

**DRAFT STATEMENT OF ACCOUNTS 2013-14**

*To:* **Audit and Accounts Committee**

*Date:* **15<sup>th</sup> July 2014**

*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 2013-14.**

*Recommendation:* **The Committee is asked to acknowledge and comment the attached 2013-14 Statement of Accounts as submitted for audit, ahead of its final review and approval at the September Committee meeting.**

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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 2013-14 (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 2013-14.
- 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**

- 2.2.1 See Appendix 1 for a summary of changes from 2012-13 to 2013-14.
- 2.2.2 Environment and Regulatory services net expenditure of £22.9m in 2013-14 means that spending has returned to the consistent level of previous years. Net expenditure for 2012-13 was significantly higher as result of recognising the one-off impairment loss of £18.3m on 3 different land and building assets within the Waste Private Finance Initiative (PFI) asset portfolio (including a £15.8m permanent reduction in the value of the Mechanical Biological Treatment plant). This was as a result of a formal valuation being undertaken in September 2012, which excluded costs associated commissioning, research and development and risk from any potential 'fair value', when compared with the original cost of construction.

- 2.2.3 The reduction in Highways and Transport services, as with Environment and Regulatory services, primarily relates to the one-off impact of specific costs in relation to the Guided Busway in 2012-13 not continuing into 2013-14.
- 2.2.4 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 decrease this year represents the overall net change across all of these areas.
- 2.2.5 The significant increase in Other Operating Expenditure wholly relates to a much greater loss on disposal of Fixed Assets in 2013-14 of £112.5m (£43m in 2012-13). The losses in both years are primarily a result of the statutory transfer of schools out of the Council's fixed assets portfolio, including 15 schools changing to academy status, plus 2 foundation schools (Netherhall and Trumpington Meadows) and 1 free school (Cambourne Village College).
- 2.2.6 The small increase in taxation and non-specific grant income reflects the net position of an increase in both the Council Tax precept of 1.99% (some of which is now reflected within the revenue support grant) and other non-ringfenced grants. This has been offset by a reduction in the income recognised from capital grants and contributions as part of financing the capital programme.
- 2.2.7 As mentioned above, the net change in both the surplus on revaluations and losses incurred through asset impairments, reflects the statutory adjustments required in relation to fixed assets on an annual basis, and is the result of an assessment of 20% of the Council's property portfolio by valuers as part of the 5-year revaluation rolling programme.
- 2.2.8 The triennial formal valuation of the Cambridgeshire Pension Fund was carried out as at the 31 March 2013. Following this, the estimated pension deficit for the Council, measured on an actuarial basis, has decreased by £2.0m from £440m at 1 April 2013 to £438m at 31 March 2014. Financial assumptions at 31 March 2014 were less favourable than they were at 31 March 2013, resulting in an increase to the value of the Fund's liabilities. However, actual investment return on the Funds assets during 2013-14 was 7.2%, which was higher than the typical expected asset return at the start of the year. Overall, this combination of higher than expected investment returns, partially offset by worsening financial assumptions, has resulted in a small decrease in the deficit amount.
- 2.2.9 As stated, differences between the 'Net Cost of Services' and 'Deficit on Provision of Services' reported in the Comprehensive Income and Expenditure Statement, 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.

## **2.3 Review – Balance Sheet**

- 2.3.1 See Appendix 2 for a summary of changes from 31 March 2013 to 31 March 2014.
- 2.3.2 The Council's net working capital management position has worsened from 2012-13 to 2013-14, as short term debtors have decreased and short term creditors have increased, by £23.4m and £7.0m respectively. This reflects the performance reported during the year in relation to the Council's debt collection and prompt payment processes.
- 2.3.3 The Council had an increased cash and cash equivalents position at the end of 2013-14 compared with that at the end of 2012-13, with a net positive balance of £19.5m rising to a balance of £36.4m. 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.
- 2.3.4 Total debt outstanding at the year-end was £382.6m (an increase of £4.9m since 31 March 2013) and is well within the maximum limit of £563m prescribed by the Council's Treasury Management Strategy. There was a net increase of £5.1m in long-term loans in the year and a net decrease of £0.2m in short term loans. New loans were raised to fund the capital programme and working capital requirements. Cash surpluses occurring 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.
- 2.3.5 The movements on the pension scheme liability and pensions reserve reflect the requirements of IAS 19 and are as advised by the Scheme's actuary. These along with increasing liabilities in relation to the Street Lighting Private Finance Initiative (PFI) scheme, explain the increase in Other Long Term Liabilities.
- 2.3.6 The level of the General Fund is managed through the Council's Business Plan at a target of greater than 3.0% of the gross non-schools budget. At present, the General Fund stands at £12.3m, which is 2.5% of gross non-schools budget for 2013-14 (£490.9m). This mirrors the forecast in the Business Plan and is on track to meet the target over the 5-year period.
- 2.3.7 The significant decrease in unusable reserves (those that are not able to be used to provide services) is largely a result of the net movement in fixed assets (i.e. additions, revaluations, disposals & impairments).
- 2.3.8 During the year, the total equity of the Council decreased by £54.3m.

## **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 30 June 2014. 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 23 September 2014.

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 2013-14 (based on IFRS) Statement of Accounts 2012-13. Statement of Accounts working papers. Outturn Integrated Resources & Performance Report for 2013-14	Room 301 Shire Hall, Cambridge

## Appendix 1: Comprehensive Income and Expenditure Statement Changes

	2012-13 £000	2011-12 £000	Change £000	Change %	Ref
Central services to the public	1,742	1,601	141	8.8%	
Culture and related services	10,367	10,193	174	1.7%	
Environment and regulatory services	22,935	42,567	-19,632	-46.1%	2.2.2
Planning services	3,789	3,125	664	21.2%	
Education and children's services	144,031	142,456	1,575	1.1%	
Highways and transport services	50,216	61,962	-11,746	-19.0%	2.2.3
Adult social care	168,684	173,311	-4,627	-2.7%	
Corporate and democratic core	8,319	-4,166	12,485	-299.7%	2.2.4
Non distributed costs	-1,558	-4,580	3,022	-66.0%	
Public Health services transferred from the PCT	13,433	0	13,433	100.0%	
<b>Cost Of Services</b>	<b>421,958</b>	<b>426,469</b>	<b>-4,511</b>		
Other Operating Expenditure	113,263	42,975	70,288	163.6%	2.2.5
Financing and Investment Income and Expenditure	43,055	35,353	7,702	21.8%	
Taxation and Non-Specific Grant Income	-483,833	-481,708	-2,125	0.4%	2.2.6
<b>Deficit on Provision of Services</b>	<b>94,443</b>	<b>23,089</b>	<b>71,354</b>		
(Surplus) or deficit on revaluation of fixed assets	-28,933	-49,185	20,252	-41.2%	2.2.7
Impairment losses on non-current assets charged to the Revaluation Reserve	10,155	2,043	8,111	397.0%	2.2.7
Actuarial (gains) / losses on pension assets / liabilities	-21,408	46,886	-68,294	-145.7%	2.2.8
<b>Other Comprehensive Income and Expenditure</b>	<b>-40,186</b>	<b>-256</b>	<b>-39,931</b>		
<b>Total Comprehensive Income and Expenditure</b>	<b>54,257</b>	<b>22,833</b>	<b>31,423</b>		2.2.9

## Appendix 2: Balance Sheet Changes

	31-Mar-14 £000	31-Mar-13 £000	Change £000	Change %	Ref
Property, Plant & Equipment	1,723,751	1,757,275	-33,524	-1.9%	
Heritage assets	20,715	20,708	7	0.0%	
Intangible Assets	0	0	0	0.0%	
Long Term Debtors	3,569	4,106	-537	-13.1%	
<b>Long Term Assets</b>	<b>1,748,035</b>	<b>1,782,089</b>	<b>-34,054</b>	<b>-1.9%</b>	
Assets Held for Sale	1,101	422	679	160.9%	
Inventories	734	392	342	87.2%	
Short Term Debtors	63,533	86,902	-23,369	-26.9%	2.3.2
Cash and Cash Equivalents	38,078	22,543	15,535	68.9%	2.3.3
<b>Current Assets</b>	<b>103,446</b>	<b>110,259</b>	<b>-6,813</b>	<b>-6.2%</b>	
Cash and Cash Equivalents	-1,681	-3,061	1,380	-45.1%	2.3.3
Short Term Borrowing	-3,514	-3,675	161	-4.4%	2.3.4
Short Term Creditors	-107,420	-100,388	-7,032	7.0%	2.3.2
Provisions	-4,535	-5,647	1,112	-19.7%	
Capital Grants and Contributions Receipts in Advance	-17,405	-24,131	6,726	-27.9%	
<b>Current Liabilities</b>	<b>-134,555</b>	<b>-136,902</b>	<b>2,347</b>	<b>-1.7%</b>	
Provisions	-4,718	-4,721	3	-0.1%	
Long Term Borrowing	-379,125	-374,022	-5,103	1.4%	2.3.4
Other Long Term Liabilities	-539,779	-532,809	-6,970	1.3%	2.3.5
Capital Grants and Contributions Receipts in Advance	-16,635	-12,968	-3,667	28.3%	
<b>Long Term Liabilities</b>	<b>-940,257</b>	<b>-924,520</b>	<b>-15,737</b>	<b>1.7%</b>	
<b>Net Assets</b>	<b>776,669</b>	<b>830,926</b>	<b>-54,257</b>	<b>-6.5%</b>	
Usable Reserves	82,629	92,713	-10,084	-10.9%	2.3.6
Unusable Reserves	694,040	738,213	-44,173	-6.0%	2.3.7
<b>Total Reserves</b>	<b>776,669</b>	<b>830,926</b>	<b>-54,257</b>	<b>-6.5%</b>	2.3.8