



# Audit Committee

## 14 July 2014

**Report title** Draft statement of accounts 2013/14

**Cabinet member with lead responsibility** Councillor Andrew Johnson  
Resources

**Accountable director** Keith Ireland, Delivery

**Originating service** Strategic Finance

**Accountable employee(s)** Mark Taylor Assistant Director Finance  
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**Report to be/has been considered by** None

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### Recommendations for noting:

The Committee is asked to note:

1. That the Assistant Director Finance approved the Draft Statement of Accounts 2013/14 on 30 June 2014, as required by the Accounts and Audit (England) Regulations 2011.
2. That the 2013/14 Draft Statement of Accounts is to be audited by PricewaterhouseCoopers LLP from July through to September, and that any material changes required as a result of the audit will be reported to the Audit Committee.
3. That formal approval by the council and publication of the 2013/14 Statement of Accounts is required by 30 September 2014 (Accounts and Audit (England) Regulations 2011).
4. That the Statement of Accounts incorporates a copy of the Annual Governance Statement as required by the Accounts and Audit (England) Regulations 2011.

## 1.0 Purpose

- 1.1 The draft Statement of Accounts for 2013/14, which is subject to audit, has been approved by the Assistant Director Finance and is appended to this report. The report provides an overview of the document and a summary of the Council's financial performance for the year and its position at 31 March 2014.

## 2.0 Background

- 2.1 The draft Statement of Accounts is required by statute (Accounts and Audit (England) Regulations 2011) to be prepared and approved by the Section 151 Officer by 30 June 2014. Once again the Council has succeeded in meeting this very challenging deadline.
- 2.2 A copy of the draft Statement of Accounts is attached at Appendix A. This will now be audited by the Council's appointed external auditors, PricewaterhouseCoopers, during August, following which they will report their findings to the Audit Committee in September. At the same time the final audited Statement of Accounts to be published by the Council will be presented to the Committee for approval.
- 2.3 The statutory deadline for publication of the audited Statement of Accounts is 30 September 2014.
- 2.4 The format of the Statement of Accounts is governed by the Code of Practice on Local Authority Accounting (the Code), published by the Chartered Institute of Public Finance and Accountancy (CIPFA). They are prepared in accordance with International Financial Reporting Standards (IFRS). There were no significant changes to the Code for 2013/14.

## 3.0 Structure of the statement of accounts

- 3.1 The purpose of the Statement of Accounts is to give all interested parties clear information about the Council's finances. In order to make the Statement of Accounts as useful as possible to its intended audience, the Code requires:
- (a) All local authority statements to follow a common pattern of presentation;
  - (b) Interpretation and explanation of the Statement of Accounts;
  - (c) The Statement of Accounts to be written in plain English as far as possible.
- 3.2 The Statement of Accounts comprises the following:
- (a) **Introduction to the Statements**, which provides a brief overview of each of the main parts of the statement.
  - (b) **Financial Performance 2013/14**: this section provides a summary of the Council's financial performance for the year, as shown in Cabinet outturn reports.

- (c) **The Medium Term Financial Strategy:** this section provides a summary of the council's medium term financial strategy, for each of the General Fund, the Housing Revenue Account and the Capital Programme.
- (d) **Statement of Responsibilities:** this sets out the respective responsibilities of the Council and the Section 151 Officer with regard to the accounts.
- (e) **The Auditor's Report:** this will be provided by PricewaterhouseCoopers following the audit, and gives their opinion on whether the Council's financial statements present fairly its financial position and performance for the year, and their conclusion on the council's Use of Resources arrangements.
- (f) **The Financial Statements:** this section comprises the financial statements themselves, which include:
  - (i) **Comprehensive Income and Expenditure Statement:** this statement shows all the income, expenditure, gains and losses of the council during the year prepared on an accounting basis. It includes several items which are not charges or credits to the council's funds, as statutory provisions exist to neutralise their effect on Council Tax and Housing rents.
  - (ii) **Balance Sheet:** this statement reports the council's financial position at the year end. It shows the balances and reserves at the council's disposal, the fixed and current assets employed in its operations and the long-term indebtedness of the council.
  - (iii) **Movement in Reserves Statement:** this statement analyses the movements across all of the council's reserves, including the General Fund and HRA balances.
  - (iv) **Cash Flow Statement:** this statement summarises the inflows and outflows of cash during the year.
  - (v) **Notes to the Core Financial Statements:** this is a series of notes that are required by statute or that give additional information on figures in the main statements. The last of these notes is the Statement of Accounting Policies, which sets out the policies and, where appropriate, estimation techniques used by the council in preparing its accounts.
- (g) **The Housing Revenue Account (HRA) Statements:** comprising the HRA Income and Expenditure Account, the Statement of Movement in the HRA Balance, and Notes to the HRA Statements.
- (h) **The Collection Fund Statements:** comprising the Collection Fund Income and Expenditure Account and the Notes to the Collection Fund Statements.
- (i) **West Midlands Pension Fund Statements:** although West Midlands Pension Fund is a separate entity and its accounts are not consolidated with the council's, the Code requires administering bodies such as Wolverhampton to include a summarised version of the Pension Fund accounts in their financial statements.
- (j) **Annual Governance Statement:** This is a statement required by the Accounts and Audit (England) Regulations 2011 that outlines the council's governance arrangements.
- (k) **Glossary:** explaining some of the terms used in the financial statements, particularly those that are not part of everyday English.

#### 4.0 Highlights from the 2013/14 Statement of Accounts

- 4.1 The net cost of providing services, shown in the Comprehensive Income and Expenditure Statement, was a deficit of £96.7 million. This compares to a deficit of £98.2 million for 2012/13. It is important to remember that this is prepared on an accounting basis and includes many transactions which are subject to statutory adjustment and do not impact on the council's usable reserves and therefore on the setting of council tax and housing rents.
- 4.2 The Comprehensive Income and Expenditure Statement also includes a number of other gains and losses on council assets/liabilities. These relate to revaluations of fixed assets and notional gains and losses on the council's 'share' of West Midlands Pension Fund's assets and liabilities. These items are responsible for very significant year-on-year changes: in 2013/14 they amounted to a net gain of £116.4 million, while in 2012/13 they caused a net loss of £129.1 million. Despite the size of these numbers and their significant impact on the accounts, it must be remembered that they are only included in order to comply with accounting requirements, and are reversed for statutory purposes.
- 4.3 The net worth of the council as shown on the Balance Sheet has increased to £388.0 million from £368.4 million. The main contributors to this are set out below:

	Comments	Change £m
<u>Increases in Net Worth</u>		
Fixed Assets	Expenditure on capital programme	93.1
	Revaluation of fixed assets	6.0
Current Investments	Increase in amount held in Money Market Funds and Deposit Accounts at year-end	8.0
Debtors/Creditors	Net increase in debtors/decrease in creditors	12.7
Pension Liability	Due primarily to changes in Actuarial assumptions and calculations (*)	89.8
<u>Decreases in Net Worth</u>		
Fixed Assets	Depreciation and Impairment Charges for the Year (*)	(85.0)
	Disposal of fixed assets	(74.4)
Borrowing	Net increase in borrowing during the year to fund capital expenditure	(44.8)

(\*) Statutory provisions exist to neutralise the impact of these items on the council's resources available for revenue or capital expenditure.

- 4.4 The net increase in the council's reserves for the year, as shown in the Movement in Reserves Statement, was £19.6 million. This is made up of an increase of £3.7 million on usable reserves, and an increase of £15.9 million on unusable reserves (unusable reserves are technical accounting reserves, usually reflecting statutory adjustments). This compares to a net decrease of £227.3 million in 2012/13 (£28.4 million decrease in usable reserves; £198.9 million decrease in unusable reserves).
- 4.5 The Movement in Reserves Statement shows the movement in the council's General Fund and HRA balances for 2013/14. The General Fund Balance increased by £11.1 million, standing at £27.0 million as at 31 March 2014. The HRA Balance did not change and remains at £5.0 million.
- 4.6 The HRA Income and Expenditure Account shows a surplus of £14.9 million for the year (2012/13 surplus of £9.3 million). This surplus was used to provide for the redemption of debt as part of the HRA's capital financing strategy to create headroom against the debt cap to fund capital expenditure in the future.
- 4.7 The HRA reserve stands at £5.0 million at 31 March 2014. The funds in this reserve can only be used to finance revenue expenditure against the HRA budget in accordance with statute.
- 4.8 The Collection Fund generated a surplus for the year of £0.7 million. This will be distributed between the preceptors. This includes a provision made this year against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2014.
- 4.9 The Group Comprehensive Income and Expenditure Statement shows a net deficit on the provision of services for the year of £98.7 million, compared to a net surplus of £100.5 million in 2012/13. The net loss for 2013/14 is made up of the council's net loss of £96.7 million and a net loss for Wolverhampton Homes of £2.0 million (2012/13: net loss of £98.2 million and £2.3 million respectively).

## **5.0 Financial Implications**

- 5.1 The statement of accounts is one of the most important financial documents that the council produces. The statement, and the forthcoming audit of those statements by the external auditors, is fundamental to the accountability and transparency of the council's finances.

[CF/01072014/K]

## **6.0 Legal implications**

- 6.1 The Accounts and Audit (England) Regulations 2011 require the 2013/14 Statement of Accounts be produced in accordance with proper practice. This is exemplified by the

Code of Practice on Local Authority Accounting which is published by CIPFA. These regulations also require that the accounts are approved by 30 June 2014 and published by 30 September 2014. [RB/04072014/R]

## **7.0 Equalities implications**

7.1 There are no equality implications arising from this report.

## **8.0 Environmental implications**

8.1 There are no environmental implications arising from this report.

## **9.0 Human resources implications**

9.1 There are no human resource implications arising from this report.

## **10.0 Corporate landlord implications**

10.1 There are no implications for the council's property portfolio arising from this report.

## **11.0 Schedule of background papers**

11.1 There are no relevant preceding reports.