

Local Members' Interest
N/A

## **Audit and Standards Committee – 14 September 2015**

### **2014/2015 Statement of Accounts**

#### **Recommendations**

1. That members approve the 2014/2015 Statement of Accounts as attached to this report.
2. To approve the letter of representation from the Director of Finance and Resources.

#### **Report of the Director of Finance and Resources**

##### **Background**

3. The 2014/2015 Statement of Accounts is attached as Appendix 3 to this report and covers the County Council and Staffordshire Pension Fund. The Accounts and Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice).
4. The Code of Practice is updated annually with only minor changes introduced in 2014/2015.
5. As part of normal year end processes I am required to make a written representation to the auditors expressing an opinion as to whether the accounts give a true and fair view of the financial position of the Council in accordance with the appropriate rules and regulations. My letter is attached as Appendix 2 to this report and I would welcome discussion regarding any matters covered by the letter. The committee members are asked to approve the letter.

#### **Interpretation and Comment on Key Financial Information**

##### **Revenue Outturn**

6. The revenue outturn totalled £512.6 million on our day to day activities after allowing for transfers to reserves. This was £7.3 million (or 1.42%) more than we budgeted for and an analysis of the spend across services is set out in the table overleaf.

The table compares the budget with the final outturn (spending) for 2014/2015

	<b>Budget</b>	<b>Outturn</b>	<b>Over / (Under) spend</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>People</b>			
Children in Need of Care and Support	64.8	66.8	2.0
Long Term Conditions and Partnership Trust	99.7	103.8	4.1
All Aged Disability	83.3	89.6	6.3
Mental Health	11.5	11.6	0.1
Education and Wellbeing	33.8	32.5	(1.3)
Safety	25.8	25.4	(0.4)
Business Improvement	7.1	7.2	0.1
<b>People Total</b>	<b>326.0</b>	<b>336.9</b>	<b>10.9</b>
<b>Public Health</b>	<b>1.6</b>	<b>1.1</b>	<b>(0.5)</b>
<b>Place</b>			
Built County	29.0	28.2	(0.8)
Rural County	2.4	2.5	0.1
Sustainable County	20.5	20.4	(0.1)
Transport and Connected County	28.5	29.5	1.0
Business and Enterprise County	4.0	3.2	(0.8)
Tourism and Cultural County	9.3	9.2	(0.1)
Economic Planning and Future Prosperity	0.5	0.6	0.1
Place Business Management	2.5	2.4	(0.1)
<b>Place Total</b>	<b>96.7</b>	<b>96.0</b>	<b>(0.7)</b>
<b>Corporate / Support Services</b>			
Finance and Resources	5.9	5.2	(0.7)
Law, Democracy and Transformation	10.7	9.8	(0.9)
Strategy and Customer Service	4.3	4.3	0.0
Trading Services Contribution	(1.0)	(0.9)	0.1
<b>Corporate / Support Services Total</b>	<b>19.9</b>	<b>18.4</b>	<b>(1.5)</b>
<b>Total Portfolio Budgets</b>	<b>444.2</b>	<b>452.4</b>	<b>8.2</b>
<b>Centrally Controlled Items</b>			
Interest on Balances and Debt Charges	46.1	46.1	0.0
Other*	14.3	14.1	(0.2)
Contingency	0.7	0.0	(0.7)
<b>Centrally Controlled Total</b>	<b>61.1</b>	<b>60.2</b>	<b>(0.9)</b>
<b>Planned Net Revenue Budget / Expenditure</b>	<b>505.3</b>	<b>512.6</b>	<b>7.3</b>

\*Other consists of insurance costs, property repairs and maintenance costs and pooled buildings costs.

7. The People portfolio has been affected by the national issues of rising demographic pressures for both adult social care and looked after children, challenging market conditions and financial constraints. This situation means that we spent £10.9 million more than budget in this portfolio. A number of factors have led to this overspend, these include pressures relating to the number of people requiring care which has meant that planned savings have not been achieved; and modernisation costs relating to the former in-house homecare service and older people's care homes. Costs relating to looked after children were more than budgeted, due to increased placement costs in the independent sector and the costs of the government's Staying Put initiative. The All Age Learning and Disability service has overspent due to a combination of savings targets for modernisation of day and residential services not being delivered, pressures from new or increased packages of care and contributions from health being lower than expected.
8. The 2015/16 budget contains an investment of £20 million in the People portfolio, specifically in the areas mentioned above in order to mitigate these budget pressures.
9. In the Place portfolio there was a small underspend of £0.7 million. The Built County (Highways service area) underspent by £0.8 million, due to the one-off benefit of the recent national settlement on the ability of local authorities to charge for property searches. Business and Enterprise County also underspent by £0.8 million which has arisen due to increased income being received in Trading Standards, County Farms and Enterprise Centres.
10. The Transport and Connected County experienced an increased amount of pressure for additional spend, particularly within the budgets for support of the public bus network and the SEN (Special Educational Needs) Home to College budget. This has resulted in an overspend of £1.0 million, although savings have been achieved across this budget and work will continue in 2015/16 to achieve a greater level of savings in future years.

### Capital Outturn

11. In 2014/2015, we spent grants from the Government totalling £52.7 million, compared to £51.1 million in 2013/2014. We also accounted for £41.7 million of borrowing to finance our capital spend. After including all extra funding such as specific grants and contributions from developers, our final capital spend for 2014/2015 was £104.1 million, compared to £115.3 million in 2013/2014. The capital outturn position is summarised in the table below;

	<b>£m</b>
People	33.2
Place	64.8
Corporate / Support Services	6.1
<b>Grand Total</b>	<b>104.1</b>

12. Our achievements during the year include the following:

- Successful completion of the new motorway junction to facilitate the opening of the i54 South Staffordshire Strategic Employment site, home of Jaguar Land Rover. The site has been developed in partnership with Wolverhampton City Council and South Staffordshire District Council at a cost of £58 million;
- The Superfast Broadband project is now well underway and Phase 1, intended to deliver at least 95% coverage, is almost 50% complete at a cost of around £6 million;
- Early commencement of the first project under the Local Growth Deal means that the infrastructure works undertaken at the Lichfield Park Employment site are well underway;
- Significant design and preparation work has been undertaken to ensure other major infrastructure projects can commence in 2015 including the A50 Improvement Project and employment sites at Meaford and Bericote;
- Expansion and renewal of six general teaching spaces at Rykneld Primary school;
- Significant remodelling to accommodate South Staffordshire College and Two Rivers High school at the Torc Vocational Centre;
- Remodelling of Five Spires Academy to create a primary and nursery school;
- Construction of either new schools or extensions to existing schools at Veritas Academy, Doxey Primary school, Parkside Primary school, Rocklands school and Sherbrook Primary school.

### **Interpretation and comment on the main financial information**

13. The Balance Sheet shows that the total of assets less liabilities is £293.4 million which is a decrease of £180.1 million when compared with the 2013/2014 Balance Sheet. One of the main reasons for this decrease is that the Council's share of any liabilities associated with the pension fund has increased. The overall net liability (that is, the assets less liabilities) has been assessed by the actuary in line with accounting rules and has increased from £927.0 million to £1,139.7 million. This increase is caused by a reduction in the number of active members of the pension fund and lower interest rates. It should be noted that this liability is notional, it is not cash-backed and it is reviewed and amended each year by the actuary who analyses a range of variables before reaching his conclusion.

14. At the end of each financial year a review is undertaken on our Property, Plant and Equipment to identify events or circumstances which may indicate impairment has occurred. All assets are assessed against the following tests to see if an asset has been impaired. The tests include;

- Condition: has any property fallen into a lower condition category as a result of significant additional disrepair since the valuation date (nothing identified).
- Insurance claims: have there been any significant un-remedied insurance events that would affect asset value (nothing identified).
- Market: has there been any significant reduction in general property values (no).
- Property Information Updates: have there been any other events identified in Property Information Updates that have affected asset values (no).

- Demolitions: have there been any demolitions that significantly affect asset value (none identified).
  - Review of Assets Held for sale: are the values recorded still appropriate (2 assets identified).
  - Service Transformation: have any service transformation programmes affected asset values (7 assets identified).
15. Where an asset satisfies one or more of the tests above, it has been impaired and reflected in the accounts at its revised valuation. In addition to the tests for impairment our internal valuation team assess the valuations of our assets, based on our revaluation programme. Adverse fluctuations in assets valuations can result in an impairment charge. In 2014/15 the Council recognised impairment losses totalling £50.8 million. The main reasons for the impairment losses were changes in market value of the properties and the transfer of school assets to newly created academies.

### **Reserves and balances**

16. There are two types of reserves, those that are cash-backed and hold money set aside for specific purposes and those which are notional and exist for accounting purposes. In total our cash-backed reserves have increased by £27.4 million. Most of this increase relates to the amalgamated capital reserves (that is, money set aside for capital expenditure) which have increased by £28.6 million. This represents the decisions we have made on funding our capital programme. These amalgamated reserves include capital receipts and unspent capital grants which we can use in future years.
17. After taking account of the outturn, the General Fund Balance total was £14.8 million as at 31 March 2015.
18. Earmarked reserves (including school reserves) have remained static at £88.7 million. Within that overall total, school reserves have increased by £1.9 million to £45.2 million and non-school earmarked reserves have decreased by £2.0 million to £43.5 million. This shows that schools are continuing to save money to fund their future pressures and that other services have spent money that had been set aside in previous years.

### **Group Accounts**

19. The aim of the Group Accounts is to give an overall picture of the activities of the authority. The statements present financial information about the parent (the Council) and then additionally reflect the Council's share of assets, liabilities, expenditure and income in a unified set of accounts. In accordance with the 2014/2015 Code of Practice on Local Authority Accounting, the Council should account for an interest in Entrust Support Services Ltd (Entrust) as a joint venture and prepare group accounts.
20. A joint venture is defined as: "An entity in which the reporting authority has an interest on a long term basis and which is jointly controlled by the reporting authority and one or more other entities under a contractual or other binding arrangement."

## **Pension fund**

21. 2014/2015 was another successful year for the Pension Fund as global economies continued the long recovery from the financial crises and equity values continued to rise, albeit at a slower pace and less evenly than the previous year. The fund is now valued at £3,768.8 million. The Council's share of the Pension Fund's assets is estimated to be £1,599.3 million and these have increased by £216.0 million since 2013/2014. Offsetting this increase in asset valuations is an increase in the liability relating to the Council, the reasons for this increase are explained above.

## **Format of the Statement of Accounts**

22. We have to produce the accounts in line with a range of regulations and reporting standards, but it is important that most people can understand them. In this report I have tried to explain what I believe are the main issues in a way that I hope is understandable. Although I have kept to the relevant regulations and reporting standards, I am always looking for ways to improve the content and format of the Statement of Accounts. To help me do this, I would appreciate your comments on how we could improve the accounts and other information in future.
23. We can also provide this Statement of Accounts in other formats, such as in large print, in Braille, or in other languages. To ask us for the Statement of Accounts in other formats, please call 01785 278157.
24. The full statement and the summary version will also be available on our website ([www.staffordshire.gov.uk](http://www.staffordshire.gov.uk)).

**Andrew Burns**  
**Director of Finance and Resources**

**Equalities Implications**

1. This report has been compiled in accordance with the County Council's Policy on Equal Opportunities.

**Legal Implications**

2. The County Council is required to approve a draft Statement of Accounts in accordance with the requirements of the Accounts and Audit Regulations.

**Resource and Value for Money Implications**

3. There are no direct resource implications arising from this report.

**Risk Implications**

4. There are no direct risk implications arising from this report.

**Climate Change Implications**

5. There are no direct climate change implications arising from this report.

**Health Impact Assessment and Community Impact Assessment screening**

6. Not required for this report.

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**List of Background Papers:**

Accounts and Audit Regulations 2011  
Code of Practice on Local Authority Accounting in the United Kingdom 2014/15