Agenda Item 6

Leicestershire County Council

CONSTITUTION COMMITTEE – 29th SEPTEMBER 2014

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

STATEMENT OF ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT 2013/14

PURPOSE

1. The purpose of this report is to:
   a) present the 2013/14 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 our 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 23 September 2014. 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 17 June 2014 and the Scrutiny Commission on 11 July 2014.

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 authority, analysed into 'usable reserves' i.e. those that can be applied to fund expenditure and 'unusable reserves' which cannot be used to fund services – these 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 be reversed out via the STACAA to avoid it being a charge to the general fund.

9. The main usable reserves are the general fund and earmarked reserves.

10. The MIRS shows that the general fund balance has decreased to £23.7m from £27.8m in 2013/14. Note 8 to the accounts shows the movement in more detail. The uncommitted balance is £10.8m. The policy will be to continue to maintain the level consistent with the overall financial environment and within the target range of 2 to 3% of net expenditure (excluding schools). The balance of £10.8m represents 3% of net expenditure for 2014/15.

11. Overall earmarked reserves, shown in detail in note 9, have decreased to £97.1m (£106.7m including dedicated schools reserve) compared with £99.9m in 2012/13 (£106.5m incl. schools reserve).

12. The significant earmarked reserves are:

- Invest to Save/ Severance, £23.3m. 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 9 to the accounts is a net balance of £14.9m. This is after the temporary advance of £8.4m for the Local Authority Mortgage scheme (LAMS), explained further in paragraph 25 of this report.

- Insurance reserve £14.9m. 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.

- PCT/Health & Social Care Outcomes, totals £16.6m. Funding transferred from the primary care trust to the County Council in previous years, to fund joint public health initiatives, within the theme of creating a healthier Leicestershire.

- Broadband £6.3m. Funding held to develop super-fast broadband to areas with poor service within Leicestershire.

- Supporting Leicestershire Families, £5.3m. This funding has been earmarked to fund both the programme team and the new services under the supporting Leicestershire's Families programme (formerly known as Troubled Families).

13. The required level of reserves is kept under review during the year. A formal assessment is undertaken and reported in Autumn, in January and February as part of the Medium Term Financial Strategy (MTFS) and at year end.

Comprehensive Income and Expenditure Statement (CIES)

14. 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 authority raises taxation to cover expenditure in accordance with statutory regulations which can be different from the accounting cost.

15. 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.

16. 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.

17. The CIES shows a deficit of £41.0m on the Provision of Services for 2013/14 (£122.7m deficit 2012/13). The deficit is due to the conversion of 25 schools to Academy status during 2013/14. 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 CIES and Balance Sheet, and totals £54.2m in 2013/14. 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 2014/15 and later years.

18. 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, this shows a gross underspend of £4.7m (after movements to reserves and excluding schools grant) and was used to fund carry forwards to 2014/15.

Balance Sheet

19. The Balance Sheet shows the value as at the 31 March 2014 of the assets and liabilities recognised by the County Council. This shows that the net assets have decreased to £64.6m compared with £120.6m at 31 March 2013. The principal reasons are the reduction in the value of Land and Buildings in the Balance Sheet due to the conversion of 25 schools to Academies as mentioned earlier in the report (£54.2m) and also an increase in the pension fund liability.

20. The net position on the pension fund is £603.3m. This has deteriorated since last year (£497.6m) principally because the financial assumptions as at 31 March 2014 are less favourable than they were at 31 March 2013 (note 13 to the accounts). The main reason is due to a lower discount rate used to value pension fund benefits due to a change in the methodology used and a fall in corporate bond yields. The rate has changed to 4.3% (4.5% 2012/13).

21. 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 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 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.

22. The balance sheet also shows short and long term provisions totalling £9.7m (£13.1m 2012/13). Provisions are held to fund liabilities of uncertain timing or amount and are shown in more detail in note 23 to the accounts. The main provision held is for Insurance, £6.7m. The provision represents the estimated value of outstanding unsettled claims at 31 March 2014.

23. The capital receipts reserve totals £11.0m (£1.6m 2012/13). This reserve holds the proceeds from the sale of assets that have not yet been applied to fund new capital expenditure. The funding will be carried forward to 2014/15 (and later years) to fund slippage from the 2013/14 capital programme and the 2014-18 capital programme.

24. During 2013/14 the County Council continued its policy to reduce debt by making a voluntary additional minimum revenue provision (MRP) contribution of £8.4m, funded from revenue underspends. This has the effect of reducing the capital financing requirement (CFR), shown in note 38 to the accounts, to £317.6m. The CFR is a measure of capital expenditure incurred historically that has yet to be financed. Actual debt at the balance sheet was £294.7m. 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.

25. Note 38 to the accounts also shows the Councils investment in the Local Authority Mortgage Scheme 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 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

26. 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 23 September 2014.

Pension Fund Accounts

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

28. 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.

29. 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 2013/14 the average employer rate was 18.7% of pay (17.8% 2012/13).

Key Findings of the External Auditor

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

RECOMMENDATION

31. The Committee is recommended to approve the Statement of Accounts for 2013/14.

BACKGROUND PAPERS

None.

CIRCULATION UNDER THE LOCAL ISSUES ALERT PROCEDURE

None.

EQUAL OPPORTUNITIES IMPLICATIONS

None.

APPENDICES

Appendix A – Statement Of Accounts 2013/14
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

This page is intentionally left blank