REPORT TO THE AUDIT AND RISK COMMITTEE ON 15 JULY 2013

DRAFT STATEMENT OF ACCOUNTS 2012/13.

Submitted by: Head of Finance

Portfolio: Finance and Resources

Ward(s) affected: All

Purpose of the Report

To submit the draft Statement of Accounts 2012/13 for consideration by the Audit and Risk Committee and to gain approval for the financing of capital expenditure. The report highlights the key issues which are contained in these accounts including a commentary on the General Fund outturn, the Collection Fund and the Balance Sheet and to note the position regarding the Council's reserves.

At this stage the Statement of Accounts is in a draft stage and is subject to external audit. Once that audit is completed then the Statement will be submitted to this committee for formal scrutiny and approval.

A copy of the draft Statement of Accounts is attached at appendix 1

Recommendations

(a) That the contents of the draft Statement of Accounts for 2012/13 be noted.

b) That the financing of capital expenditure incurred during 2012/13, as set out in Appendix 2 be approved.

Reasons

It is a statutory requirement, contained in the Accounts and Audit Regulations 2011 that the Council produces a Statement of Accounts detailing its financial transactions for the year and its position at the year end. It is also a requirement that the financing of capital expenditure incurred in 2012/13 is approved.

1. Background

1.1 The Accounts and Audit Regulations 2011 govern the way in which a local authority should present its financial affairs. These require that a local authority must produce a Statement of Accounts for each financial year detailing its financial transactions for the year and its position at the year end and that this Statement be scrutinised and approved by an appropriate committee, in this case the Audit and Risk Committee, by 30 September. The Statement is produced in a standardised form in line with CIPFA (the Chartered Institute of Public Finance and Accountancy) guidelines.

1.2 The Regulations require the draft Statement of Accounts to be certified by the responsible financial officer, who is the Executive Director (Resources and Support Services), as presenting a true and fair view of the Council's financial position by 30

June and this has been done. On presentation to you for approval the final audited version of the Statement will be recertified by him.

1.3 The annual statutory audit commenced on 1 July 2013 during which the external auditor is required to ascertain that the accounts present a true and fair view of the financial position of the Borough Council and to ensure that they have been produced in accordance with all relevant codes of practice. This should allow time for the audit to be concluded and any amendments required to be made and a final version of the Statement of Accounts produced for submission to your committee for scrutiny and approval at the meeting scheduled for 23 September 2013.

1.4 Whilst 30 September is the date by which formal approval must be given, it is felt that members will want to receive a report on the outturn position for 2012/13 before then. Accordingly, the draft Statement is being reported to you now, for information, together with a commentary on the main points of interest in the accounts. It should be noted that it is not intended that this meeting should be the forum for the formal scrutiny of the accounts, although if members wish to raise any queries these will, of course, be responded to. The intention is rather to report on the 2012/13 outturn and year end financial position and any ongoing financial implications arising therefrom.

1.5 Elsewhere on your agenda the Annual Governance Statement is being submitted to you for approval. Whilst the Accounts and Audit Regulations 2011 do not require this to be included in the Statement of Accounts, they require it to be published, so it is intended to include it in the published Statement of Accounts, as in previous years.

1.6 It is also required that the financing of capital expenditure incurred in the year be approved. Accordingly, Appendix 2 sets out the expenditure for 2012/13 and the ways in which it has been financed.

2. The General Fund Budget

2.1 The General Fund is the main account of the Council and relates to all of those services which are funded by the Council Tax, Redistributed Business Rates and Formula Grant from the Government.

2.2 The budget for the General Fund for 2012/13 was originally set in February 2011 and amounted to a net total of £15,383,940. The eventual outturn for the year was a positive variance against this figure, of £3,024.

3. The General Fund Outturn

3.1 As mentioned above, the out-turn in respect of the General Fund Revenue Account was £3,024 better than the original estimate. Whilst there were adverse variances against some budget heads, these have been offset by positive variances against others.

A number of areas of income, largely ones that are sensitive to the state of the local and national economy, were particularly adversely affected as shown in the following table:

Type of Income	Budget	Outturn	Variance
	£000s	£000s	£000s
Local Land Charges	222	169	53
Commercial Properties Rents	1,651	1,492	159
Planning Applications Fees	428	210	218
Car Parking Income	1,218	961	257
Markets Stalls Income	260	147	113
Provision for Income Loss	(200)	-	(200)
Total	3,579	2,979	600

With reference to the Commercial Properties rents shortfall, this is particularly depressed by continuing vacancies in Lancaster Buildings where units remain unlet, following the completion of refurbishment works.

Part of the shortfall in relation to income has been covered by the provision included in the budget for income loss of £200,000 (included in the table above).

There was also additional expenditure on a number of headings, which is outlined in the following table:

Item	additional expenditure
	£000s
Contribution to Bad Debts Provision	61
Landscape Section and other Salaries - non-recovery of costs	41
Total	102

These adverse variances, shown in the two tables above, have however, been met by favourable variances on other budget heads, the more significant of which are highlighted in the table below.

Item	Saving or additional income
	£000s
Additional Income:	
Customer Services - Income from issue of Disabled Parking Blue Badges	12
Burial Fees Income	24
Licensing Income	61
Litter Fines	24
Housing Benefits - Recovery of Overpayments	117
Procurement Savings:	
Computer Software and Licenses	90
Highways Amenities expenditure	29
External Audit Fees	36

Good Housekeeping Efficiencies:	
Maintenance of Closed Churchyards	10
Neighbourhood Partnership Team – Conference/Seminar Costs & Fees for Services	12
Commercial Properties Expenses (e.g. rates, utilities costs)	44
Community Recreation Service Expenditure/Income	16
CCTV Monitoring Costs	8
Watercourses expenditure	24
Ryecroft Holding Costs (Net)	14
Corporate Training	22
Homelessness Expenditure	55
Budget not Required:	
Budgeted Pay Increase	60
Content Management System	15
Community Development - Contributions to External Bodies	23
Community Centres - Contributions to External Bodies	9
Total	705

The outturn reflects the monitoring statements provided to members throughout the year.

3.2 An amount of £3,024 has been transferred into the Budget Support Fund in respect of the positive variance.

3.3 As can be seen in Note 22 to the Accounts, the balance on the Budget Support Fund now stands at £0.426m, a reduction of £0.198m from the 1 April 2011 balance. This movement comprises:

- £0.179m transferred from the Fund to support the 2012/13 budget, in accordance with the budget setting resolution of February 2011;
- £0.003m transferred from the Fund to make good the negative variance;
- net transfers of £0.022m from the Fund in respect of budget underspendings carried forward from one year to another.

3.4 It should be noted that no use is to be made of the Budget Support Fund to support the 2013/14 Budget which was approved on 27 February 2013.

3.5 In recognition of the likely continuing shortfall in income, a further amount of £300,000 in addition to the £200,000 already included in the base budget was agreed as part of the 2013/14 budget. This will be closely monitored as income levels continue to be depressed as the country continues in recession. The amount required in future budgets will be kept under review as the economy begins to move out of recession at some stage and income levels improve. The regular budget monitoring reports provided by the Cabinet Portfolio Holder for Finance and Resources will keep members updated as the year proceeds together with the quarterly monitoring reports to Cabinet.

3.6 The Council's investment with the Heritable Bank, of £2,500,000, together with interest due up to that date of £9,192, was frozen in 2008/09 as a result of the bank being placed into administration. Following this the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a recommendation to councils with such frozen investments that they should make provision for the amount deemed to be at risk, based on a possible timetable, spanning four years, for repayment of a specified proportion of the investment (originally 80%, later revised to 85%). Applying this calculation gave an amount of £795,202 in respect of the Council's investment, including notional interest payable on the frozen funds over the period. Provision for this amount was made in the 2008/09 accounts, by way of an impairment charge. Since then a total of £1,937,728 has been repaid to the Council up to 31 March 2013.

3.7 The Statement of Accounts includes (at Note 42) the accounts of the North Staffordshire Building Control Partnership, the vehicle through which this Council delivers the Building Control service. Overall the Partnership broke-even in respect of fee earning activities, which is in line with the requirement contained in the Building Control Regulations that a break-even position should be achieved over a number of years.

4. The General Fund as shown in the Statement of Accounts

4.1 The transactions of the General Fund are shown in the Statement of Accounts in the Comprehensive Income and Expenditure Statement (CI&ES) and the Movement in Reserves Statement. Further detail of the reserves movements is given in notes 6, 7 and 22. In effect, the CI&ES contains all of the expenditure and income of the General Fund whilst the Movement in Reserves Statement shows the transfers from reserves which have taken place to arrive at the final balance for the year. The Movement in Reserves Statement also shows, at its foot, the final year-end balances on the different classes of reserve. As can be seen, the General Fund Balance has changed from its opening balance of £1.400m to £1.200m at 31 March 2013. The reduction in the minimum balance was approved by Full Council on 27 February 2013. It represents the minimum balance required, calculated by means of a risk based assessment, to safeguard against foreseeable variations in relation to the General Fund Revenue Budget. This calculated reduction of £200,000 allowed £150,000 to be transferred to the Insurance Fund and £50,000 to the Renewals and Repairs Fund.

4.2 The CI&ES shows a deficit of £10.781m for the year. At first sight this may seem strange but it should be remembered that this is the balance before transfers to and from reserves are taken into account, via the Movement in Reserves Statement. All of this balance has been reversed out by net transfers from reserves as shown in the Movement in Reserves Statement. These transfers are either to meet the cost of expenditure contained in the Cost of Services or to reverse out various charges representing proper accounting practice which have been made, as required by the CIPFA Accounting Code of Practice, but which are to be removed from the final total as such charges are, by law, not to be met by Council Tax Payers. Examples of these are various capital charges (such as in relation to depreciation of assets or where an asset has been revalued downwards) and pensions fund transactions. There are a number of notes set out beneath the CI&ES, which explain, in relation to some items contained in the account, why their amounts differ significantly from 2011/12 to 2012/13.

4.3 In addition the CI&ES includes the surplus or deficit on revaluation of fixed assets and actuarial gains or losses on pensions assets and liabilities. Both of these items can be subject to significant volatility, as can be seen from the revaluation amount reducing from £2.131m in 2011/12 to £0.882m in 2012/13. This occurs because each year different groups of assets, mostly land and property, are considered in detail and different market conditions, which affect the valuations, exist from one year to the next. All of the balance of £10.781m has been reversed out by net transfers from reserves as shown in the Movement in Reserves Statement.

4.4 Notes 8, 9 and 10 provide a breakdown of the Other Operating Expenditure, Financing and Investment Income and Expenditure and Taxation and Non-specific Grant Income, respectively, which appear in the bottom half of the CI&ES.

5. The Collection Fund

5.1 The Collection Fund is a separate account which contains the financial details which refer to the collection of Council Tax and Business Rates. The purpose of this account is to illustrate how much of the above income has been collected and to see how this compares to the amounts of the levies that have been made for the Borough Council, the County Council, the Police Authority and the Fire Authority.

5.2 This is a somewhat technical account but the key issue is to see if the account is in surplus or deficit and to what extent. In collecting income the Borough Council has to make an assessment of how much will ultimately be collected. The Collection Fund had an accumulated deficit of £0.156m as at 31 March 2013. This will be recovered from the precepting authorities (Newcastle Borough Council, Staffs County Council, Police Authority, Fire Authority) and will be used in calculating how much Council Tax will be levied in 2013/14.

5.3 As can be seen the Fund achieved a surplus of £0.103m for the year, compared to a deficit of £0.386m in 2011/12. This was mainly due to changes to the discount regime introduced in 2012/13, affecting the amounts payable by taxpayers, a number of retrospective adjustments being made to the amounts due to be paid by taxpayers, some temporary reduction in recovery activity as a consequence of the bedding in of the new revenues ICT system and a small increase in the amount set aside for possible bad debts.

6. The Balance Sheet

6.1 The main features of the Balance Sheet are as follows

- There are Net Tangible Fixed Assets of £60.038m which consist of Plant, Property and Equipment, Investment Properties and Heritage Assets. Notes 11, 12 and 13 to the Statement of Accounts show an analysis of these assets, together with a summary of movements during 2012/13. The main reason for the decrease in the fixed assets balance compared to the 31 March 2012 value is the revaluation of assets, largely within the commercial property portfolio, whereby some of these assets have been revalued downwards, reflecting the prevailing economic situation which currently adversely affects their market value.

- Investments (all short term at 31 March 2013 - i.e. with less than 1 year to run from that date) amounted to £5.195m and have reduced by £5.801m compared to 31 March 2011. In particular, this reflects the use of capital receipts to finance projects in the capital programme (£0.732m) and the particular cash flow situation as at the balance sheet date. Owing to the current situation in the financial markets, the emphasis is now on short term investments as a means of reducing the risk of exposure to default by organisations with whom money has been placed.

- The amount owed to the Council by its short term debtors (after a deduction for the estimated amount which might be at risk of non-payment) is £9.476m. Further analysis of this amount is shown in Note 17 to the Statement of Accounts. Short Term Debtors have increased by £2.441m compared with 31 March 2012. The most significant reason for this increase is that the Council overpaid the Department of Communities and Local Government (DCLG) in 2012/13 in respect of amounts due to the National Non Domestic Rates (NNDR) Pool resulting in an amount due from the department of £0.900m at 31 March 2013, included in debtors, whereas in 2011/12 the department was underpaid, resulting in an amount owing to them at 31 March 2012 of £2.006m, which was included in the short term creditors balance. This happens because payments are made based on an estimate made before the year commences with the final amount due determined after the year end from data in the accounts and the NNDR collection system. The amount overpaid will be repaid to the Council in 2013/14. Additionally, the Department of Work and Pensions (DWP) owes the Council £0.506m at 31 March 2013 in respect of reimbursement of Rent Allowances paid on their behalf, whereas at 31 March 2012 the Council had been overpaid by £1.316m, which was included in creditors. Also, the amount of Right to Buy sales receipts owing to the Council from Aspire Housing increased by £0.342m and accruals for housing benefits paid to clients in advance in 2012/13, which relate to 2013/14, increased by £0.416m.

- The balance shown as a Long Term Debtor of £2.104m relates to the balance owing to the Council in respect of properties let on finance lease terms (£1.510m), the outstanding loan to Kidsgrove Town Council in respect of works to the Victoria Hall Kidsgrove (£0.174m) and outstanding mortgages (£0.420m). The balance in relation to property leases arises because some of the council's leases are classified as finance leases rather than operating leases. This requires the amount remaining to be paid over the lease term to be shown in this way. The finance lease element has reduced by £0.72m reflecting payments made in 2012/13, whilst the mortgages balance has increased by £0.015m, as a result of the addition of 2 further former Kickstart Loans, less repayments made by mortgagors in 2012/13.

- The amount the Council owes to its creditors is £5.630m. Further analysis of this amount is shown in Note 21 to the Statement of Accounts. Creditors have reduced by £3.213m compared to 31 March 2012. This is mainly attributable to a reduction in accruals for capital payments (£1.590m at 31 March 2012; £0.615m at 31 March 2013), reflecting the reduced size of the capital programme and NNDR Pool contributions being overpaid to the DCLG, resulting in a debtor at 31 March 2013 rather than a creditor which was the situation at 31 March 2012, when the Council had underpaid the Department by £2.006m. The loss of the DWP creditor of £1.316m at 31 March 2012, referred to above under debtors, reduces the creditors balance but is offset by an additional creditor of £1.490m in respect of housing benefit payments made to landlords in early April which related to 2012/13, which necessitated an accrual of that amount.

- Cash at bank and held by collectors, cashiers and as petty cash floats has changed from an in hand position of £0.354m at 31 March 2012 to £0.228m at 31 March 2013. This is mainly as a result of a reduction in the actual year end cash at bank balance of £0.091m, reflecting differing cash flow positions at the respective year-ends.

- The Liability relating to Defined Benefit Pension Schemes increased from £54.951m to £63.523m. This increase is mirrored by an increase in the Pensions Reserve balance. The change mainly arises from the impact of the use of a reduced discount rate to be applied to the value of the Fund's liabilities, taking account of future financial assumptions made by the Fund actuary. These amounts are required to be included in the Council's accounts as a result of the application of International Accounting Standard 19 (IAS19) and the CIPFA Code of Accounting Practice. Neither directly relate to Borough Council transactions - they relate to those of the Staffordshire County Council Pension Fund of which the Council is a member and represent the Council's share of net scheme liabilities (after deduction of the value of scheme assets). Whilst the net liability indicates the Council's long term commitment to pay retirement benefits, statutory arrangements for funding the deficit mean that its financial position remains healthy. Further details relating to the Pension Fund are contained in Note 38 to the Accounts.

7. Reserves

7.1 The Council has usable reserves totalling £7.693m. Note 22 to the Accounts shows a full analysis of all these reserves. The main items, with their balances at 31 March 2013, are:

- Capital Receipts Reserve (£2.702m)
- Capital Grants Unapplied (£1.296m)
- Budget Support Fund (£0.426m)
- Contingency Reserve Fund (£0.102m)
- Insurance Fund (£0.158m)
- New Initiatives Fund (£0.097m)
- ICT Development Fund (£0.509m)
- Renewal and Repairs Fund (£0.046m)
- RENEW Reserve (£0.122m)
- Equipment Replacement Fund (£0.277m)
- New Homes Bonus Reserve (£0.491m)

7.2 Generally the level of reserves has reduced compared with their opening balances at the beginning of 2012/13.

7.3 The Capital Receipts Reserve is predominantly committed to financing the current capital programme, whilst the majority of the balance on the Capital Grants Unapplied Reserve is either already committed to finance current schemes or is earmarked for future schemes. The ICT Development Fund is also committed to finance new or replacement ICT software and hardware. The New Homes Bonus Reserve is all committed to finance expenditure in 2013/14.

7.4 The balance of the Contingency Reserve remains above its agreed minimum level of £0.100m.

7.5 The Budget Support Fund and General Fund Balance are discussed at paragraphs 3.2 to 3.4 above and 4.1, respectively.

7.6 The levels of reserves will be considered as part of the budget preparation process for 2013/14. Some may require "topping up", either from the revenue budget or a transfer from another reserve. In particular, the Renewals and Repairs and Insurance Funds need to be reviewed to ensure that they are adequate.

7.7 Unusable Reserves total (£0.905m). These were established as a result of the need to enable various accounting transactions and are not available for use to meet expenditure, either revenue or capital.

8. List of Appendices

Appendix 1 Statement of Accounts 2012/13 (Draft)
Appendix 2 Financing of Capital Expenditure