

## Chichester District Council

### CORPORATE GOVERNANCE AND AUDIT COMMITTEE 27 June 2013

#### Draft Statement of Accounts for 2012-13

#### 1. Contact(s)

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#### 2. Recommendation

**2.1. That the Committee consider the draft Statement of Accounts shown in Appendix 1 for the financial year ended 31 March 2013, and note the pre-audit outturn position.**

#### 3. Main Report

##### 3.1. Introduction

3.1.1 At its meeting in March, members requested that the draft Statement of Accounts be presented to the next meeting of this Committee.

3.1.2 The Accounts and Audit Regulations 2011 set out the requirements for the production and publication of the annual Statement of Accounts. These regulations require that the following procedures are adhered to for the approval and publication of the annual accounts:

- No later than 30 June following the financial year end the responsible financial officer must certify the annual accounts before they are passed to the auditor.
- The responsible financial officer must re-certify the presentation of the annual accounts after the audit is completed and before member approval is given.
- The annual accounts must be published with the audit opinion and certificate, and before must have been approved by members. The Council must also secure approval and publication by no later than 30 September.

3.1.3 The District Treasurer, the Council's responsible financial officer, must certify the draft Statement of Accounts as authorised for issue by 30 June 2013. The draft statements will then be passed to the Council's external auditors, Ernst & Young LLP. The draft Statement of Accounts will also be placed on deposit for public inspection for the period 8 July 2013 to 2 August 2013.

- 3.1.4 Ernst & Young LLP will perform their audit over a three-week period during July 2013. The audited Statement of Accounts for 2012-13 will be presented to this Committee for adoption at its meeting in September. The report that will accompany the audited financial statements will focus only on issues or changes that may arise as a result of the audit.

### **3.2. The Statement of Accounts**

- 3.2.1 The Statement of Accounts, as defined in the regulations and specified in the relevant sections of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Accounting Code of Practice comprises:

- An explanatory foreword
- Statement of Responsibilities for the Statement of Accounts
- The accounting statements
- A statement of accounting policies
- Notes to the accounts.

The Council's draft accounts for consideration are attached in Appendix 1.

### **3.3. The Accounting Statements**

- 3.3.1 The Comprehensive Income and Expenditure Statement (CIES) provides a summary of the resources generated and consumed by the Council in the year that have contributed to the changes in resources shown in the Movement in Reserves Statement.
- 3.3.2 The format and headings disclosed within the CIES are prescribed by CIPFA in the Service Reporting Code of Practice (SeRCOP) and The Code of Practice on Local Authority Accounting in the United Kingdom. All local councils must follow these Codes to enable direct comparisons to be made of the accounting information across local authorities. To assist members understanding of the services included under each of the SeRCOP headings within the Cost of Services section of the statement, Appendix 2 provides a more detailed financial analysis using more familiar service headings.
- 3.3.3 The Movement in Reserves Statement shows the movement in the year on the different reserves held by the council, analysed into those reserves that can be used to fund expenditure or reduce council tax 'Usable Reserves', and other reserves 'Unusable Reserves'.
- 3.3.4 The Balance Sheet sets out all the Council's assets and liabilities at the end of the financial year. The statement shows the balances and reserves at the Council's disposal, its long-term indebtedness and assets employed in its operations, together with summarised information on the assets held.
- 3.3.5 The Cash Flow Statement shows the changes in cash and cash equivalents of the council during the year and how the movements in cash resources have been reflected in cash flows.
- 3.3.6 The Collection Fund account reflects the council's statutory requirement as a billing authority to maintain a separate Collection Fund. The account details all monies due from Council Tax and Business Rate payers, and payments made to the County Council, the Police and Crime Commissioner, Parish Councils

and the District Council. All business rates, less a deduction for collection costs, are paid into a central government pool and redistributed to local authorities through the Local Government Finance Settlement. The Collection Fund is incorporated in the Balance Sheet and the Cash Flow Statement. For 2012-13 the Collection Fund shows a deficit of £595,486. This represents a decrease of £47,892 against the budgeted deficit of £643,378 that has already been taken into account by the major precepting authorities when setting the council tax for 2013-14. The main reasons why a budgeted deficit was forecast is due the effect of council tax discounts and exemptions granted during the year and the estimated increase in the bad debts provision required at the year end. A council tax collection rate of 98.20% was achieved in 2012-13, which compares with a collection rate of 98.43% in 2011-12.

3.3.7 The Statement of Responsibilities for the Statement of Accounts details the respective responsibilities of the District Treasurer and the Council.

3.3.8 Further interpretation of the accounts highlighting key issues is contained within the explanatory foreword of the Statement of Accounts.

### 3.4. Analysis of the 2012-13 General Fund position

3.4.1 The unaudited outturn position on the General Fund for 2012-13 is a surplus of £1,409,669 that is transferred to the General Fund Balance.

3.4.2 The main variances between the General Fund original budget and the outturn position in 2012-13 is as follows:-

<u>Ref</u>	<u>£'000</u>
<b><u>Overspend / Shortfall of Income</u></b>	
g) NNDR on council properties	140
b) Redundancy costs funded from management restructure	104
o) Westward House income	100
p) Building control	44
Bad debts provision for Housing Benefit overpayments (see paragraph 3.5)	32
	420
<b><u>Underspends / Additional Income</u></b>	
t) Additional surplus on Chichester Contract Services activities	-489
q) Development management income	-355
h) Rent allowances	-267
a) Management restructure	-152
d) Training	-103
i) Welfare reform	-100
c) Car parks staffing and supplies and services	-55
j) Housing benefits staffing	-44
r) Building control bad debt provision	-42
k) Discretionary housing payments	-38
s) Westward house building works and utilities	-31
l) Legal fee income	-27
e) Plot 12 Terminus Road refund of electricity costs	-23
m) Annual audit inspection fees	-23
u) Voluntary sector grants and contributions	-23
f) Building repairs and maintenance	-20
n) NNDR Rate Relief	-19

<u>Ref</u>	<u>£'000</u>
	-1,779
Other minor variations (net)	-19
<b>Total variance</b>	<u><u>-1,410</u></u>

3.4.3 The following paragraphs provide an explanation for the main variances by Cabinet Member responsibility:

#### **Leader**

a) Management Restructure – A decrease in costs of £151,700:

The May 2012 Cabinet meeting approved changes to the Council management structure, primarily being a reduction in the number of Directors from four to three with immediate effect. The net revenue savings of at least £134,000 resulting from the proposed restructure were to be offered up as an efficiency saving. The actual annual saving rose to £151,700.

b) Redundancy Costs – An increase in costs of £104,500

One-off redundancy costs from the management restructure, approved by May 2012 Cabinet, to be met from year 1 revenue savings.

#### **Economy, Tourism and Car Parks**

c) Parking Services staffing and supplies – A decrease in costs of £55,400:

A number of underspends across the Car Parks budgets in 2012-13 have led to the decrease in costs of £55,400. This includes £12,400 of one-off staff vacancy savings and an underspend of £17,500 on rental payments due to a delay in the building works at New Park car park. There has also been underspends of £6,500 for building works, £10,000 for contract payments and £9,000 for stationery. All of the car parks budgets will be subject to review during 2013-14 and any changes fed into the 2014-15 budget process.

#### **Corporate Services and Communications**

d) Training – A decrease in costs of £103,400:

The corporate training budget for 2012-13 included a carry forward of £58,100 from 2011-12. The annual staff appraisal process identifies training requirements, which are then included in individual service plans and used to allocate resources. The training budgets allocated to services was not utilised during the year. This annual budget made available for training will be reviewed as part of the 2014-15 budget process.

e) Plot 12 Terminus Road refund of electricity costs – A decrease in costs of £23,500:

A large refund payment relating to previous years electricity costs at Plot 12 Terminus Road was received in 2012-13.

f) Building Repairs and Maintenance – A decrease in costs of £20,100:

Staff vacancies within the Building Services team meant that a number of planned maintenance and repair projects have had to be deferred to 2013-14.

## Finance

- g) NNDR – An increase in costs of £139,600:  
The total cost of business rates (NNDR) to the Council increased due to the number of empty council owned properties e.g. shops and industrial estate units, a higher than anticipated bill for the Novium, and no successful large NNDR appeals. The budget for NNDR has been increased by £140,400 in 2013-14 and through our NNDR consultants we will be considering an appeal against the business rating levied for the Novium museum building.
- h) Rent Allowances – A decrease in costs of £267,300:  
The decrease in cost from the receipt of a higher rate of housing benefit subsidy than was budgeted for, representing a variation of less than 1% on the £34.6m of gross expenditure. This variation has been partially reflected in future years, with £186,000 having already been removed from the base budget 2013-14.
- i) Welfare Reform – A decrease in costs of £100,000:  
A contingency budget for welfare reform was introduced in 2012-13. Additional short term subsidy has meant that this budget has not yet been called upon.
- j) Housing Benefits staffing – A decrease in costs of £43,600:  
The removal of one vacant post and the reduction in hours of two further posts have meant that £33,800 has been removed from the base budget 2013-14. The balance of these reductions has been retained by the service for commissioning work and to fund additional IT support costs.
- k) Discretionary Housing Payments – A decrease in costs of £37,500:  
The Council received a grant up to £152,300 from the Department for Work and Pensions (DWP) for Discretionary Housing Payments (DHPs). In addition to this the Council has £37,500 of base budget provision should our expenditure exceed the amount of DWP grant. Total expenditure was £149,900 therefore no CDC funding was required in 2012-13. Requirements will be reviewed in 2013-14 as part of the 2014-15 budget process.
- l) Legal Fee Income – Additional income of £27,100:  
Additional Legal Service fees received for work supporting the Estates and Planning services. This will be reviewed as part of the 2014-15 budget process.
- m) Annual Audit Inspection fees – A decrease in costs of £23,100:  
As a consequence of the new external audit regime introduced by the government, the Council's external audit fees have reduced. The full reduction in annual audit inspection fees of £49,800 has been reflected in the base budget 2013-14.
- n) NNDR Rate Relief – A decrease in costs of £19,300:  
Central Government have extended statutory relief to small businesses meaning a temporary reduction in the demand for discretionary relief.

## Housing and Planning

- o) Westward House Income – A shortfall in income of £99,900:  
The 2012-13 budget assumed an average occupancy rate of 75% at the Council's hostel for the homeless, Westward House. The actual rate for the year

was 55% and was largely affected by the refurbishment works taking place. The budgeted occupancy rate for 2013-14 has been reduced from 75% to 70%. Should this prove difficult to achieve there are further options to provide units for other neighbouring authorities through the Strategic Housing Group.

p) Building Control – An operating shortfall of £43,700:

The number of Building Control applications received during 2012-13 were at lower levels than anticipated. This is primarily due to the tightening market and financial conditions which has resulted in a shortfall in income of £63,900. This reduced activity is reflected in the transport and supplies and services budgets resulting in a £20,200 underspend which helps the chargeable element of the service to try and achieve a breakeven position. In order to recover the 2010-11, 2011-12 and 2012-13 loss of income, and to endeavour to breakeven the income levels will be reviewed during 2013-14 to see if the fees need to be increased, and/or costs reduced.

q) Development Management Income – Additional Income of £354,800:

Additional planning income has been received; £14,100 for discharge of conditions, £13,200 for pre-application advice and £327,500 for planning applications. Total additional income of £274,600 has been budgeted for in 2013-14.

r) Building Control bad debt provision – A decrease in costs of £41,700:

The Building Control service has been credited with a provision made for bad debts relating to invoices raised in a previous financial year as more income has been received relating to these debts than was originally expected.

s) Westward House building works and utilities costs – A decrease in costs of £30,700:

Building works budget not required in 2012-13 due to the capital refurbishment scheme taking place at the hostel, and reduced utilities costs due to lower than budgeted occupancy rates.

## **Environment**

t) Chichester Contract Services (CCS) Surplus – An increase in operating surplus of £488,600:

During 2012-13, Chichester Contract Services (CCS) has continued to identify operational efficiency savings and has also generated additional income from the services that it provides. The increased operating surplus is generated from the following significant variations:

- Savings on vehicle maintenance as a result of the introduction of new vehicles (-£146,600);
- Fuel savings have been achieved due to a reduction in the number of fleet vehicles, and the new fleet vehicles being more fuel efficient to the vehicles they have replaced (-£75,300);
- Grounds maintenance service staff vacancy and materials savings. These posts will remain vacant until the results of the service review currently being undertaken are known and agreed. (-£89,300);
- Street Cleansing service staff savings due to posts being held vacant whilst the effect of a reduced service is being reviewed. In addition, a

post has been utilised as a 'Handy Person' carrying out repairs to the Council's public conveniences, assisting the grounds maintenance team, and performing street naming and numbering tasks thus negating the requirement to use private contractors for these works (-£67,600);

- Waste service staff savings due to vacancies that have arisen during the financial year and the restructuring of staffing levels. (-£17,800);
- Additional income has been generated by the Green Waste service. (-£35,600);
- A fall in trade waste income was experienced during the year due to a loss of customers for the service. It is expected that this reduction in income will be met by future savings from using the new disposal facility at Horsham where the landfill tax costs will be reduced (+£30,200);
- Workshops equipment budget underspend as a consequence of the fire at the depot during the year (-£32,900)
- Income generated from the introduction of new charges for chargeable household waste (-£22,900); and,
- Additional income generated from the sale of second hand bins from the rationalisation of mini-recycling sites (-£12,500).

Of the total operating surplus achieved during 2012-13, some £223,800 is recurring and has already been reflected in the base budget for 2013-14.

During 2013-14, the efficiency performance of council vehicles will be reviewed to assess whether the additional fuel savings and vehicle maintenance savings achieved over and above the budget forecast can be reflected in the 2014-15 base budget. Further savings are also being investigated as part of the deficit reduction programme.

### **Leisure, Wellbeing and Community Services**

#### **u) Voluntary sector grants and contributions – A decrease in costs of £22,900:**

The Cabinet meeting in February 2013 approved the repurposing of this money to support the Targeted Support for Communities project.

3.4.4 The impact of these variations will be taken into account while monitoring and forecasting the 2013-14 budget, and will also be considered when the setting the 2014-15 base budget.

### **3.5. Housing Benefit Overpayments**

3.5.1 The financial impact on the Council of the move to a universal benefit is still being assessed. Members will recall that last year it was identified that a bad debt provision for Housing Benefit overpayments be created, and it was likely that this may need to be increased further once the position had been fully analysed. The move to a universal credit system may increase the difficulty experienced in recovering historic overpayments as the Council will not be able to make deductions at source where a claimant remains in receipt of benefit.

3.5.2 Officers have continued to monitor this situation, and have reviewed the level of debt outstanding relating to all housing benefit overpayments. As a consequence of this review, it has been identified that the value of outstanding debt relating to housing benefit overpayments being recovered from on-going benefit entitlements, some £888,000 at 31 March 2013, has not been reflected accurately in the financial statements. These debts have been recorded on a

cash basis rather than on an accruals basis in accordance with normal accounting convention. The impact of this correction has been to increase the value of debtors on the balance sheet, with a corresponding credit adjustment that reduces the 'Cost of Services' line on the Comprehensive Income and Expenditure Statement.

- 3.5.3 At 31 March 2013, the Council has approximately £2.2m of outstanding housing benefit overpayment debt, of which £0.9m is being reclaimed from on-going benefit entitlements, and the remaining £1.3m is being recovered via the Council's debt recovery procedures. Although the £0.9m is currently being recovered from on-going benefit entitlements, there is still a risk that this sum may not be fully recovered as changes to claimant circumstances have an impact on their future entitlements. Furthermore, a number of outstanding debts are significant in value terms, and although repayment arrangements are in place, it is unlikely that the full amount of the debt will ever be recovered. Also the priority repayment of this type of debt under the new universal benefit is not yet known, but it is widely expected that it will not be high in the rankings.
- 3.5.4 With these issues in mind, in conjunction with the District Treasurer, officers have considered the level of bad debts provision judged to be adequate in order to protect the Council from the potential risk of these debts not being recovered from individuals or the new universal benefit. It is considered prudent to increase the bad debt provision for outstanding housing benefit overpayments by £920,000 to £1.2m that equates to approximately 56% of the total outstanding at 31 March 2013.
- 3.5.5 The impact of this is to charge the 'Cost of Services' line on the Comprehensive Income and Expenditure Statement with the value of this increase in provision with a corresponding credit adjustment reducing the value of debtors shown on the balance sheet.
- 3.5.6 The overall impact of these adjustments is a net charge of £32,000 to the Council's General Fund and a corresponding reduction of the same amount on the value shown for debtors on the Council's Balance Sheet. This approach has been discussed and agreed with the Council's external auditors.

### **3.6. Pension Costs**

- 3.6.1 An IFRS accounting standard (IAS19) requires Councils (and businesses) to disclose the deficits/surpluses in their pension funds on an annual basis and to include the deficit within the Balance sheet. This necessitates actuaries identifying the assets and liabilities of the respective institutions investing within the fund at a point in time basis i.e. what the value of Pension Fund investments were worth on 31 March. It should be noted that this is a snap shot of the pension fund on just one day and that equities and bond prices go up and down on a daily basis.
- 3.6.2 The IAS19 calculation shows a deficit of £10.040 million at the 31 March 2013 (£6.620million deficit at 31 March 2012) which represents the difference between the assets that the Council has within the fund (equities, bonds, property and cash) which amount to £110.67million (£97.66m at 31 March 2012) while liabilities amount to £120.71million (£104.28m at 31 March 2012).



- 3.6.3 The main reason for this increased deficit is principally due to the fact that the financial assumptions used by the actuary at 31 March 2013 are less favourable than they were at 31 March 2012. The actuary identifies falling real bond yields that have been partially offset by strong asset returns, and a reduction in the expected return on assets assumption for 2013-14 due to the changes to IAS19 that come into effect next year, as the most significant changes that have taken place during the year.
- 3.6.4 The actual contributions payable by the Council are based on the Actuary's own assumptions in a valuation that is undertaken on a triennial basis. This valuation was last undertaken at 31 March 2010 and shows the council's share of the pension fund is currently fully funded to 102%. This takes a longer-term view of the pension fund rather than the annual adjustments required by IAS19. The next revaluation was due at 31 March 2013, the indicative results of which should be known during the summer with the final report due in October 2013. These results will influence future contribution rates.

### **3.7. Financial Strategy and Impact of the Recession**

- 3.7.1 The Council's financial position remains strong relative to many local authorities. However, the Council faces increasing financial pressures for the foreseeable future.
- 3.7.2 Although the Council has been able to achieve a balanced position for 2012-13 and 2013-14 further government reductions in our settlement are expected and we are planning for the impact of that, as well as other budgetary pressures over the next five year period. The council's financial plan, approved by members in 2012, sets out the key principles to aid the council to achieve and maintain a balanced budget in the future.
- 3.7.3 The Council continues to track national events, quantifying local impact and taking early action to manage those impacts. It is prudent for the Council to take proactive management and continue preparing resilient budgets for future years. The objective is to put the Council in the best possible position to deal with the financial issues it faces. It is important that the issues and the scale of the financial problem are understood and the Council is committed to finding solutions that minimise the impact on residents.
- 3.7.4 A risk analysis of the major financial issues potentially impacting on the Council's finances over the next 5 years and beyond has been undertaken, and is constantly being updated as news emerges. In spite of identifying £5.8 million of savings to date, the Council currently anticipates the need to identify a further £2.4m of savings over the next five years in order to balance its budgets and minimise the impact on its reserves. Early intervention is underway to tackle this issue, and a deficit reduction programme has been approved by Cabinet.

The issues currently facing the Council include:

#### **Government Issues**

- Level of Government Funding
- Specific Government Grants
- Localisation of Business Rates
- Localisation of Council Tax Support

- Council Tax Capping

### **Economic Issues**

- Inflation
- Interest Rates

### **Local Issues**

- Income Streams
- Use of Reserves

3.7.5 It is standard practice to analyse previous year underspends when determining the forthcoming budget. Therefore the 2012-13 outturn position will be taken into account in the forthcoming annual budget process when preparing the 2014-15 detailed revenue estimates, although many recurring variances that were identified early in last year via budget monitoring have already been removed from the 2013-14 budget as detailed in the variance analysis above.

### **3.8. Outstanding Litigation and Claims**

3.8.1 It is considered good practice to report to those charged with governance in respect of outstanding litigation and claims at the year end. A report on outstanding litigation and claims was reviewed by this Committee at its meeting in March 2013. The report will be submitted annually to this Committee in March, and if necessary the financial impacts of such claims will be reflected in the Council's Statement of Accounts.

3.8.2 The details of these claims are disclosed in Note 35 to the Statement of Accounts and include the cost of works to a property following the council's refusal to fell trees and the refund of land charges fees for personal searches. In addition the Council has a number of potential claims relating to planning applications. At this time the Council is unable to provide a reliable estimate of amounts involved.

## **4. Appendix**

4.1. Appendix 1 – Draft Statement of Accounts 2012-13 (to follow)

4.2. Appendix 2 – Analysis of Expenditure 2012-13 (to follow)

## **5. Background Papers**

5.1. None.