CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting:	26 June 2014
Report of:	Chief Operating Officer
Subject/Title:	Draft Pre-Audit Statement of Accounts 2013/14
Portfolio Holder:	Councillor Peter Raynes

1.0 Report Summary

1.1 This report introduces the 2013/14 pre-audit statement of accounts to the Committee for consideration and comment. It informs the Committee that the Council will publish, on its website, its pre-audit statement of accounts for year ended 31st March 2014 alongside its draft Annual Governance Statement by the 30 June 2014 deadline.

1.2 The report provides members with an insight into the strong financial and operational performance delivered in 2013/14 and highlights some of the key elements of the pre-audit statement of accounts.

1.3 The journey to becoming a strategic commissioning council is now well developed and 2013/14 was the first year of the Council's 3 year plan and commitment. An ambitious but measured approach is being taken to achieving the Council's aims whilst effectively dealing with the challenges of austerity. This approach provides a platform to redefine and reinvent the Council in a systematic way. The focus is to deliver sustainable quality cost effective services that are needed by Cheshire East residents and businesses.

1.4 This philosophy is about more than simply reducing costs through cheaper provision or traditional outsourcing. New approaches to service delivery are being developed to get the best from in-house services. These include joint ventures between the Council and other providers, and new delivery vehicles including Council owned and controlled companies, social enterprises and Trusts.

1.5 The headline outturn position for 2013/14 shows an underspend of £0.897m, (0.35%), against the approved revenue budget of £260m. General reserves are now £19.8m and in-line with budget estimates. Earmarked reserves of £26.3m are now set aside for a range of specific purposes. The Cabinet will recommend the creation of new reserves of £12.4m to Council on 1 July 2014. The overall level of reserves is now considered sufficient to continue to protect the Council against its assessed financial risks as well as providing opportunities for future investment in its identified priorities.

2.0 Recommendations

2.1 That members' note that the pre-audit statement of accounts for year ended 31st March 2014 will be published on the 26 June 2014 alongside its Annual Governance Statement.

2.2 That members note the £0.897m surplus generated in 2013/14 and new earmarked reserves of £12.4m.

3.0 Reasons for Recommendations

3.1 The Accounts and Audit Regulations 2011 require the Audit and Governance Committee to approve the statement of accounts after the external audit is completed and before the deadline of 30 September 2014. It is considered important and good practice that this Committee also receives an overview of the key issues within the draft 2013/14 Statement of Accounts before the external audit work begins.

4.0 Background

4.1 2013/14 was the first year of the Council's 3 Year Plan. During this year the Council accelerated its programme of significant change and innovation. The Council's review of its management structure, roles and responsibilities, completed in early 2014 is a significant step forward. The Council can reflect on many financial and operational successes throughout 2013/14 and it is now in a much stronger position than when it started the year:

- The senior leadership team is now in place;
- Strong financial performance has ensured that reserves are now in line with the Council's assessment of its financial risks and also to provide opportunities for future investment in its identified priorities.
- Strong service performance in key areas including:
    - success in attracting new businesses places it as only one of three hot spots outside London;
    - now the best performing council in the North West, (and one of the best overall), in decreasing the number of young people classed as not in education, employment or training (NEET);
    - highest ever number of good and outstanding schools - 87.3%;
    - adoption timeliness and outcomes have improved;
    - Adult Social Care project launched to redesign assessment and care management responsibilities;
    - successful completion of a £65m capital programme;
    - developed a compelling business case for Crewe as a HS2 Hub station with the potential to drive major growth and regeneration benefits for Crewe and the wider region; and
    - rolling out superfast broadband across the sub-region through the £28.5 million 'Connecting Cheshire' project.

4.2 Like all local authorities, this Council continues to be affected by Central Government's austerity measures, as it wrestles with the size of the national debt. While the Council has discretion to increase local taxes it has not done so now for four consecutive years as it continues to strive to 'put residents first' and support the local economy.

4.3 The published medium term financial strategy illustrates the scale of the challenge the Council faces over the next few years. But its impressive financial performance in 2013/14 has provided a strong platform. Alongside its ambitious major change programme the Council expects to continue to balance its budget despite increased demands and high public expectations. This will be achieved by innovation, creativity and a hard commercial focus on costs, productivity and income generation. It remains clear that the Council's overall cost base will have to continue to reduce.

5.0 **Headline messages from the statement of accounts**

5.1 The headline outturn position shows an underspend of £0.897m against the approved revenue budget of £260m. This includes an underspend of £3.6m by Commissioning Services; this is made up of a range of savings including securing planned cost reductions earlier than forecast. It is offset by a £2.7m overspend on central budgets Additional grants received in year together with the service under spend provided the flexibility to create earmarked reserves and fund capital investment of £2.6m in the Manchester Science Park, which successfully acquired the Alderley Park Site from AstraZeneca.

5.2 General reserves (excluding schools) have increased in 2013/14 in-line with budget estimates. General Reserves are now £19.8m (7% of the net budget). Earmarked reserves are now £26.3m – excluding schools reserves and balances of £8.8m. The overall level of reserves is at a level that is sufficient to continue to protect the Council against its assessed financial risks and also to provide opportunities for future investment. This strengthening of the balance sheet, during these challenging times, is a positive indicator of the Council's good financial control together with its strategic intentions.

5.3 The Business Rates Retention Scheme was in place from 1 April 2013. As part of the 2013/14 transactions, the Council has created a provision of £3.3m. A number of valuation appeals have been received. This money is set aside to fund any successful appeal; and is prudent given the current uncertainty over the outcome.

5.4 The Council continues to present a healthy balance sheet, with net assets of £245.9m, (£233.7m at 31 March 2013).This is an increase of £12.2m. This is largely as a result of a decrease in the pension liability (+£42.9m), a decrease in non-current (fixed) assets (-£40.7m) and repayment of long term borrowing (+£11m)

5.5 The Council continues to improve its performance in producing the Statement of Accounts. The external auditors commented last year on the improvements in quality of the accounts and supporting working papers. The recommendations made by the external auditors last year have been also been implemented. The Chief Operating Officer, (Section 151), has produced a pre-audit set of accounts that provides a true and fair view of the Council's financial position. He expects to receive a clean (unqualified) audit opinion from the external auditors.

5.6 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 2014.

6.0 **COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

6.1 This statement shows:

- the sum of all income, expenditure, gains and losses incurred by the Council during the year; and
- a net deficit on Provision of Services of £57.4m, compared to £72.9m in 2012/13.

Summarised Comprehensive Income and Expenditure Statement	2013-14			2012-13
	Spend £000	Income £000	Total £000	Total £000
Expenditure on Services	690,061	(290,265)	399,796	427,363
Corporate and Democratic Core	7,945	(6,895)	1,050	3,471
Non-distributed Costs	(4,982)	(28)	(5,010)	4,828
Cost of Services	**693,024**	**(297,188)**	**395,836**	**435,662**
Other Operating Income & Expenditure	48,625	(1,270)	47,355	44,443
Financing and Invt Income and Expenditure	26,344	(920)	25,424	23,355
Taxation and Non-Specific Grant Income	0	(411,168)	(411,168)	(430,524)
(Surplus)/Deficit on Services	**767,993**	**(710,546)**	**57,447**	**72,936**
Surplus on Revaluation of Assets/Invts	0	0	(20,032)	6,611
(Surplus)/Deficit on Pensions	0	0	(49,696)	64,684
Total	**0**	**0**	**(12,281)**	**144,231**

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

7.0 **MOVEMENT IN RESERVES STATEMENT**

7.1 The main changes are to reverse out the effect of certain costs recorded in the accounts when they are identified, but not reflected in the Council's outturn performance until they are realised in later years. These include:

- Pension reserves adjustment - £43m;
- Gains/losses on disposal, revaluation, and depreciation totalling more than £86m are replaced with debt repayments of £9.5m and capital funded directly from revenue amounting to £2.6m; and
- Capital grants received in year - £42m.

7.2 After the removal of all the transactions that are not chargeable against the General Fund, the balance as at 31st March 2014 has increased by £0.897m to £19.8m as shown in the following table.

Summarised Movement in Reserves Statement	General Fund £000	Earmarked Reserves £000	Other Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Opening Balance 1/4/13	18,936	21,911	12,593	180,236	233,676
Surplus / (Deficit) on Services	(57,447)				(57,447)
Other Expenditure and Income				69,728	69,728
Accounting Adjustments	72,920		3,334	(76,254)	0
Transfer to Earmarked Reserves	(14,576)	13,244	1,332	0	0
Closing Balance 31/3/14	**19,833**	**35,155**	**17,259**	**173,710**	**245,957**

7.3 **BALANCE SHEET**

7.4 The balance sheet position as at 31 March 2014 shows an increase in net assets of £12.2m.

Summarised Balance Sheet	31 March 2014 £000	Restated 31 March 2013 £000	Change £000
Property, Plant & Equipment	766,681	809,423	(42,742)
Investment Property	11,539	9,846	1,693
Other Non-Current Assets	2,229	1,861	368
Long Term Investments and Debtors	30,247	28,146	2,101
Long Term Assets	**810,696**	**849,276**	**(38,580)**
Short Term Investments	18,072	11,490	6,582
Debtors	57,727	48,178	9,549
Cash & Cash Equivalents	26,036	32,688	(6,652)
Other Current Assets	6,454	1,569	4,885
Current Assets	**108,289**	**93,925**	**14,364**
Creditors	(77,390)	(71,489)	(5,901)
Short Term Borrowing	(12,570)	(7,588)	(4,982)
Current Liabilities	**(89,960)**	**(79,077)**	**(10,883)**
Provisions	(12,576)	(7,323)	(5,253)
Long Term Borrowing	(115,223)	(126,264)	11,041
Net Pension Liability	(388,432)	(431,324)	42,892
Other Long Term Liabilities	(66,837)	(65,537)	(1,300)
Long Term Liabilities	**(583,068)**	**(630,448)**	**47,380**
Net Assets	**245,957**	**233,676**	**12,281**
Usable Reserves			
Capital Receipts Reserve	1,704	1,077	627
Capital Grants Unapplied	15,555	11,516	4,039
Schools Reserves & Balances	8,810	12,626	(3,816)
Earmarked Reserves	26,345	9,285	17,060
General Fund Reserve	19,833	18,936	897
Total Usable Reserves	**72,247**	**53,440**	**18,807**
Unusable Reserves			
Revaluation Reserve	189,189	185,172	4,017
Capital Adjustment Account	384,568	434,443	(49,875)
Pensions Reserve	(388,432)	(431,324)	42,892
Other Unusable Reserves	(11,615)	(8,055)	(3,560)
Total Unusable Reserves	**173,710**	**180,236**	**(6,526)**
Total Reserves	**245,957**	**233,676**	**12,281**

7.5 **Pensions** - The £388m net pension's liability at 31 March 2014 is 10% lower than the £431m at 31 March 2013. In common with most local authorities, the significant changes include:

- The deficit has decreased due to a change in the projected future pay growth assumption and an improvement in asset returns. This is partially offset by a fall in the yield from bonds.
- The cost associated with providing benefits has also fallen due to the lower projected future pay growth assumption, thereby reducing the interest on the liability.

7.6 These revised projections do not have any immediate impact on the Council's reserves. The Council's actual liability is reviewed every three years as part of the triennial valuation of the Pension Fund. The investment strategy is then determined to aim to recover the deficit over a defined period (currently 20 years).

7.7 Changes to the LGPS came into effect in April 2014, in line with Government public sector pension reforms. These changes are likely to affect the Council's liability in future. Pensions are now based on Career Average Revalued Earnings rather than Final Salary. Other significant changes include employee contribution rates - there are now nine different contribution banding rates between 5.5% and 12.5%.

7.8 **Property, Plant and Equipment –** the value of assets have decreased by £43m as a result of the targeted rationalisation of property in the form of disposals or transfers together with the annual revaluation exercise.

7.9 During the year a further 14 schools transferred to Academy, Foundation or Voluntary Aided status in 2013/14. The value of these assets has been written out of the Council's balance sheet. This includes Sir William Stanier Community School with a net book value of £16.9m.

7.10 Sales of the Council's land and buildings during 2013/14 generated capital receipts of £5.5m. These include:

- the sale of Parkgate Industrial Estate (£2.0m);
- the former children's home Priors Hill (£0.7m); and
- Barnshaw Hall Farm (£0.5m).

7.11 In 2013/14 the entire school portfolio was revalued alongside other assets that required a valuation due to major capital investment or a change in asset classification.

7.12 The balance sheet has been restated to recognise an increase in valuation and liability for the PFI Extra Care Housing Scheme; the previous valuation did not reflect the third party income generation potential from the site. This value of £16.4m has been added to the Council's asset base as of 31st March 2009, an offsetting creditor is recognised reflecting the fact that the Council is committed to pass this income back to the operator to offset the unitary charge.

7.13 **Borrowing and Investments -** The Councils capital financing requirement (CFR) currently exceeds the amounts actually borrowed. The shortfall is funded from cash balances. Borrowing of £11m was repaid in 2013/14 and no new external loans were taken out. This is a direct result of the Council's deliberate strategy to utilise cash balances.

7.14 In line with its Treasury Management Strategy the Council financed capital expenditure through the use of its own cash balances rather than raising new 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 cash balances used to finance capital expenditure payments was less than the amount of interest payable on any new loans that would have been raised.

7.15 The Council received net investment income £0.4m compared to the initial budget target of £0.3m. On average cash balances of £91m were available for investment the total average interest rate received in the year was 0.54%. The Bank of England base rate remained at 0.50% for the full year.

8.0 Background to the statement of accounts

8.1 The Statement of Accounts for 2013/14 is 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 2013/14 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.

8.2 The objective of the Statement of Accounts is to provide information about the Council's financial performance that is useful to a wide range of users for assessing the stewardship of the council's management. Its purpose is to give readers and stakeholders clear information about the Council's finances and to answer questions such as: what did the council services cost; where the money came from; what are the significant events this year; and what is the Council's net worth?

8.3 While members are not required to approve the pre-audit statement of accounts, it is considered good practice to present the accounts to this committee before the Chief Operating Officer signs them for publication. The Pre-Audit Statement of accounts will be published before 30 June 2013 and the certified Statement of Accounts will be published by the end of September, meeting all the statutory deadlines and reporting requirements.

9.0 Next steps

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

9.2 The Committee will receive independent reports from the auditors on 18 September 2014 – including their opinion on the accounts and their value for money conclusion. The final audited Statement of Accounts will be presented to this Committee for approval on 18 September in advance of the publication deadline of 30 September.

10.0 Wards Affected

10.1 Not applicable.

11.0 Local Ward Members

11.1 Not applicable.

12.0 Policy Implications including Carbon Reduction and Health

12.1 None.

13.0 Financial Implications

13.1 The Statement of Accounts summarises the financial activities of the Council for the preceding financial year and its position at the year end. It summarises the Council's income and expenditure, assets and liabilities, and its level of reserves and indebtedness. It is a key measurement of the overall financial performance of the authority and is an important part of the Council's financial governance and stewardship arrangements.

14.0 Legal Implications

14.1 The regulations arising out of the Audit Commission Act 1998 (Accounts and Audit Regulations 2011) prescribe statutory provisions regarding the overall format and approval procedures for authorities' financial statements. The detailed format of the Statement of Accounts is laid out annually by the Chartered Institute of Public Finance and Accountancy (CIPFA) in the form of the Code of Practice on Local Authority Accounting in the UK (the Code).

14.2 Further supporting guidance contained in the Service Reporting Code of Practice for Local Authorities (Sercop) and Local Authority Accounting Panel (LAAP) bulletins is applied as relevant. The pre-audit statement of accounts must be signed by the Council's Section 151 officer and published by the end of June following the financial year end. The pre-audit statements do not require committee approval, however it is deemed to be good practice to present the accounts to members before publication.

14.3 The Audited statements are to be approved by committee and published by end of September following the financial year.

15.0 Risk Management

15.1 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 reputation.

16.0 Access to Information

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

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