

**TO: GOVERNANCE AND AUDIT COMMITTEE
24 SEPTEMBER 2014**

**FINANCIAL STATEMENTS 2013/14
(Borough Treasurer)**

1 PURPOSE OF REPORT

- 1.1 In accordance with the Accounts and Audit (England) Regulations 2011, the Borough Treasurer signed the draft 2013/14 Statement of Accounts on 20 June 2014. 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.

2 RECOMMENDATIONS

That the Committee:

- 2.1 **Approves the Financial Statements 2013/14 attached at Annexe A;**
- 2.2 **Notes the out-turn expenditure for the year and approves the provisions (£5.201m per section 5.3) and earmarked reserves (£18.585m 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 2013/14

- 5.1.1 The Council, at its meeting on 27 February 2013, approved a revenue budget for 2013/14 of £76.255m. The actual outturn for the General Fund is within budget with an under spend of -£1.224m. This is the sixteenth consecutive year the Council has managed to spend within its budget. In fact the Council had planned to use £4.393m from General Balances to support the 2013/14 budget. Taking this under spend into account the Council actually withdrew £3.169m from the General Fund.

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5.1.2 The most significant variances were:

- Within Learning Disabilities planned in year savings were achieved for Bracknell Day Services and Waymead. These combined with a decrease in the number and cost of care packages generated a significant under spend (-£1.058m).
- Additional income from a number of sources including the Look Out car park (-£0.147m), the Cemetery and Crematorium (-£0.150m), Development Control (-£0.219m), the Peel Centre (-£0.146m), interest (-£0.175m) and government grants (-£0.306m).
- A reduction in the bad debt provision for Housing Benefits (-£0.745m), partly offset by an adjustment to reflect the actual Housing Benefits claim (£0.187m) and increases in bad debt provision for Rent Deposits and Rent in Advance (£0.220m).
- The levy due to Central Government for the additional rates received during the year has to be charged to 2013/14. This led to an unbudgeted pressure of £2.544m on non departmental expenditure in 2013/14, partially offset by a transfer of £2.000m from the Business Rates Equalisation Reserve.
- The contingency was not fully allocated during the year. The balance was therefore declared as an under spend (-£0.511m).
- With the exception of the Time Square works, internally funded capital expenditure was financed from internal borrowing to spread the cost impact on revenue. An element of the Revenue Contributions to Capital budget was therefore no longer required (-£0.403m).

A detailed comparison of the outturn and estimated expenditure is provided in the Explanatory Foreword on pages 5 to 6 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. The Council's preferential creditor status for the Glitnir deposit was confirmed in 2011/12 and a payment of £2.521m made by the Winding up Board. 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 2014 was valued in the accounts at £0.672m indicating that the original deposit is likely to be recovered in full. The timing of the final payment is uncertain and there are still legal issues to be resolved regarding the exchange rate at which payments have been made.

5.1.4 For Heritable, a total repayment of £0.344m (16.7%) was received in 2013/14 bringing the total to date to 94% of the claim (£1.930m). 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 hearings.

Comprehensive Income and Expenditure Statement

5.1.5 The Statement shows a deficit on the Provision of Services of £16.708m. 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

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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 £22.944m 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 Highways, Roads and Transport primarily relate to one-off income adjustments in 2012/13 for supervision fee income and deposits (£1.0m). The Net Cost of Planning Services has reduced due to comparative decreases in capital charges (revaluations downward and capital expenditure not adding value) and additional Development Control income. The Net Cost of Cultural and Related Services has increased due to comparative increases in capital charges. The increase in Net Cost for Central Services primarily relates to the Time Square refurbishment, severance payments, increases in capital charges and additional ICT costs incurred to achieve Public Services Network (for sharing information with central government) compliance.
- 5.1.7 The loss on the disposal of Property, Plant and Equipment primarily relates to the replacement of parts of assets rather than direct sales. Components were replaced for Time Square (£2.3m), Schools (£1.0m) and a number of infrastructure assets (£1.3m). A number of assets were also transferred to the Bracknell Regeneration Partnership in exchange for the lease of an operational building on preferential terms.

5.2 Changes to Accounting Policies

- 5.2.1 Following the introduction of the Business Rates Retention Scheme in 2013/14 where councils retain an element of the Business Rates collected locally; there has been a change in the way this income is accounted for. Business Rates are collected for the Council and on behalf of the Government and the Royal Berkshire Fire Authority under an agency arrangement. In a similar way to Council Tax, the Collection Fund is now used to account for Business Rates with the budgeted level of income plus any surplus or deficit on the Business Rates element of the Collection Fund at the year end shared between the interested parties. As the Council collects more Business Rates than the Government determined baseline funding level, a tariff payment is made to the Government for the difference. In addition a levy payment is made for any growth in business rates to limit the percentage increase in funding for a council to the percentage increase in Business Rates. Further details can be found under the Collection Fund disclosure on page 104 of the Financial Statements.
- 5.2.2 The June 2011 amendments to the International Standard on Employee Benefits have now been adopted. The main changes relate to post-employment benefits and are focused on reclassifications, changes in definitions, enhanced disclosures and the replacement of the interest cost on the defined benefit obligation and the expected return on pension assets with a single net interest cost based on the net defined benefit liability and the pension discount rate. The changes have no net impact on the General Fund or the Balance Sheet as the resulting increase in charge to the Surplus/Deficit on the Provision of Services is reversed out in the Movement in Reserves Statement. The main statements have been restated where appropriate for 2013/14 to reflect the change. Further details can be found in Note 39 on page 101 of the Financial Statements.

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 £1.669m to £5.201m.
- 5.3.2 A new provision was created for Business Rates appeals in 2013/14. This is required to cover refunds to ratepayers who successfully appeal against the rateable value of their properties on the rating list. The requirement results from the introduction of the Business Rates Retention Scheme. The Council's share of the provision was £2.311m.

5.4 Revenue Reserves

- 5.4.1 These are the reserves of the authority at 31 March 2014, 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 £18.585m, an increase of £0.207m on last year's figure, are proposed and are detailed on page 84 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 2013/14 Report on 24 June 2014. The Council's Reserves and Balances Policy Statement which sets out the purpose of each reserve was included at Annexe D to that report.
- 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 £9.813m as at 31 March 2014. The 2014/15 budget includes plans to spend £2.624m 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 £542.8m (excluding pension assets), with Other Land and Buildings at £436.5m representing the most significant category. The overall value has decreased by £3.8m compared to 2012/13. This primarily arises from the sale of assets and the impact of annual depreciation partly offset by the capitalisation of expenditure and the upward revaluation of assets during the year. Two non-current assets (South Hill

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Park and Market Place) previously classified as Investment Properties were reclassified as Community Assets during the year.

- 5.5.2 The level of Cash and Cash Equivalents stands at £35.7m, an increase of £20.5m compared to last year. The increase primarily relates to changes in grant profiles from central government and the introduction of the Business Rates Retention Scheme on 1 April 2013. The transfer of a large multi-national company onto the Council's valuation list materially increased the level of Business Rates collected locally leading to a large surplus on the Collection Fund. The Government's share of this surplus had still to be paid as at 31 March 2014.
- 5.5.3 Short Term Creditors have increased by £17.9m to £48.1m. The introduction of the Business Rates Retention Scheme on 1 April 2013 accounts for a significant element of the change. This includes the £12.0m now owed to Central Government for its share of the surplus on the Business Rates element of the Collection Fund and for the levy payment relating to additional Business Rates income.

Capital Financing Requirement

- 5.5.4 The Council's Capital Financing Requirement (CFR) increased during the year by £3.3m to £49.5m as at 31 March 2014. 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 2014 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 Before the audit started it was noted that incorrect figures had been used for Business Rates transitional protection payments. This arose as a result of a lack of clarity in a revised Business Rates return required by Central Government. The adjustment required has reduced the surplus on the Collection Fund by £0.928m (the Council's share having reduced by £0.455m to -£6.438m). This in turn has reduced the levy payment by £0.192m to £2.544m with a corresponding increase in the under spend (from -£1.032m to -£1.224m) and the General Fund balance (from £9.621m to £9.813m). The adjustment has resulted in changes to the Explanatory Foreword, the main statements and some of the notes.
- 5.6.2 The draft accounts have been subject to scrutiny by the Council's external auditor. Following the audit of the accounts no further amendments were required to the Statement of Accounts but two changes were made to the Annual Governance Statement.

5.7 Letter of Representation

- 5.7.1 The Letter of Representation (Appendix B of the audit results report) 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 2014 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 2013/14 Statement of Accounts to be formally approved by Members (a Committee or Council) and signed by the Chairman / Mayor by 30 September 2014 and for the accounts to be signed by the appointed auditor by 30 September 2014.

Borough Treasurer

- 6.2 The Financial Statements 2013/14 is the published document which includes the 2013/14 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.

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