Chichester District Council

CORPORATE GOVERNANCE AND AUDIT COMMITTEE 29 September 2015

Statement of Accounts for 2014-15

1. Contact(s)

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2. Recommendation

2.1. That the Committee consider the audited Statement of Accounts shown in Appendix 1 for the financial year ended 31 March 2015, and note the audit outturn position.

3. Main Report

3.1. Introduction

3.1.1 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.

3.1.2 The Head of Finance and Governance Services, the Council's responsible financial officer, certified the draft Statement of Accounts as authorised for issue on 30 June 2015. The draft statements were then passed to the Council's external auditors, Ernst & Young LLP. The draft Statement of Accounts were also placed on deposit for public inspection for the period 6 July 2015 to 31 July 2015.

3.1.3 Ernst & Young LLP performed their audit during July to September 2015. Finance officers met with the Audit Manager during the audit period to address issues and agree any changes that were highlighted during the audit. The Head of Finance and Governance Services re-certified the audited Statement of accounts on 21 September 2015. It is anticipated that the external auditors will issue their unqualified opinion on the accounts on 30 September 2015. The Audit Manager will be presenting his audit findings to this committee ahead of this report.

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 is an agent's statement that reflects the council's statutory requirement as a billing authority to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection of council tax and national non-domestic rates (NNDR) from taxpayers and its distribution to precepting bodies. For council tax, the precepting bodies are the District Council, Parish Councils, West Sussex County Council, and the Police and Crime Commissioner for Sussex.

From 1 April 2013, the regime around the income that local councils collect from NNDR changed from one where the council collects purely on behalf of central government, to one where this income is shared between central government, the local council and other major precepting bodies (such as West Sussex County Council in Chichester's case). The main aim of the scheme, known as the Business Rates Retention scheme, is to give councils a greater incentive to grow businesses in their area. It does however also increase the financial risk due to non-collection and the volatility of the NNDR aggregate rateable value.

The scheme allows the council to retain a proportion of the total NNDR received. Notionally Chichester's share is 40% with the remainder being paid to central government (50% share) and West Sussex County Council (10% share). However, a complicated mechanism of tariffs and levies means that this Council's share of NNDR from day one of localisation is just 5% of the amount collected, and will retain 20% of any growth thereafter.

The Collection Fund is incorporated in the Balance Sheet and the Cash Flow Statement.

A council tax collection rate of 98.1% was achieved in 2014-15, which compares with a collection rate of 98.1% in 2013-14. For business rates, a collection rate of 98.8% was achieved for the year compared to 98.0% in 2013-14.

3.3.7 The Statement of Responsibilities for the Statement of Accounts details the respective responsibilities of the Head of Finance and Governance Services 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 2014-15 General Fund position

3.4.1 The audited outturn position on the General Fund for 2014-15 is a surplus of £1,820,660 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 2014-15 is as follows:-

Ref		£'000
	Underspends / Additional Income	
d	Revenues and Housing Benefits	(579)
e	Business Rates Retention Scheme	(470)
i	Planning Service	(345)
b	Chichester Contract Services activities	(229)
a	Car parks	(116)
f	Government grants	(103)
n	Information Communications Technology	(93)
l	Estates Income	(82)
q	Community Careline	(70)
j	Building Control	(66)
m	Business Improvement	(59)
c	Emergency Planning	(46)
o	Democratic Representation	(40)
g	Audit Services	(19)
k	Approved Management restructure	(19)
	Minor variations	(46)
		(2,361)
	Overspend / Shortfall of Income	
h	Provisions raised during the year	458
p	Leisure Centres	104
		562
	Total variance	(1,820)

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

Commercial Services

a) Car Parks – A surplus of income & decrease in costs £115,600

For 2014-15, Car park income was estimated to be some £5.3m providing a budgeted net surplus of £3.2m on the Car Parks service. This net surplus has been exceeded by 3.6% mainly due to:

- Higher than expected income of £49,700 due to increased demand within the car parks and an increase in Pay and Display and Season Ticket charges within car parks. An additional 337 Penalty Charge Notices were issued during the financial year, with a corresponding reduction in the percentage of Penalty Charge Notices being cancelled (from 16% in the year previously to 9% in 2014-15).

- Equipment savings of £20,600 due to equipment being replaced through the asset replacement programme and a requirement to save on the base budget as part of the Parking Services Review; with the 2015-16 budget being reduced accordingly.
- Contract payments and maintenance agreements have been reviewed resulting in savings of £55,200. A sum of £20,000 has already been removed from the 2015-16 base budget and further recurring savings will be reflected in the 2016-17 base budget.

Environment

b) <u>Chichester Contract Services (CCS) – A surplus of income & decrease in costs £229,500:</u>
During 2014-15, 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:

i. Savings on vehicle maintenance as a result of the introduction of new vehicles. Costs are expected to increase with fleet age. (-£33,600);
ii. Fuel savings have been achieved due to a reduction in the number of fleet vehicles, the new fleet being more fuel efficient and a fall in fuel price. (-£75,400);
iii. Grounds maintenance equipment and materials savings. The grass cutting contract was increased in order to reduce the service's requirement for new mowers which resulted in a £10,000 saving. Sustainable planting that was introduced in 2013-14 has proven successful, resulting in savings on bedding plants in 2014-15. Other equipment expenditure was put on hold pending the results of hand arm vibration testing, which has now been completed. The testing has highlighted the need to replace a number of items. (-£23,700);
iv. Income generated from the delivery of waste and recycling bins. (-£28,500);
v. Tree maintenance works required was much lower than expected and the carry forward from 2013-14 not fully utilised. This work was also completed in house for the first time. (-£20,300);
vi. Vehicle workshops vacancy savings. MOT carried out by existing staff. Current demand does not warrant appointment of a dedicated tester. (-£32,000);
vii. Vehicle workshops equipment replacement lower than anticipated due to new items being purchased as part of the insurance claim for the depot fire. Equipment budget is now incorporated into asset replacement programme (-16,000).

Of the total operating surplus achieved during 2014-15, some £86,200 is recurring and has already been reflected in the base budget for 2015-16.

c) <u>Emergency Planning – A decrease in costs of £45,800:</u>
A post remained vacant throughout the year. With effect from April 2015 a post is now shared with Arun District Council.

Finance and Governance

d) <u>Revenues and Housing Benefits – A decrease in costs of £579,300:</u>
There have been several significant variances within the revenues and housing benefits functions during 2014-15, they include the following:

- The receipt of a higher rate of housing benefit subsidy than was budgeted for has meant additional income of £30,500, representing a variation of 0.08% on the £37.4m of gross expenditure.

- The value of housing benefit overpayments identified during the year has exceeded the budgeted estimate by £349,700. This increase is mainly as a result of a RTI (Real Time Information) exercise which matched HMRC records with DWP benefit records. Over £300,000 was identified solely as a result of this exercise which will continue into the 2015-16 financial year.
- The funding mechanism for discretionary rate relief has now transferred in full to the Business Rate Retention Scheme, meaning this budget of £45,900 was not required. This saving has been reflected in the 2015-16 base budget.
- As far as possible all mail is now sent using Printed Postage Impression envelopes instead of franking the mail. During 2014/15 86% of PPI mail sent out met the Royal Mail standards for postal discounts and resulted in a £30,000 saving overall.
- Staffing underspend of £58,000, primarily from staff vacancies across Benefits and Council Tax teams, and also a post being held vacant to fund external support when required. Reduced hours of fraud team, to be restructured in 2015-16 in preparation for transfer of Fraud team to DWP in December 2015.
- Reduced team printing and stationary costs due to embracing new ways of working saving £31,500.
- The facility to pay council tax over 12 monthly instalments and the rescheduling of the recovery programme for 2014-15 has contributed to a reduction in summons issued and savings on court costs of £14.800.
- Additional £19,000 Council Tax Subsidy received relating to 2013-14 that resulted from the final claim.

e) <u>Business Rates Retention Scheme – Additional income of £470,000:</u>
The Business Rates Retention Scheme was introduced from 1 April 2013. Since this date the income that the Council collects from business rates is shared between central government, the district council and the county council.

For Chichester the local share is 40%. The remainder is distributed to the other preceptors; central government (50%) and West Sussex County Council (10%).

As part of the Scheme, the government set a business rates baseline for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities receive their baseline funding amount. Tariffs payable to Central Government are used to pay the tops ups to those authorities who do not receive their baseline funding amount. In respect of Chichester, the business rates baseline was set at £17,020m, and the council was required to make a tariff payment of £15.014m from its General Fund in 2014-15. The net result is a business rates funding amount of £2.006m. Any business rates generated above the council's baseline funding amount is shared equally between central government and the council.

In addition to the top up, a safety net figure is calculated at 92.5% of the baseline funding amount which ensures that authorities are protected to this level of business rates income. The safety net figure for Chichester is £1.855m. The council did not qualify for a safety net payment in 2014-15.

The aim of the scheme is to give councils an incentive to grow businesses in their area but also increases the financial risk due to the volatility and non-collection of business rates. It was for these reasons that when the 2014-15 base budget was set, the council took the decision to budget at the safety net level of £1.855m.

For 2014-15, the council's share of retained business rates has exceeded the baseline funding amount of £2.006m by £488k. The council is required under the scheme to pay 50% of this sum to central government in the form of a levy, resulting in an additional £244k being retained locally. In addition, governments grants received under the Scheme that are not subject to the levy calculation resulted in additional income of some £30k. The Council also received an additional sum of £45k relating to business rates from renewable energy schemes that are disregarded under the Scheme. The impact of these transactions results in £2.325m of business rates funding for 2014-15 which is £470k higher than the budget estimate of £1.855m.

f) <u>Government Grants – Additional income of £102,900:</u>
The Council has received a number of non ringfenced government grants to compensate it for the impact of new burdens imposed on local authorities by the government. The most significant in monetary terms is £75k for the Localisation of Council Tax Support.

g) <u>Audit Services Vacancy Saving – A decrease in costs of £18,500:</u>
There have been a number of vacancies during the year. As of 1st April 2015 they are back up to full establishment.

h) <u>Provisions raised during the year – An increase in costs of £457,800:</u>
Adjustments to the various provisions held for debts owed to the Council, either because of a change in the value of the debt compared to 31st March 2014, or a change in the calculation to reflect a more appropriate value of provision based on the likelihood of the debt being repaid. The adjustments are as follows:

- Council tax and business rates court costs +£33,000
- Housing benefits +£252,200
- Housing Rents -£9,000

In addition, a provision of £181,600 has been made for a claim against the Council's former contractors for cash collection services.

Housing and Planning

i) <u>Planning Services – A surplus of income & decrease in costs of £345,800:</u>
This includes additional income of £428,100 as a result of an increase in the number of planning applications received of which £102,000 is to be carried forward for staffing and to appoint legal representation to defend appeals. A further £57,000 staff vacancy savings have been incurred that offset increased legal costs for appeals and advertising costing £37,300.

j) <u>Building Control – A surplus of income & decrease in costs of £65,800:</u>
This includes additional income of £10,400 as a result of an increase in the number of applications received. There was also a £55,400 underspend on Building Control staffing due to in year vacancies and a frozen post.

Leader

k) Approved Management Restructure – A decrease in costs of £19,500
The Deficit Reduction Plan includes the restructure of management and the review of several Council services. There were some vacancies during 2014-15 and these posts have now been filled.

Support Services

l) Estates Income – Additional income of £81,900:
Additional income has been received by the Estates service during 2014-15 from a variety of activities, the most significant one being £53,800 of rental income due to Quarry Lane from rent reviews.

m) Business Improvement – A decrease in costs of £59,100:
Services are continuously being reviewed for efficiencies and recurring savings will be reflected in the base budget.

- Staff vacancies across Public Relations, Customer Services Centre and Midhurst Area Office amount to -£29,700.
- The cost publication of the Council magazine has reduced saving -£12,700 net of sponsorship income.
- The Council has invested in support to staff through health at work referrals costing £17,500
- The letting of East Pallant House North wing has resulted in utility savings of -£34,200

n) Information Communication Technology – A decrease in costs of £93,600:
ICT support and maintenance agreements have been renegotiated resulting in savings of £130,700 during 2014-15 which have been reflected in the 2015-16 base budget. This saving has partly been used to offset the increased telecoms cost of £59,200 due to the delay in implementing the wide area network project. Vacancy savings and an underspend in professional fees amounts to £55,400 and £33,300 will be carried forward to deliver the service plan.

o) Democratic Representation – A decrease in costs of £40,300:
Cost of printing is lower than expected by £17,800. This could be increased further with the implementation of the new Modern.gov system and will be reviewed as part of the 2015-16 budget process. Other savings have been achieved through allowances, equipment and mileage of £22,500.

Wellbeing and Community Services

p) Leisure Centres – An increase in costs of £104,600:
This variance mainly relates to the new Grange Leisure Centre. The centre opened in March 2014 three months later than planned. Although the centre has achieved a direct debit membership of 744 at 31 March 2015, as a result of the delay in opening this was lower than the target of 800 members. The delay has also impacted on other income streams resulting in total income being under target by £72,100. It is however expected that the target will be exceeded in 2015-16.

As the Centre is a new building, a repairs budget of £16,100 was not required. However, the actual business rates payable were £49,800 higher than anticipated.

q) Community Careline – An increase in income of £70,300:
Increased income has been achieved from winning contracts and reviewing corporate client charges. As a consequence additional income has also been generated from peripherals and other services provided. The impact of this has reduced the net cost of the Careline Service from a budget of £141,000 to an outturn of £85,000.

3.4.4 The impact of these variations will be taken into account while monitoring and forecasting the 2015-16 budget, and will also be considered when the setting the 2016-17 base budget.

3.5. Pension Costs

3.4.1 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.

3.4.2 The IAS19 calculation shows a deficit of £16.537million at the 31 March 2015 (£9.459million deficit at 31 March 2014) which represents the difference between the assets that the Council has within the fund (equities, bonds, property and cash) which amount to £138.21million (£121.57m at 31 March 2014) while liabilities amount to £154.75million (£131.03m at 31 March 2014). In his report to the council, the actuary identifies falling real bond yields as the main reason for the increased Pension fund deficit. This has also affected the projected benefit cost for the next financial year.

3.4.3 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 2013 and shows the council's share of the pension fund is currently funded to 99%. This takes a longer-term view of the pension fund rather than the annual adjustments required by IAS19.

3.6. Financial Strategy and Impact of the Recession

3.1.1 The Council's financial position remains strong relative to many local authorities. However, the Council will continue to face financial pressure for the foreseeable future.

3.1.2 Although the council has been able to achieve a balanced position over recent years, including the 2015-15 outturn and 2015-16 budget, 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 2014, sets out the key principles to aid the council to achieve and maintain a balanced budget in the future. This included adopting a more commercial approach to income. Additionally the financial plan includes a risk analysis of the major financial issues potentially impacting on the Council's finances over the next 5 years and beyond. In tandem with this the council has also approved a "Deficit Reduction Programme" in 2013 of £2.4m which identifies how the anticipated budget deficit will be met over the medium term. The combination of the delivery of the deficit reduction plan, which remains ahead of schedule, together with the commercialisation of our services and development of income generating schemes, means that the Council remains set to achieve a balanced budget over the medium term.

3.1.3 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.

3.1.4 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
- Welfare Reform

Economic Issues

- Low interest rates
- Competitive employment market
- Generally low inflation, but some contractual costs increasing.

Local Issues

- Income Streams
- Use of Reserves

3.1.5 It is standard practice to analyse previous year underspends when determining the forthcoming budget. Therefore the 2014-15 outturn position will be taken into account in the forthcoming annual budget process when preparing the 2016-17 detailed revenue estimates, although many recurring variances that were identified early in last year via budget monitoring have already been removed from the 2015-16 budget as detailed in the variance analysis above.

3.7. Outstanding Litigation and Claims

3.6.1 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 June. The report has been reviewed by officers and where required the financial impacts of such claims will have been reflected in the Council's

Statement of Accounts. The details of these claims are disclosed in Note 33 to the Statement of Accounts.

4. Appendix

Appendix 1 – Audited Statement of Accounts 2014-15
Appendix 2 – Analysis of Expenditure 2014-15

5. Background Papers - None