

## 2013/14 Statement of Accounts: Summary financial and accounting information

### 1. Purpose of Report

- 1.1. This brief report has been drafted to ensure that the attention of members of the Audit and Governance Committee are drawn to the key pieces of financial and accounting information contained in the 2013/14 Worcestershire County Council Statement of Accounts. This paper sets out in two parts:
- Summary information for the County Council Statement of Accounts; and
  - Summary information for the Worcestershire County Council Pension Fund that is administered by the County Council.
- 1.2. This should be read alongside the Explanatory Foreword to the 2013/14 Statement of Accounts that provides more of a narrative on financial performance in 2013/14.

### 2. Summary information for the County Council Statement of Accounts

#### Overall Highlights

- 2.1. This section provides a brief summary of the key highlights of the 2013/14 County Council Statement of Accounts:

- In overall terms, revenue spending was within delegated cash limits of £341 million; The Council's General Balances are at £13.0 million, a reduction of £2.1 million from 2012/13 (they were planned to be reduced by £2.2 million when the budget was set); and
- Capital investment of £59.9 million has been made.

#### An underspend against cash limited budgets of £0.1 million

- 2.2. The Statement of Accounts show an accounting deficit of £86.0 million within which the County Council delivered an under spend of £0.1 million against its cash limited net budget of £341 million. Accounting regulations require some items of expenditure and income to be reclassified and charged to the Comprehensive Income and Expenditure Statement that do not impact on the amount to be met from local taxation in the year. The technical accounting adjustments include the movement on the pensions reserve and capital accounting adjustments and have a compensating adjustment through unusable reserves. The following table shows how the accounting deficit reconciles to the movement on the General Fund Balance for 2013/14.

**Table 1: General Fund Balance reconciliation**

|  | £ million | £ million   |
|--|-----------|-------------|
| <b>General Fund Balance as at 31 March 2013</b>        |           | <b>15.1</b> |
| Deficit on provision of services                       |           | (86.0)      |
| Adjustments between accounting basis and funding basis |           |             |
| Capital adjustments                                    | 64.8      |             |
| Pensions adjustments                                   | 14.0      |             |
| Other adjustments                                      | (3.2)     | 75.6        |
| Transfer from earmarked reserves                       |           | 8.3         |
| <b>General Fund balance at 31 March 2014</b>           |           | <b>13.0</b> |

- 2.3. The Pensions adjustments relate to employer's pension contributions and direct payments to pensioners payable in the year less those items relating to retirement benefits accounted for in the Comprehensive Income and Expenditure Account.

- 2.4. The Capital adjustments include the effect of the transfer of school assets to academies as well as the usual adjustments for Capital Grants, depreciation and the costs of financing the capital programme.

#### Earmarked Reserves

- 2.5. Earmarked reserves form part of the usable reserves available to the County Council. Specific earmarked reserves excluding Revenue Grants carried forward to pay for specific future commitments reduced by £5.2 million to £93.5 million.
- 2.6. Specifically the following movements occurred in the 2013/14 financial year.
- Schools balances have reduced by £1.0 million to £18.5 million. These reserves are maintained at the discretion of school governing bodies.
  - Directorate reserves have reduced by £2.6 million to £9.9 million. This represents between year flexibility to carry forward funding for specific initiatives.
  - Insurance reserves have increased by £0.2 million to £6.1 million and remain sufficient to meet insurance excesses and uninsured losses.
  - PFI grant reserves have reduced by £0.8 million to £21.1 million and are held to support future expenditure on PFI schemes.
  - Future capital investment reserve has reduced by £3.1 million to £7.1 million and is retained to preserve funding for existing projects in future years.
- 2.7. Revenue grants unapplied reserves have reduced by £6.1 million from £26 million to £19.9 million and represent grants being carried forward in support of future spending plans.

#### Non Current Assets

- 2.8. The depreciated value of property, plant and equipment (PPE) reduced by 4.3% to £931.9 million. New capital investment on PPE totalled £59.9 million. This is expanded upon in the table below together with the source of funds.

**Table 2: Capital expenditure summary**

|  | £ million   |
|--|-------------|
| Schools  | 22.8        |
| Transport Infrastructure                                     | 30.2        |
| Other  | 6.9         |
| <b>Total</b>   | <b>59.9</b> |
| Financed by:   |             |
| Applied contributions from revenue budgets                   | 6.7         |
| Prudential Borrowing   | 11.0        |
| Capital Receipts   | 1.6         |
| Capital Grant and Contributions from 3 <sup>rd</sup> parties | 40.6        |
| <b>Total</b>   | <b>59.9</b> |

- 2.9. The County Council derecognised £58.4 million of assets due to school buildings being transferred to newly established academy schools in 2013/14.

#### External Borrowing

- 2.10. The Council's external borrowing has reduced by £4.7 million to £243.3 million. The average rate of interest payable on long term borrowing was 4.35% for the year (4.4% 2012/13). The following table sets out the ratio of the County Council's long term borrowing against its local Tax revenue (Council Tax and share of National Taxation) to indicate a proxy for gearing in a local government sense.

**Table 3: Ratio of External Borrowing to tax revenue**

|                                  | 2013/14 | 2012/13 | 2011/12 | 2010/11 |
|----------------------------------|---------|---------|---------|---------|
| External Borrowing (£ million)   | 243.3   | 248.0   | 253.3   | 245.8   |
| Income from Taxation (£ million) | 339.0   | 331.3   | 333.7   | 312.0   |
| Ratio                            | 0.7     | 0.8     | 0.8     | 0.8     |

- 2.11. This trend is consistent with the County Council's Treasury Management Strategy where the recent capital programme has been financed through internal borrowing. Looking forward this ability for the County Council to use internal balances will diminish as the County Council will start to access the external market to raise external borrowing to replace these balances as they are needed for other areas of County Council business.
- 2.12. The following table sets out the maturity profile of the County Council's External Borrowing portfolio as at 31 March 2014 compared to the equivalent position as at 31 March 2013.

**Table 4: Maturity Profile of external debt as at 31 March 2014**

|                   | £ million           | % of portfolio | £ million           | % of portfolio |
|-------------------|---------------------|----------------|---------------------|----------------|
|                   | As at 31 March 2014 |                | As at 31 March 2013 |                |
| Within 1 year     | 38.0                | 15.6           | 28.0                | 11.3           |
| 1 – 2 years       | 26.4                | 10.9           | 35.4                | 14.3           |
| 2 – 5 years       | 20.0                | 8.2            | 15.6                | 6.3            |
| 5 -10 years       | 29.7                | 12.2           | 34.7                | 14.0           |
| 10 years and over | 129.3               | 53.1           | 134.3               | 54.1           |
| Total             | 243.3               | -              | 248.0               | -              |

Other Long Term Assets

- 2.13. The Council's other long term assets comprise:

- Long term investments  
The Council has 944,061 preference shares in Malvern Hills Science Park, a joint venture company established with Malvern Hills District Council, Hereford & Worcester Chamber of Commerce & Enterprise, giving a total investment of £0.944 million (2012/13 £0.944 million).
- Long term debtors  
Long term debtors have reduced by £1.0 million to £3.9 million.

Liquidity

- 2.14. The liquidity of the County Council is measured by the relationship of current assets to current liabilities. The County Council's current assets of £128.2 million are less than its current liabilities of £144.4 million, a ratio of 0.9:1, an increase on last year's ratio of 1:1.
- 2.15. The reduction in current assets includes:
- a £0.9 million reduction in Assets Held for Sale;
  - an £18.9 million reduction in Short Term Investments;
  - a £2.6 million reduction in Short Term Debtors; and
  - a £13.8 million increase in Cash and cash equivalents.
- 2.16. The increase in current liabilities in the main relates to a £5.0 million increase in short term creditors. The table below sets out the liquidity ratio over the recent past.

**Table 5: The County Council's Liquidity Ratio**

| £ millions          | 2013/14 | 2012/13 | 2011/12 | 2010/11 |
|---------------------|---------|---------|---------|---------|
| Current Assets      | 128.2   | 136.4   | 124.2   | 103.8   |
| Current Liabilities | 144.4   | 137.0   | 131.3   | 137.5   |
| Liquidity Ratio     | 0.89    | 1.0     | 0.95    | 0.76    |

Debtors

- 2.17. Short Term debtors have reduced by £2.6million to £43 million. The debtors figure is net of a bad debt provision of £4.7 million, a calculated amount which equates to the value of all debts over 3 years old and a proportion of debts less than 3 years old (£1.2 million) and £3.5 million relating to the Council's proportion of the billing authorities council tax bad debt provision.
- 2.18. Trade debtors as a percentage of total debtors have increased from 51% to 58% (£25.1 million). Other debtors relate mainly to other Local Authorities or Government Departments.

Investments

- 2.19. The Council deposits surplus cash with the UK Debt Management Office and other local authorities, typically for periods of less than one year. These investments have reduced by £18.9 million to £60 million over the year.
- 2.20. The average rate earned on investments was 0.33% for the year (0.27% 2012/13).

Creditors

- 2.21. Creditors have increased by £4.3 million to £105.8 million. Trade creditors as a percentage of total creditors reduced from 63% to 58% (£61.8 million).

Provisions

- 2.22. Provisions of £2.0 million (£2.5 million in 2012/13) have been included in the accounts to allow for staff redundancy costs resulting from restructuring of £1.3 million, Municipal Mutual Insurance liability of £0.3 million and various smaller provisions totalling £0.4 million.

### **3. Summary information for the Worcestershire County Council Pension Fund that is administered by the County Council**

3.1. This section provides a brief summary of the key highlights of the 2013/14 County Council Statement of Accounts:

- **Movement in Net Assets**

The Pension Fund's Net Assets increased by 4.4% (£76.3 million) to £1.8 billion. This included the addition of £42.2 millions of investment income (£34.2 million in 2011/12) along with an increase in the market value of investments of £35.3 million.

- **Movement in Net Surplus**

The Pensions Fund's movement from a net increase of £220.8 million (2012/13) to a net increase in the net assets available for benefits during the year of £26.3 million is due in the main to the performance of funds invested on the equities market. This is consistent with the overall trend in the market.

- **Actuarial Valuation**

The last actuarial valuation of the Fund at 31 March 2013 indicated assets covered 69% of liabilities (69% at 31/03/2010). Changes in Employers' Contribution Rates from 1 April 2014 and normal fund management are both expected to ensure that assets will match 100% of liabilities over 21 years. The next actuarial valuation uses data at 31st March 2016 with any changes in contribution rates effective from 1st April 2017.

