TO: GOVERNANCE AND AUDIT COMMITTEE
23 SEPTEMBER 2015

FINANCIAL STATEMENTS 2014/15
Borough Treasurer

1 PURPOSE OF REPORT

1.1 In accordance with the Accounts and Audit (England) Regulations 2011, the Borough Treasurer signed the draft 2014/15 Statement of Accounts on 29 June 2015. 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 and the findings of the audit.

2 RECOMMENDATIONS

That the Committee:

2.1 Approves the Financial Statements 2014/15 attached at Annexe A;

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

2.3 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 2014/15

5.1.1 The Council, at its meeting on 26 February 2014, approved a revenue budget for 2014/15 of £89.774m.The actual outturn for the General Fund is within budget with an under spend of -£3.771m. This is the seventeenth consecutive year the Council has managed to spend within its budget. In fact the Council had planned to use £2.624m from General Balances to support the 2014/15 budget. Taking this under spend into account the Council actually returned £1.147m to the General Fund.

5.1.2 The most significant variances were:

- A reduction in the bad debt provision for Housing Benefits (-£0.804m) following a review of the existing methodology and reflecting the fact that a large portion of overpayments are reclaimed from ongoing entitlement. The work on the provision also identified that overpayments were understated and resulted in a further credit of -£0.560m.
- Staffing difficulties were experienced within children's social care which required higher than expected use of agency staff (£0.341m).
- New Public Realm contracts were let during the year covering Landscape, Street Cleansing and Highway Maintenance services. After allowing for one-off costs, a saving of -£0.330m was achieved.
- Within Waste Management increases in tonnages caused an over spend for the year and a contractual dispute has resulted in the non-achievement of income targets and additional legal costs (£0.415m).
- Higher cash balances have been sustained throughout the year resulting in additional interest. Cash flow has benefitted from changes in grant profiles from central government and the local collection of Business Rates (-£0.278m).
- Capital expenditure was financed from internal borrowing to spread the cost impact on revenue. The Revenue Contributions to Capital budget was therefore not required (-£0.653m). Refinancing of earlier capital expenditure, higher than forecast capital receipts in 2013/14 and carry forwards into 2014/15 all contributed to an under spend against the Minimum Revenue Provision (-£0.391m).
- The contingency was not fully allocated during the year (-£0.488m).
- Due to a large increase in the provision required for Business Rate appeals, in particular because of appeals lodged by a major ratepayer, the Collection Fund has gone into deficit. This has meant that the levy payable by the Council, which impacts directly on the General Fund, was less than originally budgeted (-£2.088m). The transfer into the Business Rates Equalisation Reserve has been increased to reflect the net impact of the under spend on the levy, reductions in Section 31 Grant and other changes to Business Rate income (£1.860m).
- The balances on the Capital Feasibility and Icelandic Banks Reserves have been transferred to revenue as the reserves are no longer required (-£0.473m).

A detailed comparison of the outturn and estimated expenditure is provided in the Explanatory Foreword on pages 3 to 5 of the Financial Statements.

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

5.1.3 The Statement shows a deficit on the Provision of Services of £27.903m. 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 changes in pension liabilities. The total figure of £76.823m explains the change in the net assets of the Council presented in the Balance Sheet. This change primarily relates to an increase in the net pension liability due, in particular, to reductions in bond yields (£59.823m) and a reduction in the value of Property, Plant and Equipment (£13.961m – see p74 of the Financial Statements).

5.1.4 Within the Cost of Services, the comparative changes in Net Cost primarily relate to capital charges. The comparative increase in Children and Education Services relates to the downward revaluation of schools. The Net Cost of Cultural and Related Services have reduced because there were significant revaluations downwards last year but none in 2014/15. Changes in Other Housing Services principally relate to the Housing Benefit changes referred to above and changes in the methodology for allocating internal and corporate recharges.

5.1.5 The loss on the disposal of Property, Plant and Equipment primarily relates to the replacement of parts of assets rather than direct sales. These significantly reduced in 2014/15 compared to 2013/14.

5.2 Changes to Accounting Policies and Disclosure Requirements

5.2.1 Although not a change in accounting policy, additional disclosure information has now been included on schools following clarification of the treatment of voluntary aided and controlled schools land and buildings. Although schools are separate entities they remain within the Council financial statements (pages 32, 46 and 54 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 £7.999m to £13.200m (page 80 of the Financial Statements).

5.3.2 The provision for Business Rates appeals is required to cover the liabilities arising from the refunding of ratepayers who successfully appeal against the rateable value of their properties on the rating list. The Council's share of the provision has increased by £8.497m to £10.809m due to a significant increase in the number and value of outstanding appeals, and their likelihood of success.

5.4 Revenue Reserves

5.4.1 These are the reserves of the authority at 31 March 2015, 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.

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 2014/15 Report on 21 July 2015. The Council's Reserves and Balances Policy Statement which sets out the purpose of each reserve was included at Annexe D to that report.

Earmarked Reserves totalling £30.289m, an increase of £11.704m on last year's figure, are proposed and are summarised on page 82 of the Financial

Statements. An increase in the balance on the Business Rates Equalisation Reserve from £0.000m to £11.700m is the most significant change. This relates to the budgeted transfer into the reserve of the growth in Business Rates income in 2014/15 and the 2013/14 surplus on the Business Rates element of the Collection Fund plus the transfer of the under spend on the 2014/15 Levy payment.

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 the Accounting Code of Practice.

General Reserves

5.4.5 The General Fund Balance stands at £10.961m as at 31 March 2015. The 2015/16 budget includes plans to spend £0.932m 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 £528.2m (excluding pension assets), with Other Land and Buildings at £415.4m representing the most significant category. The overall value has decreased by £14.5m compared to 2013/14. Revaluation decreases, in particular on schools, and annual depreciation have exceeded new additions in the year. The Binfield Nursery site and Car Park 7 were also transferred into Assets Held for Sale as their disposals are expected to be completed before the end of 2015/16.

5.5.2 Short Term Investments have reduced by £13.0m to £28.3m. This reflects the expected net cash outflow resulting from expenditure on the Council funded Capital Programme.

5.5.3 Short Term Debtors have increased by £17.9m to £48.1m. The significant increase primarily relates to a payment in advance for the purchase of Bracknell Bus Station (£4.3m), a reduction in the allowance for housing bad debts and a reassessment of debtor levels (£1.3m) plus outstanding joint arrangements (£2.4m), VAT (£1.7m), NHS (£1.1m) and Department of Transport income (£2m).

Capital Financing Requirement

5.5.4 The Council’s Capital Financing Requirement (CFR) increased during the year by £5.2m to £54.7m as at 31 March 2015. 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 2015 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. Further details can be found in Note 18.

5.6 Audit of Accounts

5.6.1 The draft accounts have been subject to scrutiny by the Council's external auditor. Following the audit of the accounts no amendments were required to the Statement of Accounts.

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 2015 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 2014/15 Statement of Accounts to be formally approved by Members (a Committee or Council) and signed by the Chairman / Mayor by 30 September 2015 and for the accounts to be signed by the appointed auditor by 30 September 2015.

Borough Treasurer

6.2 The Financial Statements 2014/15 is the published document which includes the 2014/15 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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