NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

17 JULY 2014

STATEMENT OF FINAL ACCOUNTS 2013/14

Report of the Corporate Director – Strategic Resources

1.0 PURPOSE OF REPORT

1.1 To consider a draft Statement of Final Accounts for 2013/14 for the County Council in advance of:

(a) these accounts being audited by Deloitte during July and August 2014 and

(b) being re-submitted to this Committee for formal approval on 25 September 2014 after the external audit has been completed.

2.0 BACKGROUND

2.1 The *Accounts and Audit Regulations* set out the requirements and timelines for Member approval of Local Authority Accounts and one of the Terms of Reference for this Committee is to approve the Annual Statement of Accounts (SOFA).

2.2 There is no longer a formal requirement for Member approval of the SOFA by 30 June, in advance of consideration and review by External Audit. The previous requirement was out of step with the private sector and elsewhere in the public sector and carried the implication that the Audit Committee was not aware of the outcome of the external audit before their requirement to approve the SOFA.

2.3 The requirement that the SOFA is certified by the Section 151 (Chief Finance) Officer by 30 June and approved by Members (the Audit Committee) in advance of the certification and publication of the Accounts by 30 September remains unchanged.

2.4 Given this change, both DCLG and CIPFA suggest that it would be good practice for the SOFA still to be presented to Members (at this meeting) for review and comment prior to audit and that this is an area where the Audit Committee can still add value. Therefore the approach taken in recent years of submitting draft accounts to the Audit Committee in June/July for information and review/comment only, not formal approval, is being continued in 2013/14.

2.5 The draft SOFA includes the draft Annual Governance Statement (AGS) which was considered as part of the overall review of corporate governance at the Audit Committee on 26 June 2014.

2.6 The final SOFA, after External Audit, will be re-submitted to this Committee on 25 September 2014 for formal approval.

3.0 STATEMENT OF FINAL ACCOUNTS 2013/14

3.1 Reports on the 2013/14 Revenue Budget and Capital Plan outturn were Considered by the Executive on 17 June 2014 (**see paragraph 10**). However those outturn reports and the spending details reported form only part of the information reflected in the full SOFA documentation – the latter also includes a Balance Sheet, Cash Flow Statement, Statement of Accounting Policies, Notes to the Accounts, Group Accounts, Pension Fund Accounts etc. In addition, the format of the SOFA has to comply with statutory accounting requirements which differ in a number of areas from the County Council's organisational structure and day-to-day accounting and budgetary arrangements (**see paragraph 5.3**).

3.2 The County Council's draft SOFA for 2013/14 is attached as a separate booklet circulated with the agenda after being certified by the Corporate Director – Strategic Resources on 26 June 2014 (page 30) to satisfy the statutory requirement referred to in **paragraph 2.3** above. It has also been co-signed by the Chief Executive. (**paragraph 7.5**).

3.3 The format and content of the SOFA must comply with CIPFA's IFRS based *Code of Practice on Local Authority Accounting in the United Kingdom 2013/14* and is therefore, largely outside the County Council's control. This Code prescribes the accounting treatment and disclosures for all transactions and balance sheet items of a Local Authority's Accounts. The Code constitutes 'a proper accounting practice' under the terms of Section 21 (2) of the Local Government Act 2003.

3.4 The SOFA also complies with *CIPFA's Service Reporting Code of Practice* (SeRCOP). The aim of this Code is to achieve an accounting framework for Local Authorities so that financial data reported is comparable between authorities. The Code applies to a wide range of financial data that has to be published and provided in a variety of sources including the SOFA and various budget/outturn returns required by Central Government. The Code has the full backing of Central Government and is usually updated on an annual basis.

3.5 A Summary sheet giving a brief explanation of the various statements included in the SOFA is attached as **Appendix A** and as indicated in **paragraphs 3.3 and 3.4**, the various accounts and notes included in the SOFA are to comply with the IFRS based *Code of Practice on Local Authority Accounting* and *Service Reporting Code of Practice*.

4.0 CHANGES REFLECTED IN THE 2013/14 SOFA

4.1 A number of relatively minor changes are reflected throughout the 2013/14 SOFA which principally arise from the 2013 *Code of Practice on Local Authority Accounting* **(paragraph 3.3)** and these are as follows:

4.2 **Changes in Accounting Policies for:**

Pensions: IAS 19 Employee Benefits:

The accounting policy has been updated to incorporate changes to the definition and terminology of various employee pension benefits defined under IAS 19.

Although these changes do not impact on the value of pension related assets and liabilities in the Balance Sheet, they do impact on the Comprehensive Income and Expenditure, Movement in Reserves and Cash Flow Statements. These statements for 2012/13 have also had to be restated to reflect the changes.

Landfill Allowances:

The accounting policy associated with the Landfill Allowance Trading Scheme has been removed for 2013/14 as this trading scheme in relation to Waste Disposal Authorities ended in 2012/13.

Presentation of Financial Statements

Following the changes to IAS 19 mentioned above, presentational changes have been made to the grouping and classification of items presented in the "Other Comprehensive Income' section of the Comprehensive Income and Expenditure Statement.

Although CIPFA class this as a change in accounting policy, it is really no more than a presentational change.

Localisation of Business rates from 1 April 2013

The previous accounting policy for Council Tax Income has been expanded to reflect the introduction of the business rates retention scheme from 1 April 2013 which has resulted in changes to how Business rates are collected, allocated and retained locally.

The Comprehensive Income and Expenditure Statement for 2013/14 reflects the impact of the new arrangements and also reflects an accruals basis for debtors, creditors and bad debts etc.

4.3 Other changes for:

Transfer of Public Health from 1 April 2013

On the 1 April 2013 Public Health staff and services were transferred from the NHS to local government and local authorities were provided with a ring fenced public health grant to pay for the cost of these staff and services.

The Comprehensive Income and Expenditure Statement has been updated to reflect this additional spending and grant in 2013/14 with an extra line entitled 'Public Health' to reflect this change.

Revaluation of Land and Buildings

The Code of Practice requires authorities to consider the componentisation of properties when determining the depreciation of its buildings. Componentisation effectively divides properties into identifiable elements with differing useful lives. Thus each component is depreciated at a separate rate as opposed to depreciating the overall property at a single rate.

The County Councils componentisation policy from 2010/11 has been to identify components through the property revaluation process where the component value is in excess of £600k and has a useful life differing to that of the overall building by 10 years. In 2013/14 following discussions with the External Auditor the County Council reviewed its componentisation policy in order to more effectively identify components within its buildings.

The review resulted in an updated policy based on a model framework approach to componentisation. A framework has been established, in conjunction with the County Councils Property Consultants Jacobs UK, which provides a breakdown of each classification of asset into three specific components; Land (which is not depreciated), the Main Structure of the Building and the Mechanical and Electrical Services of the Building. Each component is then depreciated separately at rates representative of their remaining useful lives. The framework model is applied to all capital expenditure and asset valuation figures once calculated in order to provide a breakdown at component level for depreciation purposes.

The updated componentisation policy has resulted in an increase in the depreciation charge of £3.2m in 2013/14.

Componentisation of Assets for calculating depreciation

In accordance with the Code of Practice, the County Council valuers, Bruton Knowles, value its land and buildings over a 5 year rolling programme. However, following further recent clarification by CIPFA with regard to the requirements for the revaluation of land and buildings, the Code of Practice 2013/14 also requires that where assets are revalued on a rolling basis, local authorities must ensure that all land and building values are up to date at the end of each financial year. Therefore, in order to ensure that the value of land and buildings not considered in year by the rolling revaluation programme are up to date the County Council introduced an annual desktop review of land and building valuations, undertaken by Bruton Knowles, in 2013/14.

The 2013/14 review considered a sample of assets from each category of land and buildings not revalued as part of the overall rolling revaluation programme. The review identified an increase in valuations across a range of various categories and resulted in a total £46.7m increase in land and building values in 2013/14.

Various other Minor Refinements including a required change in the disclosure for the Dedicated Schools Grant (DSG)

4.4 The key changes outlined above were reported to the Audit Committee on 5 December 2013 as part of the *Accounting Policies* report.

5.0 REVENUE OUTTURN FOR 2013/14

5.1 The Comprehensive Income and Expenditure Statement, presented in a format required to comply with the IFRS based Accounting Code of Practice and the SeRCOP, is included at page 35 of the SOFA.

5.2 The day-to-day accounting and budgeting arrangements of the County Council designed to fit in with its own organisational structure, are different to both the statutory year end and SeRCOP requirements. Therefore, the management accounts as reported to the Executive on 17 June 2014 have had to be reworked to fit these formal requirements. However, although the presentation of the figures in the SOFA (Income and Expenditure Account) is very different, the resulting changes do not affect the overall net expenditure to be funded from Central Government Grant and Council Tax or the levels of working balances**.**

5.3 The main differences between the County Council's management accounts and the published statutory accounts are as follows:

(a) **Service Headings**

County Council	**Required SeRCOP Service Headings**
Children and Young People's Service	Central Services to the Public
Business and Environmental Services	Court Services
Health and Adult Services	Environmental and Regulatory Services
Business and Community Services	Cultural and Related Services
Central Services	Planning Services
Corporate Miscellaneous	Education and Children's Services
	Highways, Roads and Transport Services
	Adult Social Care
	Public Health
	Housing Services
	Corporate and Democratic Core
	Non-distributed costs

(b) **Capital Charges**

In the SOFA, the County Council is required to adopt CIPFA's *Capital Accounting Regulations* which means that each service has to reflect a depreciation charge for the assets they use (land, building, plant and machinery etc.) Adjustments are also made for the following other types of capital charge:

- impairment of non-current (fixed) assets
- revaluation losses following the revaluation of propriety, plant and equipment
- changes in the market value of Investment Properties
- amortisation of intangible assets
- revenue expenditure funded from capital under statute (capital expenditure that does not result in a County Council asset)

These capital charges replace the minimum revenue provision (MRP) for debt repayment which is included in the management accounts, and charged against the County Council's budget requirement funded from Council Tax, Business Rates and General Government Grant. The MRP is therefore not charged to the Comprehensive Income and Expenditure Account. Similarly, capital expenditure which is funded directly by the General Fund (funded by Council Tax, General Revenue Grant and Business Rates) is not charged to the Comprehensive Income and Expenditure Account.

Capital charges are off-set by capital grants and contributions (which are used to fund expenditure on non-current (fixed assets). These contributions are credited in full to the Comprehensive Income and Expenditure Account in the year where the terms and conditions of these contributions have been satisfied but this treatment does not impact on the management accounts of the County Council. Where the conditions of these capital grants have not been met at year-end, the grant is held in the balance sheet as ‘Capital Grant Unapplied’.

(c) **Transfers to and from Reserves**

Transfers into, and expenditure funded from, reserves are not considered part of the net cost of services and are therefore not reflected at all within the Income and Expenditure account.

(d) **Central Support Services**

Under SeRCOP, the costs of Corporate Support Services (Central Services) and an allocation of certain central expenses (Corporate Miscellaneous) have to be reflected as additional service costs rather than Central ‘corporate’ costs. Such services include Financial, Legal, HR and IT etc.

(e) **Employer’s Pension Fund contributions and adjustments involving the Pension Fund Reserve**

Accounting for retirement benefits (IAS 19) requires that employer’s contributions to pension schemes, reflected in service accounts should only consist of ‘current service’ costs. As the actual contributions made to the North Yorkshire Pension Fund by the County Council include an element of back-funding to recover the Pension Fund deficit, the service expenditure figures reported in the SOFA have to be adjusted to reflect the current service cost as calculated by the Fund actuary.

In addition, the Comprehensive Income and Expenditure Statement also includes, as part of operating expenditure, the net impact of the notional return (County Council share) of the Pension Fund assets and the increase in accrued future pension liabilities.

The required changes also reflect the inclusion of the attributable share of Pension Fund assets and liabilities in the County Council’s Balance Sheet. This reflects the County Council's commitment to the Pension Fund but does not mean however that legal title or obligation has passed from the trustees of the Pension Fund to the employer.

(f) **Council Tax and Business Rates (Collection Fund) Accounting**

The County Council's Income and Expenditure Statement now includes the County Council's share of the carried forward Council Tax and Business Rates Collection Fund surpluses/deficits of each of the seven District Councils at the year end. This is in place of the estimated sums at the previous year end that have been paid over to the County Council during the year and used for Budget/Council Tax setting purposes in future years.

(g) **Holiday and Flexi Pay Accrual**

The County Council has to charge the Income and Expenditure Account with an estimate of accrued and untaken Annual Leave and Flexi Leave at 31 March 2014. This figure includes a substantial figure for untaken Teacher's (and other schools-based staff) holiday pay, in relation to the days worked and taken as holiday in the Spring Term at each school. This adjustment is purely notional and does not impact on the County Council's budget requirement or level or working balances (GWB).

(h) **Gains and losses on the disposal on Non-current (Fixed) Assets**

A topical example of this would be where a School acquires Academy status and there is an automatic transfer of the ownership of the Land and Building of the school premises to the School's Board of Governors for nil value. Such a notional loss does not, however, impact on the day to day management accounts or level of general working balances.

(i) **Other Differences**

Certain other transactions such as interest earned and paid, precept payments to other bodies, dividends receivable and corporate internal trading units are not considered as part of the net cost of services and are required to be shown as separate items below service expenditure totals in the Income and Expenditure account. Similarly some Government Grants and Funding sources are required to be shown as overall general funding, rather than being included in the Income and Expenditure Account as Service income.

5.4 **All of the above presentational changes have no effect on the actual net spending of the County Council to be funded from Council Tax, Business Rates and General Government Revenue Grant funding and therefore do not impact on the level of Revenue Working Balances at 31 March 2014 as reported to the Executive on 17 June 2014**.

6.0 KEY FEATURES

6.1 As the attached SOFA is a very lengthy and technical document which is necessary to comply with the IFRS Code of Practice on Local Authority accounting, key features of the Accounts are highlighted below. The figures quoted relate only to the County Council's activities and do not include those relating to the Yorwaste, NYnet or Veritau, companies that are reflected in the group accounts section of the SOFA.

Revenue Shopping

6.2 The net cost of the provision of services reported in the Comprehensive Income and Expenditure Statement is £407.3m consisting of gross spending of £943.4m less income of £536.1m.

(a) service income of £536.1m includes specific grants totalling £429.6m the biggest of which is the Dedicated Schools Grant (DSG) of £350.0m. The remaining £106.5m is from sales, fees and other charges/reimbursements

(b) after net service spend comes other operating expenditure totalling £19.0m (mainly relating to fixed asset transactions impacting on the Income and Expenditure Account) and financing and investment income and expenditure of £19.7m (relating mainly to capital charges, investment income and pensions contributions)

(c) total reported funding (taxation and non-specific grant income) is £442.8m consisting of the demand on Direct Council Collection Funds for Council Tax of £228.5m (includes statutory Council Tax accounting requirements) , non-domestic rates income from the Government and seven local District Councils of (£58.3m), Revenue Support Grant of £88.9m, Capital Grants of £58.6m and other Government funding of £8.5m

(d) the resulting reported deficit on the provision of services is £3.2m and is considered in further detail in **paragraph 6.3 to 6.7**.

(e) the reported key figures mentioned above are from the SOFA's Income and Expenditure Statement and can be reconciled to the County Council's Out-Turn Management Accounts as follows:

Item	Net expenditure £m	- Funding £m	= Deficit in year £m
SOFA Comprehensive Income and Expenditure Statement deficit on the provision of services	446.0	-442.8	3.2
Different treatment of some Government funding (mainly Council Tax freeze grant)	-8.5	8.5	0
Other 'non cash backed' transactions reflected in the Income and Expenditure Account (- £30.0m)			
Capital Accounting	-72.8	58.6	-14.2
Pensions Accounting	-24.6		-24.6
Movement in earmarked reserves	11.9		11.9
Collecting Fund Accounting		1.3	1.3
Holiday Pay Accounting	0.5		0.5
= **County Council's Management Accounts deficit**	352.5	-374.4	-21.9
2012/13 underspends rolled forward to 2013/14 and funded from revenue balances		-22.8	-22.8
Agreed budgeted contribution from GWB		-0.4	-0.4
= Budget outturn in Management Accounts	**352.5**	**-397.6**	**-45.1**

(- = saving)

(c) therefore net revenue spending of £352.5k was £45.1m below the revised estimate of £397.6m with a breakdown by Directorate being as follows:

Directorate	Revised estimate	2013/14 Outturn	Variation
	£m	**£m**	**£m**
Children and Young People's Service	81.6	80.4	-1.2
Business and Environmental Services	80.5	73.1	-7.4
Health and Adult Services	140.0	136.9	-3.1
Central Services	55.9	54.7	-1.2
Corporate Miscellaneous			
- Budgets	19.2	15.0	-4.2
- Corporate PIP	20.4	0.4	-20.0
- release of earmarked reserves	-	-8.0	-8.0
Total	**397.6**	**352.5**	**-45.1**

(d) the bottom line saving of £45.1m consisting of the following components:

Item	£m
Increase in the General Working Balance from sums not carried forward	20.0
Saving to be carried forward to future years	25.1
= Total savings	**45.1**

The £20.0m increase in the General Working Balance from sums not carried forward consists of:

- Unwinding of some earmarked reserves (£8m)
- Early achievement of Directorate Budget / MTFS savings (£4.7m)
- An unused element of the £3m HAS demographic growth contingency held in Corporate Miscellaneous (£1m)
- The late notification of some Government grants and returned top slice funding (£1.2m)
- Highways savings principally Winter Maintenance due to weather conditions in 2013/14 (£2.9m)
- Part year saving on a HAS inflation provision which is required in full in 2014/15 (£1.4m)
- Other net one off windfalls and savings across all Directorate and Corporate budgets (£3.9m)
- Offset by a one off contribution towards the SFNF (Super Fast North Yorkshire) project (£3.1m)

the £25.1m savings to be carried forward to future years consist of:

- Various projects and initiatives for future years (£2.1m)
- PIP allocations to be spent in future years (£0.3m)
- Directorate PIP allocation underspends to be recycled back to the PIP (£2.7m)
- Unallocated Corporate PIP funding (£20m)

(e) The net spend of £352.5m was funded by:

Item	£m
Revenue Support Grant from the Government	88.9
Business Rates Income (9% from District Councils)	18.8
Business Rates 'top up' funding from the Government	41.0
Council Tax payers for 2013/14	225.2
Council Tax from previous years	0.5
Increase in Working Balances from £56.6m to £78.5m)	-21.9
=total net spending in 2013/14	**352.5**

(f) Income from Council tax payers totalling £225.2m was based on a charge of £1,057.48 for an average Band D property, which is unchanged from the previous three years.

Comprehensive Income and Expenditure Statement Deficit on Provision of Services

6.3 As mentioned in **paragraph 6.2(d)** the bottom line reported in the Comprehensive Income and Expenditure Statement is a deficit of £3.2m (£4.9m in 2013/14) on the provision services.

6.4 The IFRS based accounts introduced in 2010/11 reflects a number of notional transactions that have to be included but do not impact on the real spend, funding or working balances position of the County Council.

6.5 The notional transactions which cause the reported deficit are referred to in more detail in **paragraph 5.3** and basically fall into the following headings – capital accounting (mainly depreciation charges), Pension Accounting adjustment, transfers to and from reserves, Collection Fund accounting and Holiday Pay accrual adjustment. Their impact has been as follows:

Item	**£m**
Net budget saving in year	-45.1
Spend of previous year's carry forward funded from revenue balances	22.8
Other items impacting on balances (budgeted contribution)	0.4
Total increase in balances (surplus)	-21.9
Notional (not cash backed) entries reflected in I and E statement (£30.0m)	
Capital Accounting adjustments	14.2
Pensions Accounting adjustments	24.6
Movement in Earmarked Reserves adjustment	-11.9
Collection Fund Accounting	-1.3
Holiday Pay accrual adjustment	-0.5
= reported deficit in the I and E statement	**3.2**

6.6 Some comments on these significant notional (non cash backed) entries reflected in the Comprehensive I and E Statement are as follows:

(a) Capital Accounting Adjustments (+£14.2m)

The significant £14.2m "notional" increase in revenue spending resulting from capital accounting adjustments consists of the following elements:

	£m
• property valuation losses of £16.2m which arise from a combination of revaluation losses through the five year rolling valuation programme undertaken by Bruton Knowles, the evaluation of assets being re-classified as held for sale and an annual desktop valuation exercise for all properties introduced for the first time this year	+16.2
• depreciation charges, based on asset valuations and associated estimated remaining useful life of £53.4m are also included in the Income and Expenditure account to replace the Minimum Revenue Provision (MRP) of £15.4m (£15.1m of which is included in the management accounts and funded from Council Tax/Grant Income etc.) This has a net impact of increasing the cost of services by £38.0m	+38.0
• capital expenditure of £84.0m was incurred in 2013/14. £15.1m expenditure was identified as not enhancing the value of the County Council's assets (e.g. capitalised maintenance) and has to be included against service costs in the Income and Expenditure account	+15.1
• loss on disposal of assets – three schools gained academy status during 2013/14 and their land and buildings transferred to their Academy Trust for no consideration, resulting in a £11.5m loss being recorded in the Income and Expenditure account. This loss was reduced slightly to £11.0m by the profit realised on the disposal of other assets	+11.0
• further capital accounting adjustments, including the write down in value of intangible fixed assets and capital expenditure which does not result in the creation/enhancement of a fixed asset belonging to the County Council, totalling £7.4m also have to be included in the Income and Expenditure account	+7.4
• where the terms and conditions of capital grants received by the County Council have been met, the Income and Expenditure account has been adjusted to reflect the use of the grant in year,	-63.3

resulting in a £63.3m credit

- credit of £10.2m in relation to revenue financing of capital expenditure is also removed from service costs and replaced by an appropriate depreciation charge -10.2

= Total impact of Capital accounting adjustments +14.2

(b) Pensions Accounting adjustment (+£24.6m)

The nature of this notional Pensions charge of £24.6m is described in **paragraph 5.3 (e)** with the figure consisting of two elements.

Firstly, is a credit representing the difference between the County Council's actual contributions to pension schemes (principally the North Yorkshire Pension Fund), which includes an element of back funding to recover the Pension Scheme deficit, and current service costs which have to be reflected in the Income and Expenditure Statement. This past service gain is recognised in the Comprehensive Income and Expenditure statement as a credit against the provision of services (non distributed cost).

secondly is a charge relating to increased future liabilities of moving one year nearer retirement for all Fund Members, offset by increased investment return of assets in the scheme.

These figures are determined by the Pension Fund actuary.

(c) Movement in Earmarked Reserves adjustment (-£11.9m)

Contributions to and from reserves that are reflected in the County Council's management accounts and actual underspend position must be removed from Service expenditure within the Income and Expenditure account and replaced with actual expenditure being incurred. This adjustment consists of the year on year increase in earmarked reserves of £11.9m (from £101.2m to £113.1m – **see paragraph 6.9 (b)**

(d) Council Tax and Business Rates accounting (-£1.3m)

This adjustment is described in **paragraph 5.3 (f)**

(e) Holiday Pay accrual (-£0.5m)

This IFRS adjustment is described in **paragraph 5.3 (g)**

6.7 It is not helpful to the understanding of the SOFA and therefore the real financial position of the County Council that the above technical and notional accounting adjustments that are required to be reflected in the Comprehensive Income and Expenditure Statement have such a significant impact to convert a £45.1m budget saving into a £3.2m deficit on the Provision of Services. However this situation is not unique to the County Council and is a direct result of the application of standards aimed at providing comparable financial information across local authorities; public sector organisations and potentially the private sector.

Capital Spending

6.8 The key features relating to capital are:

(a) Capital spending was £84m which was £7.3m below the last Capital Plan update approved in February 2014 (£91.3m) and £9.1m below the original Capital Plan approved in February 2013 (£93.1m).

(b) The £7.3m gross underspend resulted mainly from capital expenditure being rephased from 2013/14 to 2014/15

(c) gross spending at Directorate level against the Capital Plan was as follows:

Directorate	Capital Plan update Feb 2014	2013/14 Outturn	Variation
	£m	£m	£m
Children and Young People's Service	30.0	29.1	-0.9
Business and Environment al Services	48.5	44.3	-4.2
Health and Adult Services	4.5	4.5	0
Central Services	8.3	6.1	-2.2
Total	**91.3**	**84.0**	**-7.3**

(d) after accounting for grants and contributions income from Directorates, there was a net capital underspend of £2m

(e) only £0.1m of the capital underspend is carried forward to 2014/15 (f) the £84m capital spend was funded by:

Item	£m
Borrowing	0
External sources (PWLB)	2.4
Internal sources (cash balances)	63.5
Capital Grants and Contributions	9.6
Schemes financed from revenue	8.5
Capital receipts (i) below	
= total capital expenditure to be financed	**84.0**

(g) in addition £0.5m was spent on fixed assets from within Directorate within budgets

(h) total capital investment in 2013/14 was therefore £84.5m

(i) capital receipts from the sale of assets in 2013/14 were £8.5m which is below earlier forecasts as a result of receipts slipping into 2014/15 and beyond

Balance Sheet

6.9 Significant features are:

(a) the General Working Balance (GWB) at 31 March 2014 was £78.5 of which £25.1m relates to savings which are approved for carry forward to 2014/15 and beyond. The free working balance is therefore £53.4m which is £11.1m above the forecast target of £42.3m at 31 March 2014 and £25.9m above the new minimum level set as part of the 2014/15 budget/MTFS process (2% of the net revenue budget and £20m buffer = £27.5m).

(b) other earmarked reserves total £113.1m compared with £101.2m at 31 March 2013 and consists of:

Earmarked Reserve	31 March 2013	31 March 2014	2013/14 variation
	£m	£m	£m
Earmarked for schools			
Schools balances (LMS reserve)	26.3	30.9	+4.6
Schools block / DSG	10.7	11.0	+0.3
Sub total	37.0	41.9	+4.9
Other Earmarked reserves			
Winter service	2.1	0	-2.1
Insurance reserve	6.9	6.9	0
Corporate redundancy reserve	1.3	0.7	-0.6
Redundancy costs in schools	3.1	1.1	-2.0
CYPS Special Education needs	1.4	1.0	-0.4
ICT SDT/Directorate refresh	2.7	2.8	+0.1
ICT – Strategy and infrastructure	2.6	3.5	+0.9
Trading Unit accumulated surpluses	6.4	4.9	-1.5
CYPS Service transformation	1.6	0.6	-1.0
HAS supporting people	1.6	2.4	+0.8
BES Civil parking enforcement	3.1	4.0	+0.9
SFNY contribution	0	3.1	+3.1
CYPS special projects	0	1.1	+1.1
Other smaller reserves	8.6	10.0	+1.4
Sub total	41.4	42.1	+0.7
Revenue Income reserves (mainly grants and contributions) (**paragraph 6.41**)			
CYPS	1.8	3.5	+1.7
BES	2.1	4.1	+2.0
HAS	1.8	1.5	-0.3
HAS health funding	13.9	17.9	+4.0
Central services	0.2	0.2	0
LAA performance reward grant	3.0	1.9	-1.1
Sub total	22.8	29.1	+6.3
=Total earmarked reserves	**101.2**	**113.1**	**+11.9**

(c) In addition to earmarked reserves, sums set aside a provisions are as follows:

Provisions	31 March 2013	31 March 2014
	£m	£m
Highways advance payments	1.7	2.4
Highways liability	2.0	0
Insurance claims	4.8	4.0
Insurance liability	0.6	0.2
Carbon reduction	0.5	0.5
HAS residence fees	0.8	0.3
Other smaller provisions	0.4	0.2
Sub total	10.8	7.6
IFRS holiday pay provision	10.1	9.6
= Total provisions	**20.9**	**17.2**

(d) There are unusable 'technical accounting' reserves of £836.9m at 31 March 2014 (£549.1 at 31 March 2013). These reserves are required to neutralise required accounting treatment elsewhere and ensure that there is no cash impact on the County Council's Tax requirement or General Working Balance. These reserves relate to capital, pensions, IFRS, Council Tax and Business Rates accounting requirements.

(e) Property, plant and equipment assets (land, buildings and infrastructure etc.) are valued at £1,469.3m at 31 March 2014 compared with £1,457.2m at 31 March 2013. The £12.1m increase in 2013/14 reflects the following factors:

	£m
• new capital spending in 2013/14 adding	+55.0
• depreciation in 2013/14 reducing the value by	-53.4
• disposal of properties (mainly transfer of schools becoming academies)	-12.9
• property revaluations (CYPS non schools, Corporate offices plus annual desktop valuation for all others)	+33.4
• transfer relating to operational property held for sale	-10.0
Total movement in year	+12.1

(f) external debt in relation to capital spending is £344.6m at 31 March 2014 compared with £350.0m at 31 March 2013. The £5.4m reduction reflects scheduled loan repayments being made to the Public Works Loan Board together with the 2013/14 borrowing requirement being funded internally from cash balances, with no new external loans being taken

(g) a net £317.5m liability in relation to Pension Fund deficits (mainly the Local Government Pension Scheme) is reflected in the Balance Sheet (£559.1m at 31 March 2013). This liability is being addressed as part of the 27 year recovery strategy established as part of the 2013 Triennial valuation of the Fund and agreed by the Pension Fund Committee in February 2014. This strategy will be reassessed as part of the 2016 Triennial Valuation.

(h) cash balances invested (wholly in house) at 31 March 2014 were £208.5m compared with £195.1m at 31 March 2013. A total of £15.6m of the sums invested belong to other organisations for whom the County Council undertakes treasury management on a Service Level Agreement basis and received an annual fee for doing so

(i) cash and cash equivalents (IFRS balance sheet heading) of £144.8m at 31 March 2014 (£89.8m at 31 March 2013 consists mainly of short term (call accounts) investments (£115.0m which is part of £208.5m reported in (h) above) and funds in school bank accounts £40.2m which belong to individual schools rather than the County Council

(j) short term creditors at 31 March 2014 were £69.2m (£76.4m at 31 March 2013) and consist of general creditors of £40.4m, creditors with government entities of £19.9m, and income in advance of £8.9m

(k) short term debtors at 31 March 2014 were £42.4m (£38m at 31 March 2013) and consist of general debtors of £27.8m, debtors owed by government entities of £17.6m, payments in advance of £2.6m, less bad debt provision of £5.6m

(l) loans to Limited Companies totalling £11.6m at 31 March 2014 (£3.7m Yorwaste and £7.9m NYnet) are included within Long Term debtors

Other issues

6.10 Items of note are:

(a) Detailed group accounts reflecting the County Council's interest in Yorwaste (78%), NYnet (100%) and Veritau (50%) have been prepared to comply with the IFRS based Accounting Code of Practice. The consolidation has resulted in the deficit on the provision of services in the Comprehensive Income and Expenditure Statement increasing by £3.1m (from £3.2m to £6.3m) and the net assets of the County Council decreasing by £0.6m (from £1,035.2m to £1,034.6m)

(b) The County Council employed 13,778 full-time equivalent staff at the end of the financial year, 9,794 of which were in schools

(c) The value of the North Yorkshire Pension Fund was £2,083m compared with £1,841m at 31 March 2013 (an increase of £242m)

(d) The £242m increase in the Pension Fund value consisted of:

Item	£m
Contributions and benefits income	120.7
Less Benefits payable etc.	-93.4
	27.3
Investment income	22.5
Increase in market value of investments	198.8
Less Investment management and administration expenses	-6.1
= Total increase in value of Pension Fund	**242.5**

(e) the County Council's various trading units had a total turnover of £44.5m expenditure of £44.5m, resulting in an overall net breakeven position.

7.0 CERTIFICATION OF ACCOUNTS

7.1 As mentioned in **paragraph 2.2**, the *Accounts and Audit Regulations* do not require formal Member approval of the SOFA by 30 June but Member consideration, approval and certification by 30 September is still required.

7.2 Thus on completion of the external audit of the 2013/14 accounts, a report from the Auditor will be submitted to the meeting of this Committee scheduled for 25 September 2014. Following consideration of the Auditor's report, the Committee will be asked to consider and approve the SOFA with the Chairman being asked to sign and date the Accounts.

7.3 Any significant changes reflected in the final SOFA compared with the draft version attached, as a result of the audit, will be reported to Members on 25 September 2014.

7.4 The *Accounts and Audit Regulations* continue to require the responsible financial officer to sign and date the SOFA by 30 June and certify that it presents 'a true and fair view of the financial position of the Authority at the end of the year and its income and expenditure for that year'. This has been done on 26 June 2014.

7.5 The Chief Executive has also co-signed the SOFA recognising the unique position of the Chief Executive.

7.6 The responsible Financial Officer (Corporate Director – Strategic Resources) must also re-certify the SOFA before it is approved by the Audit Committee on 25 September 2014.

8.0 AUDIT OF ACCOUNTS

8.1 The *Accounts and Audit Regulations* require that the External Auditor formally signs off the County Council's accounts by 30 September 2014. To this end the audit of accounts by Deloitte's has recently started with completion expected during August 2014.

8.2 Following completion of his audit the External Auditor is then required to issue a report to those charged with governance, summarising the conclusions from the audit work. As indicated in **paragraph 7.2**, this detailed report will be submitted to this Committee on 25 September 2014 and will reflect the Auditors' responsibilities as covered by the Local Audit and Accountability Act 2014, the Audit Commission's Statutory Code of Audit Practice for Local Government and the International Standards of Auditing (ISA).

8.3 Following consideration of this report from the External Auditor on 25 September 2014, Members will then be asked to approve a final SOFA prior to it being formally signed off by the External Auditor.

8.4 The Auditors' conclusion from their audit will also be included as part of the overall audit of the County Council for 2013/14 which will be reported in the usual way through the Annual Audit Letter. This Letter will be submitted to a future meeting of this Committee and the Executive, although the Auditor will be requested to sign off the Final Accounts at the meeting of this Committee on 25 September 2014 in order to achieve the 30 September statutory deadline.

8.5 Sections 25 and 27 of the Local Audit and Accountability Act 2014 and Regulations 9, 10, 21, 22 and 23 of the Accounts and Audit Regulations 2011 require the County Council to notify the public that the Final Accounts are open for inspection for a four week period by way of advertisement and on its website. This Notice was placed in relevant newspapers during the week commencing 9 June 2014 with an inspection period between 30 June and 25 July 2014. Until the completion of the external audit, any local elector is able to question the External Auditor about the content of the Accounts.

8.6 As soon as reasonably possible after the conclusion of the audit on 25 September 2014, the County Council is also required, by advertisement and on its website, to give notice that the audit has been concluded and that the SOFA is available for inspection.

9.0 OTHER STATUTORY FINAL ACCOUNTS REQUIREMENTS

9.1 As indicated earlier in this report the key statutory requirements (Accounts and Audit Regulations 2011) in relation to Final Accounts are the approval of the accounts by an appropriate Committee and the External Auditor signing off the accounts by 30 September 2014.

9.2 There are however other statutory 'final accounts' requirements as follows:

(a) the public are given a 4 week (20 working days) window to inspect the accounts and make representations to the External Auditor (**paragraph 8.5**)

(b) a notice of audit conclusion must be made in the press and on the County Council's website stating that the SOFA is available for public inspection (**paragraph 8.6**)

(c) the SOFA must be published (which must be included on the County Council's website), together with the Auditor's certificate and opinion by 30 September

(d) detailed out-turn spending figures for both Capital and Revenue have to be submitted to the DCLG in July. This is provided in the form of detailed statistical returns that are completed by every local authority

(e) detailed information for the Government's Whole of Government Accounts (WGA) initiative are required to be submitted by October 2014 with draft unaudited figures provided by July 2014. In addition to the basic set of accounts, the Government also require additional information in order to produce a set of consolidated accounts that covers the whole of the public sector. Submissions to the Government are subsequently audited by the External Auditor.

9.3 These additional requirements do not require any specific consideration or approval by this Committee.

10.0 **OUTTURN REPORTS SUBMITTED TO EXECUTIVE ON 17 JUNE 2014**

10.1 As mentioned in **paragraphs 3.1 to 3.5** the content and format of the SOFA must comply with statutory requirements which result in these accounts being different to the County Council's day to day management accounting arrangements.

10.2 For information purposes therefore, copies of the relevant outturn reports based on the County Council's management accounts as submitted to Executive on 17 June 2013, have been distributed to Members of this Committee. These reports are as follows:

(a) Revenue outturn 2013/14

(b) Capital expenditure outturn and financing 2013/14

The annual Treasury Management and Prudential Indicators report 2013/14 was sent separately to Members on 9 June 2014. The Revenue and Capital reports are therefore being sent to Members under separate cover.

11.0 ANNUAL GOVERNANCE STATEMENT

11.1 The Audit Committee considered the draft Annual Governance Statement (AGS) at its meeting on 26 June 2014. This was as part of a wider discussion on matters relating to Corporate Governance for both North Yorkshire County Council and the North Yorkshire Pension Fund.

11.2 The draft SOFA includes the same draft AGS which was considered by the Committee on 26 June. Potential changes to the AGS following the discussion on 26 June will be considered by a working group with a final version of the AGS being submitted to this Committee on 25 September 2014 when it is asked to formally approve the final SOFA.

12.0 RECOMMENDATION

12.1 That Members consider the draft Statement of Final Accounts for 2013/14 in advance of the accounts being audited and resubmitted to the Audit Committee on 25 September 2014 for formal approval.

GARY FIELDING
Corporate Director – Strategic Resources

Background Documents
Closedown Working Papers (P Yates, extension 2119)

Strategic Resources
Central Services
County Hall
Northallerton

8 July 2014

APPENDIX A

STATEMENT OF FINAL ACCOUNTS

Brief Explanation of Contents

(a) **the Explanatory Foreword – pages 1 to 15**

the purpose of this Foreword is to act as a guide to the most significant matters impacting on the County Council's finances. It gives an indication of where the County Council's money comes from, what it is spent on and what services it provides as well as its financial position and assisting in the interpretation of the accounting statements.

(b) **the Statement of Accounting Policies – pages 16 to 29**

which explains the principles, bases, conventions and rules applied by the County Council in preparing the Statement of Accounts.

(c) **the Statement of Responsibilities for the Statement of Accounts – page 30**

this outlines the County Council's responsibilities for the Accounts under local government legislation and any other requirements. It also details the legal and professional responsibility for the Accounts of the Corporate Director – Finance and Central Services (i.e. Section 151 officer).

(d) **the Independent Auditor's Report – pages 31 to 34**

this explains the auditors' responsibilities in relation to the Statement of Accounts. It also expresses an opinion on the Accounts and shows how this opinion was reached. The report also gives a value for money opinion in terms of the arrangements for securing economy, efficiency and effectiveness.

(e) **the Comprehensive Income and Expenditure Statement – pages 35 to 36**

this shows the Net Cost of the Services provided by the County Council and how this has been financed from general government grants and local tax payers. This Statement shows the accounting cost in the year of providing services in accordance with specified accounting principles, rather than the amount to be funded from taxation.

(f) **the Movement in Reserves Statement – pages 37 to 38**

this Statement shows the movement in the different reserves held by the County Council over the year. The Statement is analysed into usable reserves, those that can be applied to fund expenditure or reduce local taxation, and other unusable reserves.

(g) **the Balance Sheet – pages 39 to 40**

this is a statement of the overall financial position of the County Council at the end of the year and shows the Balances and Reserves at the County Council's disposal, its long term indebtedness and the fixed and net current assets employed in its operations.

(h) **the Cash Flow Statement – pages 41 to 42**

this Statement shows the changes in cash and cash equivalents of the County Council during the financial year. The Statement shows how the County Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

(i) **notes to the Core Financial Statements – pages 43 to 104**

these provide further details and explanation of the figures included in the Core Financial Statements.

(j) **Group Accounts – pages 105 to 122**

the County Council conducts some of its activities through partnerships and separate undertakings. Some of these are not directly reflected in the statements (e) – (h) above due to legal and regulatory reasons. These Group Accounts are required to present a full picture of the County Council's economic activities and financial position in order to aid the primary financial statements.

(k) **the North Yorkshire Pension Fund Accounts – pages 123 to 146**

which show the income and expenditure of the North Yorkshire Pension Fund together with the financial position of the Fund on 31 March 2014.

(l) **the Annual Governance Statement – page 147**

this sets out the framework within which financial control and corporate governance is managed and reviewed by the County Council and the main components of the system. It also reports on significant identified weaknesses and the actions undertaken to rectify these.