

Analytical Review of Shropshire Council's Statement of Accounts for 2014/15

1. The analytical review for 2014/15 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 – Children and Education Services (Expenditure)**

2014/15 £000	2013/14 £000	Decrease (Value) £000	Decrease (%)
228,346	240,391	(12,045)	5%

The amount of DSG allocated in 2014/15 reduced by £12m, with a corresponding decrease in expenditure, which was a result of seven schools converting to Academies during the year.

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Cultural and Related Services (Expenditure)**

2014/15 £000	2013/14 £000	Decrease (Value) £000	Decrease (%)
22,640	30,049	(7,409)	25%

The reduction in expenditure is due to a number of factors including a reduction in capital charges. This reduction was because in 2013/14 the Secret Hills Discovery Centre incurred capital charges of £0.76m, but since this transferred ownership in 2014/15, this is no longer applicable. There has also been a review of the allocation of the Ringway contract in 2014/15 which has resulted in costs (£2m) being allocated to Environmental and Regulatory Services that were previously allocated to Cultural and Related Services. Youth Support costs of £1.4m in 2013/14 have been reallocated to Children Services in 2014/15. There have also been a number of staffing reductions in 2014/15 in order to deliver budgetary savings including areas such as Library Services.

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

2014/15 £000	2013/14 £000	Decrease (Value) £000	Decrease (%)
5,012	15,642	10,630	68%

In 2013/14 HRA dwellings were revalued as at 01/04/13, this revaluation resulted in a £9.4m revaluation loss. HRA dwellings were subsequently indexed to 31/03/14 using ONS figures (4.4% increase), which resulted in a £6.3m revaluation increase; a net revaluation loss for the year. In 2014/15 dwellings were indexed to 31/03/15 using ONS figures (7.3% increases), and this has generated a £10.7m revaluation increase.

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

2014/15 £000	2013/14 £000	Increase (Value) £000	Increase (%)
20,657	16,037	4,620	29%

Expenditure has increased by £4.9m in Community Development in relation to Revenue Expenditure Funded from Capital Under Statute and capital grants for the Broadband capital project.

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

2014/15 £000	2013/14 £000	Increase (Value) £000	Increase (%)
(15,253)	(8,453)	(6,800)	80%

Similar to the Expenditure increase in Planning Services, the majority of this increase relates to the £4.9m additional income for the Broadband Capital project. Also as highlighted in the revenue monitoring reports during the year, additional planning services income was received during 2014/15.

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

2014/15 £000	2013/14 £000	Increase (Value) £000	Increase (%)
(485)	(1,608)	1,123	70%

The movement on Non Distributed Costs relates to a change in settlement, curtailments and past service costs. Curtailments have decreased by £3.7m, settlements have decreased by £5.1m and past service cost has decreased by £0.4m resulting in a net increase of £1m. In 2013/14 Past Service costs and Curtailments were higher because of an increased number of members retiring during the year. Settlements have decreased in 2014/15 because of a lower number of Academies transferring from the scheme.

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

2014/15 £000	2013/14 £000	Decrease (Value) £000	Decrease (%)
70,519	106,374	35,855	34%

Losses on disposal of non-current assets decreased from £99.98m in 2013/14 to £63.67m in 2014/15. The major element of this loss was made up of schools that transferred to Academies on 125 year leases and were written out of the Council balance sheet. In both years 7 schools that were previously on the Council balance sheet transferred to Academies, however the nature of the school and their values differed between years. Of the 7

schools in 2013/14, 2 were primary Schools, 4 were secondary School (plus associated leisure facilities) and 1 a special School; also 2 of the schools were new build schools which generally have a higher Net Book Value. In 2014/15 4 were primary schools and 3 secondary schools (plus associated leisure facilities) and none of the schools were new builds.

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

2014/15	2013/14	Increase (Value)	Increase (%)
£000	£000	£000	
23,737	33,024	9,287	28%

Income and expenditure in relation to investment properties and changes in their fair value increased from £2.3m in 2013/14 to £18.6m in 2014/15. The main reason for this was an upward revaluation of investment properties. In 2014/15 a number of Investment Property Assets were revalued and a small number were subject to significant valuation increases. These were mainly land holdings and reflected potential for future development on these sites, where previously they had been mainly valued on the basis of agricultural use. However changes to planning policy and the inclusion of sites in SAMDev have now opened up these sites for development and their value has increased as a result. There have also been some asset specific changes, such as the site at Mile End being opened up for development from the Highways Agency adding an access spur as part of the refurbishment of the roundabout and in 2014/15 the Council has acquired Shrewsbury Market Hall and associated shops.

This increase in the fair value of investment properties has been partially offset by an increase in capital charges on Trading Services of £9.6m. This is due to administrative buildings being revalued in 2014/15 resulting in impairments and revaluation losses being charged to revenue.

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

2014/15	2013/14	Decrease (Value)	Decrease (%)
£000	£000	£000	
(9,354)	2,093	(11,447)	547%

This figure is the value of upward or downward revaluations that are debited/credited directly to the Revaluation Reserve, rather than to service revenue accounts. In 2014/15 the value of upward revaluations increased by £6.8m, whilst the value of downward revaluations decreased by £4.6m in 2013/14. These changes reflect the movement in property values for those revalued each year, compared to their last valuations. Also if previous valuation movements have been charged to service revenue accounts in previous financial years, these can be reversed first if there has been a subsequent valuation change.

- **Comprehensive Income and Expenditure Statement, Remeasurement of the Net Defined Benefit Liability**

2014/15	2013/14	Increase (Value)	Increase (%)
£000	£000	£000	
101,795	(59,672)	161,467	271%

Remeasurement of the Net Defined Benefit Liability has changed from a gain of £59.7m in 2013/14 to a loss of £101.8m in 2014/15. The return on plan assets has increased by £29.7m due to an increase in the return on investment (12.47%) when compared to 2013/14 (7.87%). The remeasurement gain/(loss) on liabilities has changed from a gain of £42.9m in 2013/14 to a loss of £148.3m in 2014/15. This is because of a change in financial assumptions used in calculating the future cost of liabilities.

- **Balance Sheet Non Current Assets – Property, Plant & Equipment**

2014/15	2013/14	Decrease (Value)	Decrease (%)
£000	£000	£000	
995,904	1,062,212	(66,308)	6%

This reflects the overall movement in property, plant & equipment. The movement consists of additions, disposals/recognitions, revaluations (upwards and downwards) and impairments. In 2014/15 the net effect of revaluations was relatively even across all assets and the level of additions was of a similar value to the depreciation charge. The major reason for the decrease in the value of PPE was due to asset disposals. The Net Book Value of assets written out was £59m, the majority of this was due to schools transferring to Academies and the assets been derecognised as they are provided to the Academy on a 125 year peppercorn lease. In 2014/15 the assets of 4 Primary and 3 Secondary schools (plus associated leisure facilities), previously included on the Council's balance sheet transferred to new Academy Schools.

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

2014/15	2013/14	Increase (Value)	Increase (%)
£000	£000	£000	
47,673	28,878	18,795	65%

In 2014/15 a number of Investment Property Assets were revalued and a small number were subject to significant valuation increases. These were mainly land holdings and reflected potential for future development on these sites, where previously they had been mainly valued on the basis of agricultural use, but changes to planning policy and the inclusion of sites in SAMDev has now opened up these sites for development and their value has increased as a result. There have also been some asset specific changes, such as the site at Mile End being opened up for development from the Highways Agency adding an access spur as part of the refurbishment of

the roundabout and in 2014/15 the Council has acquired Shrewsbury Market Hall and associated shops.

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

2014/15	2013/14	Increase (Value)	Increase (%)
£000	£000	£000	
7,240	3,139	4,101	131%

New loans totalling £4.03m were provided to Housing Associations in 2014/15 as approved in the Council Treasury Management Strategy.

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

2014/15	2013/14	Decrease (Value)	Decrease (%)
£000	£000	£000	
(10,131)	(17,586)	7,455	42%

The decrease in the bank overdraft reflects a lower figure for BACS in transit in 2014/15 compared to that of 2013/14. The BACS in transit was inflated in 2013/14 due to the Pension Fund lump sum payment for 2014/15 appearing as a BACS in transit (£5.5m). For 2015/16 the Pension Fund lump sum payment was paid via CHAPS on the 1st April and therefore did not have to be reflected as a BACS in transit in the 2014/15 financial year.

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

2014/15	2013/14	Increase (Value)	Increase (%)
£000	£000	£000	
(11,117)	(7,397)	(3,720)	50%

Short term borrowing has increased due to £8.8m now being categorised as short term as the loans are due to be repaid within the next 12 months. This has been offset by the repayment of £5m of loans in 2014/15 which were falling under this category in 2013/14.

- **Balance Sheet Current Liabilities – Grants Receipts In Advance (Revenue)**

2014/15	2013/14	Decrease (Value)	Decrease (%)
£000	£000	£000	
(10,628)	(6,041)	4,587	43%

The reduction in Grants Receipts in Advance (Revenue) is mainly due to the swing in the balance held for Housing Benefit Rent Allowance Grant for the Government. In 2013/14 the Council was holding a balance of £4.5m in hand, however in 2014/15 this has all been applied and the Council is now holding a debtor balance of £1.2m for rent allowances, thereby removing this grant from this category on the balance sheet.

- **Balance Sheet Current Liabilities – Grants Receipts In Advance (Capital)**

2014/15	2013/14	Decrease (Value)	Decrease (%)
£000	£000	£000	
(1,040)	(70)	970	93%

The decrease is because this balance previously included a £1m grant for BDUK for the Broadband capital project. This has now been fully applied in 2014/15.

- **Balance Sheet Long Term Liabilities – Pensions Liability**

2014/15	2013/14	Increase (Value)	Increase (%)
£000	£000	£000	
(407,792)	(297,394)	110,398	37%

The increase in the Pension Liability is mainly due to an increased value of Pension liabilities due to a loss on financial assumptions caused by a lower discount rate being used and lower inflationary rate being used to calculate the impact on liabilities.

- **Balance Sheet Long Term Liabilities – Long Term Provisions**

2014/15	2013/14	Increase (Value)	Increase (%)
£000	£000	£000	
(7,897)	(4,901)	(2,996)	61%

The increase relates to the additional provision being made within the NDR appeals provision. At the end of 2014/15, the Valuations Office agreed to a reduction in the rateable value of medical practises which resulted in a significant decrease for one practise within Shropshire after appeal. Many other medical practises across Shropshire have also submitted appeals at the end of the financial and so provision has been made for a similar level of reduction in rateable value on the basis of the settled case.

- **Balance Sheet Financing – Usable Reserves**

2014/15	2013/14	Increase (Value)	Increase (%)
£000	£000	£000	
78,898	64,191	14,707	23%

The increase in Useable Reserves is predominantly due to an increase in Earmarked Reserves during 2014/15. The most significant contributions to reserves included £4m for IT development, £2.7m in the Invest to Save/Transformation Reserve, £1.8m set aside for the revenue costs of the university project and £1.3m to ensure the Council can fully implement the requirements of the Care Act.

- **Balance Sheet Financing – Unusable Reserves**

2014/15	2013/14	Decrease (Value)	Decrease (%)
£000	£000	£000	
312,161	455,699	(143,537)	32%

The decrease in Unusable Reserves includes the reduction in the Pensions Reserve as described above for the Pensions Liability. In addition to this the Revaluation Reserve has decreased by £12.98m which reflects the movement in asset values and disposals in 2014/15. The main area of decrease was £15.8m written out on disposal of assets, this mainly related to School assets transferred to new Academy Schools. The Capital Adjustment Account has also decreased by £20.3m which reflects the movement in asset values, disposals and capital expenditure financing in 2014/15. The most significant areas of decrease were depreciation & impairment and amounts written out on disposals (again reflecting Academy transfers).

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.