CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting:	27 June 2013
Report of:	Interim Chief Operating Officer
Subject/Title:	Draft Statement of Accounts 2012/13
Portfolio Holder:	Councillor Peter Raynes

1.0 Report Summary

1.1 This report provides members with an overview of the key issues within the draft 2012/13 Statement of Accounts.

2.0 Recommendation

2.1 That members note the key issues within the draft 2012/13 Statement of Accounts.

3.0 Reasons for Recommendations

3.1 The Accounts and Audit Regulations 2011 require this Committee to approve the Accounts after the external audit is completed before the deadline of 30 September 2013. However, it is considered important that this Committee receives an overview of the key issues within the draft 2012/13 Statement of Accounts prior to the audit.

4. Wards Affected

4.1 Not applicable.

5.0 Local Ward Members

5.1 Not applicable.

6.0 Policy Implications including – Carbon Reduction
- Health

6.1 None.

7.0 Financial Implications

7.1 As covered in the report.

8.0 Legal Implications (Authorised by the Borough Solicitor)

8.1 The Regulations and best practice guidance necessitating this report are set out elsewhere in this report.

9.0 Risk Management

9.1 The Local Government Act 2003 and the Local Government and Housing Act 1989 require the Statement of Accounts to be produced in line with recommended accounting practices. Failure to do so could result in a qualification of the accounts and an adverse impact on the Council's repuatation.

10.0 Background and Options

10.1 The Statement of Accounts for 2012/13 has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom ("the Code"), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). In 2012/13 there have been no significant changes in the Code's requirements which affect Cheshire East Council and therefore no change to the Authority's accounting policies or the format of the accounts.

10.2 The Cabinet received a report on the Final Outturn Review of Performance on 21 June 2013. The headline outturn position was an underspend of £0.3m against the approved revenue budget. The 0.3m underspend comprised of an overspend by Directorates of 1.8m offset by an underspend of £2.1m on contingencies and central budgets.

10.3 The report identified significant improvements to the service outturn position since the Third Quarter Report. The budget for 2012/13 included a planned use of reserves of £7.3m; the impact on reserves at final outturn was an increase of £7.6m to £19m.

10.4 The increase in General Reserves provides the Council with greater flexibility to invest. This is an improvement on the position of the last two years where reserves have only been adequate to cover risks. At March 2012 the Council was placed in the bottom third compared to other all purpose authorities unallocated reserves as a percentage of net expenditure, but performance in 2012/2013 is now expected to place the Council considerably above average

10.5 The Council continues to demonstrate a healthy balance sheet, with net assets of £238.6m, (£377.9m at 31 March 2012), a reduction of £139.3m. In the main this is as a result of an increase in the pension liability of £71.1m and a reduction in Non Current Assets, (i.e., Fixed Assets) of £71m.

10.6 The Council's external auditors are Grant Thornton. The audit will commence on 1 July and is expected to be completed by mid

September. Members will receive a report from the auditors on 26 September 2013 which will give an opinion on the accounts. The final audited Statement of Accounts are required to be approved by this committee by the deadline of 30 September.

10.7 The following sections describe the significant issues within each of the main financial statements. A full version of the draft Statement of Accounts will be made available on the website by 30 June 2013.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

10.8 This statement reflects the sum of all income, expenditure, gains and losses incurred by the Council during 2012/13 and explains how the balance sheet position has changed since 2011/12. The statement shows a net deficit on Provision of Services of £62.9m in 2012/13.

Summarised Comprehensive Income and Expenditure Statement	2012-13			2011-12
	Spend £000	Income £000	Total £000	Total £000
Expenditure on Services	713,221	(285,858)	427,363	412,770
Corporate and Democratic Core	8,858	(5,387)	3,471	4,877
Non-distributed Costs	4,897	(69)	4,828	5,039
Cost of Services	**726,976**	**(291,314)**	**435,662**	**422,686**
Other Operating Income & Expenditure	41,027	(1,484)	39,543	37,283
Financing and Invt Income and Expenditure	20,213	(2,000)	18,213	3,949
Taxation and Non-Specific Grant Income	0	(430,524)	(430,524)	(411,581)
(Surplus)/Deficit on Services	**788,216**	**(725,322)**	**62,894**	**52,337**
Surplus on Revaluation of Assets/Invts	0	0	6,611	(12,992)
(Surplus)/Deficit on Pensions	0	0	69,826	84,614
Total	**0**	**0**	**139,331**	**123,959**

10.9 It should be noted that the Comprehensive Income and Expenditure Statement shows the Council's financial position in accordance with accounting practice rather than the actual charges and credits made according to statute. This means that the costs include notional charges for items such as depreciation, impairment and IAS19 pension charges.

10.10 The format of the statement is based on Service Reporting Code of Practice (SeRCOP) which defines how expenditure and income should be categorised. The aim of this analysis is to ensure all authorities are reporting data consistently to assist comparison between Councils.

10.11 In order to convert the balances shown into amounts to be charged or credited against Council Tax in year, a number of adjustments are made in the Movement in Reserves Statement.

MOVEMENT IN RESERVES STATEMENT

10.12 This statement exists to allocate all the surpluses or deficits contained in the Comprehensive Income and Expenditure Statement against the appropriate reserves in the Council's Accounts. It removes all the balances that are not chargeable against the General Fund and allocates them to other reserves bringing the charge to the General Fund back to the position reported to Members as part of the outturn.

10.13 The main accounting adjustments made are to reverse out pension adjustments, depreciation, impairment charges and capital grants as well as introducing charges for the minimum debt repayments.

Summarised Movement in Reserves Statement	General Fund £000	Earmarked Reserves £000	Other Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Opening Balance 1/4/12	11,381	23,301	26,103	317,122	377,907
Surplus / (Deficit) on Services	(62,894)	0	0	0	(62,894)
Other Expenditure and Income	0	0	0	(74,195)	(74,195)
Accounting Adjustments	69,805	0	(14,256)	(55,549)	0
Transfer to Earmarked Reserves	644	(1,390)	746	0	0
Closing Balance 31/3/13	**18,936**	**21,911**	**12,593**	**187,378**	**240,818**

BALANCE SHEET

10.14 The balance sheet position as at 31 March 2013 shows a decrease in net assets of £139.3m.

Summarised Balance Sheet	31 March 2013 £000	31 March 2012 £000	Change £000
Non-Current (Fixed) Assets	811,800	882,859	(71,059)
Long Term Investments and Debtors	28,146	24,115	4,031
Long Term Assets	**839,946**	**906,974**	**(67,028)**
Debtors	48,178	52,292	(4,114)
Cash & Cash Equivalents	32,688	34,592	(1,904)
Short Term Investments	11,490	3,687	7,803
Other Current Assets	1,569	9,996	(8,427)
Current Assets	**93,925**	**100,567**	**(6,642)**
Short Term Creditors	(93,230)	(102,094)	8,864
Short Term Borrowing	(6,075)	(5,521)	(554)
Provisions	(7,323)	(6,039)	(1,284)
Current Liabilities	**(106,628)**	**(113,654)**	**7,026**
Long Term Borrowing	(127,777)	(128,880)	1,103
Net Pension Liability	(431,324)	(360,242)	(71,082)
Other Long Term Liabilities	(29,566)	(26,858)	(2,708)
Long Term Liabilities	**(588,667)**	**(515,980)**	**(72,687)**
Net Assets	**238,576**	**377,907**	**(139,331)**
Usable Reserves	53,440	60,785	(7,345)
Unusable Reserves	185,136	317,122	(131,986)
Total Reserves	**238,576**	**377,907**	**(139,331)**

Pensions

10.15 One of the most significant changes on the balance sheet relates to the Pensions deficit. The £431m net pensions liability at 31 March 2013 represents an increase of 20% from the previous year (£360m at 31 March 2012). In common with most local authorities, the increase in the net liability was primarily due to the Actuary's financial assumptions (e.g. inflation estimates) being less favourable at 31 March 2013 than at 31 March 2012. Although the actual investment return on pension assets during 2012/13 was higher than expected at the start of the year, it was not enough to fully offset the increase in the liability.

10.16 It is important to note that this does not represent an immediate call on Council's reserves. The Council's actual liability is reviewed every three years as part of the triennial valuation of the Pension Fund and an investment strategy is determined which aims to recover the deficit over a stated period (currently 20 years).

Property, Plant and Equipment

10.17 Property, Plant and Equipment Assets have decreased by £72m as a result of property disposals or transfers and the annual revaluation exercise.

10.18 During 2012/13 the Council transferred assets valued at £3.9m to Town and Parish Councils under the devolution policy, these included:

- Bollington Civic Hall & Library ~ £1.901m
- Disley Community Centre and Library ~ £0.480m
- Nantwich Civic Hall ~ £0.701m
- Alsager Civic Hall ~ £0.413m

10.19 Knutsford and Eaton Bank High Schools converted to academy status during 2012/13 with assets totalling £24.908m and the playing fields for All Hallows Academy were also removed from the Council's asset register.

10.20 Sales of the Council's land and buildings during 2012/13 resulted in capital receipts totalling £10.548m. These included the sale of Pyms Lane Crewe for £3.750m, the sale of the former Oaklands School site for £1.605m, Ludford School site £0.692m and part of the farms estate £2,828m. The total net book value of the assets disposed of amounted to £16m.

10.21 In 2012/13 the Council commenced a five year rolling programme to value the Councils assets, 24% of the assets that are due to be re-valued in the next five years were carried out as part of the 2012/13 revaluation process. The valuation exercise resulted in a number of impairments mainly due to the change in valuation basis from Depreciated Replacement Cost (DRC) to Existing Use Value (EUV).

10.22 The major changes have affected Corporate Buildings including Macclesfield Town Hall and Delamere House with downward valuations of £6.985m, Libraries £7.036m with the two largest reductions being at Macclesfield Library £1.387m and Crewe Library £0.932m, Schools £2.624m and Adults Care Facilities £4.018m.

Capital Reserves

10.23 Following an in-year review of the balance sheet, undertaken by Treasury Advisors - Arlingclose, the Council decided to use existing capital reserves to finance capital expenditure which has taken place in previous years and has been met from borrowing. The application of £15.6m of capital reserve has been used to repay borrowing for assets purchased after 2008 and this will reduce the level of revenue provision required for the repayment of debt in 2013/2014 and future years. Capital receipts received in year of £11.6m were fully utilised to fund the capital programme. The balance on the reserve as at 31 March 2013 is £1m.

Earmarked Reserves

10.24 The strategy to reduce the number of separate Earmarked Reserves has been completed, the slight increase in value of £0.947m in 2012/2013 coming from the carry forward of unspent balances identified for specific investment proposals.

Debt Provision

10.25 Total debt outstanding (excluding local taxation) is £5.2m of which £2.7m is over 6 months old. A bad debt provision of £2.9m is available to meet potential write-offs.

Borrowing and Investments

10.26 The Councils capital financing requirement (CFR) currently exceeds the amounts actually borrowed with the shortfall being funded from cash balances. Borrowing is currently being repaid at a rate of £5.5m per year which means the gap between the CFR and actual borrowing is increasing which exposes the Council to interest rate risk in the future if cash balances were to fall and borrowing had to be taken at prevailing rates at the time. To reduce exposure to interest rate risk and prevent excessive use of internal resources a new loan of £5m was taken in 2012/13 to replace most of the maturing debt.

10.27 In accordance with the Treasury Management Strategy the Council sought to finance its capital expenditure through the use of its own existing cash balances rather than through the raising of long term loans. The benefits of this are twofold; firstly by reducing the amount of cash balances held by the Council it reduces the credit risk and secondly, the interest foregone on the cash balances use to finance capital expenditure payments was less than the amount of interest payable on any new loans that would have been raised.

10.28 The net investment income received in 2012/13 was £567k, which was favourable compared to the initial budget target of £300k. Average cash balances available in the year for investment were £83.8m and the total average interest rate received in the year was 0.74%. The Bank of England base rate remained at 0.50% for the full year.

11.0 *Access to Information*

The background papers relating to this report can be inspected by contacting the report writer:

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