

<b>SUBJECT:</b>	<b>Statement of Accounts 2013/14</b>		
<b>REPORT OF:</b>	<b>Officer Management Team -</b>	<b>Director of Resources</b>	
	<b>Prepared by</b>	<b>-</b>	<b>Head of Finance</b>

## 1. Purpose of Report

### 1.1 The purpose of this report is to:

- present the 2013/14 Statement of Accounts to Members for review,
- request that the Accounts are approved by the Audit Committee and signed in accordance with the Accounts and Audit Regulations.

## 2. Links to Council Policy Objectives

### 2.1 Producing financial statements is part of good corporate governance and is essential for the prudent use of resources, as it ensures that the medium term financial plan is based on accurate information.

## 3. Background

### 3.1 Each year the Authority is required to produce a formal Statement of Accounts document in accordance with the Accounts and Audit Regulations. These Accounts must:

- follow the format laid out in the Accounting Code of Practice;
- be approved by the Council's s151 senior finance officer by 30 June;
- be subject to external audit;
- be made available to the public for inspection;
- be considered and approved by Members by 30 September; and
- be published by 30 September.

## 4. Report Structure

### 4.1 Statement of Accounts are designed to provide detailed financial information which would allow the technical reader to get a comprehensive understanding of all the key financial activities of an organisation. As such they are often seen as being unnecessarily complex, but the comprehensiveness is required to ensure that important issues are not omitted.

### 4.2 Therefore to assist Members review these, a commentary on each of the main sections of the Accounts is detailed below using the following standard headings.

- Explanatory Foreword
- Statement of Responsibilities
- Movement in Reserves Statement
- Income and Expenditure Statement - incorporating the revenue outturn position
- Capital Outturn
- Balance Sheet
- Cash Flow Statement
- Notes to the Accounts
- Collection Fund
- Auditors' Report.
- Annual Governance Statement

## 5. Explanatory Foreword

5.1 The purpose of the Explanatory Forward is to offer interested parties a summary of the most significant matters reported in the Accounts.

5.2 It gives a high level overview of the year's performance in terms of both revenue and capital spend, and highlights the Authority's financial position at the end of the year and the outlook for the future. It also outlines significant factors that affect the understanding of the Accounts.

## **6. Statement of Responsibilities**

6.1 The Statement of Responsibilities is a formal requirement to set out what the Authority is responsible for and what the most senior SBDC finance officer (the Director of Resources) is responsible for with regard to preparing and producing the Statement of Accounts. The wording is based on best practice requirements and does not tend to change from year to year.

## **7. Movement in Reserves Statement**

7.1 The Movement in Reserves Statement brings together all the recognised gains and losses of the Authority, to show how the different reserves held by the Authority have changed over the year.

7.2 The key movement in the Council's usable reserves are as follows.

- The General Fund Balance decreased by £2,000 to £2,508,000.
- Earmarked reserves increased by £353,000 to £2,497,000.
- The Council's capital receipts reduced by £3,575,000 to £8,718,000. This is because receipts were used to fund the Council's capital investment programme. These funds are available to meet future capital investment.

7.3 The final position on the General Fund Balance at the end of the year is an important indication of the Council's financial stewardship. There is no statutory guidance as to the level of this reserve. Local authorities are expected, on the advice of their chief finance officer, to make their own judgements on minimum levels taking into account all relevant local circumstances.

7.4 The key movement in the Council's unusable reserves is as follows.

- The Pensions deficit increased by £2,738,000. The accumulated estimated pension fund deficit now stands at £22,596,000.

## **8. Comprehensive Income and Expenditure Statement (CIES)**

8.1 The CIES is fundamental to the understanding of the Council's activities in that it reports the net cost for the year of all the functions for which the Council is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers.

8.2 The statement is split into a number of sections:

- (a) The first section provides information on the costs of the Council's different operations, net of specific grants and income from fees and charges, to give the net cost of services £9.7m.
- (b) The second section comprises items of income and expenditure relating to the Council as a whole ie not service specific - primarily the Parish Precepts.

- (c) The third section shows Financing and Investment income and expenditure.
- (d) The fourth section shows the income from local taxation and general government grants.

8.3 The Comprehensive Income and Expenditure Statement is compiled in accordance with International Financial Reporting Standards (IFRS). However due to the special legislative regime under which local authority accounts are compiled there are a number of items that are treated differently in local authority accounts.

8.4 Note 8 to the Accounts therefore shows those amounts that are required by statute and non statutory proper practice to be charged or credited in addition to the Comprehensive Income and Expenditure Account surplus of deficit in determining the movement on the General Fund Balance for the Year ie

	£'000
Comprehensive Income and Expenditure Statement	
Deficit on the Provision of Services	2,404
Adjustments between Accounting Basis and Funding Basis (Note 8)	-2,755
Transfer to Earmarked Reserves (Note 9)	353
<b>Decrease in General Fund Reserve</b>	<u><u>2</u></u>

8.5 The combination of the Comprehensive Income and Expenditure Statement and Note 8 is therefore equivalent to the Council's revenue budget.

8.6 The following commentary is therefore based on the standard SBDC format, as opposed to the formal accounting format, as this is format the Council generally uses.

#### Revenue Outturn

8.7 The actual overall 2013/14 net expenditure of the Council, including parish precepts, was £9.857m and the total income from council tax and general Government grants was £9.340m. These together with the £265,000 of expenditure funded from reserves and an adjustment relating to the NDR accounting arrangements of £780,000 gives a net deficit in the year of £2,000.

8.8 The table on page 4 of the explanatory forward (shown below) summaries the Council's revenue income and expenditure by portfolio and compares the budget for the year with the actual expenditure, together with variances between the two. It also shows how the overall Council expenditure was funded by income from Council Tax payers, business rate income, and Government Grants.

	Original Budget £'000	Latest Budget £'000	Yr End Actual £'000	Variance (Act-LB) £'000
Community	1,193	1,193	1,186	-7
Environment	2,740	2,533	2,525	-8
Health & Housing	1,546	1,546	1,526	-20
S106 Commuted Sums	-	-	-159	-159
Resources	2,495	2,495	2,378	-117
Resources - Investment Properties	-215	-215	-224	-9
Sustainable Development	1,768	1,768	1,841	73
	<b>9,527</b>	<b>9,320</b>	<b>9,073</b>	<b>-247</b>
Interest & Investment Income	-775	-775	-578	197
Notional Interest Payable	276	276	276	-
Payment to Parishes re change in Taxbase	108	108	108	-
Less Capital Charges	-1,339	-1,132	-1,157	-25
Transfer from LDD reserve	-48	-48	-46	2
Transfer from Transformation Reserve	-34	-34	-50	-16
Transfer to s106 reserve	-	-	159	159
Transfer to Joint Working Reserve	-	-	300	300
	<b>7,715</b>	<b>7,715</b>	<b>8,085</b>	<b>370</b>
Parish Precepts	1,772	1,772	1,772	-
<b>Amounts to be met from Government Grants and Local Taxation</b>	<b>9,487</b>	<b>9,487</b>	<b>9,857</b>	<b>370</b>
<b>Government Grants and Local Taxation</b>				
Council Taxpayers - District element	-4,456	-4,456	-4,456	-
Council Taxpayers - Parish element	-1,772	-1,772	-1,772	-
Revenue Support Grant	-1,452	-1,452	-1,452	-
Share of Business Rate Income	-966	-966	-893	73
New Homes Grant	-694	-694	-703	-9
Council Tax Freeze Grant	-47	-47	-47	-
Other Grants	-	-	-57	-57
Collection Fund Deficit	40	40	40	-
	<b>-9,347</b>	<b>-9,347</b>	<b>-9,340</b>	<b>7</b>
<b>Decrease in General Fund Reserve</b>	<b>140</b>	<b>140</b>	<b>517</b>	<b>377</b>
Items Funded from Reserves	93	310	265	-45
Timing Adjustment re new NDR Accounting	-	-	-780	-780
<b>Total Decrease in General Fund Reserve</b>	<b>233</b>	<b>450</b>	<b>2</b>	<b>-448</b>

## 9. Capital Outturn

### Capital Expenditure

- 9.1 Total capital expenditure in 2013/14 was £3,956,000 and this expenditure was funded from capital receipts (£3,606,000) and grants (£350,000). See Note 26 for further details.

### Capital Income

- 9.2 Capital income of £256,000 was received in 2013/14. The main income being improvement grants of £225,000 and £30,000 in respect of a lease extension.

Remaining Usable Capital Receipts

- 9.3 The total balance on accumulated usable capital receipts as at 31 March 14 is £8.718m and the table below shows the movement in the year.

	£'000
Opening balance as at 31 March 13	12,293
New capital receipts in year	31
Less capital receipts used for financing	-3,606
Closing balance as at 31 March 14	<u>8,718</u>

**10. Balance Sheet**

- 10.1 The balance sheet reports on the Council's financial position as at 31 March and shows the value of its assets and liabilities.

- 10.2 The following table provides a summary of the Council's key assets and liabilities.

	Value 31 Mar 13 £m	Value 31 Mar 14 £m
<b>Assets</b>		
Property, plant and equipment	10.1	12.7
Heritage assets	0.1	0.1
Investment property	5.7	5.8
Intangible assets	0.2	0.1
Investments, cash and bank holdings	26.0	19.7
Short Term Debtors	3.4	3.7
<b>Liabilities</b>		
Short term creditors	-2.0	-1.9
Finance Leases	-4.9	-4.5
S106 Monies	-0.9	-1.0
Pension Liability	-19.9	-22.6

- 10.3 With regard to the Pension Liability, the Authority, as part of the terms and conditions of employment, offers retirement benefits to staff. Although these benefits will not be payable until employees retire, the Authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement. In common with many public and private companies, who offer defined benefit pension schemes; the current valuation of the pension fund assets is significantly less than the actuarial estimate of the liability. For South Bucks the pension asset value is £33.3m and the liability £55.9 giving a net deficit of £22.6m as at 31 March 2014. However statutory arrangements for the funding of the pension scheme means that the financial position of the Authority remains robust as the deficit will be made good by increased contributions over the remaining working life of employees.

**11. Cash Flow Statement**

- 11.1 The cashflow statement shows the inflow and outflow of cash for the year for both revenue and capital and shows whether the Council's cash position has improved on a year on year basis.
- 11.2 It shows that in 2013/14 the Authority decreased the amount of cash that it holds by £1.075m.

**12. Notes to the Accounts**

12.1 Accompanying the Accounts are a large number of disclosure notes that give further explanations of the figures. The notes are required under the Code of Practice to give added clarity and understanding for the readers of the accounts.

12.2 Detailed below is a commentary on a number of the key notes.

Note 1: Accounting Policies

12.3 Note 1 details the Accounting Policies that have been used to compile the Accounts. The accounting policies that all major local authorities are required to use are set out in the Accounting Code of Practice. The policies are therefore in line with the standard requirements.

Note 10: Property, Plant and Equipment

12.4 This note provides a breakdown of the Council's Property, Plant and Equipment. In particular it should be noted that this includes the value of the capswood building lease and refuse, recycling and street cleansing vehicles.

Note 12: Investment Properties

12.5 This note provides further information about the Council's Investment Properties. Investment properties are those land and buildings that are not used to provide Council services but are instead rented out to generate income.

12.6 Investment properties are required to be revalued every year and the change in value is charged to the Comprehensive Income and Expenditure Account.

Note 14: Financial Instruments

12.7 This note provides more information on the Council's investments and contractual debtors / creditors.

12.8 It also provides information on the fair value (ie market value) of financial assets that are not recorded in the accounts at fair value. This is so that the technical reader can see if there is a significant difference between the value recorded in the Accounts and the value that could be obtained if the financial instrument was sold.

Note 20: Amounts Reported for Resources Allocation Decisions

12.9 This note reconciles the amounts that are reported to Management as part of the budget monitoring process and the final figures that are produced for Accounts purposes.

Note 22: Officers Remuneration

12.10 This note shows the amounts paid to senior staff in 2013/14. As the Senior Management Team are shared with CDC, all shared staff are shown in this note; although SBDC only bears 45.1% of the cost.

Note 27: Leases

12.11 This note provides additional information about the lease commitments that the Authority has. This is so that the technical reader can see the long term lease commitments that the Authority has.

Note 28: Defined Benefit Pension Schemes

- 12.12 This note provides additional information about the Council's pensions arrangements. It is long and detailed as the method of calculating future pension liabilities is complex and it is considered important that the technical reader can understand the specific assumptions that underpin the pension valuation include in the Accounts.

Note 30: Nature and Extent of Risks arising from Financial Instruments

- 12.13 This note provides extensive details about the potential risks that the Council faces from its financial dealings. It is long and detailed so that the technical reader can understand the full implications of the Council's investment strategy / debt profile.

### 13. Collection Fund

- 13.1 The Collection Fund is a separate account which receives all income from Council Tax and Non Domestic Rates (NDR).

- 13.2 This account pays out Council Tax, in the form of precepts, to Bucks County Council, Chiltern District Council (including an element for Town/Parish Councils), the Police & Crime Commissioner for Thames Valley, and Bucks and Milton Keynes Fire Authority.

- 13.3 NDR income is shared as follows:

• Central Government	50%
• South Bucks District Council	40%
• Bucks County Council	9%
• Bucks Fire	1%

- 13.4 Any surplus, or deficit, arising on the account is either paid out to, or recovered from, the appropriate parties in the following year.

- 13.5 During 2013/14 the £46.9m of Council Tax income was due and £29.0m of NDR income was due.

### 14. Auditors' Report

- 14.1 In accordance with the Accounts and Audit Regulations the Authority's external auditors, Ernst & Young, are required to audit the Accounts to ensure that they present fairly the financial position of the Authority. Once their audit is completed they issue a formal opinion on the Accounts and this has to be included in the Accounts.

- 14.2 The audit work is substantially completed and it is anticipated that the auditors will issue a formal opinion on the Accounts once these have been approved by the Audit Committee.

### 15. Annual Governance Statement

- 15.1 One of the requirements of the Accounts and Audit Regulations is that an Annual Governance Statement is produced and published in the Accounts. This statement provides details of the Council's Internal Control and governance arrangements and details the Council's plans for the coming year to enhance the Council's arrangements.

- 15.2 The Annual Governance Statement is additional to the main Accounts document as it is prepared and produced separately from the accounting information.

15.3 The 2013/14 Annual Governance Statement has already been:

- approved by the Officer Management Team,
- approved by the Audit Committee on 3 July 14, and
- approved and signed off by the Chief Executive and the Leader of the Council on 25 July 2013.

## 16. Formal Approval of Accounts

16.1 The Accounts & Audit Regulations require the Chairman of the Committee receiving the accounts to sign and date the Accounts to formally represent the completion of the Authority's approval process. The Chairman of the Audit Committee is therefore requested to sign the declaration on page 9 of the Statement once Members have considered this report and approved the Accounts.

## 17. Key Issues in the Accounts

17.1 This year there are a number of significant issues which are worth highlighting.

### Council Tax Benefit / Support

17.2 Council Tax Benefit ended on 31 March 2013, and was replaced by Council Tax Support on 1 April 2013.

17.3 The accounting arrangements for Council Tax Support are completely different to the accounting arrangements for Council Tax Benefit.

17.4 Awarding Council Tax Benefit was a cost to SBDC and thus was shown as a cost in the SBDC Income and Expenditure Account, offset by a grant from Central Government. As Council Tax Benefit has ceased the prior year income and expenditure has been moved to the 'discontinued' section of the Income and Expenditure Account.

17.5 Council Tax Support is considered to be a discount scheme (not a benefit) and thus is shown in the Collection Fund alongside other discounts (eg single person discount). The cost of Council Tax Support is therefore netted off the total Council Tax income, before the net income is shared with the preceptors.

### Localisation of Non Domestic Rate Income

17.6 As from 1 April 2013 a new business rates retention scheme was introduced. This new scheme is based on a simple concept - that local authorities should retain a shared of business rates income. However the actual scheme is extremely complex.

17.7 Prior to 1 April 2013 all business rates income was paid into the Collection Fund, and was then paid over to the National Business Rates Pool.

17.8 Since 1 April 2013 all business rates income is paid into the Collection Fund, and then shared as follows:

- |                                |     |
|--------------------------------|-----|
| • Central Government           | 50% |
| • South Bucks District Council | 40% |
| • Bucks County Council         | 9%  |
| • Bucks Fire                   | 1%  |

Subject to the following adjustments to:

- There is a provision for NDR debts that may never be paid (bad debt provision).
- There is a provision for reduced NDR income arising from business ratepayers successfully appealing against their rateable value.



- An allowance is paid to the collecting authority (SBDC) towards the cost of collecting business rates £99,868
- There is a grant paid to/from the Collection Fund to equalise transitional business rate adjustments.

17.9 The 40% NDR income (£11,633,000) paid to SBDC is then amended as follows:

- There is a grant to reimburse the cost of Small Business Rates Relief being doubled (£171,000)
- There is a fixed tariff to reduce the net income to SBDC (£10,511,000)
- There is an equalisation grant (£380,000) to ensure that the net effect on SBDC is that SBDC does not lose more than £72,000 overall from the new arrangements.
- The overall result is then amended so that the actual net effect on the General Fund is equivalent to what was estimated in January 2013 (ie prior to the start of the financial year). The true outturn being accounted for as an adjustment in the following year.

#### Pensions

17.10 There are 2 issues to note relating to the pension fund.

17.11 Firstly the pension fund was revalued on 31 March 2013. The Accounts therefore now reflect the result of the valuation.

17.12 There has been an amendment to the pension accounting standard which has changed the way pensions are valued and disclosed.

#### **18. Resource, Risk and Other Implications**

18.1 There are no direct financial, legal or human resource implications from this report. However the level of revenue reserves and capital receipts has a significant impact on the affordability of the Council's future plans and this will be taken into account as part of the next update of the Council's Medium Term Financial Strategy.

18.2 Members should also note that, as the Accounts are an important public document, it is considered good practice that these are subject to detailed review. Members should therefore feel free to ask questions about the Accounts and if appropriate request additional information to support the figures presented. However due to the length and complexity of the Accounts officers would request advance notice if possible of any particularly detailed questions in order to provide comprehensive answers.

18.3 There is a risk that the SBDC Accounts will be incorrect due to fraud or error. The risk of fraud is considered to be low and the risk of error is low / medium - due to the complexity of the Accounts. The following controls mitigate against this risk.

- The Council has detailed Financial and Contract Procedure rules.
- Access to the finance system is limited to authorised staff and password protected.
- Internal audit carry out annual reviews of all key finance systems.
- The Accounts are produced by an experienced finance team, lead by a qualified accountant, and this is exactly the same team as last year.
- The Authority has obtained and followed the appropriate Codes of Practice & associated guidance notes.
- Key staff in the finance team attend update courses, to ensure that they are aware of any changes to the Accounts.

- A comprehensive timetable / checklist of what needs to be done and when is produced, and progress is monitored against this.
- A full set of working papers is produced to support the figures in the Accounts.
- All working papers are reviewed by the Head of Finance and the working papers produced by the Head of Finance are reviewed by another experienced team member.
- The Director of Resources reviews the Accounts and signed these off.
- The Head of Finance and the Director of Resources are qualified accountants and are therefore required to comply with CIPFA codes of practice.
- Members have the opportunity to review the Accounts and ask questions about any of the figures.
- The Accounts are subject to external audit review.

## 19. Recommendations

- 19.1 The Accounts are approved by the Audit Committee and signed by the chair of the Audit Committee to signify the completion of the Authority's approval process.

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Background Papers:	Annual Governance Statement Report to Audit Committee