

Meeting: **Audit Committee/Statement of
Accounts Committee**

Agenda Item: 3

Portfolio Area: Resources

Date: **24 September 2014**

Author - Clare Fletcher/Paul Winrow Ext No. 2933

Contributors – Terry Blackman/Anita Thomas

Lead Officer - Clare Fletcher Ext No. 2933

Contact Officer – Anita Thomas Ext No. 2430

1 PURPOSE

- 1.1 To present the External Auditor's Annual Report for consideration and approval and the audited 2013/14 Financial Report including the Statement of Accounts (SOA).

2 RECOMMENDATIONS

- 2.1 That the Annual Report to those charged with Governance for 2013/14 be approved (Appendix A).
- 2.2 That the Council's Letter of Representation be approved (Appendix B).
- 2.3 That the Financial Report including the Statement of Accounts 2013/14 be approved (Appendix C).

3 BACKGROUND

- 3.1 This report is presented to the Audit Committee in its capacity as the body charged with Governance. The Auditor's report (Appendix A) has been produced by the Council's External Auditors Grant Thornton. At the time the Auditor's report was written there were no outstanding items in relation to the Financial Report or Statement of Accounts.
- 3.2 As a result of the changes to the Accounts and Audit regulations this committee no longer receives and approves a draft set of accounts by the 30 June. The revised requirement under these regulations is for the Audit Committee and

Council, (or a Committee delegated this function by Council), to consider and approve the accounts before 30th September after they have been audited.

3.3 The 2013/14 fourth quarter outturn position for the General Fund and the Housing Revenue Account was presented to the Executive on 22 July 2014. That report showed that the General Fund had a net under spend of £770,529 of which £375,860 related to carry forward requests. The HRA had an increase in surplus of £746,476 of which £334,476 related to carry forwards. Following the external audit the outturn positions for the General Fund and HRA remains unchanged.

3.4 **Changes affecting the 2013/14 Statement of Accounts**

3.4.1 The SOA has to be compiled in accordance with current International Financial Accounting Standards, Statutory requirements, and CIPFA published guidance. The standards and guidance may change year on year and 2013/14 saw a number of changes to this year's statement.

- **Post Employment Benefits (IAS 19 – Employee Benefits Revised):**

Extensive changes to the classification, measurement and recognition of pension assets and liabilities. Specifically the treatment of interest costs in relation to current service costs are now shown in “Finance & Investment Income and Expenditure” line in the Comprehensive Income and Expenditure account. This change has been reflected in restated 2012/13 comparators and effect the Comprehensive Income & Expenditure Statement (page 33 of SOA), Movement in Reserves Statement (page 30 of SOA) and Pension note (page 102 of SOA).

Pension administration costs are now recognised as a reduction in the return on assets and recorded in “Other Comprehensive Income and Expenditure”. These changes solely relate to the disclosure of pension costs and income and do not affect the pension liability shown in the Balance Sheet.

- **Accounting for Business Rates Retention:**

The Local Government Finance Act 2012 introduced a business rates retention scheme that enables local authorities to retain a proportion of the business rates generated in their area. The Council now recognises its share of the debt, prepayments and provisions for appeals and bad debt within the SOA. Previously all balances held by the Council that related to Non Domestic Rates would have been attributable to Central Government.

- **Asset Valuations:**

Additional guidance regarding the requirement to show true and fair non-current asset valuations was given by the Chartered Institute of Public Finance and Accountancy (CIPFA - the professional body for public finance) earlier in the year. This has a particularly impact on Councils that have a rolling programme for assets valuations, as Stevenage does over a 5 year timeframe, and places a greater emphasis on valuers to revisit all assets to ensure that there has not been a significant change to these valuations that may lead to disclosing inaccurate valuations of non-current assets.

- **Accumulated Absences Provision:**

With the introduction of IFRS accounting Councils had to recognise the potential cost of paying accrued leave and flexi to staff as at the year end. At the time it was introduced Councils could recognise this amount as either a creditor or a provision. This has since been clarified by CIPFA and standard practice is to recognise the amount as a creditor. SBC had shown this amount as a provision – Accumulated Absence provision, and disclosed this amount in the note. This year officers have agreed with the external auditors that this is now shown as a creditor. Although this is a change in accounting policy, which would normally require a prior year adjustment and restated balance sheet, as the amount is not material external auditors have agreed that this is not required.

- **Financial Instruments:**

Additional disclosure requirements have been incorporated into Note 20 (page 78 of SOA).

- 3.5 **Presentational changes:** In an aim to make the accounts more usable to the reader and to eliminate duplication of information some notes have been amalgamated. In addition some notes have been re-ordered in the SOA to aid the reader with similar topics now grouped together. Accounting policies are now disclosed with the relevant note where applicable.
- 3.6 Members were offered training prior to this committee to aid their understanding of the Statement of Accounts and the implications of any changes incorporated into the 2013/14 accounts.
- 3.7 The Council is required to send to the Council's External Auditors a Letter of Representation (Appendix B).

4 REASONS FOR RECOMMENDED COURSE OF ACTIONS AND OTHER OPTIONS

4.1 Statement of Accounts

4.1.1 The 2013/14 Financial Report including the Statement of Accounts is Appendix C to this report.

4.2 Balance Sheet

4.2.1 The Council's Balance Sheet as at the 31 March 2014 showed total reserves of £359.7 Million, an increase of £42.9 Million over the Balance Sheet as at 31 March 2013. However only £8.9Million relates to usable or cash reserves, The increase in the Council's net worth can be assessed by reviewing the Useable and Non Useable Reserves.

4.2.2 Useable Reserves

4.2.3 Useable reserves are cash reserves that are available for the Council to spend on revenue and/or capital. The Council's useable reserves increased by £9Million to £28.677Million as at 31 March 2014. The major increase was seen in reserves available to fund capital expenditure which increased by £6.252Million due to:

- Council's retained share of Right to Buy receipts increasing by £3.454Million.
- The Major Repairs Reserve which is available to fund HRA capital schemes increased by £2.805Million due to under spends against the 2013/14 capital budget.

There was also an increase in revenue reserves and the budgeted surplus on the HRA increased to £2.136Million, increasing the HRA balance.

4.2.4 Table one below details the movement in useable reserves.

Table 1 Useable Reserves

	Balance at 31 March 2013 £	Increase/ (Decrease) in Year £	Balance at 31 March 2014 £
Revenue Reserves:			
General Fund Balance	4,094,809	722,005	4,816,814
Earmarked General Fund Reserves	1,388,193	866,080	2,254,273
Housing Revenue Account	7,902,423	1,472,316	9,374,739
Total Revenue Reserves	13,385,426	3,060,400	16,445,826
Capital Reserves:			
Major repairs reserve	1,802,431	2,805,234	4,607,665
Capital Receipts Reserve	2,467,930	3,447,171	5,915,101
Government Capital Grants Unapplied	2,041,443	(332,607)	1,708,836
Total Capital Reserves	6,311,804	5,919,797	12,231,602
TOTAL REVENUE AND CAPITAL RESERVES	19,697,230	8,980,198	28,677,428

(income =)/ reduction in income = +)

4.2.5 Unuseable Reserves

4.2.6 Non useable or unuseable reserves are non cash reserves and include (but not exhaustive) the value of:

- Gains and losses from changes to the value of the Council's assets shown in the Revaluation Reserve.
- Timing differences between the purchase and use/or consumption of non-current assets (formerly known as fixed assets) shown in the Capital Adjustment Account.
- The calculated liability owed by the council at the Balance Sheet date for staff pensions shown in the Pension Reserve.
- The amount of money that would have to be paid to staff if all holiday entitlement due, but not taken was paid at the Balance Sheet date shown in the Accumulated Absences Account.

- The difference between the recognition of Council Tax and NDR income in the Income and Expenditure Statement as it falls due from council tax payers, compare with the statutory arrangement for paying across amounts to the General Fund from the Collection Fund, (completed at budget setting).

4.2.7 The Council's unuseable reserves increased by £33.865Million to £331.001Million as at 31 March 2014. Included within unuseable reserves is the Council's pension reserve (deficit). The pension deficit reduced by £9.153Million compared to 31 March 2013.

4.2.8 The Capital Adjustment Account (CAA) has increased by £24.254Million largely due to the in year net revaluation gain of £20.289Million on Council House stock (see also para 4.3.5). As this gain reversed prior year losses charged to the HRA the gain is taken to the CAA and not the Revaluation Reserve in accordance with accounting policies.

4.2.9 A summary of the movement in unusable reserves is shown in Table two below.

Table 2 Unuseable Reserves

	Balance at 31 March 2013	Increase/ (Decrease) in Year	Balance at 31 March 2014
Unusable Reserves:	£	£	£
Revaluation Reserve	27,408,601	622,425	28,031,026
Capital Adjustment Account	327,766,779	24,253,648	352,020,427
Deferred capital receipt reserve	229,629	(15,954)	213,675
Pensions Reserve	(57,915,067)	9,153,067	(48,762,000)
Collection Fund Adjustment Account	69,360	(138,281)	(68,921)
Accumulated Absences Account	(422,858)	(10,186)	(433,044)
Total Unusable Reserves:	297,136,444	33,864,719	331,001,163

4.3 External Auditors Conclusions

4.3.1 As the Council's appointed Auditor, Grant Thornton is required to review and report on the Council's financial statements and provide a value for money conclusion which is shown in Appendix A.

- 4.3.2 At the time the time of writing the report, no objections were received by electors to the 2013/14 accounts.
- 4.3.3 One request was made to examine in more detail the transactions and costs associated with the Council's waste collection service included in the "Environmental and Regulatory Services" line of the Comprehensive Income and Expenditure Statement.
- 4.3.4 There were no outstanding items at the time of writing the report.
- 4.3.5 There was one material misstatement found in the accounts as part of the audit. On page 12 of Appendix A, (Section 2 Audit Findings) Grant Thornton list the adjustments made as part of the audit. These were:

<p>Misstatement:</p> <p>Council dwellings – Revaluation to reflect market movement between 1/4/2013 and 31/3/2014. Increased Council Dwellings valuation by £31.811Million (Net asset valuation increased by £31,811 Million and Unusable Reserve (Capital Adjustment Account) increased by £31,811) (Points 1, 2 3 and 4 on page 12)</p>
<p>Disclosure:</p> <p>An amount should have been included in the 'NDR retained income' line (not Council Tax line) in Note 28: 2013/14 Reconciliation from Subjective analysis to Deficit on Provision of Services. (nil effect on reserves) (point 1 on page 13)</p>
<p>Disclosure:</p> <p>One items was omitted from the required disclosures •Best employer estimate of contributions expected to be paid to the plan in the next accounting period. Correction of this has no impact on the Council's financial position. (nil effect on reserves) (point 2 on page 13)</p>

- 4.2.4 There were no unadjusted misstatements.
- 4.2.5 As a result of the external audit there are no recommendations from Grant Thornton in relation to the Statement of Accounts. There may be recommendations as a result of the Finance Resilience Report to be presented to the November Audit Committee.

5 IMPLICATIONS

5.1 Financial Implications

The updated Accounts for 2013/14 are financial in nature. As this document is related, the financial implications are contained therein.

5.2 Legal Implications

This report is presented in accordance with the Accounts and Audit Regulations 2011.

BACKGROUND PAPERS

4th Quarter General Fund and HRA report 22nd July 2014 Executive

APPENDICES

Appendix A - Annual Report to those Charged with Governance

Appendix B - Letter of Representation

Appendix C - Updated Statement of Accounts 2013/14