ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**23rd April 2014**
3.	**Title:**	**Closure of Accounts 2013/14**
4.	**Directorate:**	**Resources**

5. Summary

The principal objective of the Council's annual financial statements is to provide information about the Council's financial performance, financial position and cash flows that is useful to a wide range of local and national stakeholders in assessing the Council's stewardship of its resources. It is therefore important that the Council's accounts are prepared in accordance with recognised accounting standards and can be relied upon by users of the accounts.

This report brings to Members' attention the main changes to accounting standards and disclosure requirements in 2013/14; their effect on the Council's accounting policies; and the project management arrangements that will be employed to secure the timely closure and production of the 2013/14 Financial Statements that are fully compliant with the Code of Practice on Local Authority Accounting (the Code). It also reminds Members that the Audit Committee will need to formally approve the audited Financial Statements at its September meeting and asks Members whether they wish the unaudited Financial Statements to be presented to Audit Committee at its meeting in July for information.

6. Recommendations

Audit Committee is asked to:

- **Note the changes to the Council's accounting policies**

- **Note the requirement for the Audit Committee to formally approve the audited 2013/14 Financial Statements at its September meeting**

- **Approve the receipt for information of the unaudited Financial Statements at its July meeting**

7. Proposals

Local authority accounting operates in a dynamic environment which is subject to ongoing changes to accounting standards and legislative requirements which impact on local government financial reporting.

It is important that the Council continues to respond to these changes promptly and effectively to ensure that the financial information used by management and stakeholders faithfully represents the Council's true financial position.

7.1 Changes to the accounting framework in 2013/14

The key changes in 2013/14 and action taken to address them are tabulated in Appendix 1.

We have continued to liaise closely with our external auditors, KPMG, to ensure that they are satisfied that these changes and the key risks identified in their External Audit Plan are being properly addressed and will continue to do so during closedown and over the course of their audit.

7.2 Changes to the Council's accounting policies in 2013/14

The Code has adopted the following accounting standards in 2013/14:

- Amendments to IAS 19 Employee benefits
- Amendments to IAS 1 Presentation of Financial Statements
- Offsetting financial assets and liabilities under IFRS 7
- Deferred taxation on an entities income under IAS 12 (only applicable where Group Accounts are prepared)

In addition, the Code has provided clarification on a number of existing accounting standards as part of the Annual Improvements to IFRS programme. This includes: the recognition and valuation of property, plant and equipment; recognition of PFI assets under construction; the classification of leases provided for a nominal or peppercorn rent, and: recognition of Assets Held for Sale.

None of the changes or clarifications has had a material impact on 2013/14 and there has therefore been no need to adjust the comparatives reported in the previous period (financial year).

However, certain policies have been amended as a result of the above and to reflect changes to the way in which the Council's operations are funded under localisation. These are as follows:

- Tax income (Accounting Policy 7) – section on business rates income updated to reflect changes arising as a result of the localisation of business rates with effect from 1 April 2013

- Employee benefits (Accounting Policy 23) – minor change to the point at which severance costs and other termination benefits are charged to revenue and technical changes to the way in which pension costs (post-retirement benefits) relating to defined benefit schemes are presented in the accounts

- Acquisitions and discontinued operations (Accounting Policy Note 29) – new accounting policy added to explain how the transfer of public health functions from the NHS with effect from 1 April 2013 have been accounted for in the Council's 2013/14 accounts

Amended accounting policy notes 7, 23 and 29 are re-produced in Appendix 2 with the changes highlighted in italics for Members information.

7.3 Financial reporting – Audit Committee's role

Prior to 2010/11 the Accounts and Audit Regulations required that the unaudited Financial Statements be approved by Members by 30 June and the audited Financial Statements by 30 September. The Accounts and Audit Regulations 2011 removed the requirement for Members to formally approve the unaudited Financial Statements.

Audit Committee resolved that in order to maintain strong governance over financial reporting it wished to continue to receive the unaudited Financial Statements for information after they have been authorised and released for publication.

Assuming Members wish this to remain the case, the key dates Members need to be aware of are:

- 30 June 2014 – this is the date by which the unaudited Financial Statements must be authorised for publication by the Director of Financial Services.

- July 2014 Audit Committee – unaudited 2013/14 Financial Statements to be presented to Audit Committee for information.

- September 2014 Audit Committee – audited 2013/14 Financial Statements to be formally approved by Audit Committee following presentation to Committee of KPMG's ISA 260 report which sets out the findings of their audit of the Financial Statements.

8. Finance

No additional financial implications beyond the current budgetary provision are anticipated.

9. Risks and Uncertainties

The preparation, approval and publication of the Council's annual Financial Statements remain a cornerstone of financial accountability for the local electorate, Members and other stakeholders.

Failure to comply with the Accounts and Audit Regulations, other relevant legislation and local authority accounting requirements as set out in the Code may indicate a weakness in financial reporting whereas compliance demonstrates strong governance is in place and ensures best practice is being followed.

As in previous years, in order to minimise the risk of these objectives not being met, the closedown process and production of the accounts will be project managed and subject to quality assurance arrangements.

10. Policy and Performance Agenda Implications

None other than the reputational risk referred to above from non-compliance.

11. Background Papers and Consultation

Code of Practice on Local Authority Accounting 2013/14
Service Reporting Code of Practice 2013/14
Accounts and Audit Regulations 2011
Audit Committee – March 2013

Simon Tompkins, Finance Manager, extension 54513
simon.tompkins@rotherham.gov.uk

Appendix 1

Key changes in 2013/14

Area of accounts	**Change in accounting practice / new disclosure required**	**Action taken**
Collection Fund – business rates	The localisation of business rates with effect from 1 April 2013, will lead to significant changes to the way they are accounted for in 2013/14. Under localisation, these risks and rewards are shared between the Council, central government and South Yorkshire Fire in the ratio 49:50:1 To reflect this change, the Collection Fund will show the surplus or deficit against the budgeted business rate income for the year and the proportionate share borne by central government, South Yorkshire Fire, and the Council which is to be distributed / recovered in future years. Rating appeals will have a key bearing on whether or not budgeted income is achieved. A prudent approach has been taken to estimating the level of refunds using detailed statistics provided by the Valuation Office.	Proforma 2013/14 Collection Fund amended to take account of the changes. Accounting policy updated
Collection Fund – council tax	The localisation of council tax and introduction of the Local Council Tax Reduction scheme with effect from 1 April 2013, will lead to a significant change to the way in which council tax income is presented in the accounts. Deductions from the amount due from council tax payers under the Local Council tax Reduction Scheme are treated as a discount and no longer therefore attract housing benefit grant. The government instead provides financial support by means of a Council tax reduction support grant which is credited to the General Fund.	Proforma 2013/14 accounts amended to take account of the changes
Employee benefits	Amendments to accounting standards relating to employee benefits will lead to presentational changes to the way in which the components of staff costs (earnings, termination benefits and pension costs) are presented in the Comprehensive Income and Expenditure Statement (CIES). These are technical in nature and do not affect the amounts chargeable to revenue.	Pro-forma 2013/14 accounts amended to take account of the changes Accounting policy updated
Schools converting to academies	During the course of 2013/14, 17 maintained schools converted to academies. The annual budget of these schools is £33m. This will mean that there will be a substantial reduction in the amount of income and expenditure reported in	Impact to be highlighted in the Foreword to the accounts and other relevant disclosures

	2013/14 under Education and Children Services relative to 2012/13. It also has led to school buildings with a value of £42m being removed from the Council's balance sheet.	
Public Health	A new line has been added to the CIES to disclose public health income and expenditure following the transfer of public health from the NHS to the Council with effect from 1 April 2013.	New line added to CIES Accounting policy added

Appendix 2

7 <u>Tax Income (Council Tax, Residual Community Charge, National Non-Domestic Rates and Rates)</u>

National Non-Domestic Rates (NNDR)

NNDR collection is an agency arrangement. Business rate income within the Comprehensive Income & Expenditure Statement is the Council's share of the accrued business rate income for the year. The difference between this and the amount transferred to the General Fund under statute (representing the Council's share of the estimated business rate income for the year together with the Council's share of the previous year's surplus or deficit which is distributed or recovered) is taken to the Collection Fund Adjustment Account. The central share (after allowable deductions) of business rate income is paid out of the Collection Fund to central government. Growth in business rate income in an Enterprise Zone area, business rate income from renewable energy schemes and from businesses in New deal areas is wholly attributable to the Council and transferred in full to the General Fund on an accruals basis. Debtors are shown exclusive of the proportions attributable to major preceptors.

23 <u>Employee Benefits</u>

<u>Termination Benefits</u>

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis *at the earlier of when the Council can no longer withdraw an offer of those benefits or when the Council recognises the cost of restructuring.*

Redundancy payments are charged to the relevant service line in the Comprehensive Income and Expenditure Statement.

Pension strain costs are charged to Non Distributed Costs in accordance with statutory provisions which require that the General Fund be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards.

<u>PostEmployment Benefits</u>

Employees of the Council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education
- The Local Government Pensions Scheme, administered by South Yorkshire Pensions Authority

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Children's and Education

Service line in the Comprehensive Income and Expenditure Statements is charged with the employer's contributions payable to the Teachers' Pensions Scheme in the year.

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the South Yorkshire pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds. In determining these liabilities, an assumption has been made on the advice of our actuaries that 50% of employees retiring will take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension

- The assets of the South Yorkshire pension fund attributable to the Council are included in the Balance Sheet at their fair value:

    - quoted securities – current bid price
    - unquoted securities – professional estimate
    - unitised securities – current bid price
    - property – market value.

- The change in the net pensions liability is analysed into the following components:

    - current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
    - *past service cost – the increase in liabilities arising from current year decisions as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs*
    - *net interest - interest receivable on the fair value of plan assets held at the start of the period adjusted for changes in plan assets during the year as a result of contributions and benefit payments less the interest payable on pension liabilities both determined using the discount rate based on high quality corporate bonds used to measure the defined benefit obligation at the beginning of the period – debited /credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement*
    - *re-measurements - return on plan assets excluding amounts included in net interest and actuarial gains/losses that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions debited/credited to the Pensions reserve as Other Comprehensive Income and Expenditure*

- contributions paid to the South Yorkshire pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

29 ***Acquisitions and discontinued operations***

Responsibility for public health functions was transferred from the NHS to the Council with effect from 1 April 2013. Assets and liabilities have been transferred at book value as required by CIPFA guidance on public sector combinations.

Income and expenditure relating to public health is presented in the Comprehensive Income and Expenditure statement under the heading of "services transferred from the NHS".