

AUDIT COMMITTEE – 9 JULY 2013
SHEFFIELD CITY COUNCIL
STATEMENT OF ACCOUNTS 2012/13

Purpose of the Report

1. The purpose of this report is to provide Members of the Audit Committee with a summary of the 2012/13 Statement of Accounts and explain the core statements and a number of the key notes to the accounts. A full set of the draft accounts is now available on the Council's website. A full set of the final audited accounts will be presented to the Audit Committee on 25 September 2013.
2. This report also outlines the approval process for the statement of accounts and the Audit Committee's role in this process.

Introduction

3. The Statement of Accounts has been prepared in accordance with the IFRS-based (International Financial Reporting Standards) Code of Practice on Local Authority Accounting in the United Kingdom and the statutory Accounts and Audit Regulations. This ensures that local authorities produce their Accounts in a standard way, which facilitates comparisons.
4. The Accounts and Audit Regulations 2011 sets out the procedures for certification, approval and publication of the Statement of Accounts. The approval process is as follows:
 - 30 June 2013 – Unaudited accounts to be certified by the Executive Director of Resources.
 - July to September 2013 – The statement of accounts are subject to audit by the Authority's auditors, KPMG, and their findings will be reported to the Audit Committee in September. During this time there is a period where the public can inspect the accounts and related documents (17 July – 13 August 2013).
 - No later than 30 September 2013 – Accounts to be re-certified by the Executive Director of Resources.
 - No later than 30 September 2013 – Audit Committee considers and approves the statement of accounts. Following approval, the Chair of the Audit

Committee signs and dates the Statement of Accounts.

- No later than 30 September 2013 – Publish, on the Council’s website, the statement of accounts together with any certificate, opinion or report issued by the auditor.

Statement of Accounts

Peculiarities of Local Authority Accounting

5. The presentation of local authority accounts differs greatly to that of the private sector. Many of these differences occur due to legislative requirements for Local Government Accounts.
6. There are significant differences in the way the Council accounts for Capital and Pension Contributions:

Capital

7. Local authorities account for capital in line with IFRS on the face of the Comprehensive Income and Expenditure Statement (CIES). However, the impact of any charges are ‘reversed’ out so that they do not affect the calculation of the Council Tax Requirement. These “adjustments between accounting basis and funding basis under regulation” are shown in Note 8 to the draft accounts, and includes items such as depreciation, revaluation, impairment and loss on disposal of fixed assets.

Pensions

8. Local authorities are required to comply with an International Accounting Standard called IAS 19 (*Employee Benefits*), which means accounting for pension liabilities when local authorities are committed to giving them, not when they are actually paid out.
9. The Council complies with IAS 19 and recognises the Council’s share of the net liability of the South Yorkshire Pension Scheme in the balance sheet. Within the CIES the ‘Cost of Service’ figures have been adjusted so they represent the true costs of pensions earned. As stated above, IAS 19 does not have any effect on the calculation of the Council Tax Requirement as they are again reversed out in an adjustment between accounting basis and funding basis under regulation.
10. The report on the Outturn position at the end of the 2012/13 financial year was considered by Cabinet on 19 June 2013. This reported that there was

an overall underspend of approximately £0.5m before movement on reserves. In contrast to this, the CIES reports a 'Deficit' of £498.1m.

	£'000
Surplus on General Fund Revenue Account	(459)
Net contributions to revenue reserves	(3,101)
Surplus on Housing Revenue Account	(8,119)
Deficit on Schools Accounts	5,806
Total Surplus	(5,873)
Removal of debt charges	(29,348)
Removal of pension contributions	(41,500)
Items that do not affect Council Tax:	
Inclusion of accounting charges for depreciation, impairment, holiday pay, PFI, etc.	388,904
Deficit on Revaluation of Non-Current Assets	44,426
Actuarial Losses on Pension Assets	141,449
Other Losses	27
Deficit on Income & Expenditure Statement	498,085

11. The statement of accounts comprise several key statements:

- Movement in Reserves Statement – Appendix 1
- Comprehensive Income and Expenditure Statement – Appendix 2
- Balance Sheet – Appendix 3
- Cash Flow Statement – Appendix 4
- Key Notes to the Core Financial Statements – Appendix 5

- Housing Revenue Account Income and Expenditure Account – Appendix 6
- Collection Fund – Appendix 7

Movement in Reserves – Appendix 1

12. This Statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves.
13. The Surplus or (Deficit) on the provision of services line shows the true economic cost of providing the authority's services, more details of which are shown in the CIES.
14. These are different from the statutory amounts required to be charged to the General Fund Balance and Housing Revenue Account for Council Tax setting and dwellings rent setting purposes, therefore an adjustment is made to the movement in reserves statement for adjustments between accounting basis and funding basis under regulation.
15. The "Net (increase) / decrease before transfers to earmarked reserves" line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Comprehensive Income and Expenditure Statement – Appendix 2

16. This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (Council Tax).
17. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost.
18. The presentation of the cost of services is presented using the CIPFA Service Reporting Code of Practice (SeRCOP) classification, a statutory requirement. This is so comparisons between different local authorities can be made.

Consolidated Balance Sheet – Appendix 3

19. The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the

authority (assets less liabilities) are matched by the reserves held by the authority.

20. Reserves are reported in two categories:

- Usable reserves - those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.
- Unusable reserves - those that the authority is not able to use to provide services. This category of reserves includes reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

Cash Flow Statement – Appendix 4

21. The Cash Flow statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents.

22. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority.

Key Notes to the Accounts – Appendix 5

23. The notes to the accounts contain information in addition to that presented in the main statements. They provide narrative descriptions, disaggregation of items presented in the statements and further information about items in the statements.

24. Attached at Appendix 5 are the key notes to the accounts:

- Officers remuneration (Note 33) - Full details are required for senior employees whose salary is above £50,000 per annum, and an additional summary disclosure is required of the numbers of other staff whose total remuneration (i.e. salary plus overtime and allowances etc.) is above £50,000.

25. The Council's outturn position for 2012/13 was reported to Cabinet on 19th June. This reported a net under spend of £0.5m overall for the general fund revenue account. The Statement of Accounts are in line with the outturn

report but set out the more detailed financial position for the Council in a format required by legislation. The following two notes show the reconciliation between the outturn position and the statement of accounts:

- *Adjustments between accounting basis and funding basis under regulations* (Note 8) – this note details how the CIES has been adjusted in accordance with accounting practice, and the resources that are specified by statutory provision as being available.
- *Amounts reported for resource allocation decisions* (Note 29) – this note reconciles the income and expenditure shown in the CIES to the budget outturn report produced by the Council. The note is in three parts:
 - Part 1 shows the income and expenditure for the Portfolios as reported in the outturn - £459k general fund underspend, £8.1m HRA underspend, totalling £8.6m underspend.
 - Parts 2 and 3 reconcile the £8.6m outturn to the two key subtotals in the CIES, by detailing the adjustments made to arrive at the £531.2m subtotal Cost of Services and subtotal for the Deficit on Provision of Services £312.2m.
 - There are final adjustments, detailed in separate notes, for gains and losses on revaluation of assets and pensions to arrive at the final total of £498.1m deficit on the CIES.

Housing Revenue Account (HRA) – Appendix 6

26. The HRA Income and Expenditure Statement shows the economic cost in year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants.
27. Authorities charge rents to cover expenditure in accordance with regulations, which may be different from the accounting cost.

Collection Fund – Appendix 7

28. The Collection Fund is a statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and Business Rates.

Issues for 2012/13*Reduction in Council's net worth*

29. As reported in the Foreword to the Statement of Accounts, the Council's net worth has reduced by £498m (or 43%) since 2011/12, the main factors being:

- the increase in the Council's pensions liability (£139m), and;
- net loss on disposal of fixed assets (£286m), the majority of which relates to the conversion of 18 schools to academies during 2012/13 which means that those schools are no longer shown on the Council's balance sheet.

Prior Period Adjustment

30. The following adjustment has been made to the prior year accounts:

Reclassification of Reserves

A number of balances which were included within the General Fund Balance have been reclassified as Earmarked General Fund Reserves. This includes the Major Sporting Facilities reserve, the Private Finance Initiative reserve, the Invest to Save reserve and an element of the general balance allocated for specific purposes.

This adjustment was required to bring the figures shown within the Statement of Accounts in line with the Council's Budget Report and monitoring, where these reserves have always been classed as Earmarked reserves.

The 1 April 2011 and 31 March 2012 Balance Sheets and 2011/12 comparative figures have thus been restated in the 2012/13 Statement of Accounts.

Usable Reserves

31. Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and notes 8 and 9. The balance on usable reserves as at 31 March 2013 was £168.6m, which includes the General Fund Balance (£11.2m), Earmarked General Fund Reserves (£68.5m), Housing Revenue Account Balance (£22.5m), Capital Receipts Reserve (£30.2m), Major Repairs Reserve (£9.4m) and Capital Grants Unapplied (£26.7m).
32. The table below provides a breakdown of the earmarked reserves balance:

31 March		31 March
2012		2013
£000		£000
(25,154)	Schools Reserves	(16,435)
(859)	Revenue Grants and Contributions	(529)
	Other Earmarked Revenue Reserves:	
28,186	- Invest to Save	25,162
(949)	- Local Authority Business Growth Initiative (LABGI)	0
(2,202)	- Local Growth Fund (LGF)	(1,697)
(35,569)	- Major Sporting Facilities	(41,027)
(8,289)	- PFI Future Expenditure	(5,311)
(3,630)	- Service Area Reserves	(6,626)
(26,374)	- Other	(22,056)
(74,840)	Total	(68,519)

Financial Implications

33. There are no direct financial implications arising from the recommendations in this report.

Equal Opportunities Implications

34. There are no specific equal opportunities implications arising from the recommendations in this report.

Property Implications

35. There are no property implications arising from the recommendations in this report.

Recommendations

36. The Audit Committee is asked to note the core statements and the key notes to the Statement of Accounts for 2012/13.