

North Tyneside Council Report to Council 25 September 2014

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| ITEM 5 2013/14 Annual Financial Report |
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| Portfolio(s): Elected Mayor Finance | Cabinet Member(s): Norma Redfearn Councillor Ray Glendon |
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Report from Service Area: Finance and Commercial Services
Responsible Officer: Janice Gillespie, Strategic Manager Finance Tel 6435701

Wards affected: All

PART 1

1.1 Purpose:

To seek full Council's approval of the 2013/14 Audited Annual Financial Report in accordance with Section 8 (3) of the Accounts and Audit (England) Regulations 2011.

1.2 Recommendation(s):

Council is recommended to:

- (a) Approve the Audit Completion Report, submitted by the Authority's external auditors Mazars, and agree the draft Letter of Management Representation; and,
- (b) Approve the 2013/14 Audited Annual Financial Report.

1.3 Forward plan:

The report is included on the Forward Plan published on 8 September 2014.

1.4 Council plan and policy framework:

The 2013/14 Annual Financial Report covers the financial aspects of all service responsibilities as identified within the Council Plan and the Authority's policy frameworks.

1.5 Information:

1.5.1 It is a requirement of Section 8 (3) of the Accounts and Audit (England) Regulations 2011 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code that the Authority approves its audited Annual Financial Report for the financial year 2013/14 by 30 September 2014.

1.5.2 The audit of the 2013/14 accounts has recently been concluded and an unqualified audit opinion is expected to be issued. The Audit Completion Report, produced by Mazars, in respect of the 2013/14 Annual Financial Report was presented to last night's Audit Committee (24 September 2014). No material errors were identified in the financial statements. A small number of non material errors identified during the audit have been corrected and are reflected in the Annual Financial Report. A copy of the Audit Completion Report is attached as Appendix B.

1.5.3 The audited 2013/14 Annual Financial Report is attached for consideration and approval as Appendix A to this report. The Statement follows a statutory format as set out in the CIPFA Code and CIPFA Service Reporting Code of Practice.

Annual Financial Report

1.5.4 The main elements of the Annual Financial Report are:

- (a) Explanatory Foreword by the Chief Finance Officer;
- (b) General Statistics about the Authority;
- (c) The statutory accounts themselves, namely;
 - Statement of Responsibilities;
 - Comprehensive Income and Expenditure Statement;
 - Movement in Reserves Statement;
 - Balance Sheet;
 - Cash Flow Statement;
 - Housing Revenue Account;
 - Collection Fund Statement.
 - Statement of Accounting Policies adopted when compiling the accounts; and,
- (d) The Annual Governance Statement.

1.5.5 Each account above is supported by a comprehensive set of supporting and explanatory notes.

Summary

- 1.5.6 The Authority's Annual Financial Report (the Accounts) is prepared in accordance with statute and accounting Codes of Practice. The Accounts record the Authority's financial position as at 31 March 2014 by way of a series of formal statements such as the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet and the Cash Flow Statement. For the most part these statements do not reflect the Authority's internal management and monitoring arrangements and for this reason a Finance Outturn report for 2013/14 was presented to Cabinet on 9 June 2014. That report follows the format of the budget monitoring reports presented to Cabinet through the year and can be read in conjunction with the Annual Financial Report to gain a full picture of the Authority's financial management in the year. Note 4 (pages 33 to 39) also provides a reconciliation between the statutory accounts and the Finance Outturn report. A copy of the Finance Outturn report can be accessed via the Authority's website or the intranet.
- 1.5.7 As noted in the Outturn report, the Authority had to manage several major financial pressures in the year over and above the approved budget including reductions in funding. Despite this the final outturn position was on budget and the Authority's General Fund Balance remains unchanged at £6.604m. The Housing Revenue Account (HRA) balance as at 31 March 2014 was £2.854m, and schools balances were £6.647m. The Council incurred expenditure of £61.649m in the year on its Capital Plan (£39.559m General Fund and £22.090m HRA). This includes £4.782m for North Tyneside Living PFI project.

The Statement of Accounts

- 1.5.8 A summary of the main features of the 2013/14 statutory accounts follows:
- 1.5.9 The **Comprehensive Income and Expenditure Statement** (page 15) records revenue transactions (for both the General Fund and the Housing Revenue Account) through the Authority's books for the financial year. As its name indicates this account includes the income and expenditure for each service as set out in the Service Reporting Code of Practice, along with expenditure on precepts and levies, interest paid, investment income, gains and losses on disposal of fixed assets and the costs associated with pensions. It also includes general income from Government Grants, Council Tax and Business Rates.
- 1.5.10 For 2013/14, the result of these transactions is a net surplus on the Comprehensive Income and Expenditure Statement of £101.405m (£62.120m deficit in 2012/13). This surplus (and the previous year's deficit) represents an accounting convention and it does not impact on the Authority's balances at the year-end. For that reason, the Comprehensive Income and Expenditure Statement needs to be read in conjunction with the **Movement in Reserves Statement** (page 16), which makes a series of further accounting adjustments to arrive at the actual movement in balances in the year.
- 1.5.11 The Movement in Reserves Statement shows that after these adjustments the General Fund balance itself has not changed and remains at £6.604m. There was an increase in schools balances of £0.594m (to £6.647m). The HRA balance increased by £0.654m (to £2.584m) reflecting the reported under spend.

1.5.12 In light of these relatively small changes in year-end balances, further clarification follows about the £101.405m surplus on the Comprehensive Income and Expenditure Statement.

1.5.13 The **Cost of Services** line in the Comprehensive Income and Expenditure Statement represents the net expenditure incurred by the Authority in the direct provision of services. This is presented in the format required by the CIPFA Code and CIPFA Service Reporting Code of Practice, which does not reflect the way in which the Authority's budgets and monitoring reports are set out. The net expenditure of £130.307m is £11.213m lower than in 2012/13. This is primarily a result of large accounting variations. The main variations relate to capital accounting, with the largest being £15.471m credit relating to the revaluation of Council Dwellings (shown as an exceptional item). This, in part, reverses the downward revaluation of Council Dwellings that took place in 2011/12. There are also large capital accounting variations included within Cultural and related (£8.200m) and Local Authority Housing (HRA)(£7.312m credit). In 2012/13 £10.520m relating the accounting for pension costs and the settlement gain following the transfer of staff under the partnership arrangements. Exceptional items are shown in the Table 1 below. The remaining reduction relates mainly to changes in funding arrangements, reduction in grants and a general reduction in the level of spend.

Table 1: extract from the Comprehensive Income and Expenditure Statement:

| 2012/13 Net Expenditure £000 | | 2013/14 Net Expenditure £000 |
|------------------------------------|----------------------|------------------------------------|
| | | |
| 0 | Exceptional Item HRA | (14,955) |
| (10,520) | Exceptional Item NDC | 0 |
| | | |

(NDC- Non Distributed Costs)

1.5.14 **Other Operating Expenditure** includes a loss on disposal to reflect the valuation of the 4 schools that transferred to North Tyneside Learning Trust (NTLT)(£10.961m) and 1 school to an academy (£1.214m) during 2013/14. For 2012/13 the comparable figure was £29.982m for the 8 schools that transferred. It should be noted that the land and buildings would revert back into the Authority's ownership if certain criteria cease to be met, however, the assets have been disposed of in accounting terms.

1.5.15 **Taxation and Non-Specific Grant** increased partly as a result in changes to the Non Domestic Rates system and how government funding in relation to this is required to be shown in the accounts. In addition, Capital Grants, Contributions and Donated Assets increased largely to reflect the transfer of properties valued at £6.300m from TWEDCO (Tyne and Wear Economic Development Company).

1.5.16 **Re-measurement of the net defined benefit liability** shows a credit of £109.060m (2012/13 £24.720m debit). This is as a result of changes in the way pension costs are now required to be measured.

- 1.5.17 **The Movement in Reserves Statement** is a summary of the changes that have taken place in the “bottom half” of the Balance Sheet over the financial year. The statement is analysed into “useable reserves” (that is those that can be used to fund expenditure) and “unuseable reserves” (these are accounting entries). As outlined above there has been an increase of £0.594m in General Fund Balances relating to schools, and an increase of £0.654m in the HRA balance. The statement also shows that there was a net transfer to Earmarked Balances of £10.766m, mainly as a result of transfer to reserves as part of the 2013/14 Final Accounts process. Details of these are shown in the Outturn report presented to Cabinet in June
- 1.5.18 The **Balance Sheet** is set out on page 17. As the revenue accounts are closed down for the year, the General Fund and HRA balances, along with the Capital Account (the Authority’s Capital Plan) are transferred to the Authority’s Balance Sheet. This represents the final position of the Authority at the end of the financial year, showing the assets that the Authority owns (such as land and buildings), the amounts it is owed (debtors etc) and what it owes to outside bodies and individuals (loans outstanding, creditors etc).
- 1.5.19 As at 31 March 2014 the Authority’s Balance Sheet showed **Net Liabilities** of £45.243m (£146.648m at 31 March 2013). The main reason for this movement is the change in statutory requirements relating to the measurement of expected return on pension assets. The Net Liabilities position does not give rise to any going concern issues.
- 1.5.20 **Property, Plant and Equipment (PPE):** The net decrease in the value of fixed assets was £4.917m largely arising from the de recognition of £12.175m of schools assets relating to the transfer to NTLT and Kings Priory Academy. Also the revaluation and impairment of other assets in line with capital accounting valuation requirements. The movement in the value of PPE is analysed in Note 17 to the Core Financial Statements. PPE includes the buildings and assets associated with the Council’s PFI schemes.
- 1.5.21 **Current Assets** increased by £11.832m in the year, with the main movement being an increase in debtors of £4.206m.
- 1.5.22 **Current liabilities** reduced by £1.069m. Within this movement, the main changes were an increase in the level of short term borrowing £3.620m as the Authority continued to take advantage of the lower interest rates available. This is in line with the agreed Treasury Management Strategy. Provisions reduced by £4.129m including a reduction in the provision required for Equal Pay. Short term creditors also reduced by £1.618m.
- 1.5.23 **Long Term Liabilities** reduced by £93.158m mainly as a result of the reduction in the Pension Liability (£94.100m) as highlighted in paragraph 1.5.24 below. There was also a reduction in Long Term Borrowing of £8.100m reflecting the move to Short Term borrowing outlined in paragraph 1.5.22 above.
- 1.5.24 **Pension Liability:** North Tyneside Council is a member of the Tyne and Wear Pension Fund. Under International Accounting Standard 19 (IAS 19) the Authority is required to show in its Balance Sheet its Pension Fund Liability, i.e. its share of any Pension Fund deficit. Changes to the way the expected return on assets is calculated have been introduced under IAS19 for 2013/14. As a result of these

changes the Pension Fund Liability calculated by the Fund actuary has reduced by £94.100m (from £454.330m as at 31 March 2013 to £360.230m as at 31 March 2014).

- 1.5.25 The Fund is valued every three years and the results of that valuation are reflected in the level of Authority's contributions to the Fund over the following three years. A valuation was carried out during 2013/14 and has been used to set the Authority's budgets for Pension Fund contributions for the three-year period 2014/15 to 2016/17. Note 7 to the Annual Financial Report covers the Authority's pension liability in detail.
- 1.5.26 The movement on the Balance Sheet categories above, are represented on the other (credit) side of the Balance Sheet by movements in Useable and Unuseable Reserves. The entries in these accounts are shown in the Movement in Reserves Statement and notes to the Balance Sheet, but a brief summary follows:
- 1.5.27 **Useable Reserves:** As noted earlier in the report, there was no change to the Authority's General Fund Balance (excluding Schools). Schools balances increased by £0.594m to £6.647m. The Housing Revenue Account balance increased from £2.200m to £2.854m.
- 1.5.28 In addition to these balances, the Authority started the year with Earmarked Reserves of £25.564m, which include the Strategic and Insurance Reserves. Total Earmarked Reserves at the year end were £36.330m reflecting planned increase in the Strategic Reserve and other movements in and out of reserves. Other reserves include those set up as part of the 2013/14 Final Accounts process (Support for the Change Fund Programme, Non Domestic Rates Appeals, Redundancy Reserve), as well as those required to be held for Building Control, PFI schemes, and Grant Reserves whereby income has been received in advance of spend taking place. A full list of Earmarked Reserves is included in Note 34.
- 1.5.29 The **Usable Capital Receipts Reserve** shows the amounts of capital receipts remaining unused at year-end and carried forward in the Balance Sheet to finance capital expenditure in future years.
- 1.5.30 The **Capital Grants Unapplied Account** holds the grants and contributions received towards capital projects for which the Authority has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.
- 1.5.31 **Unuseable Reserves:** The **Capital Adjustment Account** and **Revaluation Reserve** reflect movements in the Authority's fixed asset accounts (revaluations, depreciation and impairments, and disposals) and the financing of capital expenditure, (by means of capital receipts, grants etc.). The Capital Adjustment Account shows an increase from £197.057m to £201.363m, which broadly mirrors the changes in asset values. The Revaluation Reserve has reduced by £5.129m to £45.618m, reflecting the movement in revaluations in year and de recognition of assets

- 1.5.32 The **Pensions Reserve** is a negative reserve to reflect the Authority's Pension Liability of £360.230m shown in the top half of the Balance Sheet.
- 1.5.33 The **Accumulated Absences Account** absorbs the differences that would otherwise arise on the General Fund Balance from accruing for holiday, flexi and lieu time earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is reversed by transfers to or from this account.
- 1.5.34 The **Cash Flow Statement** (page 18) shows the movement in cash and cash equivalents during the year.
- 1.5.35 The **Housing Revenue Account** (page 108) sets out the transactions that are ring-fenced for Council Housing.
- 1.5.36 The **Collection Fund Statement** (page 116) accounts independently for income relating to Council Tax and Non-Domestic Rates on behalf of those bodies (including the Authority's own General Fund) for whom the income has been raised. The costs of administering collection are accounted for in the General Fund. Collection Fund balances relating to North Tyneside Council are consolidated into the Authority's Balance Sheet with the surplus/deficit relating to the Authority shown in the Collection Fund Adjustment Account.

Annual Governance Statement

- 1.5.37 The Annual Governance Statement is a statutory document which is signed by the Elected Mayor, the Chair of the Council, and the most senior officer of the Authority (the Chief Executive). The purpose of the document is to demonstrate to all stakeholders that the Authority has controls in place to ensure that its business is conducted in accordance with law and proper standards and that public money is safeguarded, correctly accounted for and is used economically, efficiently and effectively. Although the financial management of the Authority is an essential part of the internal control framework, the Statement is not purely concerned with financial issues but also covers the Authority's constitution, corporate governance arrangements, facilitation of policy and decision making.
- 1.5.38 In addition to full Council approving the Annual Governance Statement, a review of the Statement was undertaken by the Audit Committee on 28 May 2014 and an in-year update on the action taken during the year will be given to the Committee during 2014/15.

1.6 Decision options:

It is a statutory requirement that the audited Statement of Accounts is approved by 30 September 2014.

1.7 Reasons for recommended option:

The Authority is required under the Accounts and Audit (England) Regulations 2011 to approve its audited Statement of Accounts by 30 September 2014.

1.8 Appendices:

Appendix A: Annual Financial Report for 2013/14

Appendix B: Audit Completion Report for 2013/14

1.9 Contact officers:

Janice Gillespie, Strategic Manager Finance, Tel 643 5701

Cathy Davison, Principal Accountant, Corporate Finance, Tel 643 5727

1.10 Background information:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author:

- (a) Revenue Control Budget 2013/14 (P)
http://www.northtyneside.gov.uk/pls/portal/NTC_PSCM.PSCM_Web.download?p_ID=543798
- (c) Approved Capital Plan 2013-23 (P)
http://www.northtyneside.gov.uk/pls/portal/NTC_PSCM.PSCM_Web.download?p_ID=542997
- (a) CIPFA Code of Practice 2013/14 (P)
Can be inspected at the Authority's offices.
- (b) CIPFA Service Reporting Code of Practice 2013/14 (P)
Can be inspected at the Authority's offices.

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

As this is a financial report, implications are covered in the body of the report itself and the 2013/14 Annual Financial Report attached as Appendix A to this report.

2.2 Legal

The Authority is required under the Accounts and Audit (England) Regulations 2011 and the Chartered Institute of Public Finance and Accountancy's Code to prepare and approve its accounts for the financial year 2013/14 by 30 September 2014.

2.3 Consultation/community engagement

Internal consultation on this report and the Annual Financial Report has taken place with the Cabinet Member for Finance, the Chief Executive and his Senior Leadership Team. Members briefing sessions were provided on 1 and 2 July 2014.

Members of the public were able to inspect the accounts under the statutory public inspection of accounts period from 7 July to 1 August 2014.

The Annual Financial Report records the financial position of the Authority for the year ended 31 March 2014. This sets out the financial transactions that have been undertaken under the Authority's 2013/14 budgets (both revenue and capital). These budgets were set after comprehensive engagement, details of which are available from the budget reports to the Cabinet meeting of 15 January 2014.

2.4 Human rights

The proposals within this report do not have direct implications in respect of the Human Rights Act 1998.

2.5 Equalities and diversity

There are direct no equalities and diversity implications arising from this report.

2.6 Risk management

Potential future financial pressures against the Authority are covered in this report and registered through the Authority's risk management process.

2.7 Crime and disorder

There are no direct crime and disorder implications arising from this report.

2.8 Environment and sustainability

There are no direct environmental and sustainability implications arising from this report.

PART 3 - SIGN OFF

- Deputy Chief Executive
- Head of Service
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- Mayor/Cabinet Member(s)
- Chief Finance Officer
- Monitoring Officer
- Head of Corporate Strategy