

2014/15 Annual Statement of Accounts

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1. Purpose of the Report

- 1.1 To present the 2014/15 Annual Statement of Accounts to the Audit Committee for approval.

2. Recommendation (s)

- (a) To approve the 2014/15 Statement of Accounts. A copy of the Statement of Accounts has been circulated separately with this agenda.
- (b) To note the unqualified opinion on the financial statements.
- (c) To authorise that the Assistant Director (Finance and Corporate Services) sign the Letter of Representation.

3. Background

- 3.1 As a local authority SSDC is required to demonstrate compliance with the underlying principles of good governance and that a framework exists to demonstrate this. One of the principles is accountability and preparing and publishing the annual Statement of Accounts is one way that the Council achieves this objective.
- 3.2 The Accounts and Audit Regulations (England) 2011 came into force on 1 April 2011. This revised procedures for the approval and publication of the annual Statement of Accounts. The Responsible Financial Officer must now sign the accounts as true and fair by 30th June of the following year and Members are required to formally approve the audited and amended annual Statement of Accounts by the 30th September of the following year. The Statement of Accounts needs to be approved and signed by the Chair of this committee. **Please contact Amanda Card before the meeting on 01935 462542 with any questions on the information presented.**
- 3.3 The Statement of Accounts for 2014/15 has been prepared following International Financial Reporting Standards (IFRS).
- 3.4 This report:
 - Outlines the key features of the 2014/15 revenue outturn position;
 - Summarises the 2014/15 capital outturn position;
 - Presents the 2014/15 Statement of Accounts and explains the key features and reasons for variations within those accounts.
 - A response to the auditor's report.

4. Key Features of the 2014/15 Outturn Reports

4.1 Revenue Outturn

4.1.1 The figures that were presented to District Executive on 4th June 2015 represent the "Above the Line" budgets that are monitored by the Executive on a quarterly basis. Members of the Audit Committee will find that the figures presented to them in the Statement of Accounts differ from those reported to District Executive as they represent both "Above" and "Below the Line" as a total cost. The "Below the Line" figures are distinguished from the "Above the Line" costs as they are outside the control of the delegated budget holder, being capital charges and recharges from support services such as Human Resources, Legal and Financial Services.

4.1.2 The overall outturn for SSDC Services in 2014/15 was £1,404,000 (8.5%) underspent. Outlined below is the summary of the figures presented to the District Executive on 4th June 2014;

	Original Budget	Movement During the Year	Outturn Budget	Actual Spend	Variation
	£'000	£'000	£'000	£'000	£'000
SSDC Services	17,541	340	17,881	16,477	(1,404) F

(Note that all figures in brackets are underspends).

4.1.3 The comparative position over the last two years was 6.8% underspent in 2013/14 and 4.8% underspent in 2012/13. (This is after taking out the figures for Treasury Management and the Local Strategic Partnership to ease comparison).

4.2 Carry Forwards

4.2.1 The District Executive was asked to approve £302,900 of specific carry forwards to 2015/16.

4.3 Revenue Balances and Reserves

4.3.1 Unallocated general fund balances totalled £6,047,000 at the end of the 2014/15 financial year. Regular reviews of balances were carried out during 2014/15 and the required levels were met throughout the year. The review carried out in May 2015 has set a level between £3,900,000 and £4,300,000 for the 2015/16 year, an increase due to the risks of the economic downturn on the Medium Term Financial Plan, the raised risks within the banking sector, and possible greater litigation risks but as members can see the levels of balances are still sufficient for the new financial year.

4.3.2 Specific Reserves totalled £10,748,000 at the end of the financial year. These reserves are actual cash sums set-aside for specific purposes.

4.4 Capital Outturn Report

The capital programme spend for 2014/15 was £3,800,000, which equates to a 13.7% underspend. This compares to a 15.1% underspend in 2013/14.

5. Loans

SSDC has a loans policy where loans may be given at PWLB (Public Works Loans Board) rates to local voluntary and charitable organisations. The maximum outstanding sum of those loans must not exceed £1,000,000 at any time. At the end of 2014/15 the amount of loans outstanding under this policy was £136,665.

6. Statement of Accounts

- 6.1 The District Auditor will review the annual Statement of Accounts and supporting working papers and will issue his opinion as to whether they present fairly the financial position of South Somerset District Council at 31 March 2015 and its income and expenditure for the year then ended.
- 6.2 A copy of the Statement of Accounts has been circulated separately with this agenda. In addition to this, a summary of the statements will be prepared in leaflet format to make them more accessible to the end user.

7. Key Features from the Statement of Accounts

- 7.1 The Statement of Accounts contains four core statements reflecting the financial position of SSDC as at 31st March 2015. These are;
 - Movement in Reserves Statement;
 - Comprehensive Income and Expenditure Statement;
 - Balance Sheet;
 - Cash Flow Statement.
- 7.2 There are additional statements relating to the Collection Fund (which deals with the collection and distribution of Council Tax and Business Rates).
- 7.3 It is a statutory requirement for all local authority financial statements to be IFRS compliant.
- 7.4 The Code of Practice on Local Authority Accounting did not introduce any further technical changes for 2014/15.

8. The Comprehensive Income and Expenditure Statement

- 8.1 This account gives detailed information about the total expenditure on the services we provide. It also shows the council tax and government grants received to help pay for those services. The net operating expenditure figure is reconciled to the outturn spend position outlined to District Executive in the following way:

	£'000
Total Spend Reported to the District Executive	16,477
Adjustments:	
Amounts not reported to management but included on Costs of Services in Comprehensive Income and Expenditure Statement.	3,154
Net Cost of Services (taken from the Comprehensive Income and Expenditure Statement, page 28 of the financial statements)	19,631

8.2 The major year on year variations (over £0.5 million) and explanations for those variances are outlined below:

Services	Previous Year 2013/14 £'000	Current Year 2014/15 £'000	Variance £'000	Reason for Variance
Central Services	859	1,815	956	Pension lump sum contribution
Environmental and Regulatory Services	8,539	7,829	(710)	Salary costs reduced and less vehicle costs
Corporate and Democratic Services	2,608	1,982	(626)	Decrease in democratic costs

Note that figures in brackets show underspends compared to the previous year spend.

9. The Balance Sheet

- 9.1 The Balance Sheet provides the Council with a snapshot of our financial position overall as at the 31st March 2015. At 31 March 2015 the authority's net assets amounted to £23.40 million (£38.38 million at 31 March 2014).
- 9.2 The authority's net assets are significantly reduced by the inclusion of the pension scheme liability of £80.30 million (compared to £61.81 million at 31 March 2014). The present value of the pension scheme liability has decreased to £160.78 million (from £135.33 million at 31 March 2014) and the fair value of the scheme assets have increased to £80.50 million (£73.52 million at 31 March 201).
- 9.3 In practice, the amount of net worth that can be used is £53.32 (Usable Capital Receipts £35.66 million, Capital Grants Unapplied £0.26 million, Earmarked Reserves £10.75 million, General Fund Balances £6.05 million and Share in Joint Venture £0.60 million).
- 9.4 In addition, Members will note the Contingent liabilities disclosed in note 44. Contingent liabilities are possible future obligations; they are not accounted for within the balance sheet, as the obligation will only be confirmed if uncertain events happen in the future. Any claims would need to be funded from SSDC balances.

10. Cash Flow Statement

- 10.1 This statement outlines the changes in cash and cash equivalents of the authority during 2014/15.
- 10.2 There has been a net decrease in cash and cash equivalents of £4.05 million.
- 10.3 Cash Equivalents are short-term highly liquid investments that are readily convertible within 24 hours to known amounts of cash and which are subject to an insignificant risk of change in value.

11. Collection Fund

- 11.1 The Council Tax Reduction Scheme was introduced in 2013/14. This meant that recipients of financial assistance for their Council Tax bill received a discount on their bill rather than receiving a benefit from Central Government. The total SSDC has collected on behalf of all of the precepting authorities (e.g. Somerset County Council, Avon & Somerset Police Authority, Devon & Somerset Fire & Rescue Authority and town/parish councils). There was a surplus of £0.49 million on the Council Tax element of the Collection Fund account. This surplus is split in proportion to the amount that each precepting authority precepts.
- 11.2 From April 2013, the system of Government funding was changed significantly. Funding is now based on the amount of business rates each authority collects, compared to the old system where the funding was based on a formula that did not relate to the business rates collected in the district. Therefore business rates retention is intended to provide incentives for local authorities to drive economic growth locally. The new funding regime which is based on performance has increased the need to monitor and proactively agree priorities to maximise business rate income. The share to be paid to central government from business rates collected is now 50%. Therefore 50% of business rates is retained locally (40% South Somerset District Council, 9% Somerset County Council, 1% Devon & Somerset Fire and Rescue Authority). There was a surplus of £0.34 million. This deficit is apportioned across central government, South Somerset District Council, Somerset County Council and Devon & Somerset Fire and Rescue Authority on the proportions detailed previously.

12. Auditor's Opinion

- 13.1 An unqualified opinion has been issued on the financial statements.
- 13.2 During the audit there were some minor amendments made to the financial statements following discussions with the auditors. Processes have been put in place to eliminate errors that have been identified during the 2014/15 audit to ensure that they do not occur in future years. The amendments are detailed beneath:
 - 13.2.1 Income from New Homes Bonus was incorrectly recorded within Central Service income rather than to taxation and non-specific grant income. This has now been corrected.
 - 13.2.2 The gross carrying value of intangible assets and the accumulated amortisation was misstated within note 16. However, this had no impact on the carrying value of intangible assets in the Balance Sheet as the net effect was £0. The figure has now been updated.

13.2.3 The Code of Practice expects that all assets within the same class are valued within the same financial year. It is felt that on the grounds of affordability and benefit this offers do not justify the cost.

13.2.4 The auditors have asked for sufficient evidence to demonstrate that the carrying value of assets based on valuations in prior years are is not materially misstated. SSDC purchase the services of the District Valuer, who has given the Council assurance that this is the case, but other than this, the Council are unable to provide sufficient evidence. It will require investigation about how this can be achieved in future years.

13.3 None of the adjustments made impacted upon the financial position of the Council.

14. Financial Implications

There are no financial implications associated with these recommendations.

Background Papers: *Revenue outturn 2014/15*
Capital outturn 2014/15
Accounting Policies 2014/15
The Audit Findings for South Somerset District Council Year Ended 31 March 2015 by Grant Thornton.