

## STATEMENT OF ACCOUNTS 2012/13

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### Summary

The 2012/13 Statement of Accounts, which is subject to audit, must be certified as a true and fair view of the financial position of the authority by the S151 Officer by 30 June 2013 (Accounts and Audit Regulations 2011). The Draft Statement of Accounts for 2012/13 is appended to this report. This report provides an overview of the Accounts and also provides details of the reasons for the most significant changes between the 2011/12 Accounts and the 2012/13 Accounts.

The final revenue outturn for 2012/13 is an overspend of £0.284m on an original gross budget of £653m. The final capital outturn shows a spend of £42.280m, representing 85% of the revised budget.

The authority's specific reserves and provisions have increased by £11.853m. The general fund balance has decreased by £0.818m. Schools' balances have decreased by £0.151m. Full details of the revenue and capital outturn position and the reserves, provisions and balances held by the authority are set out in separate reports on the Agenda for this meeting.

### Recommendations

#### To the Audit Committee

- A. To receive and comment on the draft 2012/13 Statement of Accounts.
- B. To agree that the Head of Finance, Governance and Assurance be authorised to make any final adjustments to the Statement of Accounts prior to the 30 June 2013.

## REPORT

### Background

1. A copy of the 2012/13 Statement of Accounts is attached at Appendix 1. The external audit by Grant Thornton will take place during July and August, after which the Statement of Accounts will be formally published and a final report brought to Full Council. Any material changes as a result of the audit will be reported to the Audit Committee and Council at the earliest opportunity once the Accounts have been signed off by the District Auditor.
2. The statutory deadline for the formal publication of the audited 2012/13 Statement of Accounts is 30 September 2013.

## Statement of Accounts

3. The purpose of the Statement of Accounts is to give electors, those subject to locally levied taxes and charges, Members of the Authority, employees and other interested parties clear information about the Authority's finances. The format of the Statement of Accounts is governed by the "Code", to make the document as useful as possible to its audience and so as to make meaningful comparisons between authorities possible. The Code requires:
  - All Statement of Accounts to reflect a common pattern of presentation, although at the same time not requiring them to be identical.
  - Interpretation and explanation of the Statement of Accounts to be provided.
  - The Statement of Accounts and supporting notes to be written in plain language.
  
4. All of the above has been taken into consideration when producing the authority's own Statement of Accounts. These accounts comprise various sections and statements, these are all briefly explained below:
  - **An Explanatory Foreword** – this provides information on the format of this Statement of Accounts as well as a review of the financial position of the Council for the financial year 2012/13.
  - **The Statement of Responsibilities** – this details the responsibilities of the authority and the Section 151 Officer concerning the authority's financial affairs and the actual Statement of Accounts.
  - **The Audit Opinion and Certificate** – this is provided by the Audit Commission following the completion of the annual audit, this document is therefore draft pending the outcome of the audit.
  - **The Core Financial Statements**, which comprises:
    - **The Movement in Reserves Statement** – this shows the movement in the year on the different reserves held by the authority which is analysed into 'usable reserves' and other reserves.
    - **The Comprehensive Income and Expenditure Statement** – this is fundamental to the understanding of a Council's activities. It brings together all of the functions of the Council and summarises all of the resources that the Council has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Council, before allowing for the concessions provided by statute to raise council tax according to different rules and for the ability to divert particular expenditure to be met from capital resources. The 2012/13 Income and Expenditure Statement reports a deficit for the year of £144.819m, however, this is not cash as this takes into account a number of significant theoretical amounts for matters relating to pensions and use of assets. The real cash position was actually a deficit during the year of £1.076m which has resulted in an decrease in the General Fund Balance, which can be seen in the Movement in Reserves Statement
    - **The Balance Sheet** – this is fundamental to the understanding of the authority's financial position as at the 31 March 2013. It shows the balances and reserves at the authority's disposal, long term liabilities and the fixed and net current assets employed in its operations, together with



- Amendments to the definitions of a related party and any relevant transaction to disclose.

As the level of changes to the Statement of Accounts was relatively low this year, the accounts have been reviewed to consider where the document could be streamlined and ensure that only relevant information to 2012/13 is included. The proposed changes were agreed with external audit prior to completion, and the Statement of Accounts has now been reduced by approximately 20 pages.

### **Changes to be made prior to Authorising for Issue**

6. Final amendments will be required to the Statement of Accounts prior to the Head of Financial Governance and Assurance certifying the accounts on the 30<sup>th</sup> June 2013. These amendments are in relation to the Waste PFI transactions, where specialist accounting advice has been sought to resolve a number of issues identified with the current accounting model used. Any amendments made will not impact on the revenue outturn of the Council or the level of balances held, but will ensure that the Council is recording the correct level of Fixed Assets held in relation to the Waste PFI and the future liabilities under the scheme.

### **Analytical Review**

7. An analytical review has been carried out on each element of the Draft Statement of Accounts, this is a final check that provides assurance that the Statement of Accounts is free of material errors and misstatements. The analytical review focuses on figures within the Statement of Accounts that have changed materially when compared with the previous years accounts. For 2012/13 the materiality threshold (i.e. the level of change between 2011/12 and 2012/13) used was 10%, this threshold was used to ensure that all questions that the external auditors are likely to raise have been reviewed and explanations are readily available. Details of the significant changes between the two years are shown in Appendix 2.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

CIPFA's Code of Practice (Code) on Local Authority Accounting

CIPFA/SOLACE guidance on the Annual Governance Statement

Revenue and Capital Budget 2012/13

**Cabinet Member**

Brian Williams, Chair of Audit Committee

**Local Member**

All

**Appendices**

1. Draft Statement of Accounts 2012/13 (Unaudited)
2. Analytical Review of Statement of Accounts

**Decision(s)**

### Analytical Review of Shropshire Council's Statement of Accounts for 2012/13

1. The analytical review for 2012/13 highlighted a number of areas where there were material changes, the most significant are detailed below along with an explanation of why these changes have occurred:

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Education and Children's Services (Expenditure)**

2012/13 £000	2011/12 £000	Decrease £000
265,982	284,981	(18,999) (7%)

The decrease relates to the transfer of three schools to Academy status, therefore we no longer have their expenditure included within our accounts. This accounts for £12m of the reduction in income and a further £2m is as a result of a reduction in capital charges.

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Education and Children's Services (Income)**

2012/13 £000	2011/12 £000	Decrease £000
(206,419)	(220,120)	13,701 (6%)

As detailed above the reduction in income relates to the transfer of Dedicated Schools Grant to the three schools that transferred to Academy status (£12m).

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Local Authority Housing (HRA) Expenditure**

2012/13 £000	2011/12 £000	Decrease £000
9,774	15,929	6,155 (39%)

HRA expenditure has reduced due to the ending of the subsidy payment and the transfer to self financing. In 2011/12 HRA incurred costs of £5.2m in relation to the final subsidy claim, this has not been incurred in 2012/13 as the HRA is now self financed.

- **Comprehensive Income and Expenditure Statement - Other Operating Expenditure**

2012/13 £000	2011/12 £000	Increase £000
58,897	28,730	30,167 (105%)

Other Operating Expenditure has increased due to an increase in the loss on disposal of fixed assets of £27m and an increase in the loss on change in valuation of non-current assets of £2.5m. The increase in loss on disposal was due to the increase in disposal/derecognition of assets in 2012/13, for which the Council received no capital receipt. This included 3 schools transferred to Academies, 1 school to the Diocese and the demolition of properties surrounding the Flaxmill. The increase in the loss on change in valuation was due to a large increase in the number of properties, in particular former schools transferring to Assets Held for Sale in 2012/13. Revaluation of these properties to market value resulted in valuation reductions in comparison to previous valuations on a Depreciated Replacement Cost basis.

- **Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure**

<b>2012/13</b>	<b>2011/12</b>	<b>Increase</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>
34,878	29,434	5,444 (19%)

The increase in Financing and Investment Income is in relation to an increase against the Deficits on Trading Activities which is included within this heading. Trading activities includes a number of internal trading units including Shirehall Services, which incurred capital charges of £4.8m in 2012/13. This included a revaluation loss on the Shirehall of £3.7m and other depreciation and impairment charges of £1.1m.

- **Comprehensive Income and Expenditure Statement- Taxation and Non Specific Grant Income**

<b>2012/13</b>	<b>2011/12</b>	<b>Decrease</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>
(260,179)	(276,937)	16,758 (6%)

Taxation and Non Specific Grant Income has reduced by £17m. This is made up of a reduction in Revenue Support Grant of £16m, a reduction in Capital Grants of £14m, reflecting the smaller capital programme in 2012/13, and an increase in the level of Non Domestic Rates by 13m.

- **Comprehensive Income and Expenditure Statement, Surplus or Deficit on Revaluation of Property, Plant and Equipment Assets**

<b>2012/13</b>	<b>2011/12</b>	<b>Increase</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>
25,621	(25,699)	51,320 (200%)

Swing from a surplus to a deficit reflects the fall in property values and variation between 2012/13 and 2007/08 when properties were last valued, and covered under non current assets and Revaluation Reserve.

- **Comprehensive Income and Expenditure Statement, Actuarial Gains/Losses on Pension Assets/Liabilities**

<b>2012/13</b>	<b>2011/12</b>	<b>Increase</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>
54,818	46,191	8,627 (19%)

The swing of £8.6m is due to a reduction in the actuarial gain/loss on the assets and an increase in the actuarial gain/loss on the liabilities. The asset change (£66m) is predominantly due to an increased return on investment (13.76%) when compared to 2011/12 (2.19%). The change on liabilities (£75m) relates to a change in actuarial assumptions, including a lower discount rate.

- **Balance Sheet Non Current Assets – Land and Buildings**

<b>2012/13</b>	<b>2011/12</b>	<b>Decrease</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>
687,418	797,173	(109,755) (14%)

The decrease reflects the current property market conditions. The majority of the land and buildings revalued in 2012/13 had not been valued for 5 years, when the property market was at a peak.

The decrease also reflects the high level of asset disposals/transfers in year and assets transferring to Asset Held for Sale; in particular 3 secondary schools transferring to Academy status and 1 primary school to Diocese ownership.

- **Balance Sheet Non Current Assets – Surplus Assets**

<b>2012/13</b>	<b>2011/12</b>	<b>Decrease</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>
375	1,728	(1,353) (78%)

The decrease in Surplus Assets category reflects that properties categorised as surplus in 2011/12 have either been disposed of in 2012/13 or decisions have now been made regarding the future of these properties and they now meet the criteria to be classified as Assets Held of Sale.

- **Balance Sheet Non Current Assets – Investment Property**

<b>2012/13</b>	<b>2011/12</b>	<b>Decrease</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>
31,694	35,603	(3,909) (11%)

The fall in investment properties was due to properties totalling £2.5m being disposed of and £2.9m been derecognised in the balance sheet as a result of demolition of the properties on the site surrounding the Flaxmill. These were offset by the transfer of Crowmoor House from Property, Plant and Equipment to Investment Properties (£1.6m) as the property is no longer run by the Council and is instead leased to Coverage Care, thereby generating income against this property.

- **Balance Sheet Non Current Assets – Assets Held for Sale**

<b>2012/13</b>	<b>2011/12</b>	<b>Increase</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>
5,232	2,703	2,529 (94%)

The increase is as a result of decisions made in 2012/13 about the future of specific properties and progress made in marketing/agreeing the disposals which has resulted in them being categorised as Assets Held for Sale. These include school sites released as a result of school amalgamations/closures and Edinburgh House.



- **Balance Sheet Current Assets – Short Term Investments**

<b>2012/13</b>	<b>2011/12</b>	<b>Increase</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>
9,328	5,008	4,320 (86%)

The increase reflects a reprofile of investments to allow the Council to secure higher interest rates returns on longer term deals for cash balances held. In 2012/13, two deals were secured for 11 months with returns of 3% compared to one deal in 2011/12 which had a return of 2.08%.

- **Balance Sheet Current Assets – Landfill Usage Allowances / Liability to DEFRA for Landfill Usage**

<b>2012/13</b>	<b>2011/12</b>	<b>Increase/(Decrease)</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>
764	0	(764) (100%)
(537)	0	537 (100%)

The Landfill Usage Allowance scheme is due to finish in 2013 and accordingly the market for allowances has reduced significantly therefore the market value of allowances held is now negligible.

- **Balance Sheet Current Assets – Cash and Cash Equivalents**

<b>2012/13</b>	<b>2011/12</b>	<b>Increase</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>
84,817	76,472	8,345 (11%)

Additional cash is held in 2012/13 due to delays in the capital programme delivery and additional New Homes Bonus grant money being received which has not yet been spent. This has enabled the Council to take a number of decisions regarding cash management including reducing borrowing, and setting up additional call accounts for cash rather than leaving balances sitting in standard current accounts.

- **Balance Sheet Current Liabilities – Bank Overdraft**

<b>2012/13</b>	<b>2011/12</b>	<b>Increase</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>
(6,937)	(2,178)	(4,759) (219%)

The increase in the Council's bank overdraft reflects an increase in the level of BACS in transit as at the year end.

- **Balance Sheet Current Liabilities – Long Term Borrowing**

<b>2012/13</b>	<b>2011/12</b>	<b>Decrease</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>
(352,947)	(342,825)	10,122 (3%)

The reduction in long term borrowing is due to loan deals worth £9.9m nearing maturity in 2013/14 and therefore falling into short term borrowing. The loan deals that matured during 2011/12, totalling £8.6m, have also not been renewed due to Council policy to reduce borrowing costs relating to the capital programme.

- **Balance Sheet Current Liabilities – Pensions Liability**

<b>2012/13</b>	<b>2011/12</b>	<b>Increase</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>
(349,517)	(286,035)	63,482 (22%)

The increase in the Pensions Liability is predominantly due to an increase in the value of the future pension liabilities due to a change in actuarial assumptions. The main change in assumptions relate to a reduction in the discount rate used against future liabilities. The actuarial loss on liabilities (£101,942) has been partially offset by an increase in the asset value of £47,124. This reflects the reprofile of asset holdings from Government Bonds to Equities as a result of a reduced return for Government Bonds.

- **Balance Sheet Financing – Unusable Reserves**

<b>2012/13</b>	<b>2011/12</b>	<b>Decrease</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>
491,956	645,833	(153,877) (24%)

The decrease is due to a reduction in the Capital Adjustment Account and Revaluation Reserve, reflecting the downward revaluation in the assets held, as described above. Also the increase in the Pensions Liability has resulted in a reduction in the overall net worth of the council by £63m.

- **Balance Sheet Financing – Usable Reserves**

<b>2012/13</b>	<b>2011/12</b>	<b>Increase</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>
65,095	56,037	9,058 (16%)

The increase in the usable reserves is due to an increase in the level of Earmarked Reserves held (£10.5m). The main increases in reserves have been £4.4m in New Homes Bonus that has been set aside for future commitments to be determined, and a £3.3m increase in the PFI Smoothing Reserve. There has also been £0.8m set aside for residual costs relating to Public Health that the PCT transferred funding for and unspent grant balances of £1.6m which have been set aside for known commitments in 2013/14.

2. The analytical review will be part of the papers to be considered by the external auditors during the annual audit and will be used in forming their opinion on the Statement of Accounts that will be reported in the Audit Opinion and Certificate.