Leicestershire
County Council

CONSTITUTION COMMITTEE – 29th SEPTEMBER 2015

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

STATEMENT OF ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT 2014/15

Purpose

1. The purpose of this report is to:
    a) present the 2014/15 Statement of Accounts, attached as Appendix A to this report, for approval and signing by the Leader of the County Council,
    b) inform the Committee of the main areas of the accounts, and
    c) report the key findings from the external audit of the accounts.

Background

2. The Accounts and Audit Regulations 2011 require authorities to approve their accounts by the end of September following the end of the financial year and to publish the accounts by the end of September with the auditor's opinion.

3. A copy of the external auditors, PricewaterhouseCoopers LLP, report on the accounts is attached as Appendix B. The letter of representation is attached as Appendix C. The auditor anticipates issuing an unqualified audit opinion.

4. The Corporate Governance Committee will consider the auditor's report at its meeting on 25 September 2015. The auditor is required to communicate the results of the audit to those charged with governance prior to certifying the financial statements. The minutes from that meeting will be reported to the Constitution Committee.

5. The Statement of Accounts is prepared under the International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounts.

6. A report setting out the provisional revenue budget outturn was considered by Cabinet on 16 June 2015 and the Scrutiny Commission on 29 June 2015.

Statement of Accounts

7. The main areas of the financial statements are set out below:

Movement in Reserves Statement (MIRS)

8. This statement shows the movement in year on the different reserves held by the County Council, analysed into 'usable reserves' i.e. those that can be applied to fund expenditure and 'unusable reserves' which cannot be used to fund services. Unusable reserves include reserves that hold unrealised gains and losses as well as adjustments for the differences between amounts charged in accordance with accounting standards and amounts charged for statutory purposes. An example is the short term accumulating compensated absences adjustment account (STACAA). This account holds the estimated amount of untaken annual leave and flexi leave as at the balance sheet date. This charge is recognised by the accounting standards but statutory mitigation allows it to be reversed out via the STACAA to avoid it being a charge to the general fund.

9. The main usable reserves held are the General Fund and Earmarked Reserves.

10. The General Fund totalled £27.2m as at 31 March 2015 (£23.7m 31 March 2014). The fund includes delegated funding for schools, carry forwards of previous year underspends and the uncommitted fund of the Council. Details are shown in note 9 to the accounts.

11. The Uncommitted Fund is available for unforeseen risks to the Council. It allows the Council to manage unforeseen financial events without the need to make immediate offsetting savings, with the potential real impact on County Council services. The balance at 31 March 2015 is £14.9m. The amount is set in accordance with the reserves policy which was updated during 2014/15 following a reassessment of the increased risks facing the County Council and a review of the average uncommitted balances held by other County Councils. The revised policy is to hold a balance in the range of 4 to 5% of net expenditure (excluding schools). The balance of £14.9m represents 4.3% of net expenditure for 2015/16.

12. Earmarked Reserves, excluding dedicated schools grant, total £92.5m at 31 March 2015 (£97.1m 31 March 2014).

13. The significant Earmarked Reserves held are:

- Transformation, £27.2m. Funding set aside to invest in transformation projects to achieve efficiency savings and service improvements across the County Council and to fund potential restructuring costs of reconfiguring those services. The amount shown in note 10 to the accounts is a net balance of £18.8m. This is after the temporary advance of £8.4m for the Local Authority Mortgage scheme (LAMS), explained further in paragraph 26 of this report.

- Insurance reserve £17.2m. To meet future claims to enable the Council to meet the excesses not covered by external insurers. The levels are recommended by independent advisors. The reserve includes funding for future claims including potential liabilities arising from Municipal Mutual Insurance Ltd and other failed insurers such as The Independent Insurance Company.

- Capital Financing £6.5m. This reserve is used to hold revenue contributions to fund capital expenditure in future years including the Street Lighting LED replacement project included in the 2015-18 capital programme.

- Broadband £6.4m. Funding held to develop super-fast broadband to areas with poor service within Leicestershire. A contract has been entered into with BT and they have commenced work. There is a significant time lag in spending County Council funds due to grant conditions that require Central Government and European funding to be spent within a set period.

- Health & Social Care £6.2m. This reserve is used to fund projects that improve health and social care outcomes in Leicestershire, including the prevention of admission and readmission into hospital, reducing delayed transfers of care, and prevention of other costly health and social care provision.

14. The required level of reserves is kept under review during the year. Formal assessments are undertaken and reported during the Autumn, in January and February as part of the Medium Term Financial Strategy (MTFS) and also at year end.

Comprehensive Income and Expenditure Statement (CIES)

15. The CIES shows the accounting cost of providing services in accordance with accounting standards (IFRS) rather than the amount funded from taxation and income. The County Council raises taxation to cover expenditure in accordance with statutory regulations which can be different from the accounting cost.

16. The headings used in the CIES are presented in line with the Chartered Institute for Public Finance and Accountancy (CIPFA) service reporting code of practice. This ensures consistency and comparability across local authorities and is not comparable to the format of the County Council budget.

17. The CIES cannot be directly compared to the outturn underspend reported to members. This is because the financial accounts comply with various reporting standards whereas the management accounts are compiled on a slightly different basis. The key differences relate to the way depreciation, impairment and reserves are reported.

18. The CIES shows a deficit of £74.8m on the Provision of Services for 2014/15 (£41.0m deficit 2013/14). The deficit is due to the conversion of a further 21 schools to Academy status during 2014/15. The buildings have been transferred as 125 year finance leases that require the assets to be written out of the County Council's accounts through the Other Operating Expenditure section of the CIES, and Balance Sheet, and totals £59.8m in 2014/15. These entries are reversed out via the Movement in Reserves Statement and do not have an impact on the level of the general fund. The Council has no choice in whether to transfer these assets and does not receive any consideration for their transfer. Further transfers of schools to Academy Status are expected in 2015/16 and later years.

19. The explanatory foreword on page 3 of the statement of accounts explains the outturn in the context of the County Council's budget. In summary, this shows a gross underspend of £4.7m (after movements to reserves and excluding schools grant) and was used to fund carry forwards to 2015/16.

Balance Sheet

20. The Balance Sheet shows the value as at the 31 March 2015 of the assets and liabilities recognised by the County Council. This shows that the County Council has net liabilities of £36.7m, compared with net assets of £64.6m as at 31 March 2014. The principal reasons are the reduction in the value of Land and Buildings due to the conversion of 21 schools to Academies as mentioned earlier in the report (£59.8m) and an increase in the pension fund liability, which is explained below.

21. The net position on the pension fund is a deficit of £731.0m and is shown in more detail in note 14 to the accounts. The position has deteriorated since last year (£603.3m deficit) principally because the financial assumptions as at 31 March 2015 are less favourable than they were at 31 March 2014. The main reason for this change is the reduction in the discount rate used to value future liabilities, which has the impact of increasing the current value of those liabilities. The accounting standards require the discount rate used to be equivalent to the market yields on high quality corporate bonds as at 31 March 15. The discount rate used was 3.2%. (4.3% 31 March 2014).

22. The pension fund balance represents all pension entitlements that have been earned to date but which are not yet in payment and has a substantial impact on the net position of the balance sheet. However, statutory arrangements will result in the deficit being made good through increased contributions by the employer, over the remaining working life of employees, as assessed by the pension fund scheme's Actuary. The County Council has agreed a strategy with the Actuary to achieve a funding level of 100% over the next 20 years.

23. The Balance Sheet also shows short and long term provisions totalling £9.0m (£9.7m 2013/14). Provisions are held to fund liabilities of uncertain timing or amount and are shown in greater detail in note 24 to the accounts. The main provision held is for Insurance, £5.6m. This provision represents the estimated value of outstanding unsettled claims at 31 March 2015.

24. The capital receipts reserve totals £14.0m (£11.0m 2013/14). This reserve holds the proceeds from the sale of non-current assets that have not yet been applied to fund new capital expenditure. The funding will be carried forward to 2015/16 (and later years) to fund slippage from the 2014/15 capital programme and the 2015-19 capital programme.

25. During 2014/15 the County Council continued its policy to reduce debt by making a voluntary additional minimum revenue provision (MRP) contribution of £6.4m, funded from revenue underspends. As a result, the capital financing requirement (CFR) as shown in note 39 to the accounts, was reduced to £298.5m. The CFR is a measure of capital expenditure incurred historically that has yet to be financed. Actual debt at the balance sheet was £286.7m. The difference between this and the CFR is the temporary use of working cash balances held by the Council and is sometimes referred to as internal indebtedness.

26. Note 39 to the accounts also shows the Councils investment in the Local Authority Mortgage Scheme. The scheme makes it easier for first time house buyers to obtain mortgages, thus stimulating the local housing market and benefitting the wider local economy. A total of £8.4m (£3m in 2013/14 and £5.4m 2012/13) has been advanced to Lloyds bank temporarily funded from the overall balance of earmarked reserves.

The funding will be returned to the County Council 5 years after the date it was advanced.

Annual Governance Statement

27. The Statement of Accounts is accompanied by the Annual Governance Statement (AGS) signed by the Chief Executive and Leader of the County Council. The statement sets out the purpose of the system of internal control, how it operates in the County Council and how its effectiveness has been reviewed. The AGS will be considered by the Corporate Governance Committee on 25 September 2015.

Pension Fund Accounts

28. The accounts also include a copy of the County Council's pension fund accounts.

29. The last available triennial actuarial valuation of the pension fund showed that at 31 March 2013 the fund's assets covered approximately 72% of the liabilities accrued up to that date. This funding level was a decrease on the 80% position of the 2010 valuation and this was primarily due to the lower-than-expected investment returns achieved in the three year period. This underperformance put significant upward pressure onto the contribution rates of employing bodies but these were contained somewhat for tax raising bodies by using a smoothing mechanism and by the use of a 20 year deficit-spreading period.

30. To ensure that the fund remains financially sound to meet benefit payments, the Actuary will recommend the rate of employer contributions on an individual employer basis for each employing body in the fund for a three year period. In 2014/15 the average employer rate was 19.3% of pay (18.7% 2013/14).

Key Findings of the External Auditor

31. The external auditor has reviewed the accounts and has concluded that there are no material accounting issues, and anticipates issuing an unqualified opinion.

Recommendation

32. The Committee is recommended to approve the Statement of Accounts for 2014/15.

Background Papers

None.

Circulation under the Local Issues Alert procedure

None.

Equality and Human Rights Implications

None.

Appendices

Appendix A – Statement Of Accounts 2014/15
Appendix B – External Auditors Report
Appendix C – Letter of Representation

Officers to contact

Brian Roberts, Director of Corporate Resources
Tel: 0116 305 7830   E-mail: Brian.Roberts@leics.gov.uk

Chris Tambini, Assistant Director - Strategic Finance and Property
Tel: 0116 305 7642   E-mail: Chris.Tambini@leics.gov.uk

Judith Spence, Head of Corporate Finance
Tel: 0116 305 5998   E-mail: Judith.Spence@leics.gov.uk