ITEM 5

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

16 JULY 2015

STATEMENT OF FINAL ACCOUNTS 2014/15

Report of the Corporate Director – Strategic Resources

1.0 PURPOSE OF REPORT

1.1 To consider a draft Statement of Final Accounts (SOFA) for 2014/15 for the County Council in advance of:

(a) these accounts being audited by Deloitte during July and August 2015 and

(b) being re-submitted to this Committee for formal approval on 24 September 2015 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 SOFA.

2.2 There is no requirement for Member approval of a draft SOFA at this stage in advance of consideration and review by External Audit.

2.3 Currently the SOFA must be 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. DCLG and CIPFA however suggest that it would be good practice for the SOFA still to be presented to Members for review and comment prior to audit and that this is an area where the Audit Committee can add value. Therefore as in recent years the SOFA is being submitted to the Audit Committee in July for information and review/comment only, not formal approval. Hopefully this will provide Members of the Audit Committee with greater assurance so that the SOFA can be approved when presented formally on 24 September 2015.

2.4. New 2015 Accounts and Audit Regulations change some of the final accounts timelines from 2017/18 and other and requirements from 2015/16 however and this is covered in more detail in **section 10.**

2.5 The draft SOFA includes the draft Annual Governance Statement (AGS) which was considered by the Audit Committee on 25 June 2015. At this stage it remains incomplete pending further work from the Governance sub-group established at the meeting of 25 June.

2.6 The final SOFA, after External Audit, will be re-submitted to this Committee on 24 September 2015 for formal approval.

3.0 STATEMENT OF FINAL ACCOUNTS 2014/15

3.1 Revenue Budget and Capital Plan outturn reports for 2014/15 were considered by the Executive on 16 June 2015 (**section 12).** These reports and the spending details reported form only part of the information reflected in the full SOFA which 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 (**paragraph 5.3**).

3.2 The County Council's draft SOFA for 2014/15 is attached as a separate booklet circulated with the agenda after being certified by the Corporate Director – Strategic Resources on 30 June 2015 (page 32) 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 2014/15* and is; therefore, largely outside the Council's control. This Code prescribes the accounting treatment and disclosures for all transactions and balance sheet items of a Local Authority's Accounts and 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.

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 2014/15 SOFA**

4.1 For 2014/15 there are only relatively minor presentational changes reflected in this year's SOFA as there were no significant updates arising from the 2014 *Code of Practice on Local Authority Accounting* **(paragraph 3.3).** Minor changes have however been made as follows:

4.2 **Accounting Policies for:**

The only change to the 2014 Code of Practice that potentially impacted on the Council's 2014/15 Accounting Policies was around Group Accounts and this technical change was reported to the Audit Committee on 4 December 2014 as part of the *Accounting Policies report.* Although the wording of the Group Accounts Accounting Policy has been refined to reflect the change, the substance of the accounting policy itself has remained unchanged. There has also been no impact on any figures.

4.3 **Other changes:**

As indicated in **paragraph 4.1** there are no other changes in the SOFA resulting from the 2014 Accounting Code of Practice but a number of minor refinements and presentation changes have been made as they usually are each year.

5.0 REVENUE OUTTURN FOR 2014/15

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 37 of the SOFA.

5.2 The Council's in-year accounting and budgeting arrangements are designed to fit its organisational structure and are different to both the statutory year end and SeRCOP requirements. Therefore, the management accounts as reported to the Executive on 16 June 2015 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, Business Rates 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 from the revaluation of propriety and equipment etc.
- 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. The MRP is therefore not charged to the Comprehensive Income and Expenditure Statement. 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 Statement.

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 Statement 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 Statement.

(d) **Central Support Services**

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 under SeRCOP 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 includes the Authority’s share of the carried forward Council Tax and Business Rates Collection Fund surpluses and 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 Statement with an estimate of accrued and untaken Annual Leave and Flexi Leave at 31 March 2015. 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 Statement 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 2015 as reported to the Executive on 16 June 2015**.

6.0 KEY FEATURES

6.1 The SOFA is a lengthy technical document which is necessary to comply with the IFRS Code of Practice on Local Authority accounting so key features of the Accounts are highlighted below. The figures quoted relate only to the 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 Spending

6.2 The net cost of the provision of services reported in the Comprehensive Income and Expenditure Statement is £387.5m consisting of gross spending of £926.8m less income of £539.3m.

(a) service income of £539.3m includes specific grants totalling £433.4m the biggest of which is the Dedicated Schools Grant (DSG) of £347.4m. The remaining £105.9m is from sales, fees and other charges/reimbursements

(b) after net service spend is other operating expenditure totalling £15.6m (mainly relating to fixed asset transactions impacting on the Income and Expenditure Statement) and financing and investment income and expenditure of £24.1m (relating mainly to capital charges, investment income and pensions contributions)

(c) total reported funding (taxation and non-specific grant income) is £453.2m consisting of the demand on Direct Council Collection Funds for Council Tax of £236.7m (includes statutory Council Tax accounting requirements) , non-domestic rates income from the Government and seven local District Councils of (£60.8m), Revenue Support Grant of £77.8m, Capital Grants of £72.5m and other Government funding of £5.4m

(d) the resulting reported surplus on the provision of services is £26.0m 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	= Surplus in year £m
SOFA Comprehensive Income and Expenditure Statement surplus on the provision of services	427.2	-453.2 5.4	-26.0
Different treatment of some Government funding (mainly New Homes Bonus)	-5.4		0
Other ‘non cash backed’ transactions reflected in the Income and Expenditure Account (- £12.8m)		72.5 2.5	
Capital Accounting	-55.8		16.7
Pensions Accounting	-10.0	-372.8	-10.0
Movement in earmarked reserves	2.7		2.7
Collecting Fund Accounting	0	-25.1	2.5
Holiday Pay Accounting	0.9		0.9
= **Management Accounts surplus**	359.6	-1.3	-13.2
2013/14 underspends rolled forward to 2014/15 and funded from revenue balances		-0.4	-25.1
Agreed budgeted contribution from GWB			-1.3
2014/15 approved investments being spent in year			-0.4
= Budget outturn in Management Accounts	**359.6**	**-399.6**	**-40.0**

(- = saving)

(f) therefore net revenue spending of £359.6m was £40.0m below total funding of £399.6m (£399.8m net expenditure budget less £0.2m funding shortfall) with a breakdown by Directorate being as follows:

Directorate	Revised estimate	2014/15 Outturn	Variation
	£m	£m	£m
Children and Young People's Service	77.7	75.9	-1.8
Business and Environmental Services	81.6	78.7	-2.9
Health and Adult Services	144.2	141.0	-3.2
Central Services	54.5	54.2	-0.3
Corporate Miscellaneous			
- Budgets	21.2	15.9	-5.3
- Corporate PIP (PIP)	20.6	0	-20.6
- release of earmarked reserves	-	-6.1	-6.1
Total budget saving	**399.8**	**359.6**	**-40.2**
Funding shortfall	**0**	**0.2**	**0.2**
Net overall saving	**399.8**	**359.8**	**40.0**

The £40.0m bottom line saving indicated above includes the unspent corporate PIP of £20.6m, the release of earmarked reserves of £6.1m and funding outturn variations of +£0.2m. After removing the impact of these three items which total £26.5m, the resulting saving on operational budgets is £13.5m (3.6%).

(g) the bottom line saving of £40.0m consists of the following components:

Item	£m
Increase in the General Working Balance from sums not carried forward to future year's	16.6
Saving to be carried forward to future years	23.4
= Total savings	**40.0**

The £16.6m increase in the General Working Balance from sums not carried forward consists of:

- Unwinding of some earmarked reserves (£6.1m)
- Early achievement of Directorate Budget / MTFS savings (£4.4m)
- An unused element of the £3m HAS demographic growth contingency held in Corporate Miscellaneous (£1.3m)
- The late notification of some Government grants (£1.2m)
- Unused contingencies for increased Pension Fund liabilities (£1.7m)
- Other net one off windfalls and savings net of additional spending on North Yorkshire 2020 initiatives and a small funding shortfall (£1.9m)

the £23.4m savings to be carried forward to future years consist of:

- Various projects and initiatives for future years (£2.8m)
- Unallocated Corporate PIP funding (£20.6m)

(h) The net spend of £359.6m was funded by:

Item	£m
Revenue Support Grant from the Government	77.9
Business Rates Income (9% from District Councils)	18.7
Business Rates ‘top up’ funding from the Government	41.8
Business Rates – District’s collection fund deficits	-0.8
Council Tax payers for 2014/15	233.2
Council Tax from previous years	2.0
Increase in Working Balances from (£78.5m to £91.7m)	-13.2
=total net spending in 2014/15	359.6

(i) Income from Council tax payers of £233.2m was based on a charge of £1,078.52 for an average Band D property, a 1.99% increase over the charge for 2013/14 (which had been unchanged from the previous three years).

Comprehensive Income & Expenditure Statement Surplus 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 surplus of £26.0m (£3.2m deficit 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 as revenue spending but do not impact on the real spend, funding or working balances position of the County Council.

6.5 The notional transactions which impact on the report surplus (or 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	-40.0
Funding of previous year's carry forward funded from revenue balances	25.1
Other items impacting on balances (budgeted contributions)	1.7
Total increase in balances (surplus)	-13.2
Notional (not cash backed) entries reflected in I and E statement (£12.8m)	
Capital Accounting adjustments	-16.7
Pensions Accounting adjustments	10.0
Movement in Earmarked Reserves adjustment	-2.7
Collection Fund Accounting	-2.5
Holiday Pay accrual adjustment	-0.9
= reported surplus in the I and E statement	**-26.0**

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 (-£16.7m)

The significant -£16.7m "notional" increase in revenue spending resulting from capital accounting adjustments consists of the following elements:

	£m
• property valuation losses of £2.2m 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	-2.2
• depreciation charges, based on asset valuations and associated estimated remaining useful life of £55.3m are also included in the Income and Expenditure account to replace the Minimum Revenue Provision (MRP) of £14.7m (£14.5m 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 £40.6m	-40.6
• capital expenditure of £105.4m was incurred in 2014/15. £12.0m 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	-12.0
• loss on disposal of assets – 3 schools gained academy status in 2014/15 and their land and buildings transferred to their Academy Trust for no consideration, resulting in a £17.7m loss being recorded in	-14.1

the Income and Expenditure Statement. This loss was reduced to £14.1m by the profit realised on the disposal of other assets

- 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 £10.3m also have to be included in the Income and Expenditure Statement -10.3

- where the terms and conditions of capital grants received by the County Council have been met, the Income and Expenditure Statement has been adjusted to reflect the use of the grant in year, resulting in a £78.3m credit +78.3

- credit of £17.6m in relation to revenue financing of capital expenditure is also removed from service costs and replaced by an appropriate depreciation charge +17.6

= Total impact of Capital accounting adjustments -16.7m

(b) Pensions Accounting adjustment (+£10.0m)

The nature of this notional Pensions charge of £10.0m is described in **paragraph 5.3 (e)** with the figure determined by the Pension Fund actuary consisting of two elements.

Firstly, a credit for the difference between the Council's actual contributions to pension schemes (mainly 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 adjustment is credited to the Comprehensive Income and Expenditure statement against the provision of services (non distributed cost).

Secondly, there 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.

(c) Movement in Earmarked Reserves adjustment (-£2.7m)

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 £2.8m (from £113.1m to £115.9m – **see paragraph 6.9 (b)** adjusted down to £2.7m after roundings.

(d) Council Tax and Business Rates accounting (-£2.5m)

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

(e) Holiday Pay accrual (-£0.9m)

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 are required. The effect in the Comprehensive Income and Expenditure Statement is to significantly reduce a £40.0m budget saving to a £26.0m surplus 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 £105.4m which was £1.2m below the last Capital Plan update approved in February 2015 (£106.6m) and £1.5m below the original Capital Plan approved in February 2014 (£106.9m).

(b) The £1.2m gross underspend resulted mainly from capital expenditure being re-phased from 2014/15 to 2015/16

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

Directorate	Capital Plan update Feb 2015	2014/15 Outturn	Variation
	£m	£m	£m
Children and Young People's Service	31.2	34.3	+3.1
Business and Environment al Services	69.5	66.3	-3.2
Health and Adult Services	0.6	0.6	0
Central Services	5.3	4.2	-1.1
Total	**106.6**	**105.4**	**-1.2**

(d) after accounting for additional grants and contributions income of £2.4m from Directorates, there was a net capital underspend of £3.6m

(e) only £1.4m of the capital underspend is carried forward to 2015/16

(f) the £105.4m capital spend was funded by:

Item	£m
Borrowing	
External sources (PWLB)	0
Internal sources	5.7
Capital Grants and Contributions	74.2
Schemes financed from revenue	16.5
Capital receipts, including loan repayments (i) below	9.0
= total capital expenditure to be financed	**105.4**

(g) £1.2m also spent on fixed assets financed from Directorate revenue budgets

(h) total capital investment in 2014/15 was therefore £106.6m

(i) capital receipts of £9.0m included £4.3m loan repayments and £4.7m from the sale of assets in 2014/15 which was lower than forecast because of some slippage of sale of county farm receipts into 2015/16.

Balance Sheet

6.9 Significant features are:

(a) the General Working Balance (GWB) at 31 March 2015 was £91.7m of which £23.4m relates to savings which are approved for carry forward to 2015/16 and beyond. The unallocated working balance is therefore £68.3m which is £2.5m above the Q3 forecast at 31 March 2015 and £40.8m above the current new minimum level which was set as part of the 2014/15 budget/MTFS process (2% of the net revenue budget and £20m buffer = £27.5m).

This £68.3m unallocated GWB at 31 Match 2015 does however exclude future commitments to 2019/20 from the MTFS in February 2015 together with further potential commitments on capital financing and new investment proposals.

(b) other earmarked reserves total £115.9m (£113.1m at 31 March 2014) and consists of:-

Earmarked Reserve	**31 March 2014**	**31 March 2015**	**2014/15 variation**
	£m	**£m**	**£m**
Earmarked for schools			
Schools balances (LMS reserve)	30.9	30.9	0
Schools block / DSG / energy funds	11.3	13.4	+2.1
Sub total	42.2	44.3	+2.1
Other Earmarked reserves			
Insurance reserve	6.9	6.7	-0.2
BES Swing Bridge	1.0	0	-1.0
Highways Advance payments	0.9	1.3	+0.4
BES Flood Risk management	0.6	1.5	+0.9
Corporate redundancy reserve	0.7	4.6	+3.9
Redundancy costs in schools	1.1	0.1	-1.0
CYPS Special Education needs	1.0	0.2	-0.8
ICT SDT/Directorate refresh	2.8	0	-2.8
ICT – Strategy and infrastructure	3.5	4.7	+1.2
SmartSolutions Trading	4.3	4.8	+0.5
HAS supporting people	2.4	2.6	+0.2
HAS Social Care Transfer Monies	0	9.3	+9.3
SFNY contribution	3.1	0	-3.1
CYPS special projects	1.1	0.6	-0.5
Other smaller reserves	8.4	8.2	-0.2
Sub total	37.8	44.6	+6.8
Revenue Income reserves (mainly grants and contributions) (**paragraph 6.41**)			
CYPS	3.5	6.8	+3.3
BES	8.1	8.1	0
HAS	1.5	0	-1.5
HAS health funding	17.9	10.2	-7.7
Central services	0.2	0.5	+0.3
LAA performance reward grant	1.9	1.4	-0.5
Sub total	33.1	27.0	-6.1
=Total earmarked reserves	**113.1**	**115.9**	**+2.8**

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

Provisions	31 March 2014	31 March 2015
	£m	
Highways advance payments	2.4	2.5
Insurance claims	4.0	4.4
Insurance liability	0.2	0.2
Carbon reduction	0.5	0
HAS residence fees	0.3	0
Restructure Costs	0	1.0
Allerton Park	0	0.8
Other smaller provisions	0.2	0.2
Sub total	7.6	9.1
IFRS holiday pay provision	9.6	8.7
= Total provisions	**17.2**	**17.8**

(d) There are unusable 'technical accounting' reserves of £764.0m at 31 March 2015 (£836.9m at 31 March 2014). 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 £1,552.8m at 31 March 2015 compared with £1,469.3m at 31 March 2014. The £83.5m increase in 2014/15 reflects the following factors:

	£m
• new capital spending in 2014/15 adding	+81.0
• depreciation in 2014/15 reducing the value by	-55.1
• disposal of properties (mainly transfer of schools becoming academies)	-18.6
• property revaluations (Highway depots, Waste Sites and Country Farms plus annual desktop valuation for all others)	+77.7
• transfer relating to operational property held for sale	-1.5
Total movement in year	+83.5

(f) external debt in relation to capital spending is £319.8m at 31 March 2015 compared with £344.6m at 31 March 2014. The £24.8m reduction reflects scheduled loan repayments being made to the Public Works Loan Board together with the 2014/15 borrowing requirement being funded internally from cash balances, with no new external loans being taken

(g) a net £484.1m liability in relation to Pension Fund deficits (mainly the Local Government Pension Scheme) is reflected in the Balance Sheet (£317.5m at 31 March 2014). 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 2015 were £215.2m compared with £208.5m at 31 March 2014. A total of £42.0m 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 £80.2m at 31 March 2015 (£144.8m at 31 March 2014 consists mainly of short term (call accounts) investments (£60.4m which is part of £215.2m reported in (h) above) and funds in school bank accounts £39.8m which belong to individual schools rather than the County Council

(j) short term creditors at 31 March 2015 were £71.2m (£69.2m at 31 March 2014) and consist of general creditors of £41.1m, creditors with government entities of £19.4m, and income in advance of £10.7m

(k) short term debtors at 31 March 2015 were £73.9m (£41.5m at 31 March 2014) and consist of general debtors of £31.1m, debtors owed by government entities of £37.2m, payments in advance of £13.5m, less bad debt provision of £7.9m

(l) loans to Limited Companies totalling £8.8m at 31 March 2015 (£3.7m Yorwaste and £5.1m 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 surplus on the provision of services in the Comprehensive Income and Expenditure statement increasing by £0.3m (from £26.0m to £26.3m) and the net assets of the County Council decreasing by £0.5m (from £982.2m to £981.7m)

(b) The County Council employed 14,036 full-time equivalent staff at the end of the financial year, 8,285 of which were in schools

(c) The value of the North Yorkshire Pension Fund was £2,401m at 31 March 2015 compared with £2,083m at 31 March 2014 (an increase of £318m)

(d) The £318m increase in the Pension Fund value consisted of:

Item	£m
Contributions income – employees and employers	121.5
Benefits payable	(92.3)
Net transfers out of the fund *	(34.3)
Investment income	21.5
Increase in market value of investments	308.3
Less Investment management and administration expenses	(7.0)
*mainly due to transfer of Probation Service assets to Greater Manchester LGPF in October 2014	
= total increase in value of Pension Fund	**317.7**

(e) the County Council's various trading units had a total turnover of £54.5m expenditure of £53.6m, resulting in an overall net surplus £0.9m.

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 On completion of the external audit of the 2014/15 accounts a report from the Auditor will be submitted to the meeting of this Committee scheduled for 24 September 2015. 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 24 September 2015.

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 was done on 30 June 2015.

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 24 September 2015.

8.0 AUDIT OF ACCOUNTS

8.1 The *Accounts and Audit Regulations* require that the External Auditor formally signs off the County Council's 2014/15 accounts by 30 September 2015. To this end the audit of accounts by Deloitte's has recently started with completion expected during August 2015.

8.2 Following completion of the 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 24 September 2015 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 24 September 2015, 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 2014/15 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 24 September 2015 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 on 11 June 2015 with an inspection period between 29 June and 24 July 2015. 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 24 September 2015, 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 2015.

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

(c) the SOFA must be published including 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) must be provided by October 2015 with draft unaudited figures provided in July 2015. 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 all 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 AUDIT and ACCOUNTS REGULATIONS 2015

10.1 Paragraphs 7 to 9 above are based on the requirements of the 2011 Accounts and Audit Regulations but new 2015 Regulations have been issued, which although not impacting on the current 2014/15 Final Accounts Process, will impact on 2015/16 and subsequent years.

10.2 Prior to these new Regulations, DCLG's consultation proposals to shorten the key statutory deadlines for approving and publishing local authority accounts were discussed at the Audit Committee on 17 July 2014. This was followed by the County Council's draft response to the consultation being circulated to Audit Committee Members on 17 July 2014 and a final response which reflected comments from some Members being submitted to DCLG on 18 July 2014.

10.3 DCLG announced the outcome of their consultation proposals early in 2015, which remain basically unchanged from their initial proposals and as indicated in

paragraph 10.1 they have issued new 2015 Accounts and Audit Regulations which come into effect from 1 April 2015 (i.e. the 2015/16 financial year onwards)

10.4 Responses to the consultation were largely not supportive of the proposed timetable shortening on the basis of:

- concern at the compression of the audit timetable citing reduced staffing, tight budgets and a shortage of qualified auditors to do the accounts with a potential increase in fees as a result.
- doubts as to how this measure would increase local accountability
- concerns that it would lead to quality issues as accounts would make greater use of estimates
- only a handful of responses were broadly in favour of the proposal and even then emphasised the need for radical simplification of current audit requirements and other measures to make it achievable

10.5 In spite of the consultation responses indicated above, the Government have still gone ahead with their proposed changes citing:

- the timeliness of the Statement of Accounts aligns with the Government's wish to improve local government transparency and accountability
- it is the Government's view that a more timely closedown process would increase public interest in local authority accounts
- whilst it is acknowledged that such changes involve a substantial effort initially, the Government believes that this change will ultimately reduce the burden of the closure process and enable finance staff to give time to in year financial management
- the changes in processes in year that will be required to achieve early closure will serve to tighten up overall financial controls as issues will need to be dealt with during the year rather than at year end
- early closure sends a positive message about the efficiency of local government and the wider public sector
- by giving 3-4 years notice of these changes the Government is providing authorities and auditors with a reasonable timescale to adjust

10.5 The changes reflected in the new 2015 Accounts and Audit Regulations, some of which need to be implemented in the 2015/16 accounts process are as follows.

(a) Certification of the Accounts by the S151 Officer (currently 30 June) and publication on the authority's website by 30 June for 2015/16 and 2016/17 remains unchanged and are transitory provisions. This deadline is then shortened by one month to 31 May from 2017/18 to comply with the new public rights of inspection provisions at (d) below.

(b) The full SOFA, including Annual Governance Statement has to be re-certified by the S151 Officer, approved by Members (this Committee), the external audit opinion to be issued and both published (currently 30 September) by 30 September for 2015/16 and 2016/17, which is unchanged. This deadline is then shortened by two months to 31 July from 2017/18 but

(c) Where the Audit of Accounts has not been concluded by 31 July (from 2017/18) a notice must be put on the authority's website stating that it has not been able to publish the statement of accounts and the reasons for this and then subsequently publish the accounts as soon as reasonably practical after the receipt of any report from the auditor.

(d) The public's right of objection and inspection of the accounts and questioning of the auditor from 2015/16 will be through a single 30 working day period which must include the first 10 working days of July for 2015/16 and 2016/17 (transitory provisions) and then the first 10 working days of June from 2017/18 onwards.

(e) From 2015/16 a narrative statement must be included in the SOFA which must include comments by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources.

(f) From 2015/16 the SOFA must be available for public access for a period of net less than 5 years.

10.6 Officers are now starting to consider the changes that will have to be made to achieve these new shorter deadlines with the aim of undertaking a trial run in advance of the shortened deadlines becoming mandatory in 2017/18. The changes that must be implemented for 2015/16 (d to f above) are relatively straight forward.

11.0 CHANGE OF EXTERNAL AUDITOR FROM 2015/16

11.1 Members will be aware that 2014/15 is the last year that Deloitte will be the County Council's External Auditor and following a period of consultation the Audit Commission confirmed on 15 December 2014 that KPMG have been appointed to audit the accounts of the authority for two years from 2015/16.

11.2 The Audit Commission's contracts with audit firms are extendable by three years and the DCLG has indicated that it will make a decision in summer 2015 about whether to extend the contracts from 2017 to 2020.

11.3 As the Audit Commission closed at the end of March 2015, a transitional body, Public Sector Audit Appointments Limited (PSAA), was set up by the LGA as an independent company and will oversee the Commission's audit contracts until they end in 2017 (or 2020 if extended by DCLG). Arrangements for audited bodies to appoint their own auditor will be announced by DCLG once the audit contracts have ended.

11.4 The Chief Executive and Corporate Director – Strategic Resources have already met KPMG and several officers have established communication channels with them in relation to issues impacting on 2015/16 and subsequent years. KPMG have also recently indicated that they will liaise with Deloitte as their 2014/15 Audit progresses. Members of the Audit Committee are also due to have an informal discussion with KPMG shortly before the Committee meets to consider this and other reports on the agenda.

12.0 OUTTURN REPORTS SUBMITTED TO EXECUTIVE ON 16 JUNE 2015

12.1 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.

12.2 For information purposes therefore, copies of the relevant outturn reports based on the Council's management accounts as submitted to Executive on 16 June 2015, have been distributed to Members of this Committee as follows:

(a) Revenue outturn 2014/15

(b) Capital expenditure outturn and financing 2014/15

The annual Treasury Management and Prudential Indicators report 2014/15 was sent separately to Members on 10 June 2015. The Revenue and Capital reports are therefore being sent to Members under separate cover.

13.0 ANNUAL GOVERNANCE STATEMENT

13.1 The Audit Committee considered the draft Annual Governance Statement (AGS) for 2014/15 at its meeting on 25 June 2015. This was as part of a wider discussion on matters relating to Corporate Governance for the County Council.

13.2 The draft SOFA includes the same draft AGS which was considered by the Committee on 25 June. Potential changes to the AGS following the discussion on 25 June will as previously agreed be considered by a Governance sub group with a final version of the AGS being submitted to this Committee on 24 September 2015 when it is asked to formally approve the final SOFA.

14.0 RECOMMENDATION

14.1 That Members consider the draft Statement of Final Accounts for 2014/15 in advance of the accounts being audited and resubmitted to the Audit Committee on 24 September 2015 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

1 July 2015

APPENDIX A

STATEMENT OF FINAL ACCOUNTS

Brief Explanation of Contents

(a) **the Explanatory Foreword – pages 1 to 17**

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 18 to 31**

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 32**

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 36 to 36**

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, (currently not included in draft SOFA).

(e) **the Comprehensive Income and Expenditure Statement – pages 37 to 38**

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 39 to 40**

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 41 to 42**

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 43 to 44**

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 45 to 106**

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

(j) **Group Accounts – page 107 to 123**

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 124 to 147**

which show the income and expenditure of the North Yorkshire Pension Fund together with the financial position of the Fund on 31 March 2015.

(l) **the Annual Governance Statement – pages 148 to 172**

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.

(m) **a glossary of terms – pages 173 to 180**