TO: GOVERNANCE AND AUDIT COMMITTEE
30 SEPTEMBER 2013

FINANCIAL STATEMENTS 2012/13
Borough Treasurer

1 PURPOSE OF REPORT

1.1 In accordance with the Accounts and Audit (England) Regulations 2011 the Chief Accountant, as the deputy Section 151 Officer, signed the draft 2012/13 Statement of Accounts on 17 June 2013. Copies of the draft Financial Statements were subsequently circulated to all Council Members. The accounts were then subjected to audit by Ernst and Young LLP. This report summarises for Committee Members the key elements within the accounts, the findings of the audit and highlights the key changes made to the Statements - a revised set of which are attached.

1.2 It should be noted that none of the minor changes made as a result of the external audit have a detrimental impact on the Council's overall financial position.

2 RECOMMENDATIONS

That the Committee:

2.1 Approves the Financial Statements 2012/13 attached at Annexe A;

2.2 Notes the out-turn expenditure for the year and approves the provisions (£3.532m per section 5.3) and earmarked reserves (£18.378m per section 5.4;

2.3 Authorises the Chairman of the meeting to sign and date the Statement of Accounts on behalf of the Committee;

2.4 Authorises the Chairman of the meeting to sign and date the Letter of Representation set out in Annexe B.

3 REASONS FOR RECOMMENDATIONS

3.1 The Accounts and Audit (England) Regulations 2011 require the accounts to be approved by Council (or Committee of the Council) and the Chairman of the meeting to formally sign the accounts to certify that this has been undertaken.

4 ALTERNATIVE OPTIONS CONSIDERED

4.1 None.

5 SUPPORTING INFORMATION

5.1 Outturn Expenditure 2012/13

5.1.1 The Council, at its meeting on 29 February 2012, approved a revenue budget for 2012/13 of £72.330m.The actual outturn for the General Fund is within budget with an under spend of -£3.110m. This is the fifteenth consecutive year the Council has managed to spend within its budget. In fact the Council had planned to use £0.394m from General Balances to support the 2012/13 budget. Taking this under spend into account the Council actually returned ££2.716m to the General Fund.

5.1.2 The most significant variances were an under spend of -£0.763m on People with Learning Disabilities and one-off under spends of -£2.059m relating to funding of academies, VAT refunds and the release of fee income and deposits to revenue. A detailed comparison of the outturn and estimated expenditure is provided in the Explanatory Foreword on pages 4 to 5 of the Financial Statements.

5.1.3 The Council had deposits of £2m with Heritable and £3m with Glitnir which are both Icelandic banks that have been put into receivership/administration. For Glitnir a payment of £2.521m was received in 2011/12 when the Council's preferential creditor status was confirmed. The balance payable will be held in Icelandic Krónur in an interest bearing escrow account in Iceland until the currency controls are relaxed by the Icelandic Government. This represents approximately 19% of the total amount payable and as at 31 March 2013 was valued in the accounts at approximately £0.64m indicating that the original deposit is likely to be recovered in full plus some interest. The timing of the final payment is uncertain.

5.1.4 For Heritable, the accounts were closed on the assumption that 88% of the deposit plus accrued interest up to the 6 October 2008 will be repaid. A total repayment of £0.192m was received (9.4%) in 2012/13 and a further £0.344m (16.7%) in August 2013 following the sale of the mortgage book. This brings the total received to £1.930m (94%). The Administrators have retained a reserve of £39.3m (equivalent to 3.5%) to fully provide for legal and administrative costs associated with a claim by LBI hf (formerly Landsbanki Islands hf). They do not intend to make any further distributions until the conclusion of the claim; with the timing and amount dependant on the progress and outcome of the associated trial.

<u>Comprehensive Income and Expenditure Statement</u>

5.1.5 The Statement shows a deficit on the Provision of Services of £6.197m. This is because the statement shows the cost of providing services in accordance with accounting practices, rather than the amount to be funded from taxation. The taxation position which shows the real impact on the General Fund is shown in the Movement in Reserves Statement. The Comprehensive Income and Expenditure Statement also includes gains and losses arising from the revaluation of assets and reductions in pension liabilities. The total figure of -£9.756m explains the change in the net assets of the Council presented in the Balance Sheet.

5.1.6 Within the Cost of Services, the comparative increases in Net Cost for Central Services, Planning Services and Children & Education Services primarily relate to increases in capital charges (depreciation, revaluations downward and capital expenditure not adding value) and increases in the current cost of pensions adjustment.

5.2 Changes to Accounting Policies

5.2.1 There have been no changes in accounting policy since 2011/12 which impact on the Council's Statement of Accounts.

5.3 Provisions

5.3.1 The Council's balances contain specific provisions for known liabilities where the timing or amount of the liability is uncertain. These are considered each year as part of the budget cycle to ensure adequacy and need, and are again reviewed at the year end, in considering the annual accounts. Provisions have increased by £2.630m to £3.532m.

5.3.2 The Council served notices of entry under the Compulsory Purchase Order (CPO) process, to some tenants in the northern section of Bracknell Town Centre. Once the premises were acquired by the Council, they were transferred to the Council's development partner, Bracknell Regeneration Partnership (BRP), so that regeneration work could commence. A new provision was set up in 2012/13 to cover the costs of the CPO process (£2.8m). The funding for this was received from BRP.

5.3.3 A number of smaller provisions were also set up during the year to meet liabilities relating to MMI insurance claims, property search refunds and Tax and NI (£0.3m).

5.4 Revenue Reserves

5.4.1 These are the reserves of the authority at 31 March 2013, consisting of Earmarked Reserves, the General Reserve and other Revenue Reserves (e.g. the Pension Reserve).

5.4.2 Earmarked Reserves are sums of money which have been set aside for specific purposes. These are excluded from general balances available to support revenue or capital expenditure. Earmarked Reserves totalling £18.378m, an increase of £1.823m on last year's figure, are proposed and are detailed on page 82 of the Financial Statements.

5.4.3 The Borough Treasurer has taken the opportunity to review earmarked reserves and adjusted them to reflect the changing risks the organisation faces and these changes were presented to the Executive in the Revenue Expenditure Outturn 2012/13 Report on 3 July 2012. The Council's Reserves and Balances Policy Statement which sets out the purpose of each reserve was included at Annexe D.

5.4.4 There are also a number of unusable revenue reserves, such as the Pension Reserve, so called because the Council is not able to utilise them to provide services. They are adjustment accounts which deal with situations where income and expenditure are recognised statutorily against the General Fund balance on a different basis from that expected by accounting standards as adopted by the Accounting Code of Practice.

General Reserves

5.4.5 The General Fund Balance stands at £12.982m as at 31 March 2013. The 2013/14 budget includes plans to spend £4.393m of this reserve.

5.5 Other Balance Sheet Issues

5.5.1 The Balance Sheet shows that the Council holds long term assets valued at £546.6m (excluding pension assets), with Other Land and Buildings at £441.1m representing the most significant category. The overall value has increased by £21.6m compared to 2011/12. This arises, in part, from the revaluation of assets during the year, the capitalisation of expenditure (£24.1m) and the impact of annual depreciation.

5.5.2 The level of short term investments stands at £15.0m, a decrease of £7.0m. This reflects an overall decrease in cash balances available for investment as a result of capital expenditure.

5.5.3 Short Term Debtors have increased by £4.5m to £15.1m reflecting in particular increases in the Business Rates debtor (£0.8m), payments in advance (£1.5m) and debtor accruals (£2.4m). The latter relates to an increase in outstanding revenue and capital grants and an increase in the capital receipt due from Bracknell Forest Homes for Council House sales. Short Term Creditors have reduced by £1.7m to £29.9m primarily due to a reduction in income received in advance (£0.5m), in particular on capital grants, and supervision fee income being transferred to revenue (£0.9m).

Capital Financing Requirement

5.5.4 The Council's Capital Financing Requirement (CFR) increased during the year by £4.5m to £46.2m as at 31 March 2013. This is a measure of the capital expenditure incurred historically by the Council that has yet to be financed and represents the underlying need to borrow. However, overall the Council was debt free at 31 March 2013 and did not need to borrow externally to finance capital expenditure. A charge is made each year to revenue known as the Minimum Revenue Provision which writes down the balance of the CFR over time. The charge is based on the asset life for unsupported borrowing, 4% of the outstanding balance at the end of the previous financial year for supported borrowing and is equal to the principal element of the annual repayments for finance leases and the Waste PFI arrangement. Further details can be found in Note 16 and Note 19.

5.6 Audit of Accounts

5.6.1 Since the draft accounts were signed by the Chief Accountant (as the deputy Section 151 Officer) in June, they have been subject to scrutiny by the Council's external auditor. Following the audit of the accounts a small number of minor errors have been corrected in the Statement of Accounts. None of these were significant enough to warrant inclusion in the Audit Results Report. There were no uncorrected errors.

5.7 Letter of Representation

5.7.1 The Letter of Representation (attached at Annexe B) is a significant part of the audit process that enables the external auditor to form an opinion as to whether the financial statements give a true and fair view of the financial position of the Council as at 31 March 2013 and of its expenditure and income for the year then ended. The Committee is asked to review and confirm its approval of the letter.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

6.1 The Accounts and Audit (England) Regulations 2011 require the 2012/13 Statement of Accounts to be formally approved by Members (a Committee or Council) and signed by the Chairman / Mayor by 30 September 2013 and for the accounts to be signed by the appointed auditor by 30 September 2013.

Borough Treasurer

6.2 The Financial Statements 2012/13 is the published document which includes the 2012/13 Statement of Accounts. The Statement of Accounts includes the Movement in Reserves Statement, Comprehensive Income & Expenditure Statement, Balance Sheet, Cash Flow Statement and Collection Fund together with notes which expand and explain the information in these statements.

Equalities Impact Assessment

6.3 None required.

Strategic Risk Management Issues

6.4 There are none arising directly from this report.

7 CONSULTATION

Not applicable.

Contacts for further information

Alan Nash – 01344 352180
Alan.nash@bracknell-forest.gov.uk
Arthur Parker – 01344 352179
Arthur.parker@bracknell-forest.gov.uk