee's approval of the 2013/14 Statement of Accounts and Annual Governance Statement.

## **5. Recommendations**

**THAT the Audit and Governance Committee**

- (a) approve the 2013/14 Statement of Accounts;**
- (b) agree the draft letter of representation is signed by the Chair and Chief Finance Officer; and**
- (c) approve the Annual Governance Statement.**

## **6. Alternative Options**

- 6.1 There are no Alternative Options as all councils are required to produce a Statement of Accounts and Annual Governance Statement.

## **7. Reasons for Recommendations**

- 7.1 The council is required to produce a statement of accounts and annual governance statement in accordance with legal and accounting requirements. The process requires the accounts to be certified by the Chief Finance Officer by 30th June and

then approved by the Audit and Governance Committee by 30th September.

- 7.2 The council has a responsibility for conducting at least annually a review of the effectiveness of the governance framework including the system of internal control. This is reported through the Annual Governance Statement which is reviewed and approved by the Audit and Governance. The Annual Governance Statement also provides commentary on how the council's governance framework including the system of internal control can be improved. Whilst the Annual Statement by its nature is only signed off once a year, the process of review is continuous. As a result the reports presented to each meeting of the Audit and Governance Committee are used to inform the Annual Governance Statement.

## **8. Key Considerations**

- 8.1 The Statement of Accounts (attached as Appendix A) has been drawn up in accordance with the Accounts and Audit Regulations 2011, and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code consolidates the statutory requirements and accounting standards that the council is legally required to follow.
- 8.2 The most significant matters in the accounts for 2013/14 and a summary of the council's financial position are set out in the Explanatory Foreword. Key points for 2013/14 include the following;
- The out-turn position delivered a break even position. Adult social care did overspend however this was accommodated by additional savings realised elsewhere.
  - General fund reserves at £5.1m exceed the minimum policy requirement to hold a general fund reserve balance equivalent to 3% of our net budget requirement (being approximately £4.5m).
  - Specific reserves have been set aside totalling £23.9m. This will be used to mitigate specific key corporate financial risks, including any settlements required in respect of ongoing litigation.

### **2013/14 Statements**

- 8.3 Under International Financial Reporting Standards (IFRS) the main financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Account, Balance Sheet and Cash Flow Statement.

### **Movement in Reserves Statement**

- 8.4 This statement, which is section 4 of the Statements, shows the movement in the year on the different reserves held by the authority, analysed into usable and non-usable reserves. These are also shown in the bottom half of the Balance Sheet.

### Usable Reserves

- 8.5 Total usable reserves at 31st March 2014 were £41.3m compared with £34.8m at 31st March 2013. This is summarised in the table below.

	General fund balance	Earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves
	£000	£000	£000	£000	£000
Balance as at 31st March 2013	4,656	13,968	2,693	13,515	34,832
Balance as at 31st March 2014	5,053	23,943	5,995	6,350	41,341

- 8.6 The general fund increased by £0.4m, which reflects the small underspend on the revenue account in the year. Details of the movement to and from earmarked reserves are shown in Note 8.8. The capital receipts reserve increased by £3.3m as a result of disposing of surplus assets through auctions held in the year. This reserve is earmarked to fund future year's capital spend. Further details are included in Note 8.23 of the Statements.

#### Unusable Reserves

- 8.7 Unusable reserves are not available to be spent. They include unrealised gains and losses, such as the revaluation reserve and timing differences for funding of spend on assets (through the Capital Adjustment Account). There is also a negative reserve for future pension fund deficit obligations. These unusable reserves moved from £44.8m at 31st March 2013 to £86.3m at 31st March 2014, the main movement being the pensions' deficit reduction. Further details can be found in Note 8.24.

#### **Comprehensive Income and Expenditure Statement (CIES)**

- 8.8 This statement, which is Section 5 of the Statements, shows the accounting cost in the year of providing services, rather than the amount to be funded from council tax. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The adjustments to reconcile this statement to the amount to be funded from council tax are included in the Movement in Reserves Statement and detailed in Note 8.7.
- 8.9 The net cost of services in 2013/14 was £148.1m compared to £153.0m in 2012/13. The largest movement being the inclusion of Public Health in gross expenditure and income, reflecting the transfer of additional statutory services to local authorities in 2013/14.
- 8.10 'Other operating expenditure' on the CIES was significantly higher in 2012/13 (£9m in 2013/14 compared to £22.8m in 2012/13) due to £19.9m of asset write-offs in 2012/13 as a result of a number of schools transferring to Academies in 2012/13.

#### **Balance Sheet**

- 8.11 The Balance Sheet in Section 6 of the Statements summarises the council's assets, liabilities and reserves at the end of the financial year.

- 8.12 At 31st March 2014 long-term assets totalled £465.1m, compared to £447.1m at 31st March 2013. The main element of this is property, plant and equipment which amounted to £426m at the year-end compared to £404m at 31st March 2013. Movements in the year include depreciation, revaluations, disposals and additions through the capital programme. Details of the movements are set out in Note 8.12.
- 8.13 Current assets amounted to £57.4m at 31st March 2013 (£47.5m at 31st March 2013), including £26.0m in cash and investments and £28.5m short-term debtors. Cash and investment balances increased by £15.0m, mainly due to grant monies being received in March and not spent at the year-end so held in cash and specific reserves.
- 8.14 Current liabilities were £83.0m at 31st March 2013, including £49.2m relating to short-term borrowing and £26.4m of short-term creditors. The increase in current liabilities from £70.0m in 2012/13 is due to council's treasury management policy of using short-term borrowing (as opposed to long term borrowing) due to the low rate of interest charged.
- 8.15 Long-term liabilities were £311.7m at the 31st March 2014 compared to £344.8m at 31st March 2013. These relate to borrowing and pensions liabilities, the pensions' net liability as determined by the pension fund actuary decreased by £28.1m.

### **Cash Flow Statement**

- 8.16 This statement represents a summary of all cash flowing in and out of the council arising from transactions with third parties. All internal transactions between the various accounts maintained by the council are excluded. The statement shows that during 2013/14 total cash outflows were £497.1m and inflows £501.6m, resulting in a net increase in cash and cash equivalents of £4.5m.

### **The Collection Fund**

- 8.17 This statement shows all income collected from council taxpayers and business ratepayers (NNDR), which amounted to £143.8m in 2013/14 (£151.8m in 2012/13). Expenditure includes precept payments to the West Mercia Police Authority (£11.5m) and Hereford & Worcester Fire Authority (£5.2m), representing income collected from council taxpayers on their behalf. The Herefordshire Council precept includes £2.5m for parishes, which are paid through the council's general fund. In 2013/14 NNDR contributions of £23.2m were payable to central government a decrease from 2012/13 due to 49% of income collected now retained by us.

## **9. Community Impact**

- 9.1 The council is responsible for ensuring that appropriate safeguards are in place to ensure that it operates effective governance arrangements and internal controls. The decisions the council makes have direct impact on the lives of residents of the county and therefore it is essential that the council have appropriate governance arrangements in place.

## **10. Equality and Human Rights**

- 10.1 The content of the report has no direct impact on equality and human rights.

## **11. Financial Implications**

11.1 As set out in the report.

## **12. Legal Implications**

12.1 There is a legal requirement for council to approve the statement of accounts by the end of September. The Accounts and Audit Regulations include requirements for all councils to produce an Annual Governance Statement.

## **13. Risk Management**

13.1 The risk is that the external auditors will not issue an unqualified opinion on the statement of accounts by the end of September. The risk is mitigated by providing working papers and officer time to help external auditors form an appropriate judgement on the statement of accounts by 30th September.

## **14. Consultees**

14.1 None

## **15. Appendices**

15.1 Appendix A - Statement of Accounts 2013/14

Appendix B - Draft Letter of Representation

Appendix C - Annual Governance Statement

## **16. Background Papers**

16.1 None identified.