

Audit and Governance Committee

Meeting to be held on 28 September 2015

Electoral Division affected: All

Approval of the County Council's Statement of Accounts 2014/15

(Appendix 'A' refers)

Contact for further information:

Abigail Leech, 01772 530808, Head of Corporate Finance, Financial resources

abigail.leech@lancashire.gov.uk

Executive Summary

The County Council has delegated the approval of the Council's Statement of Accounts to the Audit and Governance Committee. The 2014/15 accounts should be approved on or before the 30 September 2015.

This report summarises the process of preparation and the main points of the Statement of Accounts for 2014/15; 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 2014/15 and the Chair is requested to sign the copy of the Statement tabled at the meeting.

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 2014/15 accounts should be approved on or before the 30th September 2015.

This report summarises the process of preparation and the main points of the Statement of Accounts for 2014/15; the statement itself is attached as Appendix 'A'.

1. 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.

2. 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	7	The external auditor's opinion on our accounts for 2014/15
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	30	Provides details of the movement in reserves held by the council.
Comprehensive Income and Expenditure Statement	33	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	35	Our assets and liabilities at 31 March 2014, 31 March 2015, and how these are funded.
Cash Flow Statement	37	An analysis of revenue and capital cash movements during the year.

Notes	38	Supporting information which sets out further details and explanations of many entries within the financial statements listed above.
Statement of Accounting Policies	38	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	120	Presents information on trust funds (not part of the Council's accounts).
Lancashire County Pension Fund accounts	122	Presents the accounts of the Pension Fund (not part of the Council's accounts).
Glossary of Terms	174	Explains terms used in the Statement

3. Status of the Statement of Accounts

Details of the Council's spending and income in 2014/15, and how it compared with the budget, was reported to the Cabinet on 9 July 2015. 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 32) 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 6 (page 56) 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.

4. Financial Statements

4.1 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.

4.2 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 2013/14 and 2014/15 usable reserves have increased by £77m.

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.

4.3. 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.

4.4. Balance Sheet

The Balance Sheet summarises the Council's financial position at 31 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 32.

The main Balance Sheet movements from 31 March 2014 to 31 March 2015 are highlighted below (see paragraphs 4.4.1 to 4.4.3).

4.4.1 Long term assets decreased by £195.6m – the major changes are explained below:

- a) Long term investments have decreased by £225.7m in line with the treasury management strategy to move from long term to short term investments. There is a corresponding increase in short term investments. Please see note 23 to the Statement of Accounts.
- b) Long term debtors have increased by £33.1m as a result of recognising a new long term debtor (£35.1m) due to the council from Blackpool Council in respect of the new borrowing raised to pay off the PFI liability. This increase is offset in part by £2.0m reduction in debt managed on behalf of other authorities and being paid off over time. Please see note 33 to the Statement of Accounts.
- c) The balance of the reduction in long term assets comprises less significant movements in asset categories which are summarised below:
 - i. Property, plant and equipment value reduced by £1.8m
 - ii. Intangible assets reduced by £1.5m
 - iii. Heritage assets increased by £0.3m
 - iv. Investment property increased by £0.1m
 - v. Assets held for sale reduced by £0.1m

4.4.2 Current assets increased by £300m, of which the most significant area component is the increase in short term investments of £243.1m which, as stated above, is in line with the move from long term to short term investments. Other changes in current assets are outlined below:

- a) Short term debtors increased by £25.9m. Of this movement, £12.8m relates to the supply of the regular activities and services of the council. Amounts due from NHS bodies and other Local Authorities have increased by £4.9m and £5.2m respectively. The remaining movement in short term debtors comprises increases in amounts due for council tax (£2.1m), non-domestic rates (£0.3m), from Central Government bodies (£0.5m) and other public corporations (£0.1m).
- b) Cash and cash equivalents have increased by £38.9m. This reflects the cash which is being held in call accounts in order to meet the day to day operational demands of the organisation.
- c) There have been reductions in payments in advance (£3.7m), assets held for sale (£4.1m) and inventories (£0.1m) during the year.

4.4.3 Current liabilities increased by £189.6m, the major changes are shown below:

- a) Short term borrowing increased by £190.2m. This increase reflects the additional borrowing taken out to refinance the funding of the waste plants following the termination of the PFI waste contract.
- b) Short term provisions have increased by £9.9m, substantially due to the increase in the provision for early retirement early severance payments arising from the transformation of the council.
- c) The offsetting reduction in current liabilities comprises:
 - i. Short term creditors reduced by £6.6m
 - ii. Other current liabilities reduced by £2.9m
 - iii. Receipts in advance reduced by £1m

4.4.4. Long term liabilities have increased by £131.9m, with the most significant components being:

- a) Increase in the pension liability of £333.1m, further details of which can be found in note 41 to the statement of accounts.
- b) Reduction in PFI liabilities of £227.6m, of which £225.8m is due to the termination of the waste PFI contract. Additional information on this transaction can be found in notes 19 and 38 and in the introduction to the statement of accounts

- c) Long term provisions reduced by £5.0m, of which £4.8m is a reduction in the insurance provision.
- d) Long term borrowing has increased by £31.5m in line with the treasury management strategy and as a result of the refinancing of the waste plants.

Our net worth in the Balance Sheet has decreased by £217.1m from £1,103.2m at 1 April 2014 to £886.1m at 31 March 2015.

4.5 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 37 in the accounts.

5. 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 2015 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 2014/15 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.

The Committee is requested to approve the Statement of Accounts and the Chair is requested to sign the tabled copy on page 37.

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 2014/15 Accounts commenced on 6 July 2015 and ended on 31 July 2015. The accounts are available for Inspection on the Council's internet pages.

Implications:

This item has the following implications, as indicated:

Risk management

The County Council's accounts for 2014/15 must be approved by 30 September 2015 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	2014/15	Abigail Leech, Head of Corporate Finance, Financial Resources Tel : 01772 530808
Accounts and Audit Regulations	2011	

Reason for inclusion in Part II, if appropriate

N/A