

AUDIT COMMITTEE: 21 JUNE 2013

ANNUAL FINANCIAL REPORT 2012/13

- Update and Accounting Policy change

1. INTRODUCTION

1.1 The Council's statutory Annual Financial Report, which includes six Statements of Account, will be presented to this Committee in September, after the completion of the external audit. Prior to audit the Report needs to be certified by the Responsible Financial (s151) Officer, as complete and presenting the position of the Council, as at 31st March 2013. This must be done by the end of June.

2. PURPOSE OF THIS REPORT

2.1 The purpose of this report is to update Members on progress to achieve the required timetable, to advise Members of key issues in the planned report and to seek Members approval for any change to Accounting Policy. This year it is planned to alter policy in relation to Property, Plant and Equipment.

3. STATEMENT OF ACCOUNTS POSITION

3.1 The Council is required to include within the Annual Financial Report the following six accounting statements,

- A) Comprehensive Income & Expenditure Statement
- B) Movement in Reserves
- C) Balance Sheet
- D) Cash Flow Statement
- E) Housing Revenue Account
- F) Collection Fund

These draft Accounting Statements, prior to external audit, for 2012/13 are set out in Appendix A.

4. ACCOUNTING POLICIES

4.1 The Council's current Accounting Policies have been in operation since June 2011. These policies are set out within the Council's Annual Financial Report and there are currently 26.

4.2 Policy XX, the 20th, relates to the Council's approach to the capitalisation of Property Plant and Equipment. The current policy states that:

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accrual basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. (Insert new) ***This determination will be made by the Responsible Financial Officer alone based upon a reasonable and prudent judgement.*** Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

A de minimis level is set for all operational assets below which expenditure is not capitalised.

Category	De minimis level (Single Items)	
	Old Policy	New Policy
	£	£
Council Dwellings	25,000	25,000
Other Land and buildings	10,000	10,000
Vehicles, Plant & Equipment (including ICT)	500	10,000
Infrastructure Assets	10,000	10,000

- 4.3 The proposed policy provides that all items below £10,000 in cost are not capitalised but are fully charged to revenue in the year of purchase. The benefits of this are that expenditure is financed when it is incurred rather than being deferred to future years, a more accurate balance sheet value is shown for Property, Plant and Equipment, as in many cases the value of the assets is largely used up as soon as the asset is purchased and administration is reduced by removing the need to register all items as individual assets and depreciating them over various asset lives.
- 4.4 In 2012/13 the cost of assets purchased and now to be charged to revenue is £747,000 but depreciation charges removed for the year are £758,000, so the effect in the year is basically revenue neutral.
- 4.5 This change in policy will require the net book value of assets remaining on the balance sheet at 31 March 2013 to be financed in 2012/13. The appropriate accounting treatment for this is still being discussed with the external auditor but the end effect will be that the Vehicles, Plant and Equipment/Intangible Assets figure on the attached balance sheet will reduce by approximately £2.0 million and a corresponding adjustment will be made to useable reserves.

5. RECOMMENDATIONS

- 5.1 That Members note the draft Accounting Statements set out in Appendix A and approve the change in Accounting Policy set out in paragraph 4.2.

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Background Papers:
 June Cabinet 2013 Report A

**COMPREHENSIVE
INCOME AND EXPENDITURE ACCOUNT**

2011/12				2012/13		
Gross Expend £000	Income £000	Net Expend £000		Gross Expend £000	Income £000	Net Expend £000
15,346	(11,021)	4,325	Central Services	13,269	(10,737)	2,532
11,676	(7,408)	4,268	Cultural and Related Services	10,624	(7,013)	3,611
11,672	(2,327)	9,345	Environmental and Regulatory Services	11,771	(2,273)	9,498
3,731	(1,141)	2,590	Planning Services	3,138	(1,478)	1,660
2,557	(2,614)	(57)	Highways and Transport Services	2,718	(3,188)	(470)
			Housing Services:			
142,704	0	142,704	Local Authority Housing (HRA) - self financing settlement	0	0	0
18,789	(24,244)	(5,455)	- other	12,694	(25,176)	(12,482)
46,172	(44,810)	1,362	Other Housing Services	48,297	(46,707)	1,590
266	(218)	48	Adult Social Care	119	(130)	(11)
2,867	(115)	2,752	Corporate and Democratic Core	2,606	(108)	2,498
(369)	0	(369)	Non Distributed Costs - IAS19 past service pension adjust	(385)	0	(385)
457	(23)	434	- other	423	(24)	399
255,868	(93,921)	161,947	Cost of Services	105,274	(96,834)	8,440
			Other Operating Expenditure			
4,707			Local Council Precepts	4,776		
			Equipment Policy Change	2,000		
1,009			Payments to the Housing Pooled Capital Receipts	405		
	(691)		(Gain)/Loss on the disposal of Non-Current Assets		(590)	
	(722)		VAT Refund		(170)	
		4,303	Total Other Operating Expenditure			6,421
			Financing and Investment Income and Expenditure			
			Interest Payable and Similar Charges:			
1			- General Fund	2		
58			- HRA	4,468		
			Interest Receivable and Similar Income:			
	(470)		Other Investment Income		(592)	
1,950			Pensions Interest Cost and Expected Return on Pensions Assets	2,190		
	(117)		Income, expenditure and changes in the fair value of Investment Properties		(301)	
		1,422	Total Financing and Investment Income and Expenditure			5,767
			Taxation and Non-Specific Grant Income			
(16,225)			Council Taxpayers Income (incl. Parish precepts)	(16,340)		
(9,760)			Non-Ringfenced Government Grants	(9,104)		
(2,766)			Capital Grants and Contributions	(1,288)		
		(28,751)	Total Taxation and Non-Specific Grant Income			(26,732)
		138,921	(Surplus)/Deficit on the Provision of Services			(6,104)
(5,430)			(Surplus)/Deficit arising from the revaluation of Property, Plant and Equipment Assets	(1,794)		
14,600			Actuarial (gains)/losses on Pension Fund Assets and Liabilities	4,890		
		9,170	Other Comprehensive Income and Expenditure			3,096
		148,091	Total Comprehensive Income and Expenditure			(3,008)

MOVEMENT IN RESERVES STATEMENT

	General Fund Balance	Earmarked General Fund / HRA Reserves	Housing Revenue Account	Capital Programme Reserve	Capital Receipts Reserve	Developers' Contributions Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2012	(2,036)	(1,295)	(5,485)	(6,299)	(2,549)	(3,503)	(21,167)	(107,866)	(129,033)
<i>Movement in reserves during 2012/13</i>									
(Surplus) or deficit on the provision of services	2,349	0	(8,453)	0	0	0	(6,104)	0	(6,104)
Other comprehensive income and expenditure	0	0	0	0	0	0	0	3,096	3,096
Total Comprehensive Income and Expenditure	2,349	0	(8,453)	0	0	0	(6,104)	3,096	(3,008)
Adjustments between accounting basis and funding basis under regulations (note 7)	(3,238)	0	8,581	0	(1,150)	(471)	3,722	(3,722)	0
Net Increase/Decrease Before Transfers to Earmarked Reserves	(889)	0	128	0	(1,150)	(471)	(2,382)	(626)	(3,008)
Transfers to/from earmarked reserves (note 8)	889	(160)	44	(773)	0	0	0	0	0
Increase / Decrease in Year	0	(160)	172	(2,773)	(1,150)	(471)	(2,382)	(626)	(3,008)
Balance at 31 March 2013	(2,036)	(1,455)	(5,313)	(7,072)	(3,699)	(3,974)	(23,549)	(108,492)	(132,041)

BALANCE SHEET AS AT 31 MARCH 2013

2011/12			2012/13	
£000	£000		£000	£000
		Long-Term Assets		
		Property, Plant and Equipment:		
262,748		Council Dwellings	270,735	
58,300		Other Land and Buildings	58,917	
4,947		Vehicles, Plant and Equipment	5,951	
		Equipment Policy Change	(2,000)	
8,104		Infrastructure Assets	7,241	
1,481	335,580	Assets Under Construction	0	340,844
	2,207	Investment Properties		2,384
	469	Intangible Assets		482
		Equipment Policy Change		
	128	Long-Term Debtors		108
	<u>338,384</u>	Total Long-Term Assets		<u>343,818</u>
		Current Assets		
0		Surplus Assets Held For Disposal	750	
10,546		Short-Term Investments	21,409	
310		Inventories	327	
5,435		Short-Term Debtors	6,324	
(1,701)		Bad Debt Provision	(1,714)	
15,057		Cash and Cash Equivalents	4,131	
	<u>29,647</u>	Total Current Assets		<u>31,227</u>
	368,031	Total Assets		375,045
		Current Liabilities		
(11,395)		Short-Term Creditors	(8,760)	
(6)		Developers' Contributions - Receipts in Advance	(37)	
	<u>(11,401)</u>	Total Current Liabilities		<u>(8,797)</u>
		Long-Term Liabilities		
(142,704)		Long-Term Borrowing	(142,704)	
(1,076)		Provisions	(815)	
(270)		Capital Grants - Receipts in Advance	(692)	
(2,483)		Developers' Contributions - Receipts in Advance	(2,176)	
(81,064)		Liability relating to Defined Benefit Pension Scheme	(87,820)	
	<u>(227,597)</u>	Total Long-Term Liabilities		<u>(234,207)</u>
	129,033	Net Assets		132,041
		Usable Reserves		
2,036		General Fund Balance	2,036	
1,295		Earmarked General Fund / HRA Reserves	1,455	
5,485		Housing Revenue Account	5,313	
6,299		Capital Programme Reserve	9,072	
		Equipment Policy Change	(2,000)	
2,549		Capital Receipts Reserve	3,699	
3,503	21,167	Developers' Contributions Unapplied	3,974	23,549
		Unusable Reserves		
19,206		Revaluation Reserve	20,798	
169,985		Capital Adjustment Account	175,637	
(109)		Financial Instruments Adjustment Account	(52)	
11		Deferred Capital Receipts Reserve	9	
(81,064)		Pensions Reserve	(87,820)	
138		Collection Fund Adjustment Account	172	
(301)	107,866	Accumulated Absences Account	(252)	108,492
	129,033	Total Reserves		132,041

CASH FLOW STATEMENT

2011/12		2012/13
£000		£000
138,921	Net (surplus) or deficit on the provision of services	(6,104)
(5,123)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(10,996)
1,406	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	1,850
0	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	0
135,204	Net cash flows from Operating Activities	(15,250)
958	Investing Activities	23,367
(150,832)	Financing Activities	2,809
(14,670)	Net (increase) or decrease in cash and cash equivalents	10,926
(387)	Cash and cash equivalents at the beginning of the reporting period	(15,057)
(15,057)	Cash and cash equivalents at the end of the reporting period	(4,131)

**HOUSING REVENUE ACCOUNT
INCOME AND EXPENDITURE ACCOUNT**

2011/12		2012/13
£000		£000
	Income	
(21,887)	Dwelling rents	(23,468)
(706)	Non-dwelling rents	(718)
(738)	Charges for services and facilities	(717)
(913)	Contributions towards expenditure	(273)
(24,244)		(25,176)
	Expenditure	
4,087	Repairs and maintenance	4,023
4,745	Supervision and management	4,275
15	Rents, rates, taxes and other charges	9
9,715	Negative HRA Subsidy payable	(9)
142,704	Self Financing Settlement	0
2	Depreciation and impairments of non-current assets	4,202
87	Debt Management Costs	29
46	Movement in the allowance for bad debts	85
18	Sums directed by Secretary of State - transfers to General Fund	6
161,419		12,620
137,175	Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement	(12,556)
74	HRA services' share of Corporate and Democratic Core	74
137,249	Net (Income) / Cost for HRA Services	(12,482)
	HRA share of the operating income and expenditure included in the whole authority Income and Expenditure Account	
(645)	(Gain) / Loss on sale of HRA non-current assets	(585)
58	Interest payable and similar charges	4,468
(32)	Interest and investment income	(22)
275	Pensions interest cost and expected return on pensions assets	300
(13)	Income and expenditure in relation to investment properties and changes in their fair value	5
(600)	Capital Grants and Contributions Receivable	(137)
136,292	(Surplus) or Deficit for the year on HRA services	(8,453)

COLLECTION FUND

2011/12			2012/13	
£000	£000		£000	£000
		Income		
	(98,392)	Income from Council Tax		(98,927)
		Transfers from General Fund:		
(9,827)		Council Tax Benefits	(9,690)	
1	(9,826)	Transitional Relief	2	(9,688)
	(57,165)	Income collectable from Business Ratepayers		(60,363)
	(165,383)	Total income		(168,978)
		Expenditure		
		Precepts:		
75,815		Hampshire County Council	76,050	
10,683		Hampshire Police Authority	10,716	
4,484		Hampshire Fire And Rescue Authority	4,498	
16,086		New Forest District Council (including town and parish council requirements)	16,189	
	107,068			107,453
		Business Rate:		
56,826		Payment to National Pool	59,512	
286	57,112	Costs of Collection	287	59,799
		Impairment of debts/appeals:		
		Write-offs		
183		- Council Tax	117	
285		- Business Rates	371	
		Increase / (decrease) in provisions		
37		- Council Tax	40	
(233)	272	- Business Rates	193	721
		Contributions:		
	635	Previous year's estimated council tax surplus		779
	165,087	Total expenditure		168,752
	(296)	Movement on fund balance		(226)
	(620)	Surplus at 1 April		(916)
	(296)	Movement on fund balance		(226)
	(916)	Surplus at 31 March		(1,142)