

Committee: Performance & Audit

Agenda Item

Date: 22 July 2014

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Title: 2013/14 Draft Statement of Accounts

**Author: Adrian Webb
Director of Corporate Services
Angela Knight
Assistant Director of Finance**

Item for information

Summary

1. At its meeting on 25 September 2014, the Committee will be requested to approve the audited Statement of Accounts for 2013/14, along with the External Auditor's Audit Results Report.
2. To familiarise Members with the issues, the draft Statement of Accounts is presented to tonight's meeting. The draft Statement was published on 30 June and is consistent with the outturn results approved by Cabinet on 25 June.
3. At the meeting officers will draw Members' attention to the key issues in the accounts, and Members have an opportunity to ask questions. Officers shall also be pleased to meet with individual Members separately to discuss the accounts.
4. There are no significant changes to the format and content of the accounts this year. Members' attention is drawn to the 'Significant Matters' and 'Key Results' sections of the Explanatory Foreword (pp iii - xv).
5. At the time of writing the report the external audit of the accounts had only just commenced. An update will be verbally provided at the meeting.
6. The final audited accounts, together with the external audit report of confirmed issues arising, will be presented to the Committee on 25 September.
7. All Members have completed and returned their Related Party Declaration forms.

Recommendations

8. The Committee is recommended to:
 - a. review the draft Statement of Accounts for 2013/14.
 - b. identify any additional information or assurance that would assist with the Committee's approval of the Accounts at the September meeting.

Financial Implications

9. No direct financial implications.

Background Papers

None.

Impact

Communication/Consultation	No direct implications
Community Safety	No direct implications
Equalities	No direct implications
Health and Safety	No direct implications
Human Rights/Legal Implications	No direct implications
Sustainability	No direct implications
Ward-specific impacts	No direct implications
Workforce/Workplace	No direct implications

General Fund

10. After allowing for planned transfers to earmarked reserves the final outturn shows a net favourable variance of £476,000 which has been added to the Change Management Reserve. Within this overall position some overs and unders occurred.

11. There are three adverse variances exceeding £100,000, all of which had been forecasted and were included in the Budget Monitoring Report approved by the Cabinet in February.

- Revenues Administration (£118,000). One off variance. The service has experienced a significant increase in the volume and complexity of work mainly associated with managing the introduction of welfare reforms (housing benefit reductions and LCTS). At the same time there was staff turnover in the early part of 2013/14 with three experienced benefits officers leaving. And in the final quarter of the year a significant amount of benefits staff and management resource was required to support the external audit of the 2012/13 DWP grant claim. These issues have necessitated the use of temporary staff to stay on top of the benefits workload.
- Financial Services (£110,000). Mostly one off variance. The outcome of the tender for the new insurance contract was a 15% increase in the premium, giving rise to unbudgeted costs of £25,000 in 2013/14. There is a “below the line” one off saving of £100,000 as the planned establishment of a new Insurance Reserve did not go ahead. The main overspend in Financial Services were one off staffing and consultancy costs incurred in the Spring and Summer of 2013 in order to support the accounts production and external audit process during a period of volatility and staff turnover in the Finance team.
- Capital Financing Costs (£524,000). A one off additional cost relating to a revenue contribution to the financing of the capital programme in lieu of borrowing, in order to save money over the longer term.

12. There are five favourable variances above £100,000. All of these items were forecasted and reported to Cabinet in February although in some cases the amounts have increased.

- Development Management (£412,000). One off variance. A significant amount of planning fees income has been received relating to major planning applications. The additional income over and above the budget is £570,000. This is partly offset by additional costs (including consultants) incurred in the handling of applications. £412,000 has been earmarked in the Planning Development Reserve, along with the budgeted top up of the Reserve, to ensure that monies are available to carry out work on major planning issues, and to provide contingency against appeals related costs.
- Housing Benefits (£342,000). One off variance. The service is responsible for administering approximately £17.2 million of benefits payments with a similar amount being reclaimed via DWP grant. The service has reported a high level of processing accuracy such that the amount of DWP grant claimed is £277,000 better than the amount prudently assumed in the budget. In addition there is a favourable variance of £89,000 arising from an improved performance in relation to recovery of overpaid housing benefit. Arising from the 2012/13 DWP grant claim audit is a possible liability risk in the range of £131,000 to £211,000 which may have to be repaid to DWP. Their decision on this is awaited. £211,000 has been put into the Local Government Resource Review (LGRR) Reserve as a contingency against this risk.
- Local Council Tax Support (£212,000). One off variance. The cost of LCTS discounts granted was lower than the budgeted amount due to reductions in the number of people claiming discounts. Because of its relatively generous LCTS scheme, the Council had committed to compensating ECC, Police and Fire to ensure that their loss of Council Tax income arising from LCTS discounts was no greater than the Government funding they received. When the budget was prepared in early 2013 the estimated value of this subsidy was £212,000. In fact the discounts levels were fractionally below the Government funding, so no subsidy is needed. £212,000 has been put into the LGRR Reserve to bolster the contingency against the ongoing volatility in the local government finance system.
- Council Tax Benefit (£179,000). One off variance. Council Tax Benefit was abolished at the end of 2012/13. During 2013/14, the Council continued to recover overpayments of Council Tax Benefit. As this is expenditure that was funded by central government, it was assumed that the money collected would be repaid to DWP. However, in liaison with other councils and upon careful review of the relevant statutory regulations, it has been determined that the money can be retained by UDC.
- Public Health (£108,000) – ongoing variance. Additional net income arising from the transfer of substantial vegetables inspection activity to Stansted Airport.

Localisation of Business Rates

13. 2013/14 was the first year of the new localised business rates system (LBR).
14. Under the previous system, 100% of all business rates income collected was handed over to central government. There was no interaction with the Council's General Fund and the accounting was straightforward. Under the new LBR system, 40% of the business rates income collected is retained by the district council. A complex array of adjustments is applied to the retained sum which is designed to prevent both unjust enrichment of councils, and unmanageable shocks.
15. For UDC, from the early 2013 estimated gross business rates collected of £40 million, the 40% retained share is around £16 million. A tariff is payable to central government such that the baseline LBR funding for UDC is £1.36 million and this is the amount that was budgeted for in the General Fund.
16. During 2013/14 it was identified that the Council is exposed to significant liabilities arising from the backlog of appeals lodged by businesses against their rateable values. Appeals are determined by the Valuation Office and are outside of the Council's control. Measuring the size of the appeals refund risk is a complex task and will be subject to detailed external audit.
17. The Council therefore commissioned an independent rating valuations expert (Wilks Head & Eve) to audit its appeals list and advise on the level of refund liability risk. This advice was that the Council should provide for liabilities totalling £6.8 million of which the 40% share impacting on UDC would be £2.7 million.
18. Under established accounting principles, the £2.7 million would ordinarily be charged as a cost against the General Fund. The LBR safety net mechanism would kick in such that UDC would retain a minimum of £1.25 million from business rates (92.5% of the baseline figure of £1.36 million). Budget forecasting was done on this basis.
19. It was not until the end of the financial year, when Government regulations and CIPFA accounting guidance were issued, when it was determined that established accounting principles would not be followed in relation to LBR. Instead, the General Fund would be credited with the early 2013 estimated business rates figure (not the year end actual figure), and accounting for the Council's share of the liability provision would actually be deferred into future years. At the same time, the safety net payment due from Government is treated as income in the General Fund.
20. The situation causes a timing mismatch between the cost of the appeal refund liability, and the income from the safety net; in addition notional numbers are used rather than real numbers.
21. The effect of this unsatisfactory failure of regulations and accounting guidance to follow established principles, actual results and common sense, is that there is an artificial, temporary surplus in the Council's 2013/14 General Fund of approx. £2.5 million. This is counter-intuitive, because of the appeals liability risk which means that the Council has not in reality earned a surplus. Other councils are experiencing similar outcomes

although in the case of UDC the situation is magnified by the disproportionate effect of Stansted Airport.

22. In due course, assuming estimates about the appeals liability risk are reasonably accurate, this money will be paid out to businesses who win their appeals and this will be a cost to the Council's General Fund in later years. It is therefore absolutely essential that the temporary artificial surplus of £2.5 million is held in a ringfenced reserve so that it is available to cushion the impact of the appeals refunds when they are required to be accounted for in later years.
23. The accounting treatment of the £2.5 million is the same as any other earmarked reserve however it is very important that the £2.5 million is not considered to be a usable reserve available to spend. Although this means that the total level of earmarked reserves as at 31 March 2014 is boosted from approx. £8 million to approx. £10.5 million, this is an artificial situation and it is more appropriate to regard the Council's usable reserves total to be the £8 million figure.

Housing Revenue Account (HRA)

24. This was the second year of the self-financing HRA business plan. As expected, an operating surplus of around £3 million was earned, which has been spent or committed on housing improvement schemes.
25. There was an in year net favourable variance of £318,000 which has been allocated to the Sheltered Housing Reserve to fund future improvements. Within this overall position some overs and unders occurred.
26. There is one significant adverse variance within the operating surplus of £81,000. This relates to an historic debtor balance for supporting people funding from Essex County Council which was written off in 2013/14.
27. There are two favourable variances above £50,000. An increase in rental income of £183,000 and a reduction in the bad debt provision of £162,000. Both of these variances relate to better rent collection due to investment in the service by offering extra support and advice to tenants. In addition the bad debt provision was increased in 2012/13 with the expectation of the 'bedroom tax' increasing rent arrears, this has not been the case and the bad debt provision has now been re calculated to reflect the current rental income position.

Capital Programme

28. The capital programme budget, including adjustments approved by Cabinet, was £9.943 million. At the end of the year a number of projects were carried forward to 2014/15, these totalled £1.903 million. Of the remaining £8.040 million budget total capital expenditure was £8.042 million.
29. The £2,000 adverse variance comprises an £85,000 favourable variance on completed general fund projects and an £87,000 adverse variance on the completed HRA capital projects.

S106 Balances

30. As at 31 March 2014 a total of £4.138 million was held as S106 funds. This differs from the £3.8 million reported to Cabinet on 25 June as the S106 agreement for Sampford Road (£354,000) was identified whilst compiling the final figures for the statement of accounts.

Usable Reserve - (S106 Contributions without conditions)	31 March 2013	Income	Interest	Drawn Down	31 March 2014
	£'000	£'000	£'000	£'000	£'000
S106 Unapplied					
Stansted Housing Partnership	2,343		6	(722)	1,627
Dunmow Eastern Sector	18				18
Section 106 - Woodlands Park	44			(3)	41
Section 106 - Friends School	29				29
Section 106 - The Pastures	30			(30)	-
Section 106 - Priors Green	9			(1)	8
Section 106 - Rochford Nurseries	24				24
Section 106 - Lt Walden Road/Ashdon Road	-	98			98
Section 106 - Oakwood Park	-	5			5
SUB TOTAL	2,497	103	6	(756)	1,850

Creditor - (S106 Contributions with conditions)	31 March 2013	Income	Drawn Down	31 March 2014
	£'000	£'000	£'000	£'000
S106 Receipts in Advance				
Section 106 - Priors Green	222	1	(122)	101
Section 106 - Felsted	10	-	-	10
Section 106 - Oakwood Park	10	-	-	10
Section 106 - Rochford Nurseries	444	346	(6)	784
Section 106 - Bell College	-	6	-	6
Section 106 - Manuden Village Hall and Sports Facilities	1,583	-	(1,308)	275
Section 106 - The Orchard, Elsenham	-	42	-	42
Section 106 - Wedow Road, Thaxted	-	64	-	64
SUB TOTAL	2,269	459	(1,436)	1,292

Creditor - (S106 Contributions due to other bodies)	31 March 2013	Income	Drawn Down	31 March 2014
	£'000	£'000	£'000	£'000
S106 Receipts in Advance				
Section 106 - Sector 4 Woodlands Park (Helena Romane School)	225	-	(60)	165
Section 106 - Priors Green	8	-	(7)	1
Section 106 - Wedow Road, Thaxted	-	187	-	187
Section 106 - Barnetson Court, Dunmow	-	66	(66)	-
Section 106 - Broomfields, Hatfield Heath	-	155	(155)	-
Section 106 - Rochford Nurseries	-	289	-	289
Section 106 - Sampford Road	-	354	-	354
TOTAL	233	1,051	(288)	996

Landsbanki

31. The Landsbanki issue was finally resolved on 30 January 2014, consistent with the confidential part 2 decisions taken by the Council on 1 July 2013.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
The auditor is unable to issue an unqualified opinion on the accounts due to unresolved errors and delays completing the audit.	1 – all working papers checked and supplied on time	4 – a qualified opinion would impact on the reputation of the council	Continuous liaison with the External Auditors to identify areas of concern early and remedy the issues effectively.