

HAMPSHIRE COUNTY COUNCIL**Decision Report**

Decision Maker:	Audit Committee
Date:	26 September 2013
Title:	Statement of Accounts – 2012/13
Reference:	5174
Report From:	Director of Corporate Resources

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1. Executive Summary

- 1.1. The Accounts and Audit Regulations as amended in 2011 require the Authority's Statement of Accounts to be approved by the Chief Financial Officer by 30 June and by Members by 30 September following the year end. The County Council has delegated responsibility for the approval of the Statement of Accounts to the Audit Committee.
- 1.2. The Statements have been audited and the conclusions of the audit are contained within the Audit Commission's Annual Governance Report, which is also on this agenda.
- 1.3. The end of year financial report for 2012/13 was considered by Cabinet on 24 June 2013 and the Statement of Accounts is consistent with that report.
- 1.4. This report presents for the Committee's approval the Statement of Accounts 2012/13 and recommends that the Director of Corporate Resources be given delegated authority to make any minor amendments if required prior to the issue of the audit opinion.

2. Code of Practice on Local Authority Accounting

- 2.1. The attached Statement of Accounts has been drawn up in the form prescribed by the 2012/13 Code of Practice on Local Authority Accounting in the United Kingdom, which constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. The Code is reviewed each year and for 2012/13, there were no major changes.

Statement of Accounts

- 2.2. The Statement of Accounts comprises a number of separate statements, the key features of which are summarised in the following paragraphs and in Appendix 1. The full Statement of Accounts is included in Appendix 2.

Statement of Responsibilities for the Statement of Accounts

- 2.3. This statement records the responsibility:
- of the local authority to appoint an officer with responsibility for the proper administration of its financial affairs. This is the Director of Corporate Resources within this Authority
 - of the Director to prepare the accounts in accordance with proper practices as set out in the Code of Practice, and to certify that the accounts present a true and fair view of the Authority
 - of the Chairman of the Audit Committee to confirm that the accounts have been considered and approved by the Committee

Movement in Reserves Statement

- 2.4. This statement sets out the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (cash-backed reserves which can be applied to fund expenditure or reduce council tax) and unusable reserves (not cash-backed). Further detail of the unusable reserves is included in note 16 of the Statement of Accounts.
- 2.5. The statement also shows the statutory General Fund Balance before and after the transfers to and from earmarked reserves.

Comprehensive Income and Expenditure Statement

- 2.6. This statement shows the accounting cost of providing services rather than the amount funded from taxation. The taxation position is shown in the Movement of Reserves Statement and the difference between them is itemised in note 6 of the Statement of Accounts.
- 2.7. For 2012/13, the accounting cost of services is slightly lower than 2011/12. The main reason for this is savings in children's services and education, partly due to a number of schools becoming academies.
- 2.8. The cost of services shown in the Comprehensive Income and Expenditure Statement is presented in accordance with proper practice. A different presentation is adopted for the Authority's management accounts. Note 18 of the Statement of Accounts reconciles the final outturn position that was reported to Cabinet in June 2013 to the cost of services in the Comprehensive Income and Expenditure Account.
- 2.9. The bottom line position for the Comprehensive Income and Expenditure Statement shows a deficit for 2012/13 compared to a larger deficit in 2011/12. The reason for the deficit is twofold:
- It reflects the value of assets transferred to academy schools for which the County Council received no income

- It also reflects the actuarial loss on pension fund assets and liabilities that arises because of changes in assumptions underlying the present value of pension liabilities.

Whilst these items are included in the Comprehensive Income and Expenditure Statement in accordance with proper accounting practice, they are offset by movements in unusable reserves in the Balance Sheet and so do not impact on the general fund balance for council tax purposes.

- 2.10. The inclusion of other comprehensive income and expenditure such as net gains on the revaluation of assets and the actuarial loss on pension fund assets and liabilities, creates a bottom line figure on the Comprehensive Income and Expenditure Statement equal to the change in net worth on the Balance Sheet.

Balance Sheet

- 2.11. This shows the value of the assets and liabilities recognised by the County Council. The net assets of the County Council are matched by reserves; either usable (£0.4bn) or unusable (£1.9bn).
- 2.12. The majority of the County Council's net worth is tied up in the value of its fixed assets, primarily the replacement value of land and buildings, which to the extent that it exceeds outstanding borrowing is reflected in the value of the Revaluation Reserve and the Capital Adjustment account. This value would only become usable if the County Council was to dispose of all its fixed assets at their balance sheet value.
- 2.13. Unusable reserves are reduced by the pension reserve. This reserve was introduced a few years ago as a mechanism for recognising in the balance sheet the County Council's actuarially assessed pension liability as measured under IAS19 (previously FRS17) without requiring the liability to be recognised in setting council tax. The County Council's pension net liability has increased during 2012/13, from £978 million to £1,041 million mainly as a result of the change in actuarial assumptions underlying the present value of pension liabilities, (including a lower discount rate, higher inflation and higher rate of increase in pensions in payment) offset by a higher than expected increase in the value of pension fund assets.

Cash Flow Statement

- 2.14. The Cash Flow Statement is designed to demonstrate the changes that have taken place in the Authority's cash position over the year and to highlight the causes of that change.

Notes to the accounts

- 2.15. These comprehensive notes incorporate information to give the reader information to support the accounts. The accounting policies are incorporated within the notes.

Hampshire Pension Fund

- 2.16. The accounts of the Hampshire Pension Fund show that there was a surplus of contributions over benefits payable in the year of £11 million, that net investment income totalled £79 million, and that the market value of investments increased by £474 million, increasing the net assets of the fund by £563 million from £3.8bn to £4.3bn.

Annual Governance Statement

- 2.17. The Annual Governance Statement has to accompany the Statement of Accounts. The County Council's Statement was approved by the Audit Committee in June 2013.

3. Next steps

- 3.1. The County Council is required to publish its Statement of Accounts by 30 September 2013. Should any minor amendments to the Statements be required prior to the issue of the audit opinion and to the publication of the Statement of Accounts, it is recommended that the Director of Corporate Resources be authorised to make any such amendment. The published Statement of Accounts, together with a short summary, will be made available to all members of the County Council, either in electronic form or by circulation of a printed document if preferred.

4. Recommendations

- 4.1. That the Statement of Accounts for 2012/13 as set out in Appendix 2, be approved.
- 4.2. That the Director of Corporate Resources be given delegated authority to approve any minor amendments to the Statement of Accounts.

Appendix 1

CORPORATE OR LEGAL INFORMATION:

Links to the Corporate Strategy

This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because:

It relates to the effective Governance of the County Council.

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document

Location

None

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

1.1. This report does not have any impact on equality objectives.

2. Impact on Crime and Disorder:

2.1 The County Council has a legal obligation under Section 17 of the Crime and Disorder Act 1998 to consider the impact of all the decisions it makes on the prevention of crime. This report has no impact on the prevention of crime.

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific proposals

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific proposals affecting adaptation to climate change

Summary Statement of Accounts 2012/13

1 The cost of Hampshire County Council services

The Comprehensive Income and Expenditure Statement sets out the cost of running Hampshire County Council's services in 2012/13 and where the money came from to pay for them.

	2012/13 £'000 Expenditure	2012/13 £'000 Income	2012/13 £'000 Net Exp
Operating income and expenditure			
Cultural, environmental and planning services	120,963	-23,516	97,447
Education and children's services	1,096,302	-837,042	259,260
Highways and transport services	111,246	-19,156	92,090
Adult social care	448,409	-137,369	311,040
Other services, corporate and non-distributed costs	200,345	-141,791	58,554
Total operating income and expenditure	1,977,265	-1,158,874	818,391
Taxation and non-specific grant income			
Non-ringfenced government grants			-20,237
Non domestic rates			-173,882
Council tax income			-533,607
Capital grants and contributions			-99,122
Taxation and non-specific grant income			-826,848
Surplus on the provision of services			-8,457

2 Impact on the General Fund Balance

The Comprehensive Income and Expenditure Statement is drawn up in accordance with international accounting standards. However, the Government has stipulated that certain costs that form part of the Comprehensive Income and Expenditure Statement need not be included in the General Fund for the purpose of setting council tax. These costs are mainly associated with the depreciation of assets and the accrual of retirement benefits, which do not necessarily lead to cash flows in the short and medium term. Consequently, these costs are transferred to the Balance Sheet and replaced with the annual repayment of loans for capital expenditure and the employer's pension contribution. This net adjustment is -£102.9 million. The impact on the General Fund Balance is shown in the Movement in Reserves Statement which is summarised below.

	£000
General Fund Balance at 31 March 2012	-17,897
Surplus on the provision of services	-8,457
Net adjustment between accounting basis and funding basis	-102,931
Balance before transfers to earmarked reserves	-129,285
Transfers to earmarked reserves	94,490
General Fund Balance at 31 March 2013	-34,795

3 Financial position of the Council

The Balance Sheet presents the Council's financial position at 31 March 2013 and the value of its assets and liabilities. It shows what the Council owns, owes and is owed.

	2012/13 £'000	2012/13 £'000
Land, buildings, vehicles, equipment and infrastructure		3,573,506
Money owed to the Council:		
Within 12 months	445,112	
After 12 months	146,914	
Money owed by the Council		
Within 12 months	-273,822	
After 12 months	-573,269	
Net borrowing		-255,065
Pension fund net liability		-1,040,600
Total net assets		2,277,841
Financed by:		
Cash-backed reserves		-418,761
Non-cash-backed reserves *		-1,859,080
Total net worth		-2,277,841

* Includes the Asset Revaluation Reserve that can only be realised when assets are sold and the adjustment accounts required to replace the accounting costs (principally for depreciation and retirement benefits) included in the Income and Expenditure Statement with the costs to be funded by the General Fund (principally loan repayments and employer's pension contributions).

4 Capital expenditure

Capital expenditure is money the Council spent on purchasing and improving assets such as buildings, roads and equipment. The Council receives the benefit from such capital expenditure over many years.

	2012/13 £'000
Adult Services	4,402
Children's Services	56,992
Environment	86,154
Policy and Resources	19,979
Total	167,527
Financed by:	
Capital receipts	-41,790
Grants and other income	-78,375
Loans	-16,347
Revenue (main contribution)	-17,087
Revenue (reserves)	-13,928
	-167,527

5 Pension Fund

The County Council administers the Pension Fund that is open to all non-teaching employees of Hampshire County Council, Portsmouth and Southampton City Councils and the 11 district councils in Hampshire and a range of other scheduled and admission bodies. A summary of the pension fund accounts is given below.

	2012/13 £'000
Pension contributions	216,739
Transfers in from other pension funds	14,138
Benefits paid	-197,429
Payments to and on account of leavers	-20,037
Administrative expenses	-2,782
Net additions from dealings with members and employers	10,629
Returns on investments	562,935
Investment management expenses and taxes on income	-10,187
Increase in the net assets available for benefits during the year	563,377
Add opening net assets of the Fund	3,777,241
Closing net assets of the Fund	4,340,618