



AUDIT COMMITTEE

30TH JUNE 2015

AGENDA ITEM (10)

STATEMENT OF ACCOUNTS 2014/15

Accountable Member	Audit Committee
Accountable Officer	Jenny Poole Chief Finance Officer 01285 623313 jenny.poole@cotswold.gov.uk

Purpose of Report	To update Members on progress on preparation of the Statement of Accounts for 2014/15.
Recommendation(s)	(a) That Members discuss and note the key financial statements extract from the draft Statement of Accounts 2014/15; (b) that Members review the draft Statement of Accounts 2014/15 and raise any questions or concerns with the Chief Finance Officer by 21 st August 2015.
Reason(s) for Recommendation(s)	The Council is statutorily obliged to have prepared its draft statement of accounts by 30 th June following financial year end.

Ward(s) Affected	None
Key Decision	No
Recommendation to Council	No

Financial Implications	None
Legal and Human Rights Implications	None
Environmental and Sustainability Implications	None
Human Resource Implications	None
Key Risks	The quality of the financial statements and the supporting working papers will be reviewed by the Council's external auditors and will inform the opinion on the statement of accounts. If they are of a poor quality; there could be reputational damage to the Council. Training of Officers and quality review of the accounts helps to mitigate this risk.

Equalities Impact Assessment	Not Required
Related Decisions	Council, 27 th February 2014 - approval of 2014/15 budget.
Background Documents	None
Appendices	Appendix A - Key Financial Statements Appendix B - to be circulated at the meeting - Draft Statement of Accounts 2014/15
Performance Management Follow Up	The external auditors will audit the statements and the outcome of the audit will be presented to the Audit Committee in September 2015.

Background Information

1. General

1.1 The Council's Chief Finance Officer is responsible for ensuring that the statement of accounts is prepared and signed and dated by the Chief Finance Officer no later than 30th June immediately following the end of a year. Members are not, therefore, being asked to approve the accounts at this meeting. The audited statements will be presented to the September meeting of this Committee for approval.

1.2 As best practice, the Chartered Institute of Public Finance and Accountancy (CIPFA) recommends that authorities report the statement of accounts to Members after they have been signed by the responsible financial officer. Members are encouraged to review the statement of accounts, before or during the audit of the accounts, and raise any points that may need to be addressed. **Members are therefore asked to review the Statement of Accounts and to raise any questions or concerns with the Chief Finance Officer by 21st August 2015.** This will enable the Chief Finance Officer to address any issues or questions raised by members of the Committee, make any resulting changes to the Statement of Accounts and for those changes to be audited in a timely manner.

1.3 The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ('the Code'). The Council is statutorily obliged under the Accounts and Audit Regulations 2011 to prepare its Statement of Accounts in accordance with the Code.

2. The 'Core' Statements

2.1 The statement of accounts comprises four 'Core' statements, with supporting notes, and the Collection Fund, with its supporting notes. As the Council is a shareholder in Ubico Ltd, which commenced trading on 1st April 2012, the accounts also include Group Accounts which reflect the Council's interests in Ubico Ltd. To obtain an overview of the Council's financial position and activities, these 'core' statements provide a good summary. To gain a detailed understanding of the accounts, the core statements need to be read in conjunction with the supporting notes to the accounts.

2.2 The purpose of each of the core statements is briefly outlined below.

2.3 The Comprehensive Income & Expenditure Statement (CI&E)

The CI&E statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded by taxation. The CI&E represents the 'running costs' of the Council for the year.

2.4 The Movement in Reserves Statement

2.4.1 The Movement in Reserves Statement (or MiRS) provides a summary of the changes that have taken place in the bottom-half of the Balance Sheet over the financial year. It does this by analysing:

- The increase or decrease in the net worth of the authority as a result of incurring expenses and generating income
- The increase or decrease in the net worth of the authority as a result of movements in the fair value of its assets
- Movements between reserves to increase or reduce the resources available to the authority according to statutory provisions.

2.4.2 The Council's reserves are classified as either useable or unusable reserves - see definitions in paragraph 2.5 below. The total of the reserves represents the 'net worth of the Council'.

2.5 The Balance Sheet

The balance sheet summarises the financial position of the authority at a particular point in time [the balance sheet date of 31st March]. The top half of the balance sheet summarises the assets and liabilities that the Council holds, or has accrued with other parties. The bottom half of the balance sheet detail the Council's reserves, which represent the 'net worth' of the authority. The reserves of the authority are split into useable and unusable reserves as follows:

- Useable reserves, which (as the name suggests) include revenue and capital resources which are available for use, and can be used to meet future expenditure.
- Unusable reserves which are primarily adjustment accounts which absorb the difference between the outcome of applying proper accounting practices and the requirement of statutory arrangements for funding expenditure. These accounts do not represent balances that can be spent.

2.6 The Cash Flow Statement

The cash flow statement summarises the flows of cash that have taken place into and out of the authority's bank accounts over the financial year. It separates flows into: those that have occurred as a result of the authority's operations; those arising from the authority's investing activities (including cash flows related to non-current assets); and those attributable to financing decisions. The movement in cash and cash equivalents on the cash flow statement should match the movement between years on the balance sheet.

2.7 The Collection Fund

Although not a 'core' statement as such, the Council also produces a Collection Fund statement. The collection fund is a statutory fund separate from the main accounts of the Council. It shows the various transactions relating to council tax and business rates collection. The account illustrates the amount of council tax collected and how the council tax has been distributed to preceptors (Gloucestershire County Council, Gloucestershire Police Authority, the Town and Parish Councils) and this Council. The account also records the amount of business rates collected and allocated to central government, Gloucestershire County Council and this Council under the Business Rates Retention Scheme. Further details on the Business Rates Retention Scheme are set out in paragraphs 3.1 to 3.8.

2.8 The draft Comprehensive Income and Expenditure Account, Movement in Reserves Statement and Balance Sheet are attached at **Appendix A** to this report.

2.9 A copy of the full Statement of Accounts 2014/15 will be provided to the members of the Committee at the meeting on 30th June 2015.

3. Significant Items within the Statements

3.1 The net yield from the business rates retention scheme was estimated to be £1,808,199. This was based upon estimated business rate income of £29m. The outturn position is business rate income of £27.3m.

3.2 One of the most significant reasons for the variance is the Government imposed deadline for the receipt of appeals against the 2010 list of 31st March 2015. Consequently, a significant number of appeals were lodged in the last 2 weeks of the financial year. The provision for appeals has increased from £1.2m as at 31st March 2014 to £2.1m as at 31st March 2015, an increase of £0.9m.

3.3 The impact upon the Collection Fund, which contains the business rates transactions, is a deficit of £650,874 which will need to be considered as part of the budget setting process for 2016/17.

3.4 The General Fund has benefited from:

- a lower levy payable to central government, saving £250,872;
- higher than anticipated income from specific government grant (to compensate for impact on business rates yield of the government's decisions on small business rate reliefs awarded) of £169,843.

3.5 The Council is also set to receive benefit from Solar Farms that have come into the rating list in 2014/15. The benefit of these, and income of £67,176, will be received in 2015/16.

3.6 The budget for 2014/15 assumed that a transfer from General Fund Working Balance of £565,416 would be required to finance the business rates element of the collection fund deficit which arose in 2013/14. As there has been a significant under-spend in the operational budget for 2014/15, this has been used to finance the deficit in 2014/15, and the transfer from General Fund Working Balance has not been required.

3.7 In 2013/14 the Council entered into the Gloucestershire Business Rates Pool. The aim of the Pool is to maximise the business rate income retained within the County. At the end of 2013/14, the Pool generated a surplus of £774,862, with the Council receiving a financial benefit of £25,156 from being a member of the Gloucestershire Pool. During 2014/15, two factors have impacted significantly upon the performance of the Gloucestershire Pool:

(i) In Tewkesbury Borough Council, Virgin Media were successful in their appeal of their rateable value (RV) which saw a reduction far greater than had been anticipated by Tewkesbury BC or the Gloucestershire Pool;

(ii) The Government put a deadline for the receipt of appeals against the 2010 list of 31st March 2015, which consequently saw a significant number of appeals lodged in the last 2 weeks of the year. This is a national issue and many councils have had to increase their provisions for appeals by £millions. In Gloucestershire, the value of the appeal provision increased by £2.5m (excluding Tewkesbury Borough Council provision) or £9.1m including Tewkesbury Borough Council provision.

3.8 Overall, the Gloucestershire Pool is reporting a deficit position of £2.3m. Once the Pool reserve has been applied to the deficit, the net position is a deficit of £2.1m. The Pool deficit needs to be funded as part of the 2014/15 financial statements, and this Council's contribution to the deficit is £228,988.

3.9 The Council's pension fund liability is calculated by the actuary in accordance with International Accounting Standard 19 (IAS 19). The liability in the pension fund has increased by £7.9m over the past year. The movement is largely due to changes in actuarial assumptions, such as life expectancy, returns on assets and inflation assumptions.

3.10 During the year, a number of the Council's Car Parks were re-valued by the Council's Valuer. The assets were last formally valued in 2012. The valuation resulted in an increase in balance sheet value of over £12,000,000. The increase is posted to the 'Other Comprehensive Income & Expenditure' line of the Comprehensive Income & Expenditure Account, and increases the 'Property, Plant and Equipment' and 'Revaluation Reserve' lines on the Balance Sheet.

3.11 During the financial year, one Council-owned patch of land received planning permission for residential development. The planning permission has therefore increased the value of the land, which has been represented in the Council's accounts. The land value increased by £3,563,000.

3.12 The Council disposed of two significant assets during 2014/15, which generated a combined capital receipt of £2,150,000. The disposals were the Kingsmeadow Lorry Park site in Cirencester (which included the Lorry Park Public Conveniences and Greasy Joe's Café) and the Social & Services Club, on Chesterton Lane, Cirencester.

4. Reconciling the Comprehensive Income and Expenditure Statement to the Revenue Outturn Position Reported to Cabinet

4.1 The Council's Summary Performance Report for 2014/15 will be considered by Cabinet on 9th July 2015. The Cabinet report details a budget underspend, before transfers to reserves, of £969,730. However, the report to Cabinet recommends the establishment of a Business Rates Movement Reserve, and two provisions - against Exchange Rate losses and Land Charges (personal searches) litigation. If the recommendations presented to Cabinet are applied, the revised contribution to General Fund balances for the year becomes £71,904.

4.2 The CI&E Statement (see **Appendix A**) shows a surplus for the year of £13,486,226. The CI&E Statement reflects the full requirements of the accounting 'Code' and therefore includes the following items:

- Certain items of capital expenditure where the investment does not generate an asset to be recognised on the Balance Sheet, e.g. Community Projects Fund Grant, Disabled Facilities Grants and other capital grants;
- Depreciation is charged to represent the economic consumption of operational fixed assets;
- Pension costs based upon the Actuary's assessment under International Accounting Standard 19;
- Capital receipts from asset disposals including Right to Buy clawback from Bromford Housing Association;
- Profit/Loss on the disposal of assets;
- Unrealised gains or losses such as those resulting from a revaluation of assets or the actuary's valuation of pension fund assets and liabilities.

These items, although included in the 'Comprehensive Income & Expenditure Statement', are then adjusted for and reversed-out via the Movement in Reserves Statement (MIRS) to bring the Core Statements back to the revenue out-turn figure of £71,904 quoted above. The detailed analysis of these adjustments is shown in Note 7 to the accounts within the full Statement of Accounts.

4.3 The Core Statements attached to this report at **Appendix A**, and the full draft Statement of Accounts have been prepared based upon the recommendations to Cabinet being approved. Should Cabinet not approve any of the recommendations made to them, the accounts will be amended as part of the Audit process.

5. Key Balances

5.1 The Movement in Reserves Statements (see **Appendix A**) shows the reserves the Council has available to finance its activities and the movements in balances during the year.

5.2 The General Fund Working Balance has increased by £71,904 from £2,839,669 to £2,911,603. The level of earmarked revenue reserves has increased by £561,116 from £4,196,133 to £4,801,691.

5.3 The Council's balance of capital receipts, which are available to fund capital expenditure projects, has increased by £3,078,060 from £7,941,163 to £11,019,233.

5.4 The Net Assets of the Council stand at £34,885,267. The balance sheet remains healthy, with resources available to fund the Council's activity for the duration of the Medium Term Financial Strategy (and beyond).

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