

Briefing Note for Members of Audit Committee

Unaudited 2012/13 Statement of Accounts – highlights report

Introduction

The principal objective of the Council's Statement of Accounts is to provide information about the Council's financial performance, financial position, cash flows and other information that is useful to a wide range of local and national stakeholders in assessing the Council's stewardship of its resources.

The Statement of Accounts is prepared in accordance with relevant legislation and recognised accounting standards applicable to external financial reporting requirements. Their format is therefore different from the management accounts which are prepared during the year for internal monitoring purposes against cash limited budgets and the Revenue Outturn Report produced at the end of the year.

This highlights report draws Audit Committee's attention to key matters reported in the 2012/13 unaudited Statement of Accounts.

Explanatory Foreword

The Explanatory Foreword on pages 2 to 10 provides an important introduction to the Financial Statements as it brings attention to a reader of the accounts the Council's overall financial performance in the year, its financial position at the year end, significant matters reported in the Financial Statements and the Council's future financial prospects.

Financial Performance

Revenue Outturn

The Council's overall financial performance as reported in the 2012/13 Revenue Outturn report which went to cabinet on 19 June 2013, together with the comparatives for last year's performance, is summarised in the table below:

	2011/12	2012/13
	£000	£000
General Fund outturn	217,618	212,402
HRA – increase in balance	(5,555)	(6,801)
Schools Delegated Budgets - increase in balances	(4,531)	(616)
Revenue Outturn	207,532	204,985

The Council's budget for General Fund services in 2012/13 was £213.290m which meant that there was an underspend of £0.888m. Members approved the carry forward of £0.864m of trading surpluses and other specific items leaving an uncommitted amount of £0.024m available to support the budget. The General Fund underspend was after the approved use of General Fund balances during the year of £0.302m.

The net increase in the General Fund balance (including Schools Delegated Budgets) and increase in the HRA balance for the year is therefore:

	2012/13
	£000
General Fund underspend before approved carry forwards	888
Approved Use of General Fund Balances in year	(302)
Schools Delegated Budgets underspend	616
Net increase in General Fund balance (including Schools Delegated Budgets)	1,202
HRA – increase in balance	6,801

It is difficult to relate the 2012/13 financial performance reported in the Revenue Outturn report to that reported in the 2012/13 Statement of Accounts but in overall terms, it can be seen to agree to the net increase in the General Fund and HRA balances as follows:

	General Fund inc. Schools Delegated Budgets	HRA (page 95 of the accounts)	Total
	£000	£000	£000
Net Cost of Service (page 12 of the accounts)	235,085	(9,628)	225,457
Other Operating Expenditure / Financing & Investment Income & Expenditure / Taxation and Non Specific Grant Income (page 12 of the accounts)	(222,496)	13,994	(208,502)
Deficit on the provision of Services (page 12 of the accounts)	12,589	4,366	16,955
Adjustments between accounting basis & funding basis under regulations (page 14 of the accounts)	(14,019)	(12,291)	
Transfers to Earmarked Reserves (page 14 of the accounts)	228	1,124	
Net Increase in Year	1,202	6,801	

The Net Cost of Service shown in the Income and Expenditure Statement on page 12 shows a decrease of £41m from £266m in 2011/12 to £225m in 2012/13.

The main reasons for this change are the following items. These form part of the statutory adjustments between the accounting basis and funding basis and, as such, do not affect the amount to be met by council tax or rent payers:

- £19m reduction in impairment and revaluation losses on capital assets
- £15m one off payment in 2011/12 representing the HRA self financing settlement. No equivalent in 2012/13
- £9m reduction in Revenue Expenditure Financed by Capital Under Statute. This is because in 2011/12 the Council received capitalisation directions to capitalise expenditure that would otherwise be charged to revenue, for example, severance pay, but has not received any capitalisation directions in 2012/13
- The actuary assessed that £5m more of pension benefits were accrued by members of the South Yorkshire LGPS from their service during 2012/13 than in 2011/12

The deficit on the provision of General Fund services of £12.589m and that on the HRA of £4.366m reported in the Comprehensive Income and Expenditure Statement on page 12 of the accounts represents the position that would have been reported under commercial accounting rules.

The statutory adjustments between the accounting basis and funding basis are those required to convert the Council's financial performance under commercial accounting rules to the amount to be met by council tax payers and rent payers under the local authority accounting framework. These adjustments are set out in more detail on pages 20 and 21 of the accounts.

The transfers from the General Fund and HRA to earmarked reserves are shown in more detail in Note 2 on page 22 of the accounts.

Collection Fund

As disclosed on page 106, the Collection Fund made a surplus of £0.140m in 2012/13 after allowing for a distribution of £2.619m of the previous year's surplus (ie it made an in year surplus of £2.759m). As shown in Note 5 to the Collection Fund, the Council's share of the Collection Fund balance at 31 March 2013 of £3.616m is £3.300m. £1.4m of this amount is being used to support the budget in 2013/14. There are no further plans for utilising the Collection Fund balance until the impact of the Welfare Reform changes can be fully understood.

Financial position

Balance sheet

The Balance Sheet on page 15 of the accounts shows the value of assets and liabilities recognised by the Council at the Balance Sheet date of 31 March 2013. The net assets of the Council (assets less liabilities) represent the Council's net worth. The change in net worth between the start and end of the financial year is summarised below:

	£m
Net Worth – as at 1 April 2012 (as restated)	242.951
Less: Deficit on provision of services reported in the CIES (page 12)	(16.955)
Less: Other gains and losses recognised in the CIES (page 12)	(59.527)
Net worth – as at 31 March 2013	<hr/> 166.469 <hr/>

Change in net worth

The main reason for the overall decrease in the Council's net worth of £76.5m from £242.951m at 31 March 2012 to £166.468m at 31 March 2013 is an increase of £81m in the actuary's assessment of the Council's pension liability relating to the South Yorkshire LGPS from £291m in 2011/12 to £372m in 2012/13. This mainly due to a combination of two factors:

- an increase of £127m in scheme liabilities due to a change in the discount factor used by the actuary to discount the future pensions liabilities of members of the LGPS to present value terms
- offset by an increase in the anticipated return on scheme assets of £54m due to changes in market expectations on the likely return on different types of investment

It should be noted that this information is a snapshot only at 31 March 2013 for the purposes of producing the Statement of Accounts and has no bearing on the contributions payable by the Council and employees which are based on triennial actuarial valuations. The next triennial valuation is about to commence and will take account of forthcoming changes to the LGPS which will come into effect in April 2014

Other significant changes to the balance sheet:

(a) Capital grant received in advance – the balance of capital grants received in advance (which represents S.106 developer contributions) has increased from £0.527m in 2011/12 to £2.321m in 2012/13. This is mainly due to the following amounts being received in the year:

- Various parcels of land to the north of Manvers Way, Manvers - £0.607m; and
- Advanced Manufacturing Park £0.853m.

(b) Long term debtors – Increase of £3.859m year on year due to £4.127m having been advanced to R U Estates during the year to support the development of the new community stadium

(c) Long term creditors - decrease of £4.016m year on year as a result of payments being reclassified from long term to short term as they are payable in 2013/14

(d) Provisions – decrease of £3.223m year on year due to release of £3.5m of equal pay provision no longer required as period for making new claims is now time expired, increase in insurance provision by £0.6m to absorb potential MMI liabilities, offset by reduction of £0.8m in provision for severance costs

(e) Short term debtors and short term creditors – little change overall year on year in net liabilities with a small decrease from £32.216m in 2011/12 to £31.568m in 2012/13

(f) Liquid resources (cash and cash equivalents, bank overdraft , short term investments, short term borrowing including long term borrowing repayable within one year) – Overall, the position has improved from £36.442m overdrawn in 2011/12 to £6.129m overdrawn in 2012/13. Long term borrowing repayable within one year included in these figures was £7.138m in 2011/12 and £12.274m in 2012/13.

Reserves

The Council's net worth is represented by the reserves held by the Council comprising £104.994m of usable reserves and £61.474m of unusable reserves.

Usable reserves represent the revenue and capital resources which are immediately available to the Council to support future revenue and capital expenditure.

The Council's usable reserves as set out in Note 37 on page 79 of the accounts are as follows:

31 March 2012 £000		31 March 2013 £000
	CAPITAL RESERVES	
(5,428)	Capital Receipts Reserve	(14,888)
(2,657)	Major Repairs Reserve	(2,877)
(20,080)	Capital Grants Unapplied Account	(21,884)
	REVENUE RESERVES	
(7,359)	General Fund - Schools	(7,975)
(9,594)	General Fund - Non Schools	(10,180)
(29,993)	Earmarked Reserves	(30,221)
(8,327)	HRA	(15,129)
(716)	Earmarked HRA Reserves	(1,840)
(84,154)	TOTAL USABLE RESERVES	(104,994)

The non schools General Fund balance of £10.180m includes the carry forwards of £0.864m approved by Cabinet. This leaves £9.316m available to meet unforeseen costs and contingencies relating to General Fund services as reported in the Revenue Outturn Report.

Earmarked reserves as reported in the Revenue Outturn Report of £51.344m comprise: HRA reserves and balances of £16.969m (£15.129m plus £1.840m) plus the Major Repairs Reserve of £2.877m, Schools balances of £8.227m (comprising £7.975m school balances plus schools declared savings of £0.252m), and Earmarked Reserves of £23.271m (£30.221m less schools declared savings of £0.252m and the Revenue Grants Reserve of £6.698m).

HRA reserves and balances and the Major Repairs Reserve are ring-fenced for use by the HRA. School balances are ring-fenced for use by schools.

General Fund Earmarked reserves are identified in Note 2 on pages 22. Page 23 provides a brief narrative of the specific purpose for which they have been set aside. The £6.698m Revenue Grants reserve balance is regarded as unavailable as it represents unapplied grant carried forward to 2013/14 on the basis that there are spending plans in place against which grant is committed.

The increase in the HRA balance of £16.802m is after transferring £1.124m to the Furnished Home earmarked reserve. The total balance on this reserve at 31 March 2013 was £1.840m. The furnished homes service represents the provision of housing on which an additional charge for services and facilities is payable because the council house is furnished. The reserve represents the cumulative surplus made by the service to date and is available to support the existing scheme and any future expansion of the service.

The main reason for the increase in the capital receipts reserve of £9.46m is the capital receipt from the disposal of the former civic site for a lease premium of £7.33m received in February 2013.