

## Briefing Note for Members of Audit Committee

### Unaudited 2013/14 Statement of Accounts – highlights report

#### Introduction

This highlights report draws Audit Committee's attention to key disclosures reported in the 2013/14 unaudited Statement of Accounts published on 30 June.

#### Explanatory Foreword

The Explanatory Foreword on pages 2 to 10 provides an important introduction to the Statement of Accounts 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 Statement of Accounts and the Council's future financial prospects.

#### Financial Performance

##### Revenue Outturn

The Council's overall financial performance as reported in the 2013/14 Revenue Outturn report which went to cabinet on 18 June 2014, together with the comparatives for last year's performance, is summarised in the table below:

	2012/13	2013/14
	£000	£000
General Fund outturn	212,402	220,440
HRA – increase in balance	(6,801)	(1,570)
Schools Delegated Budgets - (increase) / decrease in balances	(616)	884
<b>Revenue Outturn</b>	<b>204,985</b>	<b>219,754</b>

The Council's budget for General Fund services in 2013/14 was £221.474m. The saving against budget of £1.034m included £0.767m of trading account surpluses and approved carry forwards of £0.287m leaving £0.036m available to support the future years' budget.

It is difficult to relate the 2013/14 financial performance reported in the Revenue Outturn report to that reported in the 2013/14 Statement of Accounts due to the figures in the accounts being compiled on a different basis as required by The Accounting Code.

However, 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 90 of the accounts)	Total
	£000	£000	£000
Net Cost of Service (page 12 of the accounts)	215,484	(13,791)	201,693
Other Operating Expenditure / Financing & Investment Income & Expenditure / Taxation and Non Specific Grant Income (page 12 of the accounts)	(184,847)	13,331	(171,516)
Deficit / (surplus) on the provision of Services (page 12 of the accounts)	30,637	(460)	30,177
Adjustments between accounting basis & funding basis under regulations (page 14 of the accounts)	(34,009)	(2,455)	
Transfers to Earmarked Reserves (page 14 of the accounts)	3,215	1,346	
<b>Net Increase in Year</b>	<b>157</b>	<b>1,569</b>	
The Net Increase in Year comprises:			
General Fund saving against budget	1,034		
Schools – use of balances	(884)		
Other transfers	6		

**The deficit on the provision of services of £30.177m** represents the position that would have been reported under the accounting rules applicable to private sector listed companies (ie under International Financial Reporting Standards)

The statutory adjustments between the accounting basis and funding basis recognise that under the local authority accounting framework, the amount to be met by council tax payers and rent payers is determined in accordance with the legislative requirements applicable to local government finance. These adjustments are set out in more detail in Note 1 to the accounts on pages 20 and 21.

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

The format of the Collection Fund on page 99 has changed significantly in 2013/14 as a result of the government introducing localisation of council tax support and the business rates retention scheme with effect from 1 April 2013.

Under the localisation of council tax support, reductions in the amount of council tax payable by low earners are treated as discounts and no longer qualify for benefit. Government support is instead provided in the form of general government grant. The consequence of this is that the amount of council tax income disclosed in the Collection Fund no longer includes council tax benefit (£22.9m of council tax benefit was credited to the Collection Fund in 2012/13), government support is now included within Note 7 as general revenue grant.

The introduction of the business rates retention scheme means that the Council now shares the risks and rewards of growth or reductions in business rates income with central government. The Council's share as billing authority is 49%, central government's is 50% with South Yorkshire Fire and Civil Defence Authority bearing the other 1%.

The Collection Fund has been segmented to show separately, the surplus or deficit attributable to council tax from that attributable to business rates. Note 5 to the Collection Fund, shows the Council's share of the surplus or deficit which has still to be distributed or recovered.

#### Other issues

Other significant changes to draw to Members attention in relation to the 2013/14 Statement of Accounts, as highlighted in the report to Committee on the 23 April 2014 , are:

- Public health – an additional line has been inserted in the Comprehensive Income and Expenditure Statement on page 12 to show the income and expenditure relating to public health functions transferred to the Council from the NHS with effect from 1 April 2013
- Schools converting to academy – as disclosed in the Movement in Reserves Statement on page 14, £0.786m of school balances have been transferred out of the Council's balance sheet as a result of schools converting to academy during the 2013/14 financial year. School buildings with a carrying value of £42.5m have also been transferred off balance sheet (this accounts for most of the loss on disposal of non current assets shown in Note 4 of £41.4m)

## Financial position

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 2014.

### Reserves

The Council had £114.520m of usable reserves and £150.668m of unusable reserves at 31 March 2014.

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

The Council's usable reserves as set out in Note 37 on page 76 of the accounts are as follows:

31 March 2013 £000		31 March 2014 £000
	<b>CAPITAL RESERVES</b>	
(14,888)	Capital Receipts Reserve	(18,316)
(2,877)	Major Repairs Reserve	(5,224)
(21,884)	Capital Grants Unapplied Account	(20,135)
	<b>REVENUE RESERVES</b>	
(7,975)	General Fund - Schools	(6,305)
(10,180)	General Fund - Non Schools	(11,221)
(30,221)	Earmarked Reserves	(33,436)
(15,129)	HRA	(16,697)
(1,840)	Earmarked HRA Reserves	(3,186)
(104,994)	<b>TOTAL USABLE RESERVES</b>	(114,520)

The non schools General Fund balance of £11.221m includes trading surpluses of £0.727m and approved carry forwards of £0.287m approved by Cabinet. The remaining balance is set at a prudent level to meet unforeseen costs and contingencies.

The HRA balance 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 listed in Note 2 on page 22. Included within this are schools declared savings of £0.151m ring fenced for use by schools. There is also a balance of £7.818m on the Revenue Grants reserve. This balance represents unapplied grant which is fully committed to supporting spending plans in future years and, as such, is therefore not available.

### Unusable Reserves

Unusable reserves comprise the statutory adjustments between the presentation under the accounting rules applicable to private sector listed companies (the accounting basis) and the way in which local government

finance is funded under legislation (the funding basis). They also include gains and losses which have still to be realised, for example, revaluation gains on assets which have not yet been sold.

Unusable reserves by their nature, as their name suggests, are not available to support future revenue and capital expenditure.

Note 38 on page 77 of the accounts provides a summary of unusable reserves.

The most notable of these is the Pensions Reserve. It represents the additional amount that would have been recognised as a charge in the Council's accounts had they have been accounted for under International Financial Reporting Standards rather than under the Local Government Pension Scheme rules required by the Accounting Code. It is equal and opposite to the Pensions Liability disclosed in Note 50.

As can be seen from the sensitivity analysis in Note 18 on page 55 relatively small changes to the actuarial assumptions used to estimate the Pensions Liability can have a major effect on its value. One of the main reasons for the decrease in the Pensions Liability from £372m at 31 March 2013 to £264m at 31 March 2014 is the increase in the discount rate used to discount the future pension liabilities of members of the LGPS to present value terms from 4.2% to 4.5%. This has led to a decrease in scheme liabilities of £94m. By contrast a decrease in the discount rate from 4.9% to 4.2% in 2012/13 led to an increase in scheme liabilities of £116m. The volatility of the Pensions Liability does not have any bearing on the amount of contributions payable to South Yorkshire Pensions Authority which are determined triennially by the actuary.