Leicestershire County Council

CONSTITUTION COMMITTEE – 24th SEPTEMBER 2013

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

STATEMENT OF ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT 2012/13

PURPOSE

1. The purpose of this report is to:
   a) Present the 2012/13 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 main areas of 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 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 23 September 2013. 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.

6. A report setting out the provisional revenue budget outturn was considered by Cabinet on 12 June 2013 and the Scrutiny Commission on 5 July 2013.

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.

9. The General County Fund (GCF) 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 8 to the accounts, shows that overall, the GCF balance has decreased to £27.8m (£32m 2011/12). This is due to the reduction in school balances to £8.4m (£18.1m 2011/12) as schools become Academies.

10. The uncommitted GCF balance has increased slightly to £10.7m as at 31st March 2013 (£10.4m as at 31st March 2012). The policy on the GCF is 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 uncommitted GCF consistent with the overall financial environment and the level of the GCF within the target range of 2 to 3% of net expenditure (excluding schools). The balance of £10.7m represents 3% of net expenditure for 2013/14.

11. Overall earmarked cash backed revenue revenues, shown in note 9, have decreased to £99.9m (£106.5m including dedicated schools reserve) compared with £110.8m in 2011/12 (£112.6m incl. schools reserve). This is mainly as a result of the reduction to the Invest to Save/Severance reserve to fund the repayment of debt – see paragraph 17.

12. The significant earmarked reserves are:

    - PCT/Health & Social Care Outcomes £15.9m. Funding transferred from the Primary Care Trust to the County Council in 2012/13 and earlier years to make progress towards health related targets within the theme of creating a healthier Leicestershire.

    - Invest to Save/ Change/ Severance, total £13.3m. Funding set aside to fund the implementation of efficiency savings and service improvements across the County Council and to fund potential restructuring costs of reconfiguring those services. The reserve includes £2m for the acquisition and refurbishment of the former fire services headquarters.

    - Insurance reserve £11.4m. 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 of £4.8m 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 2013/14 to take account of the MMI run-off position.

Comprehensive Income and Expenditure Statement (CIES)

13. The Service classification within the CIES 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 County 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 £118m on the Provision of Services for 2012/13 (£43.3m deficit 2011/12). This is due to the conversion of 82 schools to Academy Status during 2012/13. The buildings have been transferred as 125 year finance leases that require the assets to be written out of the County Councils accounts through the Other Operating Expenditure section of the Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet, and totals £181m in 2012/13. 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 2013/14 and later years.

16. The explanatory foreword on page 2 of the statement of accounts explains the outturn in the context of the County Council's budget. In summary, the County Council (excluding schools grant) underspent the budget by £0.2m after allowing for carry forwards (the gross underspend was £8.8m).

Balance Sheet

17. The Balance Sheet shows net assets have decreased to £120.6m compared with £307m at 31 March 2012. The principal reason is the reduction in the value of Land and Buildings in the Balance Sheet due to the conversion of 82 schools to Academies as mentioned earlier in the report (£181m).

18. The net position on the pension fund has deteriorated since last year to £498m compared with £439m 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 mainly because the financial assumptions as at 31 March 2013 are less favourable than they were at 31 March 2012. The discount rate used to value the pension fund benefits has decreased, caused by a fall in corporate bond yields.

20. The overall level of Provisions held by the County Council are £13.1m as at 31 March 2013 (£13.3m 2011/12), note 23 to the accounts. The main provision held is for Insurance, £11m. The provision represents the estimated value of outstanding unsettled claims at 31 March 2013. It also includes a provision for uninsured losses

of £2.2m, for MMI following confirmation from the company's directors that the scheme of arrangement has now been triggered and an initial levy of £2.2m will be requested later this year. There is a contingent liability, note 42 to the accounts, for any additional deficit due to the uncertainty of the value of incurred but not yet reported claims. A reserve, mentioned earlier in the report, is held and reviewed annually to reduce the risk to the County Council of any further liabilities.

21. During 2012/13 the County Council made a voluntary additional minimum revenue provision (MRP) contribution of £25.6m, funded from revenue underspends and reserve balances, to reduce the capital financing requirement/ repay debt, note 38 and note 7 to the accounts. This reduces the need to borrow leading to on going revenue savings of £2m.

22. In July 2012 the County Council agreed to participate in the Local Authority Mortgage Scheme (LAMS) to make it easier for first time house buyers to obtain mortgages and thus stimulate the local housing market and benefit the wider local economy. A total indemnity value of £10m was approved. As at 31 March 2013 a total of £5.4m had been advanced to Lloyds TSB – see note 38 to the accounts. The advance has been accounted for as capital expenditure in line with professional advice received from Sector and is funded from earmarked reserves.

Annual Governance Statement

23. 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 was approved by the Corporate Governance Committee on 2 September 2013.

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 approximately 80% of the liabilities accrued up to that date. 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. 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.

26. The next actuarial valuation is currently underway, as at 31 March 2013. 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. Changes in contribution rates resulting from the actuarial valuation will be effective from 1 April 2014.

Key Findings of the External Auditor

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

28. The auditor has however reported that they believe that the accounting for the LAMS advance, £5,4m, should be accounted for as a long term investment and not capital expenditure, Appendix B, page 8. They add that this view was shared by the Audit Commission last year in its advice to auditors. The County Council has taken professional advice from Sector who have advised that the expenditure should be treated as capital expenditure and have had this confirmed by Queen's Counsel.

29. The Audit Commission is aware of differing views nationally and is currently seeking their own legal advice. It is recommended that the County Council await the outcome of the Audit Commission's advice before making any changes to the accounts. If this is not available by the date of this meeting any amendments to the accounting treatment will be made to the 2013/14 Statement of Accounts (restated 2012/13 comparative balances). The value is immaterial in overall terms and the auditor has confirmed that if the accounts are not changed this will not impact upon their opinion.

RECOMMENDATION

30. The Committee is recommended to approve the Statement of Accounts for 2012/13.

BACKGROUND PAPERS

None.

CIRCULATION UNDER THE LOCAL ISSUES ALERT PROCEDURE

None.

EQUAL OPPORTUNITIES IMPLICATIONS

None.

APPENDICES

Appendix A – Statement Of Accounts 2012/13
Appendix B – External Auditors Report
Appendix C – Letter of Representation

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