

Draft Financial Report for 2012/13

To: Audit and Governance Committee

Date: 25 June 2013

Main Portfolio Area: Finance and Governance

Author of report: Jane Fineman, Financial Services Manager

Classification: Non exempt

Ward: All

SUMMARY

This report introduces the draft Financial Report for 2012/13. The draft will be signed off by the Head of Finance and Governance by the end of June, and the audited version will be reported to this Committee at its meeting on 24 September 2013. The Audit and Governance Committee is not required to approve the unaudited version, but it is presented to members at this stage in order to keep them informed, and to ask for their comments and suggestions for improvement.

LINK TO STRATEGIC COMPASS

This report supports the Value and Community quadrants of the strategic compass in particular that we manage public finances effectively.

Report status

For noting

Route to Implementation/Timetable:

For consideration by the Audit and Governance Committee

BACKGROUND/INTRODUCTION

- (1) This report introduces the draft Annual Financial Report for 2012/13, asks the Committee to note it without giving formal approval, and invites members to review the draft in more depth (Report provided as Appendix B).

WHAT IS THE ISSUE THAT REQUIRES A DECISION AND WHAT DOES THIS MEAN FOR THE PEOPLE OF TUNBRIDGE WELLS?

The Annual Financial Report

- (2) The complete document published at the end of the audit process is termed the “Annual Financial Report”, while the term “Statement of Accounts” comprises the formal accounting statements, including the Collection Fund statement, together with the notes to these accounts. The Annual Financial Report consists of:
 - The Explanatory Foreword
 - The Annual Governance Statement
 - The Statement of Responsibilities
 - The Independent Auditor’s Report
 - The Statement of Accounts
- (3) While the draft report currently before this Committee contains most of these sections, the Annual Governance Statement and the Independent Auditor’s Report will be added after the audit and before publication.

Changes to Accounting Standards

- (4) For the first time for a number of years the accounts have been prepared on virtually the same basis as in 2011/12, and therefore the accounts do not contain any re-statements of prior year figures or balances. Note 1 to the accounts outlines technical changes to the standards required from 1 April 2013 relating to accounting for pensions, which will result in an increase to the surplus or deficit on the provision of services, but does not change the net pension liability: This will require the comparative figures for 2012/13 to be re-stated in the 2013/14 accounts.

Headline figures in the Statement of Accounts

- (5) The revenue accounts, as summarised in paragraph 4 of the Foreword, shows that the Council achieved a small surplus of £6,000 compared to the budget, a considerable achievement bearing in mind the requirement to cover the cessation payment of £250,000 to John Laing and the £42,000 for demolishing the Cranbrook offices, both resulting from the end of the regeneration partnership. Detailed information can be found in the Quarter 4 Monitoring Reports on the Cabinet agenda for 20 June 2013.
- (6) Usable reserves decreased by £3.9m during the year, from £20.7m to £16.8m, resulting mainly from two major transactions. The first was the payment to Kent County Council of just over £2m to extinguish the Council’s continuing liability to pay for unfunded pensions. This settlement was planned to save £210,000 per annum but actually resulted in a saving of £217,000 in 2012/13.

The second transaction was the use of £1m from the Usable Capital Receipts Reserve to finance part of the Council's investment in the Local Authority Mortgage Scheme (LAMS). At the end of the 5-year LAMS period the Council's deposit will be returned and the reserve will be replenished.

Accounting Issues

- (7) There has been considerable discussion on a national basis, not yet fully resolved, on how to account for LAMS. To summarise, the Council has made a deposit of £2m in a special bank account, in return for which the bank is issuing mortgages for a higher than usual percentage of the values of property. £1m of this deposit is financed from a loan from Kent County Council. In the accounts the deposit of £2m is treated as capital expenditure, £1m of which is financed from the loan and the other £1m from the Usable Capital Receipts Reserve, as mentioned above. The net interest from the deposit is being transferred each year to an earmarked reserve, which will be used if necessary to meet the costs of any defaults.
- (8) As outlined in Note 14.2, the Council has now provided £16,000 for a levy expected to be raised for its share of the defunct Municipal Mutual Insurance Company, and has put a further £14,000 into an earmarked reserve, covering the maximum liability as currently estimated.
- (9) Note 14.3 describes the Council's liability to repay land charge search fees, for which £90,000 has been set aside in a new earmarked reserve. The Council has a definite liability, but it cannot yet be reliably estimated, so accounting standards prevent us from creating a provision.
- (10) Paragraph 8 of the Foreword outlines the changes to the collection and distribution of National Non-Domestic Rates which start in 2013/14. These involve this Council picking up the liability for 40% of any losses on appeals, backdated to the day from which the appeal applies, normally 1 April 2010. It is estimated that this Council's liability is likely to be very small, although it is not possible to provide an accurate figure.
- (11) The cost of the audit process has reduced by £45,000 this year as a result of the new contract with Grant Thornton.

Timetable to publication of the Annual Financial Report

- (12) The Section 151 Officer is obliged to sign off the draft accounts for audit before the end of June, and the version before this meeting is likely to be very close to the one presented to the auditors. The draft accounts, together with supporting documentation, are available for public inspection for four weeks from 1 July, after which interested parties have the opportunity of discussing the accounts with the auditor. The audit process is beginning considerably earlier this year. The auditors are already on site and, following discussions with the Head of Finance and Governance and with the responsible members of staff, plan to provide their Annual Governance Report during September. A final version of the Report, including agreed amendments, is due to go before this Committee alongside the Annual Governance Report at its meeting on 24 September. The Committee is then obliged to approve the Statement of Accounts for publication.

The Committee's Role at this stage

- (13) Following changes made for 2011/12 this Committee is no longer required to give formal approval to the accounts before the start of the audit, and at many councils the Audit Committee or its equivalent no longer sees the draft accounts before the end of the audit. At this council the view is taken that scrutiny by this Committee is a valuable part of the democratic process. The Committee is not asked to approve the draft, only to note it at this stage, but members are also invited to review the accounts and to contact the accounting staff during the audit period with any queries or suggestions for its improvement.

WHO HAVE WE CONSULTED AND HOW? (OR WHO WILL WE CONSULT FOLLOWING THE DECISION?)

- (14) The Head of Finance and Governance has reviewed the draft Annual Financial Report. Reporting to the Audit and Governance Committee at this stage, although not legally required, invites members of the Committee to review and comment on the draft report both before and after it is submitted for audit.

HOW WILL THE DECISION BE COMMUNICATED?

- (15) Not applicable.

WHAT ALTERNATIVE ACTION COULD WE TAKE?

- (16) Not applicable

CONCLUSIONS

- (17) The draft Annual Financial Report, including the Statement of Accounts, has been prepared in accordance with current accounting standards and is available for comment and scrutiny by members of this Committee.

RECOMMENDATIONS –

- (1) That the Committee note the attached draft Annual Financial Report, containing the draft Statement of Accounts; and
- (2) That members of the Committee are invited to raise comments and questions on the contents of the attached draft Annual Financial Report, containing the draft Statement of Accounts.

Reason for Recommendation

These recommendations help the Committee to fulfil its role in scrutinising the Council's overall accounting process.

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Head of Finance and Governance

Background Papers

None

APPENDICES TO REPORT

Appendix A - Cross Cutting Issues

Appendix B - Draft Annual Financial Report for 2012/13