Appendix A

Unaudited Statement of Accounts 2014/15

Presentation to Members 29/6/2015

Charles Warboys, Chief Finance Officer

Ralph Gould, Head of Financial Control

Introduction

Chief Finance Officer

Accounts – Purpose

- Present a comprehensive picture of the financial health of the Council
- Encourage a focus on the assets and liabilities of the Council, not just on the bottom line.
- Show income, expenditure, assets and liabilities for the year, in a format which can be compared with other organisations
- Contain statutory disclosures, including those relating to Members interests, allowances and officer remuneration

Agenda

- Introduction – Charles Warboys
- Background and overview – Charles Warboys
- Commentary on the statements – Ralph Gould
- Conclusions and Next steps – Charles Warboys
- Any Questions

Background

- International Financial Reporting Standards (IFRS) applied from 2010/11 – driven by private sector requirements as adapted for the public sector.

- Important differences with the private sector
  - Tax raising powers
  - No profit motive but an important legal emphasis on Stewardship, Probity and Transparency
  - Multiple statutory obligations to incur expenditure
  - Local Authorities cannot use assets to secure borrowing
  - Access to the Public Works Loans Board

Background

- International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS)
- Interpreted for UK Local Government by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice - statutory best practice
- Accounting requirements are updated annually and are reflected in the Code supported by a Practitioner's Guide.

Background

- The Statements do several things
  - follow public sector accounting practice
  - comply with various statutory requirements (e.g. Council Tax requirements, Housing Revenue Account ring fence, transparency best practice, capital expenditure controls.)
- Requires a number of Unusable Reserves to implement

An Example

- Removed - Actual Amounts paid in year to Bedfordshire LGPS - £17.8m reported to the Council as Expenditure by services (13/14 £16.9m) - Note 43

- Replaced with - total post – employment benefits charged in the Comprehensive Income and Expenditure Account – as calculated under International Accounting Standard 19 (IAS 19) £29.5m (13/14 £27.7m)

- If not removed through the Movement in Reserves Statement (page 15 and Note 7) a negative impact on the General Fund (i.e. Council Tax) of £11.7m

Other Examples

- Note 7 ‘Adjustments between Accounting Basis and Statutory Basis under Regulations’
- Note 27 ‘Amounts Reported for Resource Allocation Decisions’ effectively the Council’s management Accounts agreed to the Statement of Accounts
- Note 23 Details movements on 7 (14/15) ‘Unusable Reserves’ including the Capital Adjustment Account and Collection Fund Adjustment Account

Overview of the document

- The Explanatory Foreword – not part of the Statements so not covered by audit opinion

- Main Statements – statutory requirement to follow best practice – ‘ The Code’
  - Movement in Reserves
  - Comprehensive Income and Expenditure
  - Balance Sheet
  - Cash Flow

- Notes to the Accounts – 47 Notes, pages 22 - 108

Overview of the document

- Supplementary Statements
  - HRA and Collection Fund

- Published with but NOT part of the Statements
  - Glossary
  - Annual Governance Statement

Commentary on the statements

Handout

Movement in Reserves Statement

Comprehensive Income and Expenditure Statement

Balance Sheet

Cash flow Statement

Employee Remuneration Note 32

Theme for analysing this years accounts

Implications of Interest Rates at unusual levels

- The Council's capital financing requirement (need to borrow) has increased in the financial year, and the capital medium term financial plan projects an increase in future years
- With a further £9.4m of debt due to be repaid in 2015/16, the Council will need to borrow externally in the next financial year.
- Movements in the market rates of interest paid on Corporate and Government Bonds has a significant impact on estimated liabilities of pension funds.

UK Base rate 1971 to 2015

UK 10 Year Bond Yields 1981 to 2015

Usable Reserves

	31/03/2014	31/03/2015	Increase / (Reduction)	SoA Ref
	£000	£000	£000	
General Fund (GF)	15,101	15,303	202	
GF Earmarked Reserves	27,764	31,138	3,374	Note 8
Housing Revenue Account (HRA)	2,000	2,000	0	HRA page 110
HRA Earmarked Reserves	18,511	18,357	(154)	Note 8
HRA Major Repairs Reserve	200	200	0	HRA page 112
Capital Receipts Reserve	2,346	3,451	1,105	
Capital Grants Unapplied	25,344	15,060	(10,284)	
Schools Reserves	11,826	11,689	(137)	
Total Usable Reserves	**103,092**	**97,198**	**(5,894)**	

Unusable Reserves

	31/03/2014	31/03/2015	(Increase) / Reduction	SoA Ref
	£000	**£000**	**£000**	Note 24
Revaluation Reserve	(59,300)	(92,029)	(32,729)	(a)
Available for Sale	148	(4)	(152)	(b)
Pensions	307,141	379,640	72,499	(e)
Capital Adjustment Account	(493,035)	(530,424)	(37,389)	(c)
Financial Instruments	1,717	1,601	(116)	(d)
Collection Fund Adjustment Account	2,653	138	(2,515)	(f)
Short Term accumulated abscences	2,942	2,472	(470)	(g)
Total Unusable Reserves	**(237,734)**	**(238,606)**	**(872)**	
Total Usable Reserves	*(103,092)*	*(97,198)*	*5,894*	
Total CBC Reserves	***(340,826)***	***(335,804)***	***5,022***	

The Purpose of General Fund Balances

- Key indicator of the financial health of the organisation
- A means for building up funds to meet known or predicted requirements. Where specific, funds are set aside as earmarked reserves
- A contingency to cushion the impact of unexpected events or emergencies
- Linked to risks facing the Council and the potential impact of those risks
- Can only be used once so not appropriate to fund continuing budget pressures

Comprehensive Income and Expenditure

2013/14 Gross Expenditure £'000	2013/14 Gross Income £'000	2013/14 Net Expenditure £'000		2014/15 Gross Expenditure £'000	2014/15 Gross Income £'000	2014/15 Net Expenditure £'000
Services listed						
473,033	**-293,926**	**179,107**	**Cost of Services**	**490,879**	**-299,921**	**190,962**
					Note	
		33,719	**Other operating expenditure**		9	**10,852**
		20,242	**Financing and investment income and expenditure**		10	**19,498**
		-267,155	**Taxation and non-specific grant income and expenditure**		11	**-239,017**
		-34,087	**(Surplus) / deficit on Provision of Services**			**-17,705**
		-14,038	Revaluation (gains) / losses on non-current assets		24a	**-41,765**
		433	Revaluation losses (chargeable to Revaluation Reserve) on non-current assets		24a	**3,885**
		-128	(Surplus) / deficit on revaluation of available for sale assets		24b	**-152**
		1,279	Return on plan assets – pensions		43	**-30,821**
		-8,789	Actuarial (gains) / losses on pension fund assets and liabilities		43	**91,582**
		-21,243	**Other comprehensive income and expenditure - (surplus) / deficit**			**22,729**
		-55,330	**Total Comprehensive Income and Expenditure Statement - (Surplus) / Deficit**			**5,024**

ASSETS

	31-Mar-14	31-Mar-15	SoA
	£'000	**£'000**	**Note**
Property, plant & equipment	876,480	974,623	12
Investment property	81,675	85,150	14
Intangible assets	6,758	8,821	15
Long-term investments	4,852	5,004*	16
Long-term debtors	574	564	16
Long-term assets	**970,339**	**1,074,162**	
Short-term investments	14,124	568**	16
Current assets held for sale	606	173	20
Short-term debtors	46,944	47,697	18
Cash and cash equivalents	19,083	1,799	19
Current assets	**80,757**	**50,237**	
Total Assets	**1,051,096**	**1,124,399**	

*LT Inv - Lime Property Fund

** ST Inv - deposits at 3 months notice

Schools Non-current assets

- Note 3 – Critical judgements in applying accounting policies
- Previous practice not to recognise the Land and Buildings of maintained schools owned by a diocese or in trust. Existing use value approx £60m.
- Practice is inconsistent nationally much activity from HM Treasury and CIPFA – Whole of Government Accounts – address the matter

CBC approach maintained Schools non-current assets

Maintained School Type	Number at 31/3/15	Control of Property Non-Current assets
Community	57	Central Bedfordshire Council / individual governing bodies
Foundation	1	Bedfordshire East Schools Trust
Foundation	2	Harlington Area Schools Trust
Foundation	6	The Pinnacle Trust
Foundation	3	The Vale of Marston Schools Trust
Voluntary Aided	2	Northampton RC Diocese
Voluntary Aided	10	St Albans C of E Diocese
Voluntary Controlled	9	St Albans C of E Diocese
Total	**90**	

Outline Reasons

- All 90 maintained schools revenue transactions and main reserves are consolidated *(always have been)* into the Council's Statement of Account as a single entity. (IFRS 10 – Consolidated Financial Statements)

- Examined governance documentation and ownership records of non-community schools to consider if the ' *resource is controlled by the Authority as a result of past events and from which future economic benefits or service potential are expected to flow to the Authority*'

- Ownership is not the same as control. IAS 16 *Property, Plant and Equipment* and the *Conceptual Framework for Financial Reporting 2010 (IASB Conceptual Framework)*

Outline reasons continued

- Ownership is with either the diocese or School Trusts

- No evidence of any lease arrangement where owners or trustees have transferred control of land and buildings to the Council. IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*.

- The trustees or organisations owning the non-current assets allow those assets to be used in line with the objectives of the Council without assigning the substantive control.

- Under *Section 30(11) of the School Standards and Framework Act 1998* the trustees or other organisations owning the non-current assets can, subject to a reasonable period of notice, remove the assets from the maintained school sector.

Liabilities

	31-Mar-14	31-Mar-15	SoA
	£'000	**£'000**	**Note**
Short-term borrowing	-17,552	-31,603*	16
Short-term creditors	-44,709	-43,054	21
Provisions	-6,346	-7,283	22
Provisions - accumulated absences	-2,942	-2,472	24g
Current liabilities	**-71,549**	**-84,412**	
Private Finance Initiative (PFI)	-16,820	-16,268	39
Long-term borrowing	-289,961	-280,632	16
Net liability related to defined benefit pension schemes	-307,141	-379,640	43
Capital grants (receipts in advance)	-24,801	-27,643	35
Long-term liabilities	**-638,722**	**-704,183**	
Current and LT Liabilities	**-710,271**	**-788,595**	
LT and Current Assets	*1,051,096*	*1,124,399*	
Net Assets	**340,825**	**335,804**	

*ST Borrowing - less than 365 days to maturity fixed market debt and maturing variable rate debt.

Capital Expenditure and Borrowing Requirement

	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	*2009-2015 £'000* *for info*
Opening Capital Financing Requirement	**192,351**	**211,473**	**200,516**	**374,571**	**399,434**	**418,184**	
Capital investment:							
Property, plant and equipment	41,231	38,873	39,360	51,715	61,962	71,173	***304,314***
Investment property	0	0	97	84	101	335	
Intangible assets	0	1,369	1,415	527	228	784	
Revenue Expenditure Funded from Capital Under Statute (REFCUS)	10,619	12,103	23,890	21,085	19,773	32,241	***119,711***
Debt as a result of HRA self financing	0	0	164,995				*164,995*
Total Spend for Capital purposes	**51,850**	**52,345**	**229,757**	**73,411**	**82,064**	**104,533**	
memo line adjusted for HRA financing	51,850	52,345	64,762	73,411	82,064	104,533	***428,965***
Sources of finance:							
Capital receipts *(Applied)*	(1,490)	(29,826)	(3,780)	(3,665)	(2,851)	(1,636)	***(43,248)***
Government grants and other contributions	(25,514)	(24,722)	(41,808)	(38,481)	(44,564)	(49,290)	***(224,379)***
Major Repairs Allowance *(HRA)*			(3,805)	0	(6,569)	(3,597)	***(13,971)***
Sums set aside from revenue:							
Direct revenue contributions *(incs HRA)*	(702)	(1,502)	(1,288)	(528)	(2,256)	(9,632)	***(15,908)***
Minimum Revenue Provision (MRP) / PFI principal	(4,473)	(7,025)	(5,534)	(5,874)	(7,074)	(7,250)	***(37,230)***
Other movements	(549)	(227)	(2,778)				
Total Financing in year	**(32,728)**	**(63,302)**	**(58,993)**	**(48,548)**	**(63,314)**	**(71,405)**	***(338,290)***
Closing Capital Financing Requirement	**211,473**	**200,516**	**371,280**	**399,434**	**418,184**	**451,312**	
Increase/(decrease) in Capital Financing Requirement	**19,122**	**(10,957)**	**170,764**	**28,154**	**18,750**	**33,128**	*258,961*

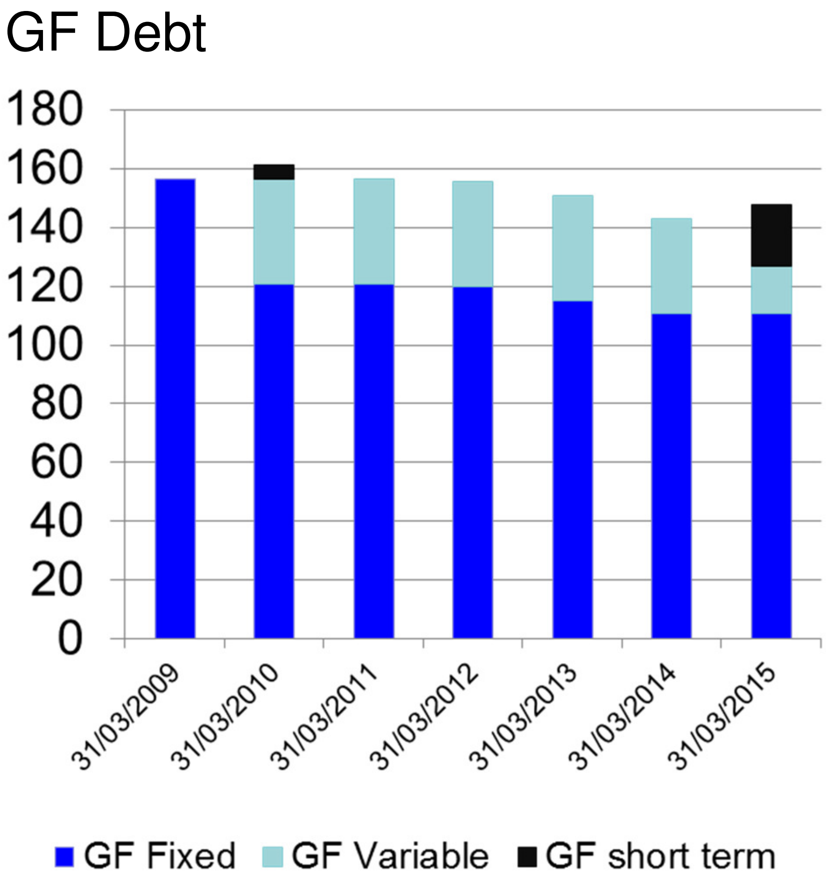
Cumulative borrowing Need (ex HRA) 2009/15 **93,966**

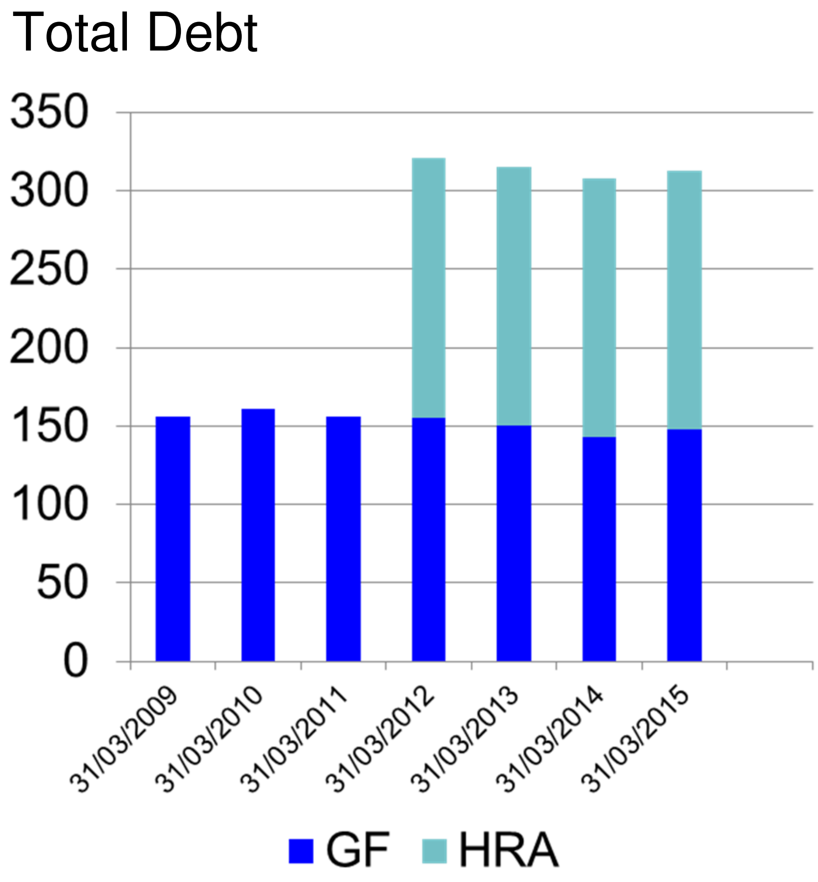
Total Borrowing as at 31st March 2015

	GF	Average rate	HRA	Average rate	Total	Total Average Rate
Variable	£16m	0.66%	£45m	0.65%	£61m	0.65%
Fixed	£111m	4.33%	£120m	3.10%	£231m	3.69%
Short term Debt	£21m	0.34%	-	-	£21m	0.34%
Total*	£148m	3.83%	£165m	2.43%	£313m	3.04%

* Total Debt value on SOA includes accrued Interest payable

Debt Since 2009





CBC Debt

Nominal Value V Fair Value

	Nominal Value	Fair Value
2009-10	£161.3m	£163.4m
2010-11	£156.3m	£161.6m
2011-12	£320.6m	£350.8m
2012-13	£315.6m	£358.0m
2013-14	£308.0m	£329.8m
2014-15	£312.6m	£362.8m

Interest Paid (Including restructuring costs)

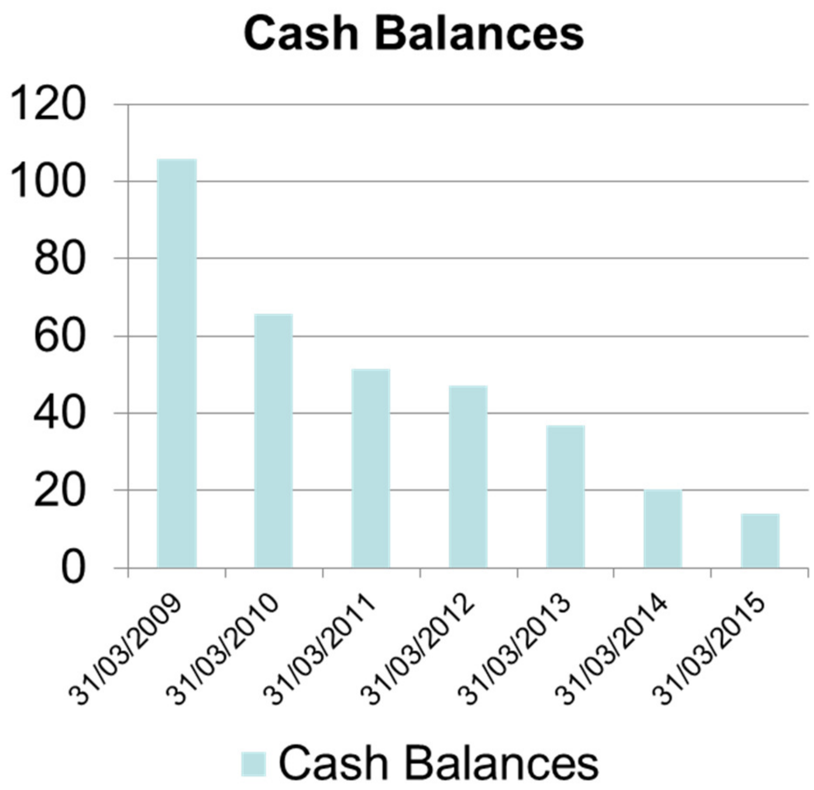
	GF	HRA
2009-10	£6.97m	-
2010-11	£5.68m	-
2011-12	£5.68m	£0.04m*
2012-13	£5.44m	£3.98m
2013-14	£5.25m	£3.97m
2014-15	£5.20m	£4.01m

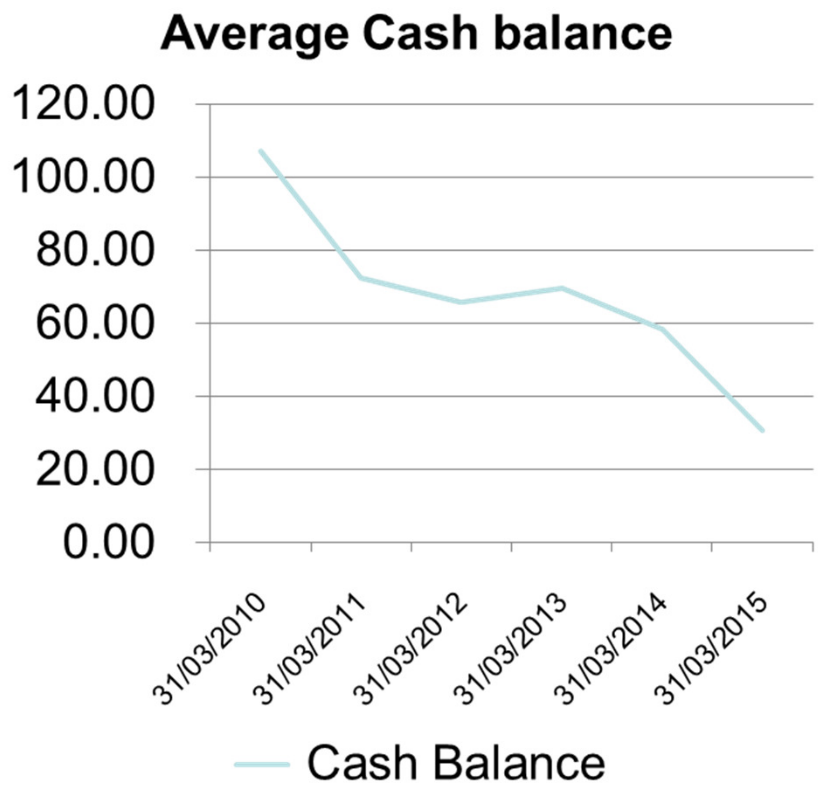
*HRA debt taken out on 28th March 2012 interest payable for 4 days

Investment balances since 2009

(Excluding Lime Fund)

Includes schools balances from 20th November 2014





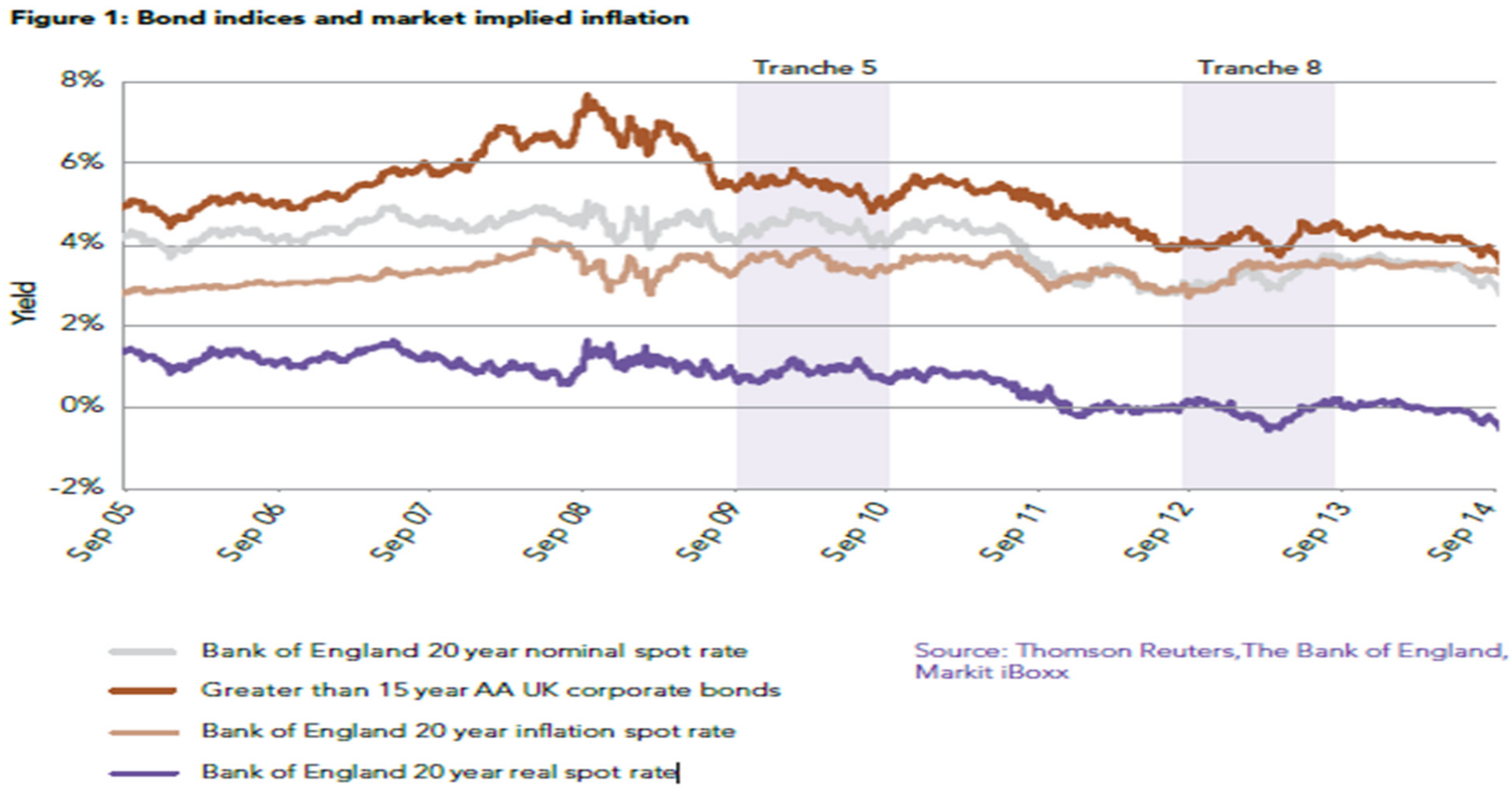
Investment Return since 2009

	Average investment	Interest earned	Interest Rate
2009-10	£107.2m	£1,755.4k	1.64%
2010-11	£72.5m	£1,035.3k	1.43%
2011-12	£65.9m	£894.3k	1.36%
2012-13	£69.8m	£672.9k	0.96%
2013-14	£58.3m	£431.6k	0.74%
2014-15	£30.8m	£160.8k	0.52%

Pension Scheme Deficits

- Council's largest liability at £379m measured in line with IAS 19
- Schemes have many challenges not least improving life expectancy
- Overwhelming influence is level of yields (interest rates) on corporate and government bonds - sets discount rate for liabilities (pension promises)

Bond indices and market implied inflation



Source : Pension Regulator report

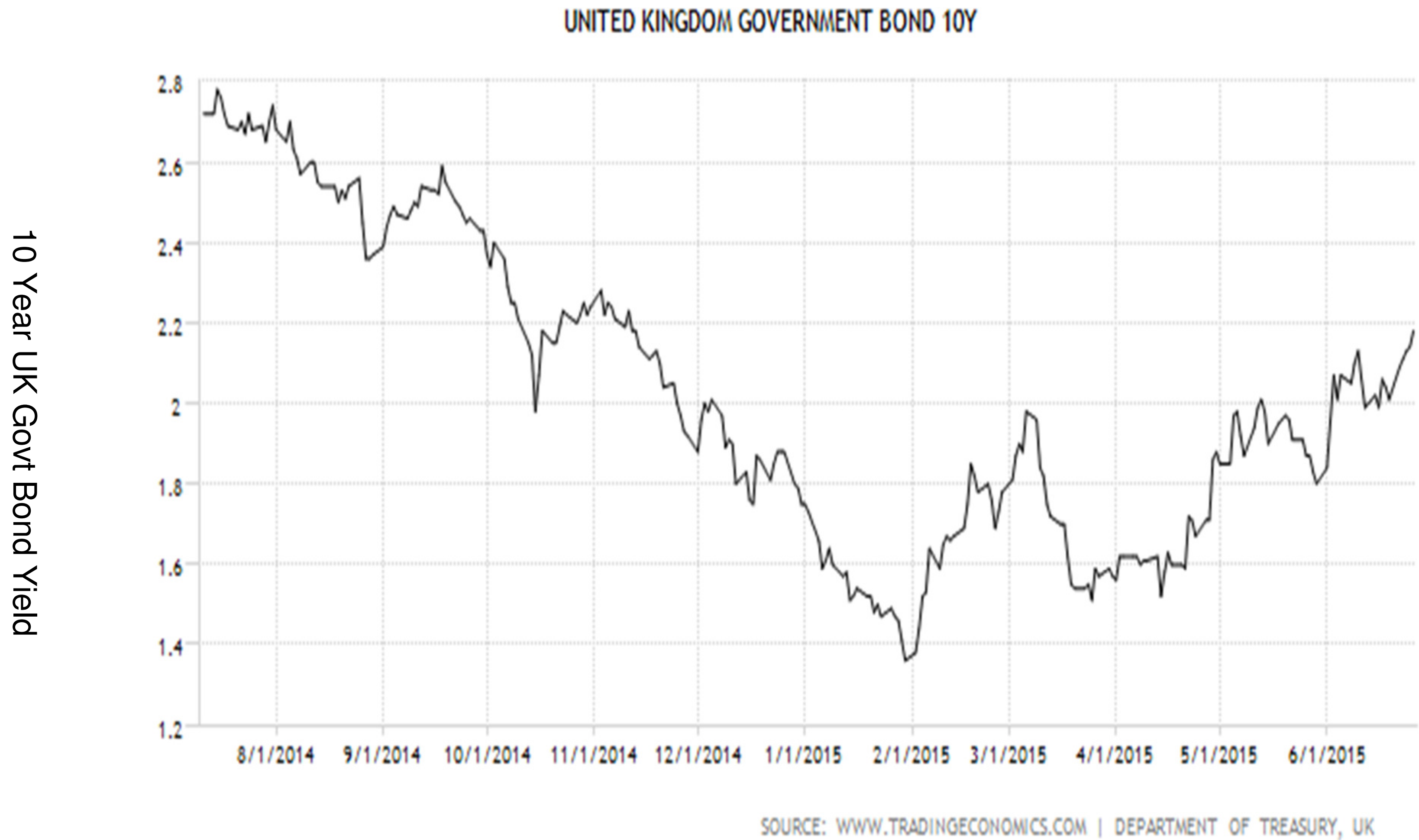
Pensions

- Assets and Liabilities follows IAS 19

	2013/14	2014/15	Increases
Liabilities	(£684m)	(£802m)	£118m (17%)
Assets	£377m	£423m	£46m (12 %)
Net Deficit	(£307m)	(£379m)	£72m (24%)
Assets as % Liabilities IAS 19	55.1%	52.7%	

- Actual Contribution rates follow triennial fund valuation different basis used 31 March 2013 Liabilities £550m Assets £361m **Deficit £189m** (66% Funded)

Bond Yield Volatility and measurement dates



Supplementary Statements

- HRA Account – pages 110 - 115
- Collection Fund – pages 116 - 118

Housing Revenue Account

- Benefiting from low interest rates
- Reserving for and funding independent living schemes and strategic priorities
- Accounting follows Communities and Local Government – Accounting Directions and related restrictions

Collection Fund

- Improving surplus position on Council Tax from £0.5m (13/14) to £3.5m surplus (CBC share £3m)

- Business rate position improving but deficit reflects impact of providing for possible successful rating appeals. Deficit of £6.3m (13/14) reduced to £6.1m (CBC share £2.9m)

Other Items: Remuneration Note 32

- Number of staff paid over 50k in year (including redundancy)

	2013/14	2014/15
Temporary Staff	77	85
Permanent	155	181

- The figures exclude members of the Corporate Management Team, who are disclosed individually.
- Teaching and non-teaching staff received pay awards in 2014/15. The increase in permanent numbers paid over £50k was broadly evenly split between schools and other staff
- The contracts of 70 staff (61 in 13/14) were terminated in year with £779k (£816k in 13/14) paid as redundancy costs. Note 41

Future Changes

- From 2016/17 Councils will have to value their roads and associated assets (bridges, street lights etc) at the cost of replacing the asset in its current condition. Currently these are valued at historical cost.
  - Infrastructure Assets are valued at Depreciated Historic Cost of £225m on the balance sheet. The depreciated replacement cost is currently estimated at £1.6 billion.
- The statutory deadline for producing the accounts is currently 30 June 2015. Under proposed changes to the Accounts and Audit Regulations 2011 it is proposed this will be 31 May from 2017/18. We are already reviewing ways to achieve this in 2015/16.

Conclusion and Next Steps

- Accounts show the overall financial health of the organisation.
- CBC is in a strong financial position and has added to general and earmarked reserves, held to protect the Council against identified risks.
- There are significant uncertainties ahead relating to funding from Central Government
- Borrowing resulting from capital expenditure will be an important element of the accounts in future financial years. Interest rate risk is important and is being monitored closely. Currently interest and MRP contributions are 8% (£16.5m) of the Council's net revenue expenditure.

Conclusion and Next Steps

- The accounts will be audited by Ernst & Young LLP from July – September

- Public Inspection Period 6th July – 31 July

- The final accounts will be approved by Audit Committee in September

Any Questions?