

<b>Meeting:</b>	<b>Audit and governance committee</b>
<b>Meeting date:</b>	<b>23 September 2015</b>
<b>Title of report:</b>	<b>2014/15 statement of accounts</b>
<b>Report by:</b>	<b>Director of resources</b>

## **Classification**

Open

## **Key Decision**

This is not an executive decision.

## **Wards Affected**

Countywide

## **Purpose**

To seek the audit and governance committee's approval of the 2014/15 statement of accounts and annual governance statement.

## **Recommendation(s)**

**THAT:**

- (a) the 2014/15 statement of accounts (appendix a) be approved;**
- (b) the letter of representation (appendix b) be signed by the chairman of audit & governance committee and the director of resources; and**
- (c) the annual governance statement (appendix c) be approved and signed by the chairman of audit and governance committee, the chief executive and the director of resources.**

## Alternative options

- 1 There are no alternative options.

## Reasons for recommendations

- 2 The 2011 accounts and audit regulations require the council to produce a statement of accounts and an annual governance statement. The process requires the accounts to be certified by the chief finance officer by 30 June and then approved by the audit and governance committee by 30 September. For next year's accounts, 2015/16, the 2015 accounts and audit regulations brings forward this requirement by one month.
- 3 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 committee. 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.

## Key considerations

- 4 The statement of accounts (appendix a) have 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.
- 5 The most significant matters in the 2014/15 accounts and a summary of the council's financial position are set out in the explanatory foreword. Key points for 2014/15 include the following:
  - An accounting policy change to include school assets, excluding academy and free schools, has increased the Council's asset base by £29.9m.
  - In 2014/15 the council underspent by £0.6m.
  - General fund reserves increased to £7.1m, from £5.1m at 31.3.14.
  - Specific reserves have been set aside totalling £26.7m, this includes £6.2m of school reserves. These reserves will be used to mitigate specific key corporate financial risks, including any settlements required in respect of ongoing litigation.

### 2014/15 Statements

- 6 The main financial statements are prepared in accordance with the international financial reporting standards. These comprise: the movement in reserves statement, a comprehensive income and expenditure account, a balance sheet and a cash flow statement.

### Movement in reserves statement

- 7 This statement, section 4 of the accounts, shows the movement in the year on the

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different reserves held by the authority, analysed into usable and non-usable reserves. These are used to balance the Council's balance sheet which details all assets and liabilities as at the end of the financial year.

### Usable reserves

- 8 Total usable reserves at 31 March 2015 were £40.7m compared with £41.3m at 31 March 2014, summarised in the table below.

	General fund balance	Earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves
	£m	£m	£m	£m	£m
Balance as at 31 March 2014	5.1	23.9	5.9	6.4	41.3
Balance as at 31 March 2015	7.1	26.7	4.4	2.5	40.7
<b>Increase/(decrease)</b>	<b>2.0</b>	<b>2.8</b>	<b>(1.5)</b>	<b>(3.9)</b>	<b>(0.6)</b>

- 9 The general fund reserve balance increased by £2m as a result of the 2014/15 underspend plus a contribution from the revenue budget approved when the 2014/15 budget was set. Details of the movement to and from earmarked reserves are shown in note 8.8 to the accounts.

### Unusable Reserves

- 10 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, a liability, for future pension fund deficit obligations. The unusable reserves totalled £78.9m at 31 March 2015 compared to £119.3m at 31 March 2014, the main movement being an increase of £52.3m in the external valuation of the pension deficit. The estimated pension deficit on Herefordshire's fund as at 31 March 2015 is £212.7m, this represents the difference between the estimated value of obligations and the assets held in the pension fund. Further details can be found in note 8.20 to the accounts.

### Comprehensive income and expenditure statement

- 11 This statement, section 5 of the accounts, shows the accounting cost in the year of providing services as required under international reporting standards. This differs from the amount to be funded from council tax. Authorities raise taxation to cover expenditure in accordance with regulations and this cost may differ 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 shown in note 8.7.
- 12 The net cost of services in 2014/15 was £146.9m compared to £148.9m in 2013/14 with the reduction reflecting savings achieved in the delivery of services.

### **Balance Sheet**

- 13 The balance sheet, section 6 of the accounts, summarises the council's assets, liabilities and reserves at the end of the financial year.
- 14 At 31 March 2015 long term assets totalled £537.5m, compared to £497.9m at 31 March 2014. Long term assets include the current valuation of property, plant and equipment the Council uses in the provision of its services. This valuation will increase by the capital spend in 2014/15 which included spend on improvements to our road network of £30.3m.
- 15 Current assets totalled £29.5m at 31 March 2015, compared to £57.4m at 31 March 2014. Cash and investment balances decreased by £21.6m due to improvement treasury management practices where a minimum year end cash balance was held.
- 16 Current liabilities totalled £66.2m at 31 March 2015, compared to £70.6m, at 31 March 2014. Short term borrowing decreased by £8.0m due to improved treasury management practices.
- 17 Long term liabilities totalled £381.2m at 31 March 2015 compared to £324.1m at 31 March 2014. The pensions net liability as determined by the pension fund actuary increased by £52.3m in 2014/15.

### **Cash flow statement**

- 18 Statement 7 of the accounts represents a summary of all cash flowing in and out of the council during 2014/15, during 2014/15 there was a net decrease in cash and cash equivalents of £5.1m.

### **The collection fund**

- 19 Note 9 to the accounts details the collection fund. This fund includes all income collected from council taxpayers and business ratepayers, which totalled £151.0m in 2014/15 compared to £143.8m in 2013/14. Expenditure includes precept payments to West Mercia Police (£11.8m), Hereford and Worcester Fire Authority (£5.4m) and parishes (£2.8m). These are paid from income collected from council taxpayers on their behalf. In 2014/15 business rates of £23.6m were paid to central government representing 50% of business rate income collected.

### **The annual governance statement**

- 20 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 committee as an element of the annual statement of accounts in September. 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 statement by its nature is only signed off once a year, the process of review is continuous. Audit and governance committee received a draft of the statement at its meeting in July; the action plan supporting the statement has been further developed to identify intended outcomes and to ensure it addresses any elements outstanding from the previous action plan. The statement is attached at appendix c.

## **Community impact**

- 20 The council is responsible for ensuring that appropriate safeguards are in place to

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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.

## **Equality duty**

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

## **Financial implications**

22 As set out in the report.

## **Legal implications**

23 The audit and account regulations 2011 require the Council to prepare a statement of accounts in respect of each financial year and an annual governance statement.

## **Risk management**

24 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 30 September.

## **Consultees**

None.

## **Appendices**

Appendix A – statement of accounts 2014/15

Appendix B – letter of representation

Appendix C – annual governance statement

## **Background papers**

- None identified.