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<b>REPORT TO:</b>	<b>FINANCE and MANAGEMENT COMMITTEE - SPECIAL</b>	<b>AGENDA ITEM: 7</b>
<b>DATE OF MEETING:</b>	<b>30th SEPTEMBER 2015</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE and CORPOARTE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:Kevin.stackhouse@south-derbys.gov.uk">Kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/accounts/finalaccounts1415/state ment/ approval of accounts report sept 2015
<b>SUBJECT:</b>	<b>ACCOUNTS and FINANCIAL STATEMENTS 2014/15</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: FM 08</b>

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## **1.0 Recommendations**

1.1 That the Council's Audited Accounts and Financial Statements for 2014/15 are approved and signed by the Chairman of the Committee for publication.

## **2.0 Purpose of Report**

2.1 Under the Accounts and Audit Regulations 2011, the Council's audited accounts and financial statements are presented for approval. The Committee is required to approve the accounts with the knowledge of the opinion of the Council's External Auditor (i.e. Grant Thornton).

2.2 Their findings were contained in a report which was presented to the Audit Sub Committee on 23<sup>rd</sup> September.

2.3 Some amendments were identified and agreed with the Council during the Audit to ensure that the final published document is fully compliant with accounting and financial disclosure standards. There were no material misstatements or adjustments made to the Accounts submitted in draft form on 30<sup>th</sup> June 2015; an unqualified opinion was given on the final accounts.

2.4 The final accounts and financial statements for publication are now presented for approval. A final proof and reference check is being made prior to publication on 30<sup>th</sup> September.

### **3.0 Detail**

- 3.1 A full copy of the accounts is enclosed alongside this covering report. They will also be available on the Council's web-site at:  
[http://www.south-derbys.gov.uk/council\\_and\\_democracy/council\\_budgets\\_spending/statement\\_of\\_accounts/default.asp](http://www.south-derbys.gov.uk/council_and_democracy/council_budgets_spending/statement_of_accounts/default.asp)
- 3.2 The accounts will also be distributed to a selection of community points around the District but the printed version is only available in limited circumstances or if specifically requested. Their availability will be publicised through the local media.
- 3.3 The Committee considered the budget out-turn for 2014/15 in a separate report in June, with a final summary being presented as a separate report on this Agenda. Summary financial information is being published in the Council's Annual Report for 2014/15 which is being reported separately to Full Council prior to publication.
- 3.4 These reports provide information regarding the Council's income and expenditure performance (against budget) for the year, together with the level of Reserves and Balances at the year end.
- 3.5 The Statement of Accounts is a much more complex and technical document that is prepared to meet wider accounting and financial standards. It acts as the statutory report on the Council's financial position
- 3.6 It is a much more in depth analysis of the Council's accounts, including its assets and liabilities and overall financial position at a point in time. The figures are supported by numerous commentaries and disclosure notes to help explain the various balances, together with income and expenditure in the Accounts.

#### **International Financial Reporting Standards (IFRS)**

- 3.7 The Accounts for 2014/15 have been prepared on a full IFRS basis and in accordance with the Code of Practice on Local Authority Accounting in the UK.

#### **The Statement of Accounts**

- 3.8 A summary of each of the main sections contained within the accounts is set out in the following sections.

#### **Explanatory Foreword**

- 3.9 This sets out a summary to explain in more non-technical terms, the most significant matters reported in the Accounts. It gives an overview of the year's performance in terms of both revenue and capital spending.
- 3.10 The Foreword also outlines significant factors that affect the understanding of the accounts and provides an overview of assets, reserves and liabilities. It

also provides a summary of the Council's medium term financial position and the financial issues and risks that the Council faces.

### **Governance Statement**

- 3.11 This sets out the local governance framework comprising the systems and processes, cultures and values by which the Council is directed and controlled. It also lays out how it accounts to and engages with the local community.
- 3.12 The Governance Statement reports on the effectiveness of the framework for 2014/15 and highlights any issues that need to be addressed to strengthen the internal control environment. The statement was considered and approved by the Audit Sub Committee in June 2015 for inclusion in the accounts.

### **Comprehensive Income and Expenditure Summary (CIES)**

- 3.13 This is a summary that reports the accounting cost for the year of all functions for which the Council is responsible. However, the net expenditure is not the amount that is funded from taxation.
- 3.14 Councils raise tax to cover expenditure in accordance with regulations and this is usually different from the accounting cost which includes debt financing and capital accounting charges such as depreciation. The taxation position is shown in the Movement in Reserves Statement.
- 3.15 Further analysis of the figures reported in the CIES is contained within the disclosure notes that follow later in the document.

### **Movement in Reserves Statement**

- 3.16 This statement shows the movement in reserves held by the Council during the year. It includes amounts charged in and out of the Income and Expenditure Account for accounting purposes that are not a charge on the Council Tax or local Rent Payer. It reconciles the accounting cost in the CIES to the cost of services funded through taxation.
- 3.17 The bottom line balance as at 31<sup>st</sup> March 2015 reflects the level of resources available whether unallocated or held within earmarked reserves, i.e. *usable reserves*. Other reserves such as the revaluation reserve reflect accounting transactions and are not available for spending, i.e. they are *unusable reserves*.

### **Balance Sheet**

- 3.18 This shows the Council's overall financial position as at 31<sup>st</sup> March 2015 with a comparison to the previous year. It effectively shows the worth of the Council's assets and liabilities as currently valued. This includes the value of land and property, money owing to and from the Council, together with its reserves and provisions.

3.19 It also reports the value of the Council's current pension liability under long-term liabilities. Again, further analysis is contained within the various disclosure notes that follow.

### **Increase in Net Assets**

3.20 The overall value of the Council's Net Assets increased slightly in 2014/15 by approximately £1.7m, from £35.7m to £37.4m. However, within this, the overall fixed asset values increased by approximately £9.8m, largely offset by an increase in liabilities of approximately £8.1m.

3.21 The increase in fixed assets was due to an overall increase in the value of the Council's land and property holdings as valued by the District Valuer.

3.22 In addition, current assets also increased due to the amount of cash on short-term deposit, increasing as at 31<sup>st</sup> March 2015 by £5m, compared to that on deposit as at March 2014.

3.23 The increase in liabilities was largely due to the value of the Pension Fund Deficit increasing in 2014/15, based on an interim actuarial valuation. This recognises that overall there is still an underlying liability in the long-term for the Council regarding retirement benefits.

3.24 The net increase in the Pension Deficit in 2014/15 was approximately £7m. This was mainly due to the falling value of bonds and to a lesser extent, the cost of defined benefits in the short-term. This has been offset to some extent by stronger performance on other assets, in particular from investment funds and unit trusts.

3.25 This deterioration in short term performance of the Fund's assets has been reflected in the longer term financial assumptions made by the Actuary.

3.26 Statutory arrangements for funding the deficit mean that the financial position of the Council is not affected in any one year. Effectively, the deficit on the Pension Fund is being met over the long-term by increased contributions from employees and reducing benefits for future pensioners. These are part of ongoing changes to the Local Government Pension Scheme to ensure that pension deficits are funded with minimal impact on the Council Tax Payer.

### **Cash Flow Statement**

3.27 This shows the actual inflow and outflow of cash for the year by adjusting the accounts for all non-cash transactions.

### **Disclosure Notes to the Financial Statements**

3.28 These are designed to provide further explanation of the headline figures shown in the preceding statements. The notes are required under the Code of Practice to give added clarity and understanding for readers and users of the accounts.

3.29 The notes cover details of income and expenditure, the Council's accounting policies, together with explanations regarding the critical judgements and assumptions used in preparing the accounts.

### Supplementary Financial Statements

3.30 These contain further detail relating to the ring-fenced Housing Revenue Account (HRA) and the Collection Fund. This shows the amounts collected in Council Tax and Business Rates and how that income has been distributed amongst the preceptors on the Fund.

### Glossary

3.31 This is not required under the Code, but it is considered best practice to incorporate a dictionary to help explain the terms and phrases used in the accounts and financial statements.

### Value for Money Assessment

3.32 As part of their audit work, the Auditor is also required to provide an opinion on whether the Council has proper practices in place to achieve value for money (in general terms). They also assess the Council's financial sustainability and resilience, together with its governance and control framework.

3.33 Their report to the Audit Sub Committee was positive in all of these aspects, although they did raise 4 recommendations. These are set out below with comments made by the Council's Management.

The <b>job evaluation</b> exercise should be completed as soon as possible so that the Council can assess the potential additional costs.	This has now commenced and is due to be completed by April 2016.
The Council should ensure that appropriate arrangements are in place to recruit the necessary resources to improve the <b>capacity of the Finance team</b> .	A restructure of the Financial Services Unit was approved by the Finance and Management Committee on 3 <sup>rd</sup> September 2015. Recruitment to 2 vacant posts, including the Financial Services Manager, has now commenced.
The Council should continue to regularly monitor and update the <b>MTFP</b> and in particular it should continue to monitor the key assumptions in the Plan.	This will be completed in accordance with usual practice. A full review of the MTFP will continue to be completed following the annual out-turn and as part of the annual budget setting process. General updates will be provided in quarterly monitoring reports.
The Council should give more robust consideration to the wider cost-benefits to the community it serves, before making similar decisions to the payment of an <b>Efficiency Dividend</b> in the future.	Noted.

3.34 The Auditor's main concern was the payment of the Efficiency Dividend. They commented on its timing, its purpose in relation to the Corporate Plan, the cost/benefit balance and prudence. Their recommendation, should this be considered in the future, is shown in the above table.

#### **4.0 Financial Implications**

4.1 None directly.

#### **5.0 Corporate Implications**

5.1 None directly.

#### **6.0 Community Implications**

6.1 The production of the Council's statutory annual accounts and financial statements is an important part of stewardship and accountability for public resources.

6.2 Basically, it gives electors, those subject to locally levied taxes and charges, members of the Authority, employees and other interested parties detailed information about the Council's accounts and finances.

#### **7.0 Background Papers**

- Code of Practice on Local Authority Accounting in the United Kingdom 2014/15