

**DRAFT STATEMENT OF ACCOUNTS 2014-15**

**To:** Audit and Accounts Committee

**Date:** 14<sup>th</sup> July 2015

**From:** Chief Finance Officer

**Electoral division(s):** All

**Forward Plan ref:** N/a *Key decision:*

**Purpose:** This report presents the unaudited draft Statement of Accounts for 2014-15.

**Recommendation:** The Committee is asked to acknowledge and comment on the attached 2014-15 Statement of Accounts as submitted for audit, ahead of its final review and approval at the Committee meeting on the 22<sup>nd</sup> September 2015.

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## **1. BACKGROUND**

- 1.1 The Council's Statement of Accounts is produced in accordance with the Code of Practice (CoP) on Local Authority Accounting in the United Kingdom 2014-15 (supported by International Financial Reporting Standards (IFRS)), and includes a full balance sheet and statement of cash flow movements.
- 1.2 In accordance with the Accounts and Audit (England) Regulations 2011, it is no longer a requirement for a designated committee of the Council to approve the draft financial statements at a meeting in June / July. However, in spite of the regulations, submitting a draft set of accounts at an earlier meeting is considered best practice and provides the Committee with an opportunity to review the accounts submitted to external auditors, ahead of the final review and formal approval in September.

## **2. STATEMENT OF ACCOUNTS**

### **2.1 Presentation**

- 2.1.1 The Statement of Accounts (including the separate Pension Fund accounts) is attached at appendix 3. It is accompanied by an Explanatory Foreword and Annual Governance Statement (AGS) and its format is prescribed by the CoP 2014-15.
- 2.1.2 The classification of services in the Comprehensive Income and Expenditure Statement does not align with internal management arrangements and service structures, and is therefore presented differently to the Council's Outturn Integrated Resources and Performance Report. Instead, the Statement of Accounts has to conform to the service classification required by the Chartered Institute of Public Finance and Accountancy (CIPFA) Service Reporting Code of Practice (SeRCOP).
- 2.1.3 Whilst it is the Statement of Accounts on which the audit opinion is given, a reconciliation showing how the overall results within the accounts differ from that reported within the Outturn Integrated Resources and Performance Report is provided in note 23.

### **2.2 Review – Comprehensive Income and Expenditure Statement (CIES)**

- 2.2.1 See Appendix 1 for a summary of changes from 2013-14 to 2014-15.
- 2.2.2 The increase in Environment and Regulatory services expenditure is a result of presentational net adjustments for the Waste PFI scheme financial model such as reflecting higher lifecycle replacement costs, and correcting adjustments included in the model in 2013-14.
- 2.2.3 Net expenditure within Education and Children's services has decreased by £42m when compared with 2013-14. This is a result of a lower level of funding, plus net revaluation gains within its property portfolio (particularly in relation to increasing land values in the south of Cambridgeshire).

- 2.2.4 The reduction in both Highways and Transport services and Adult Social Care reflects the reducing level of funding across the Council as a whole.
- 2.2.5 Corporate and Democratic Core and Non-Distributed Costs are impacted by a variety of technical accounting adjustments including reserve movements, accounting for retirement benefits (pension fund adjustments), debt charges and expenditure relating to fixed assets. The increase this year represents the overall net change across all of these areas.
- 2.2.6 The significant decrease in Other Operating Expenditure wholly relates to a much smaller loss on disposal of Fixed Assets in 2014-15 of £22.8m (£114.3m in 2013-14). The losses in both years are primarily a result of the statutory transfer of schools out of the Council's fixed assets portfolio, including 8 primary schools converting to academy.
- 2.2.7 The decrease in taxation and non-specific grant income reflects the net position of an increase in the Council Tax precept of 1.99%, more than offset by reductions in the level of non-ringfenced government funding, and also in the income recognised from capital grants and contributions as part of financing the capital programme.
- 2.2.8 As stated, differences between the 'Net Cost of Services' and 'Deficit on Provision of Services' reported in the CIES, and the underspend reported in the Outturn Report, are the result of differences in presentational rules. A summary showing this variation is a disclosure requirement within the Code, and is shown in note 23 to the accounts.
- 2.2.9 The change in the surplus on revaluations, reflects the statutory adjustments required in relation to fixed assets on an annual basis. The significant increase in the surplus (particularly in relation to land), includes the result of a detailed assessment of 20% of the Council's property portfolio by valuers as part of the 5-year revaluation rolling programme, plus an indexation adjustment on the remaining 80%.
- 2.2.10 The estimated pension deficit for the Council, measured on an actuarial basis, has increased from £438m at 1 April 2014 to £559m at 31 March 2015. Financial assumptions at 31 March 2015 were less favourable than they were at 31 March 2014, resulting in an increase to the value of the Fund's liabilities. However, the actual investment return on the Fund's assets during 2014-15 was higher than the typical expected asset return at the start of the year. Overall, this combination of higher than expected investment returns, offset by worsening financial assumptions, has resulted in a significant increase in the deficit amount.

### **2.3 Review – Balance Sheet**

- 2.3.1 See Appendix 2 for a summary of changes from 31 March 2014 to 31 March 2015.
- 2.3.2 The net book value of the Council's property, plant and equipment assets have increased by £183m during 2014-15, to £1,896.5m. The material movements that have contributed to the overall increase to the balance sheet include the following:

- Revaluation increases (+£202m)
  - The net impact of Assets Under Construction and Infrastructure assets additions and Revenue Expenditure Funded from Capital Under Statute (+£47m)
  - Retirements (-£27m)
  - Depreciation charges for 14-15 (-£38m)
- 2.3.3 Included within Short Term Investments is an amount of £50k relating to share capital in the Municipal Bonds Agency that will issue bonds on behalf of local authorities. The Council has committed to invest £400k in total and the balance will be drawn down during 2015-16.
- 2.3.4 The Council's net working capital position has improved from 2013-14 to 2014-15, with Short Term Payables reducing by more than the total decrease in Short Term Receivables and Inventories. Short Term Payables reduced by £12.8m and Short Term Receivables by £2.7m. This reflects the positive performance reported during the year in relation to the Council's debt collection and prompt payment processes.
- 2.3.5 The Council had a reduced cash and cash equivalents position in the year of £9.0m, with a balance at the 31 March 2015 of £33.9m. However, it should be noted that this does not represent the actual balance on the Council's accounts at the bank, but the book balance taking timing differences into account. The cash in current accounts is maintained at +/- £2 million, through use of temporary loans and deposits.
- 2.3.6 Total debt outstanding at the year-end was £382.7m, well within the maximum limit determined in accordance with legislation of £628m. There was a net decrease of £22.9m in long-term loans in the year and a net increase of £23.0m in short term loans. New loans were raised to fund the capital programme and working capital commitments. Cash surpluses during the year have been invested in accordance with guidance issued by the Government and the Council's agreed Treasury Management Strategy. The primary objective is to ensure that funds are invested prudently, with priority given to security and risk minimisation.
- 2.3.7 The £121m increase in the pension scheme liability reflects the requirements of IAS 19 and is as advised by the Scheme's actuary. This along with increasing liabilities in relation to the Street Lighting Private Finance Initiative (PFI) scheme (due to the phased addition of assets), explains the increase in Other Long Term Liabilities.
- 2.3.8 The £42.1m increase in unusable reserves (those that are not able to be used to provide services) is primarily a result of the overall net increase in fixed assets (i.e. incorporating additions, revaluations, disposals & depreciation), partially offset by the increase in the pension fund liability for the Council (as noted in 2.2.10 and 2.3.7).
- 2.3.9 During the year, the total equity of the Council increased by £43.0m.

## **2.4 Other Matters**

2.4.1 The published Statement of Accounts is accompanied by the AGS, which is subject to approval by the Audit and Accounts Committee at this meeting. Consideration of the AGS does not form part of the overall audit opinion.

2.4.2 A small number of disclosure and presentational changes to the Statement of Accounts document will be required ahead of the final version being approved in September. In summary these are:

- Any adjustments arising as a result of further work carried out by the finance team or external audit review;
- Inclusion of the independent auditors' report which contains the overall audit opinion after the audit of the Council's accounts has concluded.

## **3. FURTHER STAGES IN THE FORMAL PROCESS**

3.1.1 As stated, the accounts are still subject to external audit, which started on 6 July 2015. This audit will conclude in September when the auditors will issue a formal opinion on the Council's accounts and this will be reported back to Audit and Accounts Committee on 22 September 2015.

3.1.2 In accordance with statutory requirements, the accounts will be open to public inspection for a period of 20 working days before the final audit opinion is issued. This follows the advertisement of the public notice in the local press and on the Council's website.

## **4. ALIGNMENT WITH CORPORATE PRIORITIES**

### **4.1 Developing the local economy for the benefit of all**

There are no significant implications for this priority.

### **4.2 Helping people live healthy and independent lives**

There are no significant implications for this priority.

### **4.3 Supporting and protecting vulnerable people**

There are no significant implications for this priority.

## **5. SIGNIFICANT IMPLICATIONS**

### **5.1 Resource Implications**

There are no significant implications within this category.

### **5.2 Statutory, Risk and Legal Implications**

There are no significant implications within this category.

**5.3 Equality and Diversity Implications**

There are no significant implications within this category.

**5.4 Engagement and Consultation Implications**

There are no significant implications within this category.

**5.5 Localism and Local Member Involvement**

There are no significant implications within this category.

**5.6 Public Health Implications**

There are no significant implications within this category.

<b>Source Documents</b>	<b>Location</b>
Code of Practice 2014-15 (based on IFRS) Statement of Accounts 2013-14. Statement of Accounts working papers. Outturn Integrated Resources & Performance Report for 2014-15	Room 301 Shire Hall, Cambridge

## Appendix 1: Comprehensive Income and Expenditure Statement Changes

	2014-15 £000	2013-14 £000	Change £000	Change %	Ref
Central services to the public	2,221	1,667	554	33.2%	
Culture and related services	9,880	10,295	-415	-4.0%	
Environment and regulatory services	29,589	22,715	6,874	30.3%	2.2.2
Planning services	3,347	3,789	-442	-11.7%	
Education and children's services	102,553	144,925	-42,372	-29.2%	2.2.3
Highways and transport services	44,535	50,068	-5,533	-11.1%	2.2.4
Adult social care	148,493	162,606	-14,113	-8.7%	2.2.4
Corporate and democratic core	9,803	6,426	3,377	52.6%	2.2.5
Non distributed costs	-1,340	-2,071	731	-35.3%	
Public Health services transferred from the PCT	-	-720	720	100.0%	
<b>Cost Of Services</b>	<b>349,081</b>	<b>399,879</b>	<b>-50,798</b>		
Other Operating Expenditure (Note 9)	23,146	114,291	-91,145	-79.7%	2.2.6
Financing and Investment Income and Expenditure (Note 10)	42,413	43,431	-1,018	-2.3%	
Taxation and Non-Specific Grant Income (Note 11)	-390,089	-454,730	64,641	-14.2%	2.2.7
<b>(Surplus) or Deficit on Provision of Services</b>	<b>24,551</b>	<b>102,871</b>	<b>-78,320</b>		2.2.8
(Surplus) or deficit on revaluation of fixed assets	-170,107	-28,496	-141,611	497.0%	2.2.9
Impairment losses on non-current assets charged to the Revaluation Reserve	2,351	10,155	-7,804	-76.8%	
Actuarial (gains) / losses on pension assets / liabilities	100,221	-21,408	121,629	-568.1%	2.2.10
<b>Other Comprehensive Income and Expenditure</b>	<b>-67,535</b>	<b>-39,749</b>	<b>-27,786</b>		
<b>Total Comprehensive Income and Expenditure</b>	<b>-42,984</b>	<b>63,122</b>	<b>-106,106</b>		

## Appendix 2: Balance Sheet Changes

	31-Mar-15 £000	31-Mar-14 £000	Change £000	Change %	Ref
Property, Plant & Equipment	1,896,457	1,713,903	182,554	10.7%	2.3.2
Heritage assets	20,716	20,715	1	0.0%	
Long Term Debtors	3,139	3,569	-430	-12.0%	
<b>Long Term Assets</b>	<b>1,920,312</b>	<b>1,738,187</b>	<b>182,125</b>	<b>10.5%</b>	
Short Term Investments	50	-	50		2.3.3
Assets Held for Sale	1,098	1,100	-2	-0.2%	
Inventories	670	736	-66	-9.0%	2.3.4
Short Term Debtors	65,395	68,085	-2,690	-4.0%	2.3.4
Cash and Cash Equivalents	38,572	44,556	-5,984	-13.4%	2.3.5
<b>Current Assets</b>	<b>105,785</b>	<b>114,477</b>	<b>-8,692</b>	<b>-7.6%</b>	
Cash and Cash Equivalents	-4,663	-1,681	-2,982	177.4%	2.3.5
Short Term Borrowing	-26,557	-3,514	-23,043	655.7%	2.3.6
Short Term Creditors	-102,930	-115,773	12,843	-11.1%	2.3.4
Provisions	-6,172	-4,535	-1,637	36.1%	
Capital Grants and Contributions Receipts in Advance	-29,864	-17,405	-12,459	71.6%	
<b>Current Liabilities</b>	<b>-170,186</b>	<b>-142,908</b>	<b>-27,278</b>	<b>19.1%</b>	
Provisions	-3,612	-4,718	1,106	-23.4%	
Long Term Borrowing	-356,190	-379,125	22,935	-6.0%	2.3.6
Other Long Term Liabilities	-670,651	-539,779	-130,872	24.2%	2.3.7
Capital Grants and Contributions Receipts in Advance	-12,975	-16,635	3,660	-22.0%	
<b>Long Term Liabilities</b>	<b>-1,043,428</b>	<b>-940,257</b>	<b>-103,171</b>	<b>11.0%</b>	
<b>Net Assets</b>	<b>812,483</b>	<b>769,499</b>	<b>42,984</b>	<b>5.6%</b>	
Usable Reserves	83,537	82,630	907	1.1%	
Unusable Reserves	728,946	686,869	42,077	6.1%	2.3.8
<b>Total Reserves</b>	<b>812,483</b>	<b>769,499</b>	<b>42,984</b>	<b>5.6%</b>	2.3.9