

**CONSTITUTION COMMITTEE – 27<sup>th</sup> SEPTEMBER 2012****B****REPORT OF THE DIRECTOR OF RESOURCES****STATEMENT OF ACCOUNTS 2011/12****PURPOSE**

1. The purpose of this report is to:
  - a) present the 2011/12 Statement of Accounts, attached as Appendix A to this report, for approval and signing by the Leader of the County Council,
  - b) to inform the Committee of the key issues within the accounts, and
  - c) to report the key findings from the external audit of the accounts.

**BACKGROUND**

2. The Accounts and Audit Regulations 2011 require all 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 our external auditors, PricewaterhouseCoopers (PwC) report on the accounts is attached as Appendix B. The draft 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 24 September 2012. The auditor is required to communicate the results of the audit to those charged with governance prior to certifying the financial statements. Comments 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.

**STATEMENT OF ACCOUNTS**

6. The Statement of Accounts are accompanied by the Annual Governance Statement (AGS) signed by the Chief Executive and Acting 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 was approved by the Corporate Governance Committee on 15 May 2012 subject to changes required by the Code of Practice on Local Authority Accounting.
7. The AGS relates to the governance system as it applied to the financial year for the accounts that it accompanies. However significant events or developments relating

to the governance system that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed should also be reported. Following the conclusion of the Standards Committee investigations, minor updates have been made to the AGS which will be resubmitted to the CGC on 24 September 2012.

8. A report setting out the provisional revenue budget outturn was considered by Cabinet on 12 June 2012 and Budget and Performance Monitoring Scrutiny Panel on 18 June 2012. The main issues are set out below:

### **Movement in Reserves Statement (MIRS)**

9. The General County Fund balance shows whether the Council has under or over spent against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future purposes. Note 9 to the accounts, shows that overall the General County Fund has increased to £10.4m as at 31<sup>st</sup> March 2012 (£9.3m as at 31<sup>st</sup> March 2011). It has to be noted that additional risks now face the County Council including those that arise from local government funding changes such as the localisation of business rates and council tax support from 2013/14.
10. The policy on the General County Fund has been to maintain balances in line with the inherent risks faced by the County Council. The required level of reserves is kept under review during the year and a more formal assessment is undertaken at the time the Medium Term Financial Strategy (MTFS) is rolled forward. The policy will be to continue to maintain a level of the General County Fund consistent with the overall financial environment and the level of the General County Fund is currently within the target range of 2 to 3% of net expenditure (excluding schools). The balance of £10.4m represents 3% of net expenditure for 2012/13.
11. Overall earmarked cash backed revenue revenues (excluding schools) have increased to £112.6m at the end of 2011/12 (£86.5m 2010/11) – see note 9 to the accounts. This is mainly as a result of contributions to the Insurance reserve, Health and Social Care Outcomes (PCT Monies) reserve and the MTFS Invest to Save reserve. Further details are provided below:
  - Insurance reserve £14.1m. 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 was increased by £2.5m during 2011/12 mainly to meet potential liabilities arising from Municipal Mutual Insurance (MMI) Ltd that is subject to a run-off of claims following liquidation in 1992. The level of this reserve will be kept under review during 2012/13 to take account of the MMI run-off position.
  - Health Reserves: (increase of £10.2m). During the financial year the Primary Care Trust (PCT) agreed to transfer the funds to the County Council. These have been used to fund 2011/12 County Council expenditure to make progress towards health related targets within the theme of creating a healthier Leicestershire. The resulting underspend has been allocated to earmarked reserves to fund future partnership work. The main areas are:
    - provision of adult social care services to assist hospitals with winter pressures (£1.5m) and post discharge reablement (£3.0m);

- provision of services to make progress towards health related targets within the theme of creating a healthier Leicestershire (£2.5m).
- Unallocated funds from the 2011 transfer of funding to support social care (£2.2m)

As a result of these transfers the total level of health related reserves is £14.1m.

- MTFs / Invest to Save £22.3m. Funding set aside to fund the implementation of efficiency savings, the repayment of past pension liabilities, severance costs and invest to save projects. The planned application of the Reserve is set out below (as reported to Cabinet in June 2012):

Repay past pension liabilities (generates revenue saving) *	£8.9m
Severance costs 2012/13 – 2015/16	£7m
Fire HQ	£2m
Mkt Harborough office accommodation (Cabinet 2/4/12)	£1.6m
Gritters and Gulley Emptiers	£1.2m
Street lighting column replacement/removal	£1m
County Hall Rutland Building – replace air conditioning	£0.4m
<b>Total</b>	<b>£22.1m</b>

\* The use of the reserve to repay past pension liabilities will involve some technical considerations that will need agreement with the External Auditors.

12. Schools balances have increased slightly from £17.3m in 2010/11 to £18.1m at the end of 2011/12.

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

13. The Service classification within the Income and Expenditure Account is presented in line with CIPFA's Service Reporting Code of Practice to aid consistency and comparability across local authorities and is not comparable to the format of the Council budget.
14. It should also be noted that 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.
15. The CIES shows a deficit of £53m on the Provision of Services for 2011/12 (£137m surplus 2010/11). This is mainly due to the transfer of fifteen schools in 2011/12 to Academy Status resulting in the net book value of the schools, £76.3m, being written out of the County Councils accounts through the Other Operating Expenditure section of the Comprehensive Income and Expenditure Statement (CIES) and balance sheet. These entries are reversed out via the Movement in Reserves Statement and do not have an impact on the level of the General County 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 2012/13 and later years.

16. The £137m surplus in 2010/11 related mainly to a Past Service Gain on the Pension Liability line of the CIES of £124.3m which was due to a change in the pension fund benefit entitlement indexation from RPI to CPI announced by the government on 22 June 2010.
17. The explanatory foreword explains the outturn in the context of the Council's budget. In summary, the County Council (excluding schools grant) underspent the budget by £1.0m after allowing for carry forwards and approved transfers to reserves (the gross underspend was £18.0m).

### **Balance Sheet**

18. The balance sheet shows net assets have decreased from £420.3m at 31 March 2011 to £297.3m as at 31 March 2012. The principal reason is a significant increase in the net pension liability from £330.1m at 31 March 2011 to £438.8m at 31 March 2012. The 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 Worth of the County Council as recorded in the balance sheet. However, statutory arrangements for funding the deficit will result in the deficit being made good by increased contributions by the employer, over the remaining working life of employees, as assessed by the Actuary.
19. The Pension Fund position has deteriorated since last year mainly because the financial assumptions as at 31 March 2012 are less favourable than they were at 31 March 2011. The discount rate used to value the pension fund benefits has decreased, caused by a fall in corporate bond yields and a revised methodology.
20. The value of Land and Buildings in the Balance Sheet has reduced during the year, to £646.6m, mainly due to the transfer of fifteen schools to Academies as mentioned earlier in the report, reduction £76.3m.
21. The total level of Provisions held by the County Council have increased from £7.5m last year to £13.3m as at 31 March 2012. The increase is mainly due to the establishment of a provision for Adults and Social Care residential care charges to be confirmed for 2011/12, £2.5m, and a new Insurance provision of £1.9m due to the latest position on the run off of claims for Municipal Mutual Insurance LTD (MMI). Following the Supreme Court judgement in March 2012, not in favour of MMI, it has become probable that a levy will be required - see note 41 to the accounts. There is a contingent liability for any additional deficit due to the uncertainty of the value of incurred but not yet reported claims. A reserve is held and reviewed annually to reduce the risk to the County Council of any further liabilities.
22. The 2011/12 Code of Practice on Local Authority Accounting introduced a requirement to separately report information about its Heritage Assets on the balance sheet, total £4.2m as at 31 March 2012 - notes 15 and 46 to the accounts. The largest component is the collection of art, £2.9m.
23. The Code of Practice also required a new note for 2011/12 (with 2010/11 comparisons) of the numbers of exit packages with total cost by band of compulsory and other redundancies during 2011/12 – note 34(c) to the accounts.

## **Pension Fund Accounts**

24. The accounts also include a copy of the County Council's pension fund accounts.
25. The last available triennial actuarial valuation of the pension fund showed that at 31 March 2010 the fund's assets covered 80% of its liabilities. This funding level was a decrease on the 93% position of the 2007 valuation and this was primarily due to the lower-than-expected investment returns achieved in the three year period. Over the period investment returns were virtually zero – with two sharply negative years being offset by a major rally in 2009/10 – but this was significantly below the c.6% which is assumed within the 2007 actuarial valuation. 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.

## **RECOMMENDATION**

26. The Committee is recommended to approve the Statement of Accounts for 2011/12.

## **BACKGROUND PAPERS**

None.

## **CIRCULATION UNDER THE LOCAL ISSUES ALERT PROCEDURE**

None.

## **EQUAL OPPORTUNITIES IMPLICATIONS**

None.

## **OFFICERS TO CONTACT**

Brian Robert, Director of Resources  
Tel: 0116 305 7830 E-mail: [Brian.Roberts@leics.gov.uk](mailto:Brian.Roberts@leics.gov.uk)

Chris Tambini, Assistant Director - Strategic Finance and Procurement  
Tel: 0116 305 7642 E-mail: [Chris.Tambini@leics.gov.uk](mailto:Chris.Tambini@leics.gov.uk)

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

## **APPENDICES**

- Appendix A – 2001/12 Statement of Accounts
- Appendix B – external auditors, PricewaterhouseCoopers report on the accounts
- Appendix C – draft letter of representation