



Committee and date

Audit Committee

26 June 2014

## STATEMENT OF ACCOUNTS 2013/14

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### 1. Summary

The 2013/14 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 2014 (Accounts and Audit Regulations 2011). The Draft Statement of Accounts for 2013/14 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 2012/13 Accounts and the 2013/14 Accounts.

The final revenue outturn for 2013/14 is an underspend of £0.390m on an original gross budget of £639m. The final capital outturn shows a spend of £42.280m, representing 85% of the revised budget.

The authority's specific reserves and provisions have decreased by £10.592m. The general fund balance has increased by £7.677m. Schools' balances have increased by £0.902m. 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.

### 2. Recommendations

It is recommended that Members:

- A. To receive and comment on the draft 2013/14 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 2014.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

- 3.1. Details of the potential risks affecting the balances and financial health of the Council are detailed within the report. Each projection is also RAG rated to confirm the level of risk to the Council's balances.

### 4. Financial Implications

- 4.1. This report considers the projected outturn position for the 2013/14 revenue

budget and the implications on the level of general fund balances of any overspends or spending pressures.

## 5. Background

- 5.1. A copy of the 2013/14 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.
- 5.2. The statutory deadline for the formal publication of the audited 2013/14 Statement of Accounts is 30 September 2014.

## 6. Statement of Accounts

- 6.1. 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.
- 6.2. 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 2013/14.
  - **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 External Auditor 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 2013/14 Income and Expenditure Statement reports a deficit for the year of £45.426m, 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 surplus during the year of £8.491m which has resulted in an increase 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 2014. 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 summarised information on the fixed assets held. As can be seen from the balance sheet the authority’s total equity amounts to £519.890m, a reduction of £45.432m which is analysed in the Movement in Reserves Statement. This is primarily due to the reduction in value of land and buildings held but has been partially offset by a reduction in the pensions liability. However the equity value in the balance sheet does demonstrate that the authority’s assets exceed liabilities and still represents a very healthy financial position.
  - § **The Cash Flow Statement** – this consolidated statement summarises the authority’s inflows and outflows of cash and cash equivalents arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand and deposits repayable on demand less overdrafts repayable on demand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash.
- **The Notes to the Core Financial Statements**, which provides supporting and explanatory information on the Core Financial Statements and includes the Council’s accounting policies.
- **The Group Accounts** – these are prepared to account for the Council’s share in West Mercia Energy, South Shropshire Leisure Limited, Shropshire

Towns & Rural Housing and IP&E Limited. Due to delays in receiving draft or audited accounts from the organisations detailed, it is not possible for group accounts to be prepared in the draft statement of accounts attached at Appendix 1. However it is anticipated that these will be prepared prior to the Audit Committee meeting and therefore the Group Accounts section of the Statement will be circulated prior to the meeting.

- **The Pension Fund Accounts** – the Shropshire County Pension Fund is administered by this Authority, however, the pension fund has to be completely separate from the Authority's own finances. This statement is an extract from the pension fund annual report and summarises the financial position of the Shropshire County Pension Fund, including all income and expenditure for 2013/14 and assets and liabilities as at 31 March 2014.
- **The Housing Revenue Account** – the authority is required to account separately for local authority housing provision, as defined in the Local Government and Housing Act 1989 as amended. The account details the income and expenditure relating to the local authority housing provision and details of the movement on the Housing Revenue Account Balance for the year.
- **The Collection Fund Account** - this account shows the transactions of the billing authority in relation to non-domestic rates and the council tax and illustrates how these have been distributed to preceptors and the General Fund.

6.3 The format of the Statement of Accounts is governed by The Code of Practice on Local Authority Accounting 2013/14, published by CIPFA (the Code). For 2013/14 there have been some minor clarification points on the treatment of items within the Statement, however it also details the following changes:

- Post employment benefits – adjustments to the classification, recognition, measurement and disclosure requirements of IAS19. This has resulted in amended disclosures within the note to the accounts.
- New requirements for accounting for business rates retention. As this is the first year of the localisation of business rates in England, the Collection Fund has been amended in order to reflect the revised accounting requirements.

## Analytical Review

7.1 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 2013/14 the materiality threshold (i.e. the level of change between 2012/13 and 2013/14) used was 10% or £8m, which is 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 2013/14

**Cabinet Member (Portfolio Holder)**

Brian Williams, Chair of Audit Committee

**Local Member**

All

**Appendices**

1. Draft Statement of Accounts 2013/14 (Unaudited)
2. Analytical Review of Statement of Accounts

**Analytical Review of Shropshire Council's Statement of Accounts for 2013/14**

1. The analytical review for 2013/14 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 – Adult Services (Income)**

2013/14 £000	2012/13 £000	Decrease (Value) £000	Decrease (%)
(30,535)	(37,690)	7,155	19%

The reduction in income reflects the loss of grant income within this service. The service lost funding of £4.6m relating to the Learning Disability and Health Reform grant and £740k of Social Reform grant. This was anticipated in the original budget for 2013/14 and the service applied growth to this gap in funding.

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Central Services to the Public (Expenditure)**

2013/14 £000	2012/13 £000	Decrease (Value) £000	Decrease (%)
10,687	32,545	(21,858)	67%

The difference in expenditure between 2012/13 and 2013/14 relates to £20m of Council Tax Benefit that was paid out to the public. Council Tax Benefit is no longer paid out as a separate entitlement but is deducted from their Council Tax bill.

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Central Services to the Public (Income)**

2013/14 £000	2012/13 £000	Decrease (Value) £000	Decrease (%)
(4,595)	(26,361)	21,766	83%

As highlighted above, the change in council tax benefit payments has resulted in a corresponding £20m reduction in the council tax benefit subsidy grant.

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

2013/14 £000	2012/13 £000	Decrease (Value) £000	Decrease (%)
240,391	266,100	(25,709)	10%

Expenditure for schools has reduced by £15.9m to reflect the reduction in the Dedicated Schools Grant as described below. Other changes in expenditure are a reduction in capital charges of £8.2m. This is because the capital charges in 2012/13 were higher due to a number of revaluation losses that were charged to

the I&E reflecting the change in valuation from 2007/08. There has also been a reduced depreciation charge, reflecting the lower asset values and the number of schools that have transferred to Academy status.

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

2013/14 £000	2012/13 £000	Decrease (Value) £000	Decrease (%)
(184,852)	(207,890)	23,038	11%

Income reduction includes £15.9m of Dedicated Schools Grant which is a net reduction from schools transferring to Academies (£30m) and additional grant provided (£14.1m). Income has also reduced due to the loss of the Early Intervention Grant of £11.2m but this has been partially offset by the new Education Services Grant of £4.2m.

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

2013/14 £000	2012/13 £000	Increase (Value) £000	Increase (%)
15,642	9,796	5,846	60%

In 2013/14 a full revaluation of the housing stock was undertaken and this resulted in a revaluation loss being charged against expenditure, however this was partly offset by an increase in house price indices during the year which has reversed some of the revaluation loss. In comparison, 2012/13 included a revaluation gain as a result of house price indices increasing.

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Non Distributed Costs (Expenditure)**

2013/14 £000	2012/13 £000	Decrease (Value) £000	Decrease (%)
(1,608)	537	(2,145)	400%

The movement on Non Distributed Costs relates to a change in settlements, curtailments and past service costs on pension costs. Curtailments have increased by £3.4m, past service cost has increased by £0.7m and these have been offset by an increase in settlements of £6.3m resulting in a net reduction of £2.1m. Curtailments and Past Service costs will have increased as a result of members retiring early during the year. Settlements have increased as a result of the transfer of Academies from our Pension Scheme.

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

2013/14 £000	2012/13 £000	Decrease (Value) £000	Decrease (%)
106,374	58,897	47,477	81%

The increase in loss on disposal reflects the high level of asset disposals/transfers in year; in particular seven schools (and associated facilities) transferring to Academy status, which had a combined NBV of £93.9m in the 2012/13 balance sheet. This is compared to only 3 academies transferring 2012/13 and other losses on disposal being charged to the I&E of £48.7m.

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

2013/14 £000	2012/13 £000	Increase (Value) £000	Increase (%)
(272,174)	(260,179)	(11,995)	5%

Revenue Support Grant has increased by £65.4m. This is being offset by a reduction in Business Rates grant of £43.0m and a reduction in income from Council Tax of £12.7m. Following the introduction of the Business Rates Retention Scheme in 2013/14 the Council now only retain 50% of the Business Rates collected. As a result of this the Revenue Support Grant has been increased to offset this reduction.

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

2013/14 £000	2012/13 £000	Decrease (Value) £000	Decrease (%)
2,093	11,269	(9,176)	81%

The reduction in the deficit reflects a change in property values. The majority of assets valued in 2012/13 were last valued in 2007/08, which was at the height of the property market, whilst the majority of assets revalued in 2013/14 were last valued in 2008/09, when values had already dropped and property values have not varied as much in the intervening period.

- **Comprehensive Income and Expenditure Statement, Impairment Losses on Non Current Assets Charged to the Revaluation Reserve**

2013/14 £000	2012/13 £000	Decrease (Value) £000	Decrease (%)
3,999	14,804	(10,805)	73%

The reduction in the impairment reflects changes in property values, the majority of assets valued in 2012/13 were last valued in 2007/08, which was at the height of the property market, whilst the majority of assets revalued in 2013/14 were last valued in 2008/09, when values had already dropped and property values have not varied as much in the intervening period.



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

2013/14 £000	2012/13 £000	Decrease (Value) £000	Decrease (%)
(59,672)	53,836	(113,508)	211%

Actuarial (Gains)/Losses have changed from a loss of £53.8m in 2012/13 to a gain of £59.7m in 2013/14. The actuarial gain on assets has reduced by £31m due to a reduced return on investment (7.87%) when compared to 2012/13 (13.76%). The gain on liabilities (£145m) relates to a change in actuarial assumptions, including a lower discount rate.

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

2013/14 £000	2012/13 £000	Decrease (Value) £000	Decrease (%)
576,433	687,418	(110,985)	16%

The majority of the properties revalued in 2013/14 were last valued in 2008/09. The main areas of valuation falls have been on land values, reflecting the change in land values from 2008/09 to 2013/14. There have also been some reductions in valuation specific to individual assets, reflecting the change in use of assets. The most significant group of assets where this was applicable was schools, which are valued on a DRC basis and the valuation reflects the numbers on roll at the point of valuation.

The decrease over all also reflects the high level of asset disposals/transfers in year; in particular seven schools (and associated facilities) transferring to Academy status, which had a combined NBV of £93.9m in the 2012/13 balance sheet.

The reducing level and nature of schemes within the capital programme has also contributed to the reducing level of asset on the balance sheet.

- **Balance Sheet Non Current Assets – Vehicles, Plant and Equipment**

2013/14 £000	2012/13 £000	Decrease (Value) £000	Decrease (%)
8,873	12,702	(3,829)	30%

Expenditure on Vehicles, Plant and Equipment only fell slightly from £1.38m in 2012/13 to £1.03m in 2013/14. The reason for the large percentage fall in the value of the Vehicles, Plant and Equipment on the balance sheet is these assets are depreciated over a short asset life (general 5 years) and this there is a large depreciation charge and reduction in NBV each year.

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

2013/14 £000	2012/13 £000	Increase (Value) £000	Increase (%)
1,973	375	1,598	426%

The large percentage decrease in surplus assets is a result of the low value of assets classified as Surplus Assets in 2012/13 and the value of assets that have transferred into this category in 2013/14. The transfers into this category reflect the Council's continuing rationalisation of assets and even though the properties are no longer used by the Council for operational purposes, they do not meet the criteria of an asset held for sale.

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

2013/14 £000	2012/13 £000	Decrease (Value) £000	Decrease (%)
1,519	5,232	(3,713)	71%

The decrease is as a result of the larger number of assets in 2012/13 that were classified as asset held for sale. In 2013/14 a number of these have been disposed and there have not been significant transfers into this category as properties do not meet the criteria of asset held for sale.

- **Balance Sheet Long Term Assets – Long Term Investments**

2013/14 £000	2012/13 £000	Decrease (Value) £000	Decrease (%)
400	812	(412)	51%

The decrease in long term investments represents the repayment of the remaining Landsbanki investment that had been previously held against this line.

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

2013/14 £000	2012/13 £000	Increase (Value) £000	Increase (%)
39,100	9,328	29,772	319%

Short term investments have increased as the Treasury Team have made a conscious effort to attract better rates on investment which are generally offered on longer term deals. Therefore our invested balances with Lloyds who offer 364 day deals was £24.1m compared to £9.3m in 2012/13. Also the Council has taken out a number of new notice accounts which offer a better rate of interest than on some of the standard investment deals offered. One of these accounts is a 95 day notice account, which falls into the category of a short term investment. £15m was held in this account at the year end.

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

2013/14 £000	2012/13 £000	Increase (Value) £000	Increase (%)
68,715	54,806	13,909	25%

The increase in short term debtors includes a pension fund lump sum payment of £5.5m which has been treated as a payment in advance. This payment was due to the Pension Fund on 1 April and has been made in advance for the full 2014/15 year in order to deliver a saving against the lump sum payment in 2014/15. The Waste PFI prepayments have also increased by £5.1m which reflect the delay in certain assets being delivered in line with the contract, the main asset being the Energy Recovery Facility. The remaining increase relates to movements on general debtors balances and grant accounts, and the council's share of Non-Domestic Rate debtors which previously used to be consolidated as a creditor to the Government with the other Non-Domestic Rate balances.

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

2013/14 £000	2012/13 £000	Decrease (Value) £000	Increase (%)
70,785	84,817	(14,032)	17%

The reduction in this balance reflects that more cash has now been invested for longer periods as detailed above. However the Council has had more cash balances in 2013/14 to invest/hold due to delays in the capital programme and capital receipts (£13.2m) being received and set aside for future years capital programme.

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

2013/14 £000	2012/13 £000	Increase (Value) £000	Increase (%)
(17,586)	(6,937)	(10,649)	154%

Unpresented BACS at the year end have increased by £8.2m from £4m to £12.2m. This includes the pension fund payment of £5.5m which left the Council's bank account on 27<sup>th</sup> April, however would not be presented in the pension fund account until the 1 April.

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

2013/14 £000	2012/13 £000	Decrease (Value) £000	Decrease (%)
(7,397)	(12,399)	5,002	40%

Short term borrowing has decreased due to the repayment of £9.9m of maturing debt in 2013/14 which had previously been reported in this category, and only £5m being due for repayment in 2014/15.

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

<b>2013/14 £000</b>	<b>2012/13 £000</b>	<b>Decrease (Value) £000</b>	<b>Decrease (%)</b>
(297,394)	(349,517)	52,123	15%

The pensions liability figure has reduced in 2013/14. This is due to an improved asset position as a result of returns on assets and employer contributions being greater than the benefits paid out. There has also been a reduction on the benefit obligations as at the year end which is due to actuarial gains which have been realised in this financial year. Further details of this actuarial gain are provided above.

- **Balance Sheet Financing – Unusable Reserves**

<b>2013/14 £000</b>	<b>2012/13 £000</b>	<b>Decrease (Value) £000</b>	<b>Decrease (%)</b>
455,699	504,453	(48,754)	10%

The decrease is due to a reduction in the Capital Adjustment Account (£75m) and Revaluation Reserve (£28.5m), reflecting the downward revaluation and disposals of assets held, as described above. This has been offset by an increase in the Pensions Reserve (£52m) as detailed above in the Pension Liability movement.

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.