

## **CABINET**

**15 JULY 2014**

### **STATEMENT OF ACCOUNTS 2013/2014**

Portfolio Holder: Councillor Alan Jarrett, Finance

Report from: Mick Hayward, Chief Finance Officer

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#### **Summary**

This report requests Cabinet to recommend that the Audit Committee approve the Council's Statement of Accounts for 2013/2014.

#### **1. Budget and Policy Framework**

- 1.1 Cabinet, as the body charged with the executive management of the council's budget recommends approval of the accounts by the Audit Committee whose terms of reference include approval of the annual statement of accounts.
- 1.2 The Statement of Accounts is required to be certified by the Chief Finance Officer by 30 June each year; however it is good practice to present the accounts to Members as soon as possible after that date, prior to the audit and ahead of the submission of the audited accounts in September 2014, and the statutory publication date of 30 September 2014.

#### **2. Background**

- 2.1 Local authorities are required under the Accounts and Audit Regulations 2011 (as amended) (the Regulations) to produce an annual statement of accounts that is subject to scrutiny by the external auditors. The auditor will give an opinion on the accounts and additionally, interested persons have the right to inspect the accounts and make representations to the auditor. BDO are the auditors responsible for the audit of accounts that must be published by 30 September 2014. The Regulations now give authority to the 'responsible finance officer' to certify these by 30 June rather than formal adoption by the Council, however, good practice suggests that they are formally presented to the authority as soon as practicable after completion.
- 2.2 The complications presented by the change in accounting requirements for the Collection Funds in respect of the Business Rates Retention Scheme regrettably proved more complex and unwieldy than had been thought and the certification by the Chief Finance Officer was not possible until 4 July 2014. There are no penalties for this failure other than it being reported by the Audit Commission. The more significant deadline is that for publication.

### 3. Statement of accounts

- 3.1 The Statement of Accounts is prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which sets out the proper accounting practices for accounting for transactions of the Council and the presentation of the financial statements. The Code is based on International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS) interpreted for use by Local Authorities.
- 3.2 In accordance with proper accounting practice, the statement of accounts includes the following elements which are subject to scrutiny by the appointed auditor:
- An explanatory introduction and statement by the Chief Financial Officer;
  - A statement of responsibilities which outlines responsibility for efficiently managing the affairs of the Council;
  - The auditor's opinion which is given at the completion of the audit and must occur by 30 September 2014;
  - Annual Governance Statement, which will be reported to the Audit Committee on 17 July 2014 and incorporated into the accounts by the 30 September 2014;
  - A statement of accounting policies which highlights practices adopted by the authority;
  - The principal financial statements which comprise:
    - The movement in reserves statement which shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be used to fund expenditure or reduce council tax) and other reserves;
    - The comprehensive income and expenditure statement which shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. This statement combines the income and expenditure relating to all the Council's functions including the General Fund and the Housing Revenue Account;
    - The balance sheet, which shows the value as at the year-end of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council; and
    - The cash flow statement which summarises the inflows and outflows of cash, arising from transactions between the Council and third parties, for revenue and capital;
  - Notes to the core financial statements, which give further explanation and analysis of some of the movement in the comprehensive income and expenditure statement and balance sheet together with a number of disclosures required by the Code.
- 3.3 Further supplementary financial statements are required to expand on the information included within the statements above;
- The Housing Revenue Account (HRA) which summarises the major items of expenditure and income relevant to the account with supplementary notes where required and
  - The Collection Fund which records council tax and business rate income and disbursements to precepting authorities (the Council's own requirement, Kent Police & crime Commissioner, Kent Fire and Rescue Service and Parish Councils) and payments to central government in respect of the central share of non-domestic rate income.

- 3.4 The draft statement of accounts is attached as Appendix 1 to this report, however members are more familiar with the revenue outturn analysis as set out in the explanatory foreword in Section A and considered in Paragraph 4, below. The elements of the financial statements that support this 'management accounting summary' are the comprehensive income and expenditure statement, movement in reserves statement and the balance sheet, which can be found in Section F.
- 3.5 The presentation of the comprehensive income and expenditure statement requires all expenditure and income to be allocated to service headings. This shows a 'deficit on the provision of services' of £44.8 million (General Fund deficit of £46.2 million and HRA surplus of £1.4 million). This deficit is subsequently netted out through the Movement in Reserves Statement or other 'below the line' adjustments.
- 3.6 Paragraph 2.1 refers to the audit of the statements being completed by the 30 September 2014. The actual audit of the statements is scheduled to commence on 14 July and clearly the draft statement of accounts that is presented for approval does not reflect any changes that this audit may require. If there are significant amendments to the statement of accounts these will need to be reported back to Members prior to formal publication.

#### 4. Summary financial position for 2013/2014 (General Fund)

- 4.1 Throughout the year, quarterly monitoring reports have identified the major variations from approved budgets. An initial forecast overspend of some £4.6 million has progressively reduced and the last report to Cabinet, based on January spend, had indicated a £3.3 million overspend. The final accounts now show a revenue surplus of £0.267 million.
- 4.2 The final position, shown in table 1 below, which is replicated in the 'Explanatory Forward' to the statement of Accounts, is a significant achievement and is a reflection both of the successful efforts to maintain services at minimum cost and the robustness of the budgets that were set.

**Table 1 - General Fund Revenue Outturn**

Directorate	Budget £000s	Outturn £000s	Variation £000s
Children and Adult Services	270,165	271,369	1,204
Regeneration, Community and Culture	83,350	83,341	(9)
Business Support	9,396	8,440	(956)
Public Health	12,931	12,931	0
Medway Norse	(263)	(282)	(19)
<b>Service costs</b>	<b>375,579</b>	<b>375,799</b>	<b>220</b>
Interest & Financing	14,936	14,894	(42)
Levies	879	943	64
Planned Use of Reserves	0	0	0
Depreciation Credit	(41,782)	(41,781)	1
Dedicated Schools Grant (DSG)	(128,159)	(128,159)	0
<b>Total Costs</b>	<b>221,452</b>	<b>221,695</b>	<b>243</b>

<b>Funding</b>			
Specific Grants	(28,457)	(28,967)	(510)
Revenue Support Grant	(63,311)	(63,311)	0
NNDR Redistribution	(42,119)	(42,119)	0
Council Tax	(87,565)	(87,565)	0
<b>Total</b>	<b>(221,452)</b>	<b>(221,962)</b>	<b>(510)</b>
<b>Net Surplus</b>	<b>0</b>	<b>(267)</b>	<b>(267)</b>

4.3 For Members information, some of the more significant variations to agreed budgets were:

#### 4.3.1 Children and Adult Services

The net overspend for the directorate was £1.2 million, which represents a £2.0 million improvement on the position forecast at quarter 3, but still comprises a number of significant variances at divisional level.

Children's Care reported a £2.5 million overspend – over £1.0 million resulting from the cost of placements for looked after children, with the remainder a result of additional staffing and resources in response to the escalating caseloads and recent OFSTED inspections.

This overspend has been largely mitigated by a £2.0 million underspend on Adult Social Care, the major components of which are a reduction in spend on older people, owing to the reduction in residential places (almost £1.0 million), a £570,000 underspend against the Local Welfare Provision budget and various other underspends.

The Partnership Commissioning division has posted a £200,000 overspend on school reorganisation costs and the Directorate Management Team has reported a £200,000 overspend from the impact of employing interim agency staff and consultants to support the improvement journey.

The Inclusion division has not reported a significant variance overall, however a £1.2 million overspend on SEN transport costs was fortunately offset by underspends elsewhere within the division, notably against the SEN staffing budgets, Medway Action for Families, Early Years and Youth Services.

#### 4.3.2 Regeneration, Community and Culture

The Directorate was underspent by £9,000 against its revenue budget of £83.350m.

- Waste Services overspent by £329,000 due to increased tonnages and higher than budgeted inflationary increases. This was offset by savings in Traffic Management £128,000, Environmental Health Commercial £169,000 and Integrated Transport £126,000.
- £277,000 overspend on Homelessness
- Arts, Theatres and Events overspent by a total of £348,000 which was offset by savings elsewhere in the division from, for example, Leisure & Sports £283,000.

### 4.3.3 Business Support

The Directorate was underspent by £1.623m against its revenue budget of £10.654m. The underspend reduced by £0.667m to £0.956m as a result of the under delivery of BFL savings against its target of £2,365 for 13/14.

The following were the principal areas of underspend / saving within the Directorate:

- The Finance division underspent / saved £1.5 million largely due to additional grants and fee income within the Revenues and Benefits service - £700,000, savings on corporate contingencies of £303,000 and non-requirement for the discretionary rate relief budget within the general fund of £251,000. The vacancy factor of £150,000 was achieved and recruitment controls and general vacancies generated a further £100,000.
- Legal and Property generated a saving of £645,000, reduced to £97,000 due to the under recovery of category management savings by £548,000. The savings were mainly in operational buildings £331,000, property management £157,000 and legal services £244,000.
- Democracy and Governance saved £195,000, mainly by over recovery of income in registration services of £66,000 and recruitment controls and general vacancies generated a further £129,000 across its services.
- Organisational Services overspent by £86,000, this was mainly as a result of under recovery of Adult Education fee income target.
- Communication and Improvement overspent by £71,000, this was due to an overspend in the delivery of community hubs and the print and post cut off management with Norse.

### 4.3.4 Interest and Financing

The treasury outturn report elsewhere on this agenda identifies in some detail the factors influencing both borrowing and investment strategies. External borrowing reduced throughout the year from £174.9 million to £164.3 million and invested funds reduced from £55.7 million to £39.3 million. Overall the treasury budget recorded a surplus of £0.042 million which is a creditable performance against a difficult economic position.

## 5. Summary financial position for 2013/2014 (HRA)

- 5.1 The Housing Revenue Account (HRA) is a ring-fenced account to record the 'landlord' costs and income associated with the maintenance of our housing stock. It includes costs of management and maintenance for the property portfolio, housing benefit costs in the form of rent rebates and capital financing costs, offset by housing rents and government grant. The summary of that account is set out in Section H. A surplus for the year of £1.258 million was achieved against a budgeted surplus of £1.059 million. However a revenue contribution to capital expenditure of £1.664 million and an agreed contribution of £2 million towards the community hub initiative, meant that the balance on the account is now £1.969 million compared to £4.346 million last year.

## **6. Summary financial position for 2013/2014 (Delegated Schools Budget)**

- 6.1 A significant proportion of the overall budget of the council is delegated to schools and is then ring-fenced for that purpose. The total funding provided to schools includes the sum delegated by the council from the Dedicated Schools Grant, plus sixth form grants provided by the Young People's Learning Agency. In 2013/2014 schools received revenue funding amounting to £118.2 million compared to £107.9 million the previous year. Whilst it might have been expected that this figure would reduce, reflecting the shift of resources to directly funded academies, changes in the schools funding methodology means that the local authority is now responsible for paying high needs top ups to all SEN provision, including academies and other non-maintained schools. Expenditure incurred by schools is included in the figure for Children and Adult Services shown in section 4, above. Any surplus or deficit relating to schools is 'rolled-forward' as part of the schools' reserves balances shown in the balance sheet. This has the effect of showing schools budget as balanced.
- 6.2 However the reality of the schools' spending position is reflected in the movement in the schools' balances figure incorporated in usable reserves shown at the foot of the Balance Sheet (Section F). This shows that schools' balances have reduced from £7.438 million as at 31 March 2013 to £7.122 million as at 31 March 2014, however £688,000 of this movement relates to the transfer of balances to converting academies and if this figure is ignored the movement becomes a net increase of £372,000 in schools reserves:
- Net revenue reserves have reduced, as a percentage of the total resources available, from 7.0% to 6.0%;
  - Two schools have not yet submitted three year plans, but of those that have, four schools are forecasting deficits by March 2015, increasing to ten schools by March 2017.

## **7. Summary financial position for 2013/2014 (Capital)**

- 7.1 The capital monitoring, considered by Cabinet on 11 February, detailed a programme of £98.5 million for 2013/2014 and beyond, with a forecast spend of £51.0 million for the financial year. Actual spend for 2013/14 was £45.2 million, with some £5.8 million slipping to future years with £1.5 million recorded as slippage in Children and Adults (primarily the Academy schemes) and £4 million in Regeneration, Community and Culture with £1 million Growing Places Funds, £0.9 million Medway Tunnel schemes, LTP for Integrated transport £0.5 million together with a number of more minor movements. Capital forecasts for individual years are continually monitored and expenditure re-profiled as appropriate.
- 7.2 The table below analyses spend across directorates and the source of funding and paragraph 7.3 highlights the major achievements during 2013/2014.

## Summary capital outturn position

Directorate	Approved programme 2013/2014+ £000	Forecast Spend 2013/2014 £000	Outturn 2013/2014 £000	Variance To Forecast £000	Slippage to 2014/2015 £000
Business Support	5,667	2,821	2,607	(213)	(213)
Children and Adult Services	41,796	22,276	20,807	(1,469)	(1,469)
Regeneration, Community and Culture	50,374	25,541	21,578	(3,963)	(3,963)
Member Priorities	626	395	237	(159)	(159)
<b>Total</b>	<b>98,463</b>	<b>51,033</b>	<b>45,229</b>	<b>(5,804)</b>	<b>(5,804)</b>

Funding Source	Funding of expenditure £000's
Borrowing (supported and unsupported)	2,760
Government Grants and Other Contributions	34,188
Capital Receipts	2,148
Developer Contributions	554
Revenue and Reserves	5,579
<b>Total</b>	<b>45,229</b>

7.3 The capital investment represents significant achievement towards the planned outputs of the capital programme. These will have featured in the regular monitoring reports to Cabinet and Overview and Scrutiny. Key outputs were:

### 7.3.1 Children and Adult Services

- Continued progress in delivering the £80.0 million Academies programme;
- First phase of investment in creating additional primary school places;
- Significant condition works on the school estate amounting to around £3.0 million, delivering roofs, boilers, asbestos works and other priority area.

### 7.3.2 Regeneration, Community and Culture

- Continued additional funding for highway maintenance;
- Major investment on the A228 and Medway Tunnel;
- Investment in play areas, heritage properties and open spaces.
- Improvements to housing stock together with disabled adaptations to properties;
- Improvements to private sector housing through renovation grants.
- Ongoing infrastructure works to Rochester Riverside site.

### 7.3.3 Business Support

- Continuation of ICT projects to ensure Medway has the infrastructure in place to deliver services efficiently and effectively;
- Investment in a new customer relationship management system as part of the 'Better for Less' programme.
- Improvements and mercury abatement works at Medway Crematorium.

#### 7.3.4 Members Priorities

Considerable progress has been achieved on a great number of smaller projects across all directorates including:

- Allotment improvements
- Traffic calming measures
- Investment in play areas
- Works to village halls and community facilities.

### **8. Reserves**

- 8.1 The Movement in Reserves Statement identifies the year-to-year position on the various reserves held by the Council and the following paragraphs provide commentary on the more significant useable reserves.
- 8.2 The Revenue Balance (contingency) has been maintained at the level that it was reduced to in 2012/13 at £5 million.
- 8.3 The total of Earmarked Reserves (those held for specific purposes) has increased from £20.9 million to £29.9 million due to the creation of the Community Hubs Reserve at £2 million, and the Collection Fund Holding Account of £1.7 million which holds the variance between the statutory and actual call on the collection fund. An increase of around £2 million on the Children and Adults Revenue contributions to Capital, £1.9 million increase in Carry Forwards Children and Adults and £1.9 million for Public Health carry forwards.
- 8.4 School Reserves are discussed in 6.2 above
- 8.5 The Housing Revenue Account balance is discussed in 5.1 above
- 8.6 The Insurance Fund is held to protect the Council from uninsured losses (as the Council 'self insures' to balance the cost of external premiums with the potential risk). The Fund has increased marginally from £2.0 million to £2.4 million at the end of 2013/2014.

### **9. Risk Management**

- 9.1 The Council's Strategic Risk Register records the long term finances of the Council as one of the highest risks faced and the more short-term risks associated with in-year budget management are regularly addressed as part of the monitoring cycle. The monitoring cycle provides for a continual review of forecast expenditure and income and enables corrective action to be taken where appropriate. The success of this continual review is clearly borne out by this and previous outturn results.
- 9.2 There remains a risk that the Auditor may find material errors or misstatements in the accounts and the results of the audit of the statements will not be known before they are presented for adoption by the Council as part of the Audit Committee function. Due regard has been had to the regulations and accounting requirements in producing the statements and the position put before the Audit Committee is the officers' interpretation of these requirements.



## **10. Financial and legal implications**

- 10.1 The financial implications are contained within the body of the report.
- 10.2 The Accounts and Audit (England) Regulations 2011 has relaxed the requirement for Councils or a designated committee to adopt the unaudited statement of accounts by 30 June although best practice would indicate that the draft accounts are presented to the relevant committee as soon after this date as practicable.
- 10.3 The Regulations do still place a duty on the Council or a designated committee to publish the audited statement of accounts by 30 September and it is a function that cannot be delegated to Cabinet.

## **11. Recommendation**

- 11.1 That Cabinet notes the revenue and capital outturns as reported and recommends to the Audit Committee that it approves the draft statement of accounts for 2013/2014.

## **12. Suggested reasons for decision**

- 12.1 Good practice recommends that Members approve the statement of accounts as soon after 30 June as practicable.

### **Lead officer contact**

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### **Background papers**

Revenue and Capital budget monitoring reports to Cabinet during 2013/2014. These are available on the Council's website [www.medway.gov.uk](http://www.medway.gov.uk)