| Report of | Meeting | Date |
|---|---|---|
| Chief Finance Officer | Governance Committee | 25 June 2014 |

# STATEMENT OF ACCOUNTS 2013/14

## PURPOSE OF REPORT

1. To present the draft Statement of Accounts (SOA) for 2013/14 before they are signed and authorised for issue by the Chief Finance Officer, which has to be done before the end of June 2014

2. To advise about the process leading up to the formal submission of the SOA for approval by Members following the completion of the external audit.

## RECOMMENDATION(S)

3. That the report be noted.

## EXECUTIVE SUMMARY OF REPORT

4. This report discusses the main parts of the statements and seeks to explain significant changes from the previous year. It also advises about the statutory requirements for signature, audit, inspection and publication of the accounts.

5. Categorisation of the Market Walk Shopping Centre within the Long-Term Assets section of the Balance Sheet is still subject to agreement with the external auditor. There is therefore a possibility that the asset might be reclassified and various figures amended when the SOA is submitted for approval after the audit.

| **Confidential report**<br>Please bold as appropriate | Yes | **No** |
|---|---|---|

## CORPORATE PRIORITIES

6. This report relates to the following Strategic Objectives:

| | | | |
|---|---|---|---|
| Involving residents in improving their local area and equality of access for all | | A strong local economy | |
| Clean, safe and healthy communities | | An ambitious council that does more to meet the needs of residents and the local area | √ |

## BACKGROUND

7. This report explains the Council’s year-end financial position as it should be presented in the Statement of Accounts for 2013/14. It does not make detailed comparisons between actual revenue and capital expenditure compared to budgeted expenditure for 2013/14. Revenue and capital budget monitoring reports have been presented to Executive Cabinet

throughout the year, and the provisional outturn report for 2013/14 is to be submitted to the meeting of 26 June 2014. Figures in the draft SOA have been prepared on the assumption that a number of recommendations will be approved, in particular in respect of transfers to earmarked reserves and the financing of the capital programme. Should any recommendations be rejected or amended, it would be necessary to amend the SOA before presentation for formal approval.

8. The SOA 2013/14 includes corrections to two “unadjusted misstatements” reported to Governance Committee in respect of the 2012/13 Statement of Accounts. The Council had requested that the corrections should be made in the 2013/14 SOA. They were as follows:

- Property Plant and Equipment (PPE) – capital expenditure of £0.228m in 2012/13 had been allocated to the wrong leisure asset, which affected the depreciation and revaluation calculations, but which was not considered by the auditor to have had a material impact on the accounts. PPE figures have been corrected in 2013/14.
- Short-term Creditors – Section 106 commuted sums (for maintenance of assets adopted from developers) totalling £0.493m had been included in the balance sheet total for short-term creditors, but should have been disclosed as long-term creditors. The auditor considered this merely a classification error within the Council’s liabilities, with no material impact on the financial statements in 2012/13. The classification has been corrected in 2013/14 and the 2012/13 balance sheet has been restated.

**STATUTORY REQUIREMENTS**

9. Regulation 8 of the Accounts and Audit (England) Regulations 2011 requires:

    - The responsible financial officer must, by June 30, sign and date the Statement of Accounts and certify that it presents a true and fair view of the financial position of the Authority at the year end and the income and expenditure for the year.

    - By September 30 the responsible financial officer must re-certify the Statement following the audit, the Governance Committee must consider and approve the Statement of Accounts, and the Chairman must sign it. The Statement of Accounts and the External Auditor’s statement must be published.

10. The Statement of Accounts now presented to Governance Committee is therefore for information only, and will not be submitted for approval until September.

11. After conclusion of the audit and approval by Governance Committee, the SOA will be published on the Council’s web site and printed copies will be available on request.

**MAIN ISSUES 2013/14**

12. A number of major issues have affected the Council’s financial position during 2013/14. These warrant separate explanation before discussion of how they have affected figures in the SOA.

13. <u>Implementation of Business Rates Retention</u>

Prior to 2013/14, billing authorities such as Chorley Council collected business rates or National Non-Domestic Rates (NNDR) on behalf of central government. All NNDR collected was paid over to central government, into the central pool. Councils then received an allocation of NNDR from the pool as part of each year's Local Government Finance Settlement. There was no direct link between the total collected and paid to the pool and the allocation received from it. Central government bore the risk that rates collected would be less than estimated. The Council's NNDR allocation was not affected by the value collected.

Figures for 2012/13 are included in the Collection Fund, and relate to the last year of the pooling agency arrangement.

A new method of allocating NNDR resources known as Business Rates Retention (BRR) was implemented during 2013/14. Before the start of the financial year, an estimate of the net rates yield (after reliefs, discounts, bad debts and appeals) was prepared. Of the total income, 50% was to be taken by central government, 9% by Lancashire County Council, 1% by Lancashire Combined Fire Authority, the 40% balance remaining with Chorley Council. This Council's 40% share of estimated net rates has been transferred from the Collection Fund as budgeted. However, because this income exceeded the central government estimate of how much Chorley needed to spend, much of it has been paid to government as a tariff, for redistribution to other authorities as top-up payments. Finally, the rates income collected by Chorley exceeded the total that central government thought would be collected, so 50% of the value identified as growth has been accrued in the accounts as a levy, for payment to government during 2014/15.

For the first time, Chorley Council takes a share of the risk that the net rates yield will be less than the budgeted figure. There can be a Collection Fund rates income shortfall for various reasons, the main one in 2013/14 being the level of provision required for backdated appeals. In 2013/14, there was a deficit of £1.270m, of which this Council's 40% share was £0.508m. The deficit exceeded the estimated shortfall of £0.165m, of which this Council's share would have been £0.066m. The £0.508m deficit has been charged to the accounts in 2013/14 and is included in the net rates income figure of £2.263m in Note 8 Taxation and Non-Specific Grant Income and Expenditure. However, there is a statutory adjustment so that only the budgeted deficit is charged in the year. As there was no budgeted rates deficit in 2013/14, the full £0.508m has been transferred to the Collection Fund Adjustment Account and has had no impact on the Council's resources in 2013/14. See Note 7 Adjustments Between Accounting Basis and Funding Basis Under Regulations, and Note 25f Collection Fund Adjustment Account. The total value transferred was £0.499m, the £0.009m difference being in respect of the surplus relating to Council Tax.

In 2014/15, the budgeted deficit of £0.066m will be transferred from the Collection Fund as a real cost to the General Fund. As the actual deficit in 2013/14 was £0.442m higher, this will be taken into account in the calculation of the 2014/15 deficit (or surplus) that would be transferred to the General Fund in 2015/16.

The net rates yield in 2013/14 has been reduced by the temporary doubling of Small Business Rates Relief (SBRR) announced in the Autumn Statement 2012. Government announced that authorities would be compensated for the loss of income as a result of this policy, but had not provided enough information for any estimate of the compensation to be included in the revenue budget for 2013/14. Towards the end of 2013/14, central government made an "on account" payment of a new Section 31 (S31) grant, which was equivalent to about 91% of the estimated cost of doubling SBRR included in a return submitted to the Department for Communities and Local Government at the end of January 2013. The balance of the grant entitlement has been accrued as a debtor in the accounts, based on the outturn cost of SBRR. The grant income is included in the Taxation & non-specific grant income & expenditure section of the Comprehensive Income and Expenditure Statement. See also Note 11 and Note 38. The S31 grant is also taken into account in the calculation of the levy payable to central government.

A comparison of rates-related figures in the 2012/13 financial accounts with those included in 2013/14 is presented in the following table:

| Comparison of Rates Income under Pooling to Business Rates Retention | Business Rates Pooling 2012/13 £'000 | Business Rates Retention 2013/14 £'000 |
|---|---|---|
| Collection Fund | | |
| Net Income from Business Ratepayers | (26,603) | (24,891) |
| Payment to National Pool | 26,476 | 0 |
| Central Government Share (50%) | 0 | 13,014 |
| County Council Share (9%) | 0 | 2,342 |
| Fire Authority Share (1%) | 0 | 260 |
| Chorley Council Local Share (40%) | 0 | 10,411 |
| Cost of Collection Allowance (to Chorley Council) | 127 | 134 |
| Distribution of Business Rates Income | 26,603 | 26,161 |
| **(Surplus)/Deficit** | **0** | **1,270** |
| Chorley Council Share of (Surplus)/Deficit (40%) | | **508** |
| General Fund | | |
| Business Rates from National Pool | (5,928) | 0 |
| Business Rates Local Share | 0 | (10,411) |
| Business Rates Income | (5,928) | (10,411) |
| Tariff to Central Government | | 7,500 |
| Levy to Central Government | | 140 |
| Chorley Council Share of Deficit (40%) | | 508 |
| Business Rates Expenditure | 0 | 8,148 |
| **Net Rates Income** | **(5,928)** | **(2,263)** |
| S31 Grant re SBRR | | **(447)** |

The effect of implementation of BRR on Balance Sheet figures for Short-Term Creditors, Short-Term Debtors and Provisions is discussed below.

14. Implementation of Council Tax Support Local Scheme

Up to 2012/13, support for those residents unable to pay full Council Tax was by means of Council Tax Benefit, the cost of which was substantially reimbursed by central government. The Comprehensive Income and Expenditure Statement includes the following figures in respect of 2012/13 in the service line “Central Services to the public”: benefits expenditure £6.716m; and subsidy received £6.696m. Of the benefits expenditure total, the credit to the Collection Fund in 2012/13 was £6.659m, but there is no equivalent credit from 2013/14 onwards.

Against the same service in 2013/14, Members will note that gross expenditure and gross income have reduced considerably. This is because Councils were required to implement local schemes for Council Tax Support discounts, to replace Council Tax Benefit. A report proposing this Council’s local scheme was approved by Council on 8 January 2013.

Rather than paying Council Tax Benefit, which was credited to the Collection Fund, support is now given by means of discounts, which means that Council Tax income has reduced. Funding from central government has changed from being a variable subsidy based on expenditure to a cash limited allocation at a level 10% lower than the forecast subsidy had there been no change. This Council took advantage of a number of technical changes to increase Council Tax yield in order to offset the reduction in government funding.

Note 11 Taxation and Non-Specific Grant Income and Expenditure shows that Council Tax income reduced in 2013/14 compared to 2012/13. Government funding is reflected in the NNDR income and non ring-fenced government grants in the same note.

15. Purchase of Market Walk Shopping Centre

On 11 November 2013, Council decided to purchase Market Walk Shopping Centre in Chorley town centre. Figures relating to the purchase and first four months’ operation in Council ownership appear in several statements and notes to the accounts.

In the Balance Sheet, Members will note the increased value in Long-Term Assets – Investment Property. This is analysed further in Note 14 Investment Properties. Both short-term and long-term borrowings have increased, because £13.341m was borrowed from the Public Works Loan Board to finance the purchase. Loan repayments due during 2014/15 are included in the short-term borrowing total. PWLB loans did not finance all of the acquisition cost. Internal cash balances were used for the remaining £10m, and this is reflected in the reduction in short-term investments and cash and cash equivalents balances within the Balance Sheet’s Current Assets total. A low rate of return would have been achieved had the Council invested the cash. Savings in the financing cost were achieved by using it to avoid borrowing £10m at higher rates of interest.

In the Comprehensive Income and Expenditure Statement, the surplus arising from the first four month’s operation in Council ownership is included in the line “Financing and investment income and expenditure”. More detail is provided in Note 10, which indicates that the surplus calculated in accordance with statutory requirements was £0.475m.

Acquisition of the shopping centre business is confirmed in Note 30; and Note 31 Trading Operations presents the calculation of the surplus. Financing costs are not charged directly to the trading operation, so when these are taken into account the net surplus reduces to £0.326m.

Note 38 Capital Expenditure and Financing again confirms expenditure on Investment Properties of £23.341m, and indicates that this expenditure has contributed to a net increase of £24.394m in the Capital Financing Requirement in 2013/14.

Members should note that accounting treatment of the asset within the Long-Term Assets section of the Balance Sheet is still subject to discussion with the external auditor. As a consequence, it is possible that the asset could be reclassified and figures in various statements and notes be amended when the SOA is presented for approval in September 2014.

16. Pension Fund

The SOA shows a reduction in the pension fund deficit from £41.033m to £32.676m. This more than reverses the increase in the deficit a year ago.

Movements and balances relevant to the pension fund are disclosed in the CI&ES, Balance Sheet, Note 25e, and Note 44.

The deficit figure is very much an estimate, being the pension fund actuary's assessment of the present value of the liabilities to be met by the fund over a very long period, less its current assets and anticipated future receipts.

17. Repayment of Icelandic Investment

During 2013/14, the Council received a repayment of £0.102m from the Landsbanki Winding-Up Board and £0.792m proceeds from the auction of the claim. The cash received exceeded the £0.830m impaired value in the Balance Sheet by £0.064m and this was transferred to the revenue account. The Icelandic investment has been removed from the Balance Sheet figure for Short-Term Investments, but the cash received was available for reinvestment.

18. Accrual of Overage due from Section 106 Agreements

Overage sums in respect of Section 106 Agreements became due during 2013/14. A total of £1.588m was due from two housing developers, but it had not been received by 31 March 2014. This income, which will be used to finance expenditure in future financial years, has been accrued and is reported at several places in the SOA.

The addition of the income to the Capital Grants & Contributions Usable Reserve is shown in the Movement in Reserves Statement. Receipt of the accrued income is included within "Taxation & non-specific grant income & expenditure" in the Comprehensive Income & Expenditure Statement, and analysed further in Note 11. The accrued contributions make up most of the £1.719m transfer from the General Fund Balance to Capital Grants Unapplied presented in Note 7. Finally, the accrual has contributed to the increase in the debtors balance in respect of "Other entities and individuals" disclosed in Note 19.

**ANALYSIS OF STATEMENTS AND NOTES**

19. Movement in Reserves Statement (MIRS)

Subject to approval by Executive Cabinet and Council, this statement indicates that General Fund unallocated balances have increased by £0.129m to a total of £2.189m as at 31 March 2014. Reserves earmarked for specific purposes have increased by £0.967m to £5,276m. The purposes for which these reserves are held are detailed in Note 8 to the accounts.

A balance of £0.325m usable capital receipts is carried forward to 2014/15 to finance capital expenditure in that year.

Capital grants and contributions have increased by a net total of £4.435m, though this figure includes accrued Section 106 overage sums not yet received. The accrued contributions are reflected in the short-term debtors figure in the Balance Sheet.

20. Comprehensive Income and Expenditure Statement (CI&ES)

The main variance in Net Expenditure at Cost of Services level is in respect of “Planning services”, which includes economic development and town centre promotion. These services were priority areas for new investment in 2013/14. Also within this service category was a £0.505m capital charge, reversed out of the revenue accounts elsewhere so there was no cost to the taxpayer.

Gross Expenditure and Gross Income in respect of “Central services to the public” have reduced considerably compared to 2012/13 because of the changes in respect of Council Tax Benefit explained above.

The increase in Net Expenditure on “Financing and investment income and expenditure” has increased compared to 2012/13 because of pension-related accounting entries and an adjustment to the fair value of investment properties, less the surplus on Trading Operations (Market Walk). The analysis is presented in Note 10.

“Taxation & non-specific grant income & expenditure” has increased compared to 2012/13, and the details are presented in Note 11 and Note 38 (for grants and contributions). Note 10 confirms that Council Tax income has reduced since 2012/13, which is as a result of the introduction of local Council Tax Support discounts, net of increases arising from implementation of technical changes. The figures for NNDR and Revenue Support Grant are not directly comparable between years, because of the implementation of Business Rates Retention explained above. The main variance in grants and contributions in 2013/14 is in respect of £1.588m overage sums due as a result of Section 106 Agreements relating to housing developments. This figure was accrued but not yet received as at 31 March 2014. It was transferred to the Balance Sheet in the Movement in Reserves Statement and explains most of the increase in Capital Grants & Contributions within the Usable Reserves total.

Finally, there has been an actuarial gain of £10.127m in pension assets and liabilities, compared to the £6.158m loss in 2012/13.

Balance Sheet

The Balance Sheet figures for 2012/13 have been restated, to move “commuted sums” for future maintenance of public open space and a community centre from Short-Term Creditors to Long-Term Creditors. This was agreed with the external auditor during the audit of the 2012/14 statement of accounts.

The increase in “Long-Term Assets” is mainly as a result of the purchase of the Market Walk shopping centre, which is discussed in detail above. However, categorisation of the asset as an Investment Property is subject to discussion with the external auditor.

Financing of the purchase is reflected in the increase in Short-Term Borrowing and Long-Term Borrowing and the reduction in Short-Term Investments. The latter was because internal cash balances have been used in the short-term to meet part of the purchase cost.

Short-Term Creditors have increased from £2.778m to £7.671m, the main variance being in respect of “Other local authorities”. This has been mainly as a result of the introduction of Business rates retention and Council Tax Support, discussed elsewhere in this report.

Similarly, Short-Term Debtors have increased from £2.388m to £8.017m. Again a large part of the increase resulted from the introduction of Business Rates Retention and Council Tax

Support; and the accrual of £1.588m Section 106 Agreement overage sums discussed above.

Within the £0.531m Provisions total for the first time is £0.500m for Business Rates Appeals, being this Council's 40% share of the total provision created as at 31 March 2014.

The Net Assets total has improved from a negative of £1.105m to £6.245m, an improvement of £7.350m. The main element of this increase is the £8.357m net reduction in the Other Long-Term Liabilities total relating to pensions. This improvement is also reflected in the reduction in Unusable Reserves (see Note 25e Pensions Reserve).

Usable Reserves have increased from £9.373m to £12.225m, and the split of the total is shown below. Further analysis is presented in the MIRS and Note 8, which shows the purpose of the £5.276m held in earmarked reserves.

**Usable Reserves 31 March 2014**

| | £'000 |
|---|---|
| General Fund unallocated balance | 2,189 |
| Earmarked Reserves (see Note 8) | 5,276 |
| Capital Receipts | 325 |
| Capital Grants & Contributions | 4,435 |
| | **12,225** |

21. Note 7 Adjustments Between Accounting Basis and Funding Basis Under Regulations

This note presents the adjustment to the surplus or deficit on the provision of services in order to calculate the amount to be met from taxation. In brief, the note reports the statutory adjustments between the General Fund Balance and the Capital receipts, Capital Grants and Unusable Reserves balances.

Compared to 2012/13, there has been a large increase in the transfer of "Capital grants and contributions unapplied" from the CI&ES to Usable Reserves, from £0.240m to £1.719m. Most of the £1.479m increase is as a result of the accrual of Section 106 overage sums due from housing developers, as discussed above.

For the first time, there is a transfer from the General Fund to the Collection Fund Adjustment Account in respect of this Council's share of the deficit in respect of NNDR (transferred from the Collection Fund). The £0.499m, credit shown in Note 7 is made up as follows:

**Transfer to Collection Fund Adjustment Account**

| | £'000 |
|---|---|
| Business Rates (NNDR) deficit | (508) |
| Council Tax surplus | 9 |
| **Net Transfer** | **(499)** |

See also Note 25f.

22. Note 8 Transfers To/From Earmarked Reserves

This note shows that Earmarked Reserves other than Capital Receipts and Grants have increased from £4.309m to £5.276m. The purposes for which the reserves are held are presented in the note. At this stage, the figures could be changed, because approval of transfers by Executive Cabinet and Council is required.

23. Note 11 Taxation and Non-Specific Grant Income and Expenditure

The following table reconciles Business Rates and Council Tax income as presented in the Collection Fund with the equivalent figures in Note 11.

| **2012/13** | | **Business Rates & Council Tax within Taxation & Non-Specific Grant Income & Expenditure** | **2013/14** | |
|---|---|---|---|---|
| **Business Rates £'000** | **Council Tax £'000** | | **Business Rates £'000** | **Council Tax £'000** |
| | (37) | Previous Year (Surplus)/Deficit | | (77) |
| | (6,404) | Chorley Council Precept/Local Share | (10,411) | (5,810) |
| | (567) | Parish Council Precept | | (530) |
| | | Tariff to Central Government | 7,499 | |
| | | Levy to Central Government | 141 | |
| | (8) | Current Year (Surplus)/Deficit - transferred to Collection Fund Adjustment Account | 508 | (9) |
| **0** | **(7,016)** | **Income per Note 11** | **(2,263)** | **(6,426)** |

Business Rates figures are not included for 2012/13 because the £5.928m allocation was received from the NNDR Pool rather than from the Collection Fund.

24. Note 25e Pensions Reserve

This note shows that the deficit balance on the reserve reduced from £41.032m in 2012/13 to £32.676m in 2013/14. The main reason for the reduction was the £10.127m actuarial gain, which compares to the £6.158m loss in 2012/13.

See also Note 44 for detailed information about the Defined Benefit Pension Scheme.

25. Note 36 Officers Remuneration

This note discloses the details of the remuneration of “senior employees”, and lists the number of employees other than “senior employees” who received £50,000 or more remuneration. In addition, the number and cost of exit packages relating to compulsory and other agreed departures is presented.

26. Note 40 Capital Expenditure and Financing

Capital expenditure by category of asset is presented in this note. Total expenditure, including that on Revenue Expenditure Funded from Capital under Statute charged to the CI&ES, was £25.615m. Of this total, £23.341m was in respect of the purchase of Market Walk shopping centre, currently shown as acquisition of an Investment Property but this is subject to agreement with the external auditor. Grants, contributions and revenue resources financed £0.951m of the capital expenditure, which meant that £24.664m was financed from prudential borrowing and was the main reason for the increase in the Capital Financing Requirement (CFR) to £32.866m.

Most of the prudential borrowing (£23.341m) was in respect of Market Walk, though only £13.341m was in the form of loans from the PWLB. The £10m balance was by use of internal cash balances. Use of prudential borrowing and the associated increase in the CFR was approved by Council on 11 November 2013 and was taken into account in the financial appraisal of the purchase.

27. Collection Fund

Figures in the Collection Fund for 2013/14 are not entirely comparable with those for 2012/13 because of the introduction of Business Rates Retention and Council Tax Support. These issues are discussed in detail above.

The Business Rates budget for 2013/14 was prepared on the assumption of break-even. The estimated £26.027m rates income was distributed to central government, Lancashire County Council, Lancashire Combined Fire Authority and this Council, but actual income after providing for appeals was £1.270m less. This Council’s £0.508m 40% share of the deficit was transferred to the CI&ES, but the charge was then transferred to the Collection Fund Adjustment Account (see discussion of Note 7 above).

The main change in respect of Council Tax is that figure for Council Tax receivable now takes account of the discounts given to residents under the local Council Tax Support scheme. In 2012/13, Council Tax Benefit was charged to the CI&ES and the Collection Fund received the corresponding income.

The Council Tax element of the Collection Fund made a surplus of £0.073m in 2013/14, of which this Council’s share was £0.009m. This was credited to the CI&ES, but was then transferred to the Collection Fund Adjustment Account in accordance with statutory requirements, as explained in the section on Note 7 above.

**IMPLICATIONS OF REPORT**

28. This report has implications in the following areas and the relevant Directors’ comments are included:

| | | | |
|---|---|---|---|
| Finance | √ | Customer Services | |
| Human Resources | | Equality and Diversity | |
| Legal | | Integrated Impact Assessment required? | |
| No significant implications in this area | | Policy and Communications | |

**COMMENTS OF THE STATUTORY FINANCE OFFICER**

29. The draft Statement of Accounts 2013/14 has been prepared in compliance with relevant accounting standards and codes of practice.

**COMMENTS OF THE MONITORING OFFICER**

30. The Monitoring Officer has no comments.

GARY HALL
CHIEF EXECUTIVE AND CHIEF FINANCE OFFICER

| Background Papers | | | |
|---|---|---|---|
| **Document** | **Date** | **File** | **Place of Inspection** |
| Accounts and Audit (England) Regulations 2011 | 15 March 2011 | | Town Hall |
| Grant Thornton “The Audit Findings for Chorley Borough Council - Year ended 31 March 2013” | September 2013 | | Town Hall |

| Report Author | Ext | Date | Doc ID |
|---|---|---|---|
| Michael Jackson | 5490 | 13 June 2014 | Statement of Accounts 2013-14 June Governance.docx |