

**North Tyneside Council
Report to Council
Date: 24 September 2015**

ITEM 6
2014/15 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: Finance

Responsible Officer: Janice Gillespie, Head of Finance Tel 6435701

Wards affected: All

PART 1

1.1 Executive Summary:

The purpose of this report is to seek full Council's approval of the 2014/15 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 2014/15 Audited Annual Financial Report.

1.3 Forward plan:

Twenty eight days notice of this report has been given and it first appeared on the Forward Plan that was published on 8 June 2015.

1.4 Council plan and policy framework:

The 2014/15 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 2014/15 by 30 September 2015.
- 1.5.2 The audit of the 2014/15 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 2014/15 Annual Financial Report was presented to the Audit Committee on 22 September 2015. One material error was identified in the financial statements and has been reflected in the Annual Financial Report. The error related to the increase in the valuation of the Housing Stock at the year end. A small number of non material errors and disclosure 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 2014/15 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) 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,
 - (c) 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 2015 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 2014/15 was presented to Cabinet on 8 June 2015. 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 5 (pages 50 to 58) 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 2015 was £3.732m, and schools balances were £7.637m. The Council incurred expenditure of £88.559m in the year on its Capital Plan (£45.669m General Fund and £42.890m HRA). This includes £23.034m for North Tyneside Living PFI project.

The Statement of Accounts

- 1.5.8 A summary of the main features of the 2014/15 statutory accounts follows:
- 1.5.9 During 2014/15 guidance was issued in respect of the accounting treatment for local authority maintained schools. As a result of this guidance, the schools within North Tyneside that are part of the North Tyneside Learning Trust are now required to be included within the Authority's balance sheet. This has resulted in the need to restate the 2013/14 Balance Sheet, Comprehensive Income and Expenditure Statement and several supplementary notes within the accounts. Note 2 (Page 41) provides details of these restatements.
- 1.5.10 The **Comprehensive Income and Expenditure Statement** (page 14) 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.
- 1.5.11 For 2014/15, the result of these transactions is a net surplus on the Comprehensive Income and Expenditure Statement of £43.018m (£113.396m restated in 2013/14). This surplus (and the previous year's surplus) 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 15), which makes a series of further accounting adjustments to arrive at the actual movement in balances in the year.

- 1.5.12 The Movement in Reserves Statement shows that after these adjustments the General Fund balances have changed by £0.990m in respect of the school balances. The General Fund balance remains at £6.604m whilst the school balances have increased to £7.637m. The HRA balance increased by £0.878m (to £3.732m) reflecting the reported under spend.
- 1.5.13 In light of these relatively small changes in year-end balances, further clarification follows about the £43.018m surplus on the Comprehensive Income and Expenditure Statement.
- 1.5.14 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 £90.797m is £49.491m lower than in 2013/14 (after restatement). This is primarily a result of large accounting variations. The main variations relate to capital accounting, with the largest being £26.479m credit relating to the revaluation of Council dwellings. Other variations are as a result of additional grants included within the Cost of Services (this includes the funding received in respect of the North Tyneside Living PFI scheme).
- 1.5.15 **Other Operating Expenditure** includes an increase in loss on disposal of non current assets (£11.285m). This reflects a change in the treatment of capital expenditure relating to Council dwellings in respect of the accounting treatment for capital spend that does not enhance the value of the asset.
- 1.5.16 **Taxation and Non-Specific Grant** has decreased in the main due to a reduction in the interest paid in relation to the pension fund (£4.420m).
- 1.5.17 **Re-measurement of the net defined benefit liability** shows a debit of £56.000m (2013/14 £109.060m credit). This is made up of the actuarial gains or losses of the pension liability. During 2014/15 there was a movement of £53.260m on the return on the plan assets. This was offset with a movement of £150.100m in losses arising on changes in financial assumptions and a movement in the loss due to liability experience of £68.130m
- 1.5.18 **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 £0.990m in General Fund Balances relating to schools, and an increase of £0.878m in the HRA balance. The statement also shows that there was a net transfer to earmarked balances of £17.093m, mainly as a result of transfer to reserves as part of the 2014/15 Final Accounts process.

Details of these are shown in the Outturn report presented to Cabinet on 8 June 2015. (£10.204m relates to the General Fund and £6.889m in respect of the HRA).

- 1.5.19 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 transactions from the Authority's Investment 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).
- 1.5.20 As at 31 March 2015 the Authority's Balance Sheet showed **Net Assets** of £173.930m (£130.912m at 31 March 2014 restated). This increase is mainly due to the change in statutory requirements relating to the measurement of expected return on pension assets as explained in paragraph 1.5.25 below.
- 1.5.21 **Property, Plant and Equipment (PPE):** The net increase in the value of fixed assets was £105.781m. The main reasons for this include the increase in valuation of the Council's Housing Stock, the revaluation of certain assets as a result in the increase in building costs and general capital expenditure on assets. The movement in the value of PPE is analysed in Note 19 (page 86) to the Core Financial Statements. Assets associated with the Authority's PFI schemes are included within PPE.
- 1.5.22 **Current Assets** increased by £16.272m in the year, with the main movement being an increase in debtors of £16.909m mainly due to the timing of debtors accounts raised. The vast majority of these accounts have now been paid.
- 1.5.23 **Current liabilities** increased by £33.397m in the year. Within this movement, the main changes included an increase in the level of short term borrowing of £23.079m in line with the agreed Treasury Management Strategy. Short term creditors also increased by £14.086m mainly due to the timing of invoices received.
- 1.5.24 **Long Term Liabilities** increased by £46.248m mainly as a result of the increase in the Pension Liability (£60.050m) as highlighted in paragraph 1.5.25 below. There was also a reduction in Long Term Borrowing of £30.000m reflecting debt due to mature in 2015/16. The level of Finance & PFI Lease Creditors has increased by £20.500m reflecting spend on the North Tyneside Living Housing PFI Scheme during 2014/15.
- 1.5.25 **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 were introduced under IAS19 in 2013/14. As a result of these changes the Pension Fund Liability calculated by the Fund actuary has increased by £60.050m (from £360.230m as at 31 March 2014 to £420.280m as at 31 March 2015).
- 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 £0.990m to £7.637m. The Housing Revenue Account balance has increased by £0.878m to £3.732m.
- 1.5.28 In addition to these balances, the Authority started the year with Earmarked Reserves of £36.330m, which include the Strategic and Insurance Reserves. Total Earmarked Reserves at the year end were £53.423m reflecting an increase in the Strategic Reserve and other movements in and out of reserves including those required to be held for 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 35 (page 101).
- 1.5.29 The **Useable 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. The majority of this reserve relates to housing capital receipts.
- 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 grant terms impose restrictions on the application of the grant to specific capital spend and the timeframe for this spend.
- 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 £368.095m (restated) to £390.323m. This reflects the change in the valuation of the Council's Housing Stock. The Revaluation Reserve has increased by from £55.041m (restated) to £111.767m, reflecting the movement in revaluations in year.
- 1.5.32 The **Pensions Reserve** is a negative reserve to reflect the Authority's Pension Liability of £420.280m 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. There are statutory overrides that mean any impact on the Authority's accounts is reversed back out.
- 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 121) sets out the transactions that are ring-fenced for Council Housing.
- 1.5.36 The **Collection Fund Statement** (page 130) accounts independently for income

relating to Council Tax and Business 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, the Chair of the Audit Committee, 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 27 May 2015 and an in-year update on the action taken during the year will be given to the Committee during 2015/16.

1.6 Decision options:

It is a statutory requirement that the audited Statement of Accounts is approved by 30 September 2015.

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 2015.

1.8 Appendices:

Appendix A: Annual Financial Report for 2014/15
Appendix B: Audit Completion Report for 2014/15

1.9 Contact officers:

Janice Gillespie, Head of Finance, Tel 643 5701
Cathy Davison, Principal Accountant, 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 Budget 2014/15 (P).
http://www.northtyneside.gov.uk/pls/portal/NTC_PSCM.PSCM_Web.download?p_ID=552107
- (b) Approved Investment Plan 2014-18 (P).
http://www.northtyneside.gov.uk/pls/portal/NTC_PSCM.PSCM_Web.download?p_ID=551260
- (c) CIPFA Code of Practice 2014/15 (P)
Can be inspected at the Authority's offices.
- (d) CIPFA Service Reporting Code of Practice 2014/15 (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 2014/15 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 2014/15 by 30 September 2015.

2.3 Consultation/community engagement

In line with statutory requirements the draft Annual Financial report for the year ended 31 March 2015 was published by 30 June 2015 and was available on the Authority's website.

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 7 and 8 July 2015.

Members of the public were able to inspect the accounts under the statutory public inspection of accounts period from 6 July to 31 July 2015.

The Annual Financial Report records the financial position of the Authority for the year ended 31 March 2015. This sets out the financial transactions that have been undertaken under the Authority's 2014/15 budgets (both revenue and capital). The

2014/15 budget was completed after widespread consultation in line with the Council's approved Budget Engagement Strategy. The report to Council on 6 February 2014 entitled "2014-2018 Financial Planning and Budget Process report" summarises the outcome of this engagement (see Appendix B of the report).

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