Report to the Audit and Governance Committee

Report reference: AGC-009-2015/16
Date of meeting: 21 September 2015

Epping Forest District Council

Portfolio: **Finance**

Subject: **Statutory Statement of Accounts 2014/15**

Responsible Officer: **Bob Palmer** **(01992 564279)**

Democratic Services Officer: **Gary Woodhall** **(01992 564470)**

Recommendations/Decisions Required:

(1) That a report be submitted to the Council recommending that the Statutory Statement of Accounts for 2014/15 be adopted.

Executive Summary:

One of the key roles of this Committee is scrutinising the annual Statutory Statement of Accounts. All Members of the Council will have the opportunity to debate the Accounts at Full Council and part of that debate will be to consider the recommendation of this Committee.

It is anticipated that the audit will be completed shortly and that the Statutory Statement of Accounts will be presented to Council on 29 September. There is a separate report elsewhere on the agenda that sets out the key findings of the audit.

There have been no substantial changes to the annual Statutory Statement of Accounts for 2014/15. The format of the accounts and the disclosure notes within them are very similar to those for 2013/14. Also, following the significant changes to the system of local authority finance in 2013/14, 2014/15 has been a year of consolidation with no other significant changes.

To assist Members with their consideration of the Accounts a report follows together with the Accounts themselves.

Reasons for Proposed Decision:

It is important that this Committee scrutinises the annual Statutory Statement of Accounts so that residents and other Members can have confidence in the Accounts.

Officers have exercised their professional judgement and liaised closely with external experts and the External Auditor to produce the Statutory Statement of Accounts. If Members are satisfied with the content of this report and the verbal responses to any questions raised, they are requested to recommend the Statutory Statement of Accounts for adoption by Full Council on 29 September.

Other Options for Action:

The Committee could decide that the accounts should be amended or expanded prior to them being presented to Full Council.

Report:

1. The Accounts and Audit Regulations require Full Council or an Executive Committee to adopt the Council's Statement of Accounts before the end of September. The Council's constitution reserves the adoption of the Accounts to Full Council only. However, prior to Council considering the accounts it is important that they have been subject to Member scrutiny. This Committee has scrutinised the Statement of Accounts for several years.

2. The consideration of the Statement of Accounts is contained in the Terms of Reference of this Committee, the relevant parts being:

> *(h) To review financial statements, including the Council's Statement of Accounts, External Auditor's opinion and reports to Members, and monitor management action in response to the issues raised by External Audit.*
>
> *(i) Review, and challenge where necessary, the actions and judgements of Management, in relation to the Council's Statement of Accounts, paying particular attention to:*
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> *(i) critical accounting policies and practices, and any changes to them;*
> *(ii) decisions requiring a major element of judgement;*
> *(iii) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;*
> *(iv) significant adjustments resulting from the audit; and*
> *(v) any material weakness in internal control reported by the Internal or External Auditor.*

Critical accounting policies and practices, and any changes to them

3. There have been no significant changes in accounting policies and practices during the year. The accounting policies are set out on pages 9 to 18 of the Accounts.

Decisions requiring a major element of judgement

4. In preparing a set of accounts at a point in time it is inevitable that some of the information required will not yet be available. If an actual amount is uncertain an estimate is used. The estimate will be based on the assessment of information available at the time the accounts are closed. When the actual figures are determined any difference is usually accounted for in the following year. If the estimate was wrong by a material amount it would be necessary to consider re-stating the figures, this is extremely rare.

5. Two of the notes required by International Financial Reporting Standards are relevant here, note 3 "Critical judgements in applying accounting policies" and note 4 "Assumptions made about the future and other major sources of estimation uncertainty". The key critical judgement highlighted in note 3 is that the Council does not currently need to close facilities or significantly reduce levels of service provision. If this were not the case it would be necessary to consider any assets that would be affected and any consequent impairment of their values.

6. Three areas are covered by note 4, these are firstly property, plant and equipment, secondly pensions liability and finally arrears. The assumption made on property, plant and equipment is that assets will continue to be maintained so as to maximize their useful lives. If this were not to be the case additional depreciation would need to be charged. In reviewing arrears an estimate has to be made to allow for bad debts and, whilst a prudent view is taken in making this calculation, if the economic climate were to worsen significantly the charge to the Comprehensive Income and Expenditure Statement would increase.

7. The substantial annual fluctuations in the pension's liability make clear the element of judgement exercised by the actuary in establishing the pension figures. The largest creditor on the Balance Sheet is the Council's liability to the pension fund. The Balance Sheet shows that the pension liability for the Council has increased in the year from £57.8 million to £69.9 million. This larger deficit is due to a £13.4 million increase in the value of the scheme assets being outweighed by an increase of £25.5 million in the projected liabilities.

8. The key to calculating the value of the projected liabilities is the discount rate, and as this falls the size of the liability increases. The reduction in the discount rate from 4.4% to 3.2% reflects the falling yields in the corporate bond market, which actuaries are required to base discount rates on.

9. The figures shown in the table below illustrate how the overall deficit has changed over time. Further fluctuations are likely in subsequent years as it becomes clear how members of the pension scheme are responding to the change from a final salary scheme to a career average based scheme.

	2013/14 £'m	2013/14 £'m	2012/13 £'m	2011/12 £'m	2010/11 £'m
Liabilities	(185.0)	(159.5)	(170.4)	(150.8)	(130.1)
Assets	115.1	101.7	95.0	85.2	83.8
Deficit	(69.9)	(57.8)	(75.4)	(65.6)	(46.3)

10. The inclusion of this amount in the Balance Sheet shows the extent of the authority's liability if the pension fund was to close on 31 March 2015. It does not mean that this full liability will have to be paid over to the pension fund in the near future.

11. There are two other areas in the Statement of Accounts to bring to Member's attention as having required a major element of judgement. The first of these is the Council's Property, Plant and Equipment, which dominates the Balance Sheet with a value of just under £600 million. These assets are revalued periodically to ensure their valuations are correct and up to date. This process has not caused any concern previously as the valuations have either been prepared by qualified valuers in the Council's estates section or by external valuers in such a way that the external auditors have been able to satisfy themselves as to the accuracy of the valuations.

12. This year has been more problematic as the valuer who had revalued the Council's leisure centres is now on long term sick leave and his colleagues have been unable to locate his working papers. Work by other team members in the estates section indicated that their colleague may have made a significant error in his valuation and so it has been necessary to instruct an external valuer.

13. The output from the external valuer is still in progress so it is unclear yet how different his values will be to those currently in the accounts. It is likely that some adjustment will be needed to the accounts and amended pages of the Statutory Statement will be issued as a supplementary agenda for this meeting.

14. The other area is the provision for business rate appeals. Historically the values for non-domestic property have been updated every five years. If an occupier is unhappy with the valuation set by the Valuation Office Agency (VOA) they can appeal. Throughout the recession the number of appeals increased and the VOA was unable to keep up with the workload and process the appeals on a timely basis. This meant that when local retention came in there were a very large number of appeals outstanding, most of which related to the 2010 list but some went back to the 2005 list. Even though the appeals arose before the start of the new system, and central government had received the income from the bills being challenged, the liability for settling the outstanding appeals was given to local authorities.

15. The Collection Fund includes a Provision for Appeals of £3.26 million, up from £1.49 million last year. Part of this provision was calculated with the help of an external firm of

rating experts who analysed each outstanding appeal and gave a projected value for settlement. However, ending the right of appeal against the 2010 list from 31 March 2015 generated a large number of additional appeals and given the limited time available it was necessary to apply a cruder approximation to these cases. It is helpful to give some numbers here to illustrate the size of this problem, prior to March 2015 we had 192 appeals outstanding which covered properties with a combined rateable value of £14.5 million in March 2015 we received an additional 274 appeals which covered properties with a combined rateable value of £14.2 million.

16. An area of particular difficulty is with surgeries and medical premises where it has become evident that the District Valuer used an incorrect methodology in the initial valuation of these premises. This has resulted in substantial reductions on appeal, for example from £184,000 to £45,000 and from £73,500 to £20,250. This has been offset by some high value appeals being dismissed, for example the provision included an amount of £96,000 against a rateable value of £800,000 that has been upheld. To date the appeals that have been settled are similar in total to the provisions that were held against them and it appears the provision is not materially misstated. Although it is important to include a note of caution here as there are still appeals outstanding on some of the largest non-domestic premises in the district, including one with a rateable value of £5.83 million.

17. Where it has been necessary to exercise judgement in the interpretation of the Code of Practice advice has been sought from CIPFA and staff have liaised closely with both the External Audit Manager and other Essex authorities.

<u>The extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed</u>

18. There were no transactions in either 2014/15 or 2013/14 that require separate disclosure as Exceptional Items.

<u>Significant adjustments resulting from the audit</u>

19. There is one significant adjustment arising from an error in data input to the asset management system. This has resulted in the Revaluation Reserve being overstated by £6.5 million and the Capital Adjustment Account being understated by the same amount. This has no effect on the Balance Sheet as both these items are within the heading "Unusable Reserves". It also has no effect on either the surplus for the year or the balance on the General Fund.

20. The adjustments detailed above have been corrected in the Statement of Accounts. The audit is still to be concluded and any further significant adjustments will be reported to this Committee.

<u>Any material weakness in internal control reported by the Internal or External Auditor</u>

21. Neither the Internal nor External Auditor has reported any material weakness in internal controls. If any arise before the conclusion of the audit they will be reported to this Committee.

Resource Implications:

The Accounts set out the resource implications of the Authorities activities for 2014/15. The recommendation of the Accounts to Full Council does not in itself have any resource implications.

Legal and Governance Implications:

Full Council must approve the Accounts before the end of September and as part of the overall governance framework the Accounts should be subject to Member scrutiny prior to their approval.

Safer, Cleaner and Greener Implications:

There are no environmental implications.

Consultation Undertaken:
None.

Background Papers:

Reports on the revenue and capital outturns to the Finance & Performance management Cabinet Committee on 26 June 2014.

Impact Assessments:

There are no equalities or risk management impacts.