EXPLANATORY FOREWORD

1. INTRODUCTION

1.1 Uttlesford District Council is a local authority providing services within the administrative district of Uttlesford, north-west Essex. The district is mainly rural and comprises the main towns of Saffron Walden, Great Dunmow, Stansted Mountfitchet and Thaxted, with 57 parishes. It is geographically the largest district in Essex, and has a population of about 80,000.

1.2 The key services and activities of the Council are the provision of council housing, refuse collection & recycling, litter picking, planning, building control, environmental health, housing and council tax benefits, Council Tax and Business Rates collection, off street car parking, communities and voluntary sector support, leisure centres, museum and licensing. Other key local authority services such as schools and roads are provided by Essex County Council. For more information about Uttlesford District Council please visit the Council's website at www.uttlesford.gov.uk.

1.3 This Statement of Accounts presents the financial results of the Council's activities for the year ended 31 March 2014, and summarises the overall financial position of the Council as at 31 March 2014. This foreword provides a guide to the significant matters reported in these accounts.

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2. THE ACCOUNTING STATEMENTS

2.1 The Council is required by law to complete its accounts in line with the CIPFA Code of Practice on Local Authority Accounting – a Statement of Recommended Practice (the 'Code').

2.2 The Code is based upon International Financial Reporting Standards (IFRS). The Code reconciles IFRS with the statutory local government finance framework. This is necessary because there are material differences between what IFRS states should be included in the accounts, and what legislation states should be financed by a local authority and local council taxpayers. There are many entries in the accounts, particularly within the "Comprehensive Income and Expenditure Statement", which are included as notional items for presentational purposes, and then "reversed out" via the "Statement of Movement in Reserves" so that the bottom line financial performance is consistent with statutory requirements.

2.3 This Explanatory Foreword sets out the key issues and is intended to give the reader an insight into the Council's financial performance during 2013/14.

2.4 The following are summary definitions of the core financial statements:

Movement in Reserves Statement (page 1)

This statement shows the movement in the year on the different reserves held by the Council, analysed into "usable reserves" (those that can be used to fund expenditure) and "unusable reserves" (those kept to manage the accounting process). The "(surplus)/deficit on the Provision of Services" line shows the true economic cost of providing the Council's services, details of which are shown in the Comprehensive Income and Expenditure Statement (see below). Adjustments between the accounting basis of measuring cost and the statutory basis are shown, to derive a net increase/decrease in usable and unusable reserves.

Comprehensive Income and Expenditure Statement (page 3)

This statement shows the cost of providing services in accordance with accounting rules, rather than the statutory amounts to be funded from taxation. Expenditure is categorised under standard headings that differ from the actual operational structure of the Council.

Balance Sheet (page 4)

This statement is fundamental to the understanding of the Council's financial position at the year-end. It shows the value as at 31 March of the Council's assets and liabilities. The Council's net assets (i.e. assets less liabilities) are matched by reserves held by the Council, analysed between Usable Reserves (available to spend) and Unusable Reserves (accounting items, not available to spend). During the year, the Council has reanalysed the balances on two Unusable Reserves in line with best practice accounting guidance. This is a notional adjustment only and has no effect on the Council's budget, usable resources or the council tax payer.

Cash Flow Statement (page 6)

This statement shows the changes in the cash flow position of the Council during the financial year, and sets out the sources of funds and what they are spent on.

Prior Period Adjustments (page 7)

This section details any prior period adjustments of a material nature and their effect on the core financial statements.

Notes to the Core Financial Statements (pages 9 to 69)

These provide additional supporting information to the figures included within the core financial statements.

Housing Revenue Account (HRA) Comprehensive Income and Expenditure Account (page 70)

The HRA fulfils the statutory requirement to maintain a separate revenue account for local authority social housing provision. This statement shows in more detail the income and expenditure on HRA services included as a one line summary in the Comprehensive Income and Expenditure Account.

Collection Fund (page 76)

This shows the transactions of the Council as a billing authority relating to Council Tax and Business Rates, and shows how these have been distributed between precepting local authorities and Central Government.

3. SIGNIFICANT MATTERS IN THE ACCOUNTS

3.1 The Council's financial position as at 31 March

As shown on the Balance Sheet, the Council's net assets increased by £8.2 million during the year, from £145.1 million to £153.3 million. The key movements are summarised below.

£m	31 March 2013	31 March 2014	Increase / (Decrease) in Net Assets	See Note Below
Non-Current Assets	261.4	261.6	0.2	a
Long Term Assets	1.9	0.8	(1.1)	b
Current Assets	16.2	33.0	16.8	c
Current Liabilities	(6.3)	(19.9)	(13.6)	d
Long Term Liabilities	(128.1)	(122.2)	5.8	e
Net Assets	**145.1**	**153.3**	**8.2**	

a) Non-Current Assets

Non-Current Assets are items that the Council uses over a long period to provide services, such as land and buildings, plant, vehicles and equipment, and computer software. Also included is the value of uncompleted building projects, for example, new council houses.

Each asset is recorded on the balance sheet according to an estimate of its value. Because of variable factors like property prices or the condition of an asset, values can fluctuate.

During 2013/14, the value of the Council's non-current assets increased by £0.2 million. This small change comprises a number of larger movements. The value of existing property has increased by £1 million. Expenditure on new or enhanced fixed assets totalled £6.9 million; most of this related to new or enhanced council housing. Disposals of fixed assets reduced the value by £3.9 million (including £1.9 million of vehicles, plant and equipment, £0.8 million of Council House sales and £0.8 million of other land and buildings disposals), and the net depreciation charge was £3.9 million. Along with other smaller changes in asset values, the overall net effect was an increase of £0.2 million. Full details are set out in table 7.1 on page 25.

b) Long Term Assets

The reason for the reduction in this balance sheet category is that during the year the Council sold its deposit with Landsbanki to Deutsche Bank. Accordingly the Landsbanki balance sheet value of approx. £1 million has been removed. The monies received from Deutsche Bank form part of the short term investments included within Current Assets.

c) Current Assets

Current assets are items that can be converted to cash or used to pay current liabilities within 12 months, and comprise bank balances, stock, debtors (money owed to the Council) and short term investments. The increase of £12.1 million is due to the following:

- An increase of £10.3 million in Debtors (amounts owed to the Council). This includes: £3.5 million of Safety Net funding payable by Central Government to the Council to offset losses sustained in the level of business rates retained, arising from the requirement to make provision for expected refunds to businesses; £6.6 million which reflects the share of the accounting deficit on the business rates account that is attributable to Central Government, Essex County Council and Essex Fire Authority; £0.5 million of money owed to the Council from Central Government relating to the funding of Housing Benefits, and a net reduction in other, smaller balances of £0.1 million

- An increase of £6.5 million in short term investments and cash & bank balances, due to a healthier cash flow position. This comprises: the Council selling its remaining Landsbanki deposit (approximately £1 million), which converts a long term investment into monies invested short term; increased collection of Council Tax income (£1.5 million); increased collection of business rates income (£2.6 million) and a net increase in the net debtors/creditors position of £1 million (net increase in creditors, therefore there is a cash increase). Monies are invested with secure UK financial institutions in order to minimise the risk of holding bank balances and to generate a modest amount of investment income.

d) Current Liabilities

Current Liabilities represent monies that the Council owes to other parties that are due for payment within one year. During 2013/14 the current liabilities balance has increased by £13.5 million. This comprises: £4.4 million increase in provisions for known liabilities, mostly relating to the Council's contribution towards refunds the Council expects to make to business ratepayers upon determination of their appeals against Rateable Values by the Valuation Office; £7.6 million which reflects the contribution to the business rates refunds which will be met by Central Government, Essex County Council and Essex Fire Authority; £1.5 million of business rates income paid by Stansted Airport received in advance of when the payment was due.

e) Long Term Liabilities

Long Term Liabilities decreased by £5.8 million which is due to two significant movements during the year.

Firstly the Council's share of the Essex Pension Fund deficit reduced by £5.4 million, from £31.7 million to £26.3 million.

The Pension Fund is administered by Essex County Council in accordance with the national local government pension scheme rules, working with an independent actuarial adviser. Uttlesford District Council has no control over the administration of the Fund.

The Pension Fund deficit comprises actuarial estimates of the Fund's assets and long term liabilities.

During 2013/14 the actuarial estimate of the Fund's asset values increased by £2.3 million, and the actuarial estimate of the Fund's liabilities reduced by £3.1 million. The combined effect of these changes is to reduce the deficit by £5.4 million. In general, continued strong performance of investment markets, and measures taken to reduce future liabilities on the Fund, combined with the Council making the required deficit repayments, have achieved an improvement in the reported funding position as at 31 March.

The Council is not required to set aside funds to meet this liability; instead the Council will make annual payments into the Pension Fund at a rate determined by the Fund's independent actuarial adviser. Pension scheme reforms to reduce liabilities continued to be implemented, including higher employee contributions, later retirement ages and lower pensions.

The second significant movement is the balance entitled "Capital Grants and Donations in Advance", which has decreased by £0.2 million, from £2.6 million to £2.4 million. This predominantly relates to "Section 106" funds, which are paid to the Council by developers as a result of the grant of planning permission where works are required to be carried out or new facilities provided as a result of that provision (for example, landscaping, building a community centre, etc.). These are treated as a liability on the balance sheet because one day the Council will be obliged to pay out the money to achieve the required outcomes. During the year the Council disbursed £1.7 million from Section 106 Funds whilst receiving £1.5 million of new contributions, such that the net reduction in this total balance was £0.2 million. Further details are set out in notes 11.3 & 11.4, on pages 34 & 35.

The bulk of the Long Term Liabilities figure, £88.4 million out of £121.9 million, represents money that the Council was obliged to borrow from Government in 2011/12 as part of council housing finance reforms. The first £2 million out of the £88.4 million becomes due for repayment in 2017/18.

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4. KEY RESULTS OF THE FINANCIAL YEAR

The following is a summary of the key operational financial results for 2013/14. Results are compared with the Council's budget. The figures shown are direct costs and income only, rather than the accounting basis used to produce figures for the Core Financial Statements. However the "bottom line" results are consistent with the movement in usable reserves shown in the accounts.

For further information, please see the detailed outturn report approved by the Cabinet on 25 June 2014. (website link)

4.1 GENERAL FUND

Total General Fund reserves available to spend increased by £1.844 million, from £6.119 million to £7.963 million. In addition, £4.423 million of business rates income has been placed in a ring fenced reserve, to meet expected future pressures from the deficit on the collection fund adjustment account. The ring fenced reserve is solely for the purpose of meeting these liabilities, and is not available to spend on other Council services.

	31 March 2013	31 March 2014	Net increase
	£m	£m	£m
Working Balance	1.214	1.214	-
Earmarked Reserves	4.905	6.749	1.844
Subtotal – Reserves available to spend	**6.119**	**7.963**	**1.844**
Business Rates Ring fenced Reserve	-	4.423	4.423
Total General Fund Reserves	**6.119**	**12.386**	**6.267**

Net Operating Expenditure was £2.803 million, which was £1.472 million below the budget, as summarised in the table below.

General Fund	**Budget**	**Outturn**	**Variance from revised budget**
	£m	£m	£m
Service & corporate budgets	9.832	8.277	-1.555
Government funding	-4.201	-6.105	-1.904
Local share of business rates	-1.356	-3.792	-2.436
Set up new Business Rates Ring fenced Reserve	-	4.423	4.423
Net Operating Expenditure	4.275	2.803	-1.472
Increase in General Fund Reserves	0.372	1.368	0.996
Net Budget Requirement	**4.647**	**4.171**	**-0.476**

After allowing for transfers to earmarked reserves, the bottom line represented a net underspend of £0.476 million. The underspend of £0.476 million is added to reserves. This figure, along with the £1.368 million of transfers during the year, amount to an increase in General Fund earmarked reserves of £1.844 million.

Key variances from budgeted Net Operating Expenditure are set out below:

	Variance favourable(-) / adverse
	£m
Planning fees income net of consultancy costs	-0.412
Housing Benefits grant income from DWP and overpayments recovery	-0.342
Local Council Tax Support subsidy not required due to reducing demand	-0.212
Council Tax Benefit overpayment recovery	-0.179
Public Health – additional income from vegetables inspection at Stansted Airport	-0.108
Street Services management post not filled & staffing savings	-0.090
Legal Services costs recovery higher than budget	-0.081
Landsbanki accounting adjustment	-0.079
Corporate Team staffing costs underspend	-0.064
Street Cleansing staffing costs saving	-0.057
Additional dividend from Collection Fund due to good Council Tax collection	-0.054
Contribution to Essex Community Budgets initiative not required	-0.050
Leisure PFI contract underspend	-0.049
Car Parking income above budget	-0.047
Capital Financing costs – revenue contributions in lieu of borrowing	0.524
Revenues & Benefits services – use of agency staff	0.118
Financial Services – increase in insurance costs and use of agency staff	0.110
Total of minor variances and underspends (net)	-0.400
Net favourable variance	**-1.472**

4.2 HOUSING REVENUE ACCOUNT (HRA)

2013/14 was the second year of the new HRA self-financing arrangements, following a major reform that took place at the end of 2011/12. Under the new arrangements, the Council has a large operating surplus available to repay a share of national housing debt it was required to take on, to make investments in new council housing, and improvements to existing stock.

The HRA is governed by a Business Plan, approved and overseen by the Council’s Housing Board. The Business Plan sets out priorities for improving existing housing stock, and identifies sites for redevelopment and new housing build.

During 2013/14, total HRA reserves increased by £0.409 million, from £2.963 million to £3.372 million:

	31 March 2013	31 March 2014	Net increase
	£m	£m	£m
HRA Working Balance	0.680	0.680	-
Capital projects (committed)	1.223	1.223	-
Potential development projects	0.800	0.800	-
Major Repairs	-	0.091	0.091
Sheltered Housing	-	0.318	0.318
Change Management	0.200	0.200	-
Revenue projects	0.060	0.060	-
Total HRA Reserves	**2.963**	**3.372**	**0.409**

The Operating Surplus was £3.180 million, which was £0.316 million higher than the budgeted surplus of £2.864 million. From the Operating Surplus of £3.180 million, £2.862 million was used to finance capital projects, leaving a bottom line surplus of £0.318 million. This was added to the Sheltered Housing Reserve, to fund future sheltered housing improvements.

Housing Revenue Account	**Budget**	**Outturn**	**Variance from Revised Budget**
	£m	£m	£m
Income	-14.504	-14.704	-0.200
Expenditure	11.640	11.524	-0.116
Operating Surplus	**-2.864**	**-3.180**	**-0.316**
Funding of capital projects	3.382	2.862	-0.520
Transfers from reserves	-0.663	-	0.663
Surplus for year	**-0.145**	**-0.318**	**-0.173**

Key variances from the budgeted Operating Surplus are set out below:

	Variance Favourable (-) / adverse
	£m
Rent Collection better than budgeted	-0.183
Reduction in bad debt provision	-0.162
Supporting People funding not received	0.081
Total of minor variances and underspends (net)	-0.052
Net favourable variance	**-0.316**

4.3 CAPITAL PROGRAMME

Total capital expenditure was £8.042 million, which was £0.002 million above the revised budget after allowing for slippages.

Capital Programme	Budget	Slippage	Revised Budget	Outturn	Variance from Revised Budget
	£m	£m	£m	£m	£m
General Fund schemes	2.908	-0.507	2.401	2.316	-0.085
Housing Revenue Account schemes	7.035	-1.396	5.639	5.726	0.087
Total Capital Expenditure	**9.943**	**-1.903**	**8.040**	**8.042**	**0.002**

Capital Expenditure was financed by external grants and contributions, the HRA Major Repairs Allowance, revenue contributions, capital receipts and internal borrowing.

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5. MAJOR INFLUENCES ON THE COUNCIL'S INCOME, EXPENDITURE AND CASH FLOW

5.1 The following are the major influences on the Council's income:

- Government funding through the Local Government Finance Settlement (Revenue Support Grant and distribution from the National Non-Domestic Rates Pool) is determined by central government. The annual change in funding is a major factor affecting the financial health of the Council. Major reforms to this system were implemented on 1 April 2013, which involve the Council taking a greater share of the risks and opportunities arising from changes in the amount of business rates collected. The Council's share of the Local Government Finance Settlement has reduced sharply in recent years, in line with cuts in Government spending. For the four financial years from 2011/12 to 2014/15, the Council will lose approximately 26% of this funding, and the Government has indicated overall cuts in the local government budget of a further 11% will be made in 2015/16. The Council maintains a Medium Term Financial Strategy and contingency reserves so that it can adjust to the lower funding levels without significant disruption to its key services. There are no risks to the Council's financial stability in the short to medium term, but the longer term outlook is more challenging.

- Local Business Rates (LBR) Income. 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.
  Under the new LBR system, 40% of the business rates income collected are retained by the district council, this income is now included in the base budget.
  In addition the government has set a level of business rates funding deemed to be applicable to each area and every Council receives a top-up (if business rates collected are below this deemed level of funding) or pays a tariff (if business rates collected are above this deemed level of funding).

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 is subject to detailed external audit.

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 £11.5 million of which the 40% share impacting on UDC would be £4.6 million detailed in table 10.2 page 34.

- Government funding through other non-specific grant regimes, such as New Homes Bonus and Council Tax Freeze Grant, has potential to improve the Council's financial position. There is no continuity of such funding from year to year. Accordingly such income is difficult to predict and therefore prudent assumptions are used in the medium term financial strategy.

- In respect of Council Tax the annual precept is determined by the Council but constrained by central government referendum limits and local public opinion. The yield from Council Tax is also affected by the growth in the number of households in the district, variations to discounts payable, and collectability of unpaid debts. The Council acts as billing authority and collects Council Tax on behalf of itself, Essex County Council, Essex Police Authority, Essex Fire Authority and Town/Parish Councils. The share of the average Council Tax bill retained by the Council is approximately 10%.

- Fees & charges e.g. car park charges, garden waste income, planning fees. The amount of income received depends on market factors such as demand and price levels and effectiveness of income collections. Wider economic factors such as recessionary pressures can directly affect sources of income such as planning fees, building control fees and land charges.

- Specific government grants e.g. benefits subsidy. The amount received depends on performance and the amount of expenditure eligible for subsidy by grant.

- Rents & Service Charges (Housing Revenue Account only). The annual increase is determined by the Council within guidelines issued by central government. The amount of income depends on the number of dwellings, performance in re-letting empty properties and collectability of debt.

5.2 The following are the major influences on the Council's expenditure:

- Employee costs including salaries, national insurance and pensions costs – the level of expenditure depends on the staffing establishment, annual pay increase (determined at a national level) and the Council's employer pension contribution, determined by Essex County Council as administering pensions authority. The council employed a total of 357 employees which equated to 315.83 full time equivalents as at the 31 March 2014 (297.42 as at 31 March 2013). The cleaning service which was previously outsourced to a private company was brought back in house in 2013/14 and this is the main factor contributing to the increase in staffing.

- Premises costs including energy costs, rates and building maintenance – the level of expenditure depends on the condition of property, maintenance programmes, energy consumption and price variability.

- Transport costs including fuel and vehicle maintenance – the level of expenditure varies according to the level of service activity, condition of vehicles and price variability.

- Supplies & services expenditure varies according to contractual indexation, level of service activity, price variability and effectiveness of procurement procedures.

- Transfer payments such as Housing Benefit and Local Council Tax Support – the level of expenditure varies according to the number of people entitled to receive benefit and levels of housing benefit and council tax benefit due under government rules. Wider economic factors such as recessionary pressures have a direct effect on the number of people receiving benefit.

- Capital financing costs – the amount depends on the size of the capital programme and the methods of financing, in particular the amount of borrowing and use of finance leases.

5.3 The following are the major influences on the Council's cash flow:

- Timing of payments including length of time taken to pay suppliers' invoices.

- Receipt of income including effectiveness of debt recovery.

- Schedule of payment dates relating to amounts payable to precepting authorities and central government.

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6. THE FINANCIAL NEEDS AND RESOURCES OF THE COUNCIL

6.1 The Council requires financial resources to deliver its Corporate Priorities, statutory obligations and discretionary services. For a detailed explanation of how the Council's budget is aligned to its priorities, and a forecast of the resources required over the next few years, please refer to the Council's Medium Term Financial Strategy, available on the Council's website and from the contact details given below.

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7. AUDIT OF ACCOUNTS

7.1 These accounts are published following completion of the audit by the External Auditor, EY (see Auditor's Report on page109).

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8. FURTHER INFORMATION

8.1 The Council produces a detailed Budget Book, which sets out the financial plans for the following financial year. A copy of this may be obtained by contacting Angela Knight, Acting Assistant Director (Finance), at Uttlesford District Council, Council Offices, London Road, Saffron Walden, CB11 4ER. Email: aknight@uttlesford.gov.uk

Website: http://www.uttlesford.gov.uk/finance

Adrian Webb
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