AUD093
FOR DECISION
WARD(S): GENERAL

AUDIT COMMITTEE

26 June 2014

ANNUAL FINANCIAL REPORT 2013/14

REPORT OF CHIEF FINANCE OFFICER

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RECENT REFERENCES:

AUD085: Statement of Accounts 2013/14, 11 March 2014

EXECUTIVE SUMMARY:

At its last meeting the Committee received an update on the changes required to the Statement of Accounts for 2013/14 (Report AUD085 refers). These changes have been incorporated as relevant in the Annual Financial Report for 2013/14.

Legislation requires that the pre-audit Statement of Accounts is signed by the Chief Finance Officer by 30 June, and that the audited Statement of Accounts is approved by Members by 30 September, annually.

The Statement of Accounts will be available for public inspection from 24 July 2014 to 20 August 2014; will be audited by Ernst & Young during August; and final accounts will be presented to this Committee for approval at its meeting in September.

The purpose of this report is to ensure that Members are aware of the key issues arising in the Accounts for 2013/14.

The Committee will receive a presentation on the Annual Financial Report prior to approving the Accounts in September.

RECOMMENDATIONS:

That the Audit Committee notes the requirements for the Annual Financial Report and the key issues arising in the accounts for 2013/14 and takes the opportunity to seek clarification of any detail, from the Chief Finance Officer.

AUDIT COMMITTEE

26 JUNE 2014

ANNUAL FINANCIAL REPORT 2013/14

REPORT OF CHIEF FINANCE OFFICER

1. Introduction

1.1. At its last meeting the Committee received an update on the changes required to the Statement of Accounts for 2013/14 (Report AUD085, March 2014 refers).

1.2. The Accounts and Audit (England) Regulations 2011 require that:

- *the responsible financial officer must, no later than 30 June immediately following the end of a year, sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year, and;*

- *no later than 30th September in the year immediately following the end of the year to which the statement relates— the Council must:*

  (a) consider, either by way of a committee or by the members meeting as a whole, the statement of accounts;

  (b) following that consideration, approve the statement of accounts by a resolution of that committee or meeting;

  (c) following approval, ensure that the statement of accounts is signed and dated by the person presiding at the committee or meeting at which that approval was given; and;

  (d) publish (which must include publication on the body's website), the statement of accounts together with any certificate, opinion, or report issued, given or made by the auditor under section 9 (general report) of the 1998 Act.

- *The responsible financial officer must re-certify the presentation of the statement of accounts before the relevant body approves it.*

1.3. Hence, the Committee are not required to approve the Statement of Accounts until after the conclusion of the external audit.

2. Annual Financial Report

2.1. Although there is no formal definition in Regulations or the Code of what exactly constitutes the Statement of Accounts, reliance can be placed on the implications of section 9 of the Audit Commission Act 1998 that the auditor must give an opinion on the Statement of Accounts and the conventions as to the information that auditors are expected to be able to determine as true and fair. Under these conventions, the Annual Governance Statement (considered elsewhere on this agenda), the auditors report and the explanatory foreword would be outside the scope of the Statement of Accounts, which would then comprise the financial statements and the notes to the accounts.

2.2. The Statement of Accounts is thus part of a wider annual financial report, comprising:

- the Explanatory Foreword;
- the Statement of Responsibilities for the Statement of Accounts
- the Statement of the Accounts;
- the Annual Governance Statement;
- Building Control Account;
- Charges for Property Searches, and;
- the Auditor's Report to Members (as applicable).

3. <u>Public Inspection</u>

3.1. The 2013/14 Statement of Accounts will be made available for public inspection (as required by the Accounts and Audit Regulations) from 24 July 2014 to 20 August 2014. The web link will also be provided to DCLG for advertising on the Gov.uk website.

3.2. The Appointed Auditor has set the day on which local government electors for the area may exercise their right to question or make objections to the Accounts for the year ended 31 March 2014, as 21 August 2014.

4. <u>Statement of Accounts</u>

4.1. The Statement of Accounts has been prepared in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) and any subsequent Local Authority Accounting Panel (LAAP) recommendations.

4.2. The Council's Statement of Accounts (pre-audit) for the year ending 31 March 2014 will be signed by the Chief Finance Officer on 30th June (after the Audit Committee meeting).

4.3. For the 2013/14 financial year, the Code introduced changes to the accounting for non-domestic rates (NDR) and for post-employment benefits. Detail of the impact of these changes follows.

4.3.1. Accounting for business rates retention

With effect from 1 April 2013 Billing Authorities have acted as agents, collecting Non-Domestic Rates (NDR) on behalf of the Major Preceptors and

Central Government; and as principals, collecting rates for themselves. NDR transactions and balances are therefore allocated between the Billing Authority, Major Preceptors and Central Government, applying agent and principal treatments as appropriate.

The Council's accounts include a single Collection Fund, but this now separates out the elements relating to council tax and NDR and shows a separate surplus and/or deficit on each.

The effect on Formula Grant of the Business Rates Retention Scheme (top-ups and tariffs along with safety net and levy payments) are made directly to / from the General Fund and do not impact upon the Collection Fund.

Under the legislative framework for the Collection Fund, Billing Authorities, Major Preceptors and Central Government share proportionately the risks and rewards arising from the fact that the amount of NDR collected could be less or more than predicted. The effect of any bad debts written off or movement in the impairment allowance is also shared proportionately.

At the end of this first year of the business rates retention scheme, the Collection Fund shows a surplus on NDR collection of £1.75m. This is shared between the Billing Authority; the preceptors (Hampshire County Council and Hampshire Fire and Rescue); and Central Government in a 40:9:1:50 ratio. This makes The Council's share of the outturn on NDR income £700k.

The Budget for 2014/15 includes a plan to set up a new earmarked Business Rates Reserve for £500k, to protect the Council's annual budgets from any fluctuations in business rates retained.

4.3.2. Provision for NDR appeals

Under the previous arrangements for NDR accounting, the potential liability of refunds to Ratepayers as a result of valuation appeals would have been borne by Central Government. However, under the new regime, this liability is shared proportionately between the Council, the Major Preceptors and Central Government.

History has shown that it is probable that there will be appeals that will successfully result in an obligation to pay appellants. However, the liability arising is uncertain - the value is unknown until the appeal is decided; and back-dated appeals can be lodged with the Valuation Office at future dates. As a result, of these uncertainties around the value and timing, International Accounting Standard (IAS) 37 (*Provisions, Contingent Liabilities and Contingent Assets*) requires billing authorities to calculate and recognise a provision for NDR appeals.

Officers from Revenues and Finance have worked together to calculate the amount of the provision to recognise in the Collection Fund. This has been based on those appeals that had been lodged with the Valuation Office as at 31 March 2014. An estimated 5% reduction in value (20% reduction for industrial properties) has equated to a provision of £2.86m. The Council's 40% share of this liability is therefore £1.14m.

It is not possible to reliably estimate the value of liabilities resulting from any potential future appeals i.e. those that have not yet been lodged with the Valuation Office. There is no trend to historical appeals that could be used to project any future potential obligation. As a result, no provision is being made for these; they are recognised as a contingent liability for the possible obligation, and have been disclosed in the accounts as such.

4.3.3. Post-employment benefits

IAS 19 '*Employee Benefits*' was revised in June 2011, making a number of changes to the accounting arrangements for employee benefits, ahead of a comprehensive future review of the Standard. The changes were designed primarily to provide better information about post-employment benefit promises. They largely leave accounting polices untouched, but there are some changes to presentation and disclosure requirements.

The Council contracted the Hampshire Pension Fund's actuary to provide restated comparative figures for the 2012/13 financial year and a summary of the resulting changes is provided below:

Restatement of 2012/13 Comprehensive Income and Expenditure Statement (CIES)

	Previously Stated £000	Restated £000	Movement £000
Charges to Services	609	709	100
Non Distributed Costs	(829)	(829)	0
Net Cost of Services	**(220)**	**(120)**	**100**
Financing & Investment Income	1,430	2,420	990
Other Comprehensive Income & Expenditure	3,330	2,240	(1,090)
Net change to CIES			**0**

The increase to the net cost of services reflects the change in the current service cost provided by the actuary from £2.12m to £2.22m. This now includes an allowance for the Fund administration expenses of £0.03m.

The interest cost and expected return on pension assets has been replaced by a single 'net interest' item calculated at the discount rate, shown in the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement (CIES).

The Other Comprehensive Income and Expenditure line of the CIES now includes the line Re-measurement on the Net Defined Pension Liability. This brings together the return on scheme assets and the actuarial gains/losses on the liabilities (now made up of separate amounts for changes in financial assumptions; changes in demographic assumptions; and experience gains/losses).

The presentational changes to the Comprehensive Income and Expenditure Statement are not material to the Statement of Accounts so have not required a Prior Period Adjustment restate the comparative figures for 2012/13.

OTHER CONSIDERATIONS:

5. SUSTAINABLE COMMUNITY STRATEGY and PORTFOLIO PLANS (RELEVANCE TO):

5.1. Preparation of the Annual Financial Report is fundamental to the requirement for accountability for public finances. Achieving corporate priorities must go in hand with accounting for how the public's money has been spent.

6. RESOURCE IMPLICATIONS:

6.1. As explained in the body of the report.

7. BACKGROUND DOCUMENTS:

Audit working papers and financial records held in the Finance and other teams within the Council (less exempt items).