Audit and Governance Committee
Meeting to be held on 30th September 2013

Electoral Division affected: All

Approval of the County Council's Statement of Accounts 2012/13
(Appendix 'A' refers)

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Executive Summary

The County Council has delegated the approval of the Council's Statement of Accounts to the Audit and Governance Committee. The 2012/13 accounts should be approved on or before the 30 September 2013.

This report summarises the process of preparation and the main points of the Statement of Accounts for 2012/13; the Statement itself is attached as Appendix A.

The regulations governing the process require that the Chair of the Committee that approves the accounts must sign and date them.

Recommendation

The Committee is requested to review and approve the County Council's Statement of Accounts for 2012/13 and the Chair is requested to sign the copy of the Statement tabled at the meeting.

1. Background and Advice

The County Council has delegated the approval of the Council's Statement of Accounts to this Committee.

The regulations governing the production of the annual accounts require that the 2012/13 accounts should be approved on or before the 30th September 2013.

This report summarises the process of preparation and the main points of the Statement of Accounts for 2012/13; the statement itself is attached as Appendix 'A'.

Lancashire County Council

2. Preparation of the Statement

The Statement of Accounts has been prepared in accordance with the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A number of accounting adjustments agreed with the external auditor (shown in the Auditor's Audit Findings report in a separate item on this agenda) are reflected within the statement. The majority of these amendments reflect changes identified by officers in their work to finalise the accounts for publication.

3. Main Components of the Statement

The table immediately below sets out the main component parts of the Statement and their purpose. Following the table is a commentary on the key issues from the Statement.

ITEM	PAGE	BRIEF EXPLANATION
Introduction	1	Sets out the financial context in which the authority operates in the year, with a summary of the final end of year position and the outlook for the future. Also notes any changes and significant items in this year's accounts.
Auditor's Report	8	The external auditor's opinion on our accounts for 2012/13.
Statement of Responsibilities	11	Sets out the responsibilities of the County Council and the County Treasurer in relation to the production of the Statement of Accounts.
Annual Governance Statement	12	Sets out assurances on our governance arrangements and the way we manage our affairs.
Movement in Reserves Statement	17	Provides details of the movement in reserves held by the authority.
Comprehensive Income and Expenditure Statement	19	A summary of the revenue expenditure and income of the Council, analysed by service in accordance with the Code. This statement consolidates all gains and losses experienced by the authority during the financial year.
Balance Sheet	21	Our assets and liabilities at 1st April 2011,

		31 March 2012, 31st March 2013, and how these are funded.
Cash Flow Statement	23	An analysis of revenue and capital cash movements during the year.
Notes	24	Supporting information which sets out further details and explanations of many entries within the financial statements listed above.
Statement of Accounting Policies	24	Details compliance with the Code and the policies adopted for the preparation of the accounts on an IFRS basis detailed in disclosure note 1.
Other Funds and Reserves	137	Presents information on trust funds (not part of the Council's accounts).
Lancashire County Pension Fund accounts	138	Presents the accounts of the Pension Fund (not part of the Council's accounts).
Glossary of Terms	187	Explains terms used in the Statement

4. Status of the Statement of Accounts

Details of the Council's spending and income in 2012/13, and how it compared with the budget, was reported to the Cabinet on 11 July 2013. That same spending and income is reported here, in the Statement of Accounts, in a different format which complies with the Code.

The main differences between how the year end position is presented to Cabinet (i.e. the "management accounts") and the formal Statement considered here by this Committee include:

- The way services are set out in the Comprehensive Income and Expenditure Statement (page 19) follows the compulsory Service Reporting Code of Practice. However, the way services are shown in the management accounts reflect how they are actually organised in directorates within the Council.

- The overall report on the management accounts to the Cabinet includes the actual cost of employer's pension contributions. However, the Comprehensive Income and Expenditure Statement and Balance Sheet shown here in the statement of accounts include significant changes for the requirements of International Financial Reporting Standard 19 (IAS 19) on the treatment of pension costs. For example, the deficit (surplus) position on the Continuing Operations line shown in the Comprehensive Income and Expenditure Statement has the actual costs of employer's pension contributions removed, being replaced by notional costs calculated by the Actuary of the current costs of future retirement benefits which have been earned in the year. The effect of these notional costs are then reversed in the Movement in Reserves Statement against the County Fund, leaving the effect on the County Fund balance the same in both methods of presentation. Note 7 (page 53) sets out the details of these transactions. IAS 19 assumes that all pension liabilities will crystallise at the same moment in time. In reality this is highly unlikely and the Pension Fund has in place a plan to recover the overall fund deficit over 19 years, which represents a more realistic position.

5. Financial Statements

5.1 General

There are some presentational changes between the draft and final accounts as a result of an exercise to de-clutter the disclosure notes. The exercise was undertaken in conjunction with Grant Thornton, the external auditors; with the aim of making the accounts more user- friendly.

5.2 Movement in Reserves Statement (MIRS)

This statement shows the movement in the year on the different reserves held by the Council. They are analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing Council services, more details of which are shown in the Comprehensive Income and Expenditure Statement. Between 2011/12 and 2012/13 usable reserves have increased by £12.1 million.

The MIRS is a summary of the changes that have taken place in the bottom half of the Balance Sheet over the financial year, and is analysed by:

a) The increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.

b) The increase or decrease in the net worth of the authority as a result of movements in the fair value of our assets.

c) Movements between reserves to increase or reduce the resources available to the authority according to statutory provisions.

5.3. Comprehensive Income and Expenditure Statement (CIES)

The Comprehensive Income and Expenditure Statement (CIES) consolidates all the gains and losses experienced by an authority in the financial year. As authorities do not have any equity in their Balance Sheets, the total overall movement of gains and losses in the CIES should reconcile to the overall movement in net worth in the Balance Sheet.

The CIES is presented in two sections:

a) (Surplus) or Deficit on the Provision of Services – this is the increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.

b) Other Comprehensive Income and Expenditure – this shows other changes in net worth which have not been reflected in the (Surplus) or Deficit on the Provision of Services. This includes items such as movements in the fair value of assets and actuarial gains or losses on pension assets and liabilities.

5.3.1 Changes to the Disclosure Note on Senior Officers Remuneration

The disclosure note set out on page 70 of the accounts has been amended from the draft accounts published on the 28 June 2013 to incorporate the remuneration of the County Council's former Executive Director, Transformation. This part of the report sets out for Committee the reasons for the change, and the subsequent restating of the 2011/12 disclosure.

Background

On the 7th October 2010, the County Council's Cabinet accepted the final proposals submitted by BT plc giving approval to the County Council entering into a strategic partnership with BT plc.

The various legal agreements required to establish a new private limited company called One Connect Limited ("OCL") and the staffing arrangements for OCL were finalised during the period leading up to the end of April 2011. The legal agreements were signed on 28th April 2011 and OCL started to deliver services on 16th May 2011.

On 3rd May 2011, the then Leader of the County Council, Cllr Driver, received a report from the County Council's Chief Executive, Mr Halsall, which amongst other issues dealt with establishing several posts, including the post of Director of Change Managements and Transformation. The post holder would be seconded to OCL to become the CEO of OCL. Mr McElhinney was appointed into this role.

This report outlined the proposal to have a single Chief Executive Officer managing both OCL and BT's Partnership with Liverpool City Council, Liverpool Direct Limited. The CEO would have separate reporting lines to the Boards of Directors of the two respective companies. Mr McElhinney would be responsible for managing both OCL and Liverpool Direct Limited with a Chief Operating Officer and senior management team reporting to him.

As part of these arrangements, Mr McElhinney became an employee of Lancashire County Council. He was and remains an employee of Liverpool City Council seconded to Liverpool Direct Limited and OCL.

The report explained that the postholder's duties would be split evenly over the course of a year between each of Liverpool Direct Limited and OCL. The report envisaged that the post holder would work two and half days per week (0.5 Full Time

Equivalent role) for OCL and two and half days for Liverpool Direct Limited (0.5 FTE).

The report identified that the salary for this role was £40,000 per year, which recognised that Mr McElhinney would continue to receive a salary from Liverpool City Council, for so long as his existing arrangements continued in respect of his role as the CEO of Liverpool Direct Limited.

The various parties (the County Council, Liverpool City Council, OC L, Liverpool Direct Limited and BT) signed a letter dated 28th April 2011 which acknowledged the joint arrangements. Under these arrangements, it was recognised that the post of CEO would be split on a 50/50 basis between OCL and Liverpool Direct Limited.

On 29th January 2013, the Chief Executive changed the post of "Director of Change Management and Transformation" to "Executive Director, Transformation" increasing the status of Mr McElhinney from Director to Executive Director within the County Council.

On 31st August 2013, Mr. McElhinney resigned from the roles of Executive Director, Transformation with the County Council and CEO of OCL, bringing to an end his employment with the County Council.

The County Council understood that Mr McElhinney's salary was set by it under the terms of his employment with the County Council. However, under the terms of the arrangements with BT and OCL, any bonus payments and other remuneration would be agreed by OCL. Under those terms, Mr McElhinney was entitled to significant bonus arrangements, access to a lease car and access to private medical insurance.

The overall amount of Mr McElhinney's remuneration, whilst as an employee of the County Council for the financial years 2011/12 and 2012/13, which the County Treasurer only became aware of in August of this year, results in the requirement for the County Council to make a disclosure in its accounts for both financial years.

The reason why the County Treasurer only became aware of the amount of the remuneration is that <u>no</u> salary payments were made to Mr McElhinney for his 2 and half days per week as the Chief Executive Officer of OCL for the periods of:-

- 16th May 2011 to 31st March 2012; and
- 1st April 2012 to 31st March 2013.

Instead:

(i) The remuneration payments purportedly for the period 16th May 2011 to 31st March 2012 were made as one single payment of £231,709 in June 2013; and

(ii) The remuneration payments purportedly for the period 1st April 2012 to 31st March 2013 were made as one single payment of £275,888 in July 2013.

Remuneration for the period 16th May 2011 to 31st March 2012

For the 2 and half days per week in the role of Chief Executive Officer of One Connect Limited, for the period 16th May 2011 to 31st March 2012, the overall remuneration was £324,567, as set out in the disclosure note on page 71of the accounts. This comprised:

- Salary of £135,338
- Bonus payments of £189,229
- No benefit in kind (lease car payments) were made.

The salary of £135,338 and bonus payments of £96,371 were made as a single payment of £231,709 in June 2013.

The terms of Mr McElhinney's appointment as the Chief Executive Officer of One Connect Limited entitled him to a one off bonus arrangement of £92,858, which is included in the bonus payment of £189,229 shown above. The County Treasurer is seeking to establish whether or not this payment has been made to Mr McElhinney.

Finally, for clarification purposes, the County Council's employer National Insurance payments for this period were £31,800.

The County Council's authorisation for these payments being made to Mr McElhinney is currently under review.

Remuneration for the period 1st April 2012 to 31st March 2013

For the 2 and half days per week in the role of Chief Executive Officer of One Connect Limited, for the period 1st April 2012 to 31st March 2013, the overall remuneration was £286,531, as set out in the disclosure note on page 70 of the accounts. This comprised:

- Salary of £159,675
- Bonus payments of £116,213
- A benefit in kind (lease car payments) of £10,643.

The salary of £159,675 and bonus payments of £116,213 were made as a single payment of £275,888 in July 2013.

Finally, for clarification purposes, the County Council's employer National Insurance payments for this period were £37,900.

The County Council's authorisation for these payments being made to Mr McElhinney is currently under review.

5.4. Balance Sheet

The Balance Sheet summarises the Council's financial position at 31st March each year. The top half contains the assets and liabilities that it owns, or has accrued with other parties. As local authorities do not have equity, the bottom half is made up of reserves that show the full breakdown of the authority's net worth and is analysed as follows:

a) Usable Reserves, which include the revenue and capital resources available to meet future expenditure (e.g. the County Fund Balance, earmarked revenue reserves and the Capital Receipts Reserve).

b) Unusable Reserves, which include accounting detail relating to gains and losses, timing differences and adjustments for the difference between proper accounting practices and the requirements of statutory arrangements for funding expenditure (e.g. Revaluation Reserve, Pension Reserve, Capital Adjustment Account, Financial Instrument Adjustment Account, Collection Fund Adjustment Account, Accumulated Absences Account and Available for Sale Financial Instruments Account). All unusable reserves are explained in disclosure note 36.

The main Balance Sheet movements from 31st March 2012 to 31st March 2013 are highlighted below (see paragraphs 5.4.1 to 5.4.4).

5.4.1 Long term assets increased by £0.6million – the major changes are explained below:

a) Property Plant and Equipment has decreased by £35.3million, which is mainly due to assets being written out with schools becoming academies and also disposals, revaluation of assets, expenditure in year, depreciation charges, reclassification of items from work in progress to Property Plant and Equipment and items reclassified as items Held for Sale.

b) Long term investments have increased by £32.5million. The 2012/13 treasury management strategy continued to reduce credit exposure to banks by reducing bank deposits and investing in UK Government, supranational and highly rated corporate bonds. The maturity date of the bonds purchased is typically more than one year forward and therefore they are classified as long term investments. There is a corresponding reduction in short term investments (see paragraph 5.4.2a below),

c) Intangible fixed assets have increased by £5.6million relating to an increase in the value of software utilised by the Council following completion of a number of system upgrade projects.

d) Long term debtors reduced by £2.0million in-line with the repayment of transferred debt.

e) Investment properties decreased by £0.2million.

5.4.2 Current assets decreased by £12.8 million, the most significant areas are shown below:

a) Short term investments decreased by £69.7million in line with the treasury strategy of holding the bonds of highly rated institutions rather than taking additional credit risk in the form of bank deposits (see para 4.1b above).

b) There has been a £35.0million increase in short term debtors, which relates in the main to sale of investments £21.7million which settled post year end and a £13.3million increase in other operational debtors.

c) Cash and cash equivalents have increased by £17.7million. This reflects the cash which is being held in call accounts in order to meet the day to day operational demands of the organisation.

d) Payments in advance have increased by £2.7million mainly as a result of Easter holidays falling at year end.

e) Assets held for sale have increased by £2.1million as a result of an increased number of properties meeting the appropriate definition, as the Council reduces the overall size of its portfolio..

f) Inventories, i.e. stocks decreased by £0.6million.

5.4.3 Current liabilities decreased by £28.7 million, the major changes are shown below:

a) Short term borrowing decreased by £86.1million as part of an overall decrease in borrowing.

b) Creditors have increased by £74.3 million which is mainly due to purchase of investments £62.5 million which settled post year end and a £11.8 million increase in operational creditors.

c) Receipts in advance have reduced by £14.2 million mainly relating to the release of Adult Social Care related grants to revenue.

d) Short term provisions decreased by £2.3 million which is broadly in-line with 2012/13 being the second year of a 3 year financial strategy; £1.7million relates to a reduction in the early retirement provision and £0.6million relates to a general reduction across other provisions.

e) Other liabilities have decreased by £0.4million.

5.4.4 Long term liabilities have increased by £190.4 million,

a) The pension liability has increased by £187.6 million. Full details relating to the Council's pension liability can be seen in disclosure note 45.

b) Long term borrowing has increased by £17.8million to balance the borrowing portfolio interest rate risk exposure.

c) PFI liability has decreased by £7.6million in-line with repayment of the liability which forms part of the annual unitary charge.

d) Provisions have decreased by £7.4million mainly due to the release to reserves of the equal pay provision, no longer required.

Our net worth in the Balance Sheet has decreased by £173.9 million from £1,037.6 million in 2011/12 to £863.7 million at 31 March 2013.

5.5 Cash Flow Statement

This statement reflects the total movement of cash and cash equivalents into and out of the organisation. The cash flow statement is shown at page 23 in the accounts.

6. Auditor's Report

It is the external auditor's opinion that the accounting statements

- give a true and fair view of the state of Lancashire County Council's affairs as at 31 March 2013 and of its income and expenditure for the year then ended; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Full details of the auditor's findings are contained within the 2012/13 Audit Findings Report which has been submitted to the Audit and Governance Committee as a separate item.

Throughout the audit process officers have continued to work on the Statement in order to ensure that it presents a comprehensive picture of the Council's finances. This has resulted in a number of changes from the draft which are set out in the auditor's findings report and a briefing in relation to the most significant change is set out in paragraph 5.3.1 above.

The Committee is requested to approve the Statement of Accounts and the Chair is requested to sign the tabled copy on page 23.

Consultations

Within the Accounts and Audit Regulations the County Council is required to open the accounts for public inspection. This enables any member of the public to inspect the Accounts, ask questions and to request copies of related documents where appropriate. The period of inspection for the 2012/13 Accounts commenced on 1st July 2013 and ended on 26th July 2013. The accounts are available for Inspection on the Council's internet pages, no queries or requests for related documents were received during the inspection period.

Implications:

This item has the following implications, as indicated:

Risk management

The County Council's accounts for 2012/13 must be approved by 30 September 2013 in order to meet its statutory deadlines.

The financial implications are set out in the report above and in the Statement of Accounts attached at Appendix A.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Ext
Final Accounts working papers	2012/13	Abigail Leech, County Treasurer's Tel : 01772 530808
Accounts and Audit Regulations	2011	

Reason for inclusion in Part II, if appropriate
N/A