

**Agenda Item No:** 13 **Report No:** 149/13  
**Report Title:** Annual Financial Report 2012/2013  
**Report To:** Audit and Standards Committee **Date:** 23 September 2013  
**Ward(s) Affected:** All  
**Report By:** Director of Finance  
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#### **Purpose of Report:**

**To present the Annual Financial Report 2012/2013 for approval following the audit of the Statement of Accounts.**

#### **Officers Recommendation:**

1. To approve the Annual Financial Report 2012/2013, incorporating the Statement of Accounts, with the Chair signing them on the Committee's behalf.
  2. To note the contents of this report.
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#### **Reasons for Recommendations**

- 1 The Accounts and Audit Regulations 2011 require the Director of Finance and councillors to certify and approve an audited set of accounts for publication by no later than 30 September.

#### **Information**

##### **2 Approval of the Accounts**

- 2.1 The Audit and Standards Committee is required to approve the Council's statutory annual Accounts, which include statements of its income and expenditure for the year and its balance sheet at the year end. The requirement stems from the Council's Constitution, the Accounts and Audit Regulations and the Code of Practice on Local Authority Accounting published each year by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 2.2 The Accounts for 2012/2013 are the third set to be produced in accordance with International Financial Reporting Standards (IFRS). Unlike the two previous years, there have been no significant changes to the accounting requirements for Lewes District Council in 2012/2013. No new accounting requirements have

been introduced which have a significant impact on this Council's accounting statements.

- 2.3** The 'Annual Financial Report 2012/2013' includes both the formal 'Statement of Accounts' which is subject to audit, as well as supplementary information (eg a narrative to explain, in simple terms, the year's key financial information).
- 2.4** A report to the meeting of the Audit and Standards Committee on 24 June 2013 explained that the Director of Finance would approve a draft Annual Financial Report by 30 June 2013 and present it to the Council's external auditors (BDO) for audit. This took place and BDO commenced their audit at the beginning of July.
- 2.5** BDO's work has been substantially completed at the time of writing this report. As BDO have noted in their report to this meeting of the Audit and Standards Committee, they anticipate issuing an 'unqualified true and fair opinion' on the Council's financial statements, subject to the satisfactory completion of some outstanding work. This means that the Council's independent Auditor considers that the Council's financial statements give a true and fair view, in accordance with appropriate legislation and relevant accounting guidance, of the financial position of the Council at 31 March 2013 and its income and expenditure for the year.
- 2.6** BDO's report sets out in detail the results of their accounts audit work. In some cases (particularly in respect of the accounting treatment of HRA improvements and the acquisition of and work to The Crest, Newhaven) BDO considered that the information provided within the draft accounting statements and accompanying notes departed from the expected accounting practice and presentation. These departures had no impact on the Council's overall financial performance during the year or its useable reserves and balances. Following discussion, officers have been content to make amendments and these are incorporated in the final Annual Financial Report 2012/2013 which is attached at Appendix 2.
- 2.7** An overview of the Annual Financial Report 2012/2013 is given in Appendix 1. It is recommended that the Audit and Standards Committee should approve the Annual Financial Report, with the Chair signing on its behalf. Following approval, the Director of Finance will certify the Statement of Accounts and BDO will release their formal audit certificate. The accounts will then be published by the statutory deadline of 30 September. In order to minimise costs, a very limited number of paper copies of the Annual Financial Report will be produced. However, it will be made available for download from the Council's website and any interested person who requests a printed copy will be sent one.

### **Financial Implications**

- 3** There are no additional financial implications arising from this report.

### **Sustainability Implications**

- 4** The Sustainability Screening process for this Report took place in September 2013. There are no implications for sustainability.

## **Risk Management Implications**

- 5 I have completed the Risk Management Questionnaire. The issues covered by the recommendations are not significant in terms of risk.

## **Equality Screening**

- 6 The Annual Financial Report can be made available in a variety of formats and in a different language on request. The Equality Screening process for this Report took place in September 2013. There are no implications for equality.

## **Background Papers**

- 7 Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and Guidance Notes for Practitioners <http://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-guidance-notes-for-practitioners--20122013-accounts-hard-copy>

## **Appendices**

Appendix 1 – Overview of Annual Financial Report 2012/2013

Appendix 2 – Audited Annual Financial Report 2012/2013

## Overview of Annual Financial Report 2012/2013

The Annual Financial Report incorporates the formal Statement of Accounts for 2012/2013, which have been produced in accordance with International Financial Reports Standards (IFRS). It consists of the key elements described below. **NB page references relate to the Annual Financial Report document, not the Agenda page numbers.**

### 1. Review of 2012/2013 and Outlook for 2013/2014 (pages 3 to 12)

This Review does not form part of the formal Statement of Accounts. Because of the complexity of the formal financial statements, it is helpful to provide a brief explanation of the Council's financial activities for 2012/2013 in 'plain English', although the use of some technical terms is unavoidable. This section compares budgets with actual income and expenditure for the General Fund and Housing Revenue Accounts. It also gives details of:

- Capital Expenditure in the year - total value £8.3m, the majority of which (£6.3m) was in respect of Council's HRA Housing Investment Programme, including the purchase of The Crest, Newhaven.
- amounts held in balances at 31 March 2013 - total value £6.1m
- amounts held in earmarked reserves at 31 March 2013 – total value £10.4m, an increase of £0.5m compared with the previous year.

This section ends by outlining the financial challenges that face the Council in 2013/2014.

### 2. Movement in Reserves Statement (pages 13 to 14)

This Statement shows:

- the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those the Council can apply to fund expenditure or reduce local taxation) and other reserves. The deficit on the provision of services (£0.022m in 2012/2013) shows the true economic cost of providing services, more details of which are shown in the Comprehensive Income and Expenditure Statement.
- that reversing adjustments (£3.423m in 2012/2013) are made through the accounts to ensure that technical accounting entries have no impact on the basis under which the General Fund and Housing Revenue Account are funded (Council Tax, rents, grants, etc).
- the balances held by the General Fund (£2.679m), Housing Revenue Account (£3.467m) and in earmarked reserves (£10.052m) at 31 March 2013.

### 3. Comprehensive Income and Expenditure Statement (page 15)

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation in accordance with regulations. There are three sections:

- the first section provides information on the cost of operating all of the Council's services, including housing, net of specific grants and income from fees and charges. The service categories used are in accordance with accounting guidance, rather than the Council's own 'portfolios'. The net cost of services in 2012/2013 was £10.413m. The comparative figures for 2011/2012 include an exceptional payment of £56.673m to the Government in respect of the introduction of self-financing for housing.
- the second section comprises items of income and expenditure relating to the Council as a whole and not to any individual service. This includes income from the Council Tax. After taking these items into account the overall 'deficit' on the provision of services in 2012/2013 reduces to £0.022m.
- the third section introduces other items that have contributed to the movement in the net worth of the Council (ie the total value of its assets less its liabilities). The total of this 'other income and expenditure' in 2012/2013 was a net cost of £3.248m, mainly comprising actuarial losses in respect of the Pension Fund.

The combination of all three sections in the Statement shows that the total value of comprehensive income and expenditure in the year on an accounting rather than funding basis, was £3.270m.

#### **4. Balance Sheet (pages 16 to 17)**

This provides a snapshot of the Council's financial position as at 31 March 2013 and includes the General Fund and Housing Revenue Account balances. It sets out what the Council owns, owes and is owed at that point in time, along with details of its balances and reserves.

Significant items are:

- Property, Plant and Equipment – valued at £199.569m. The Council commissions a complete independent valuation of its property assets every five years (different cycles apply to General Fund and HRA property), with the valuer also carrying out a 'desk-top' review annually to ensure that the impact of significant changes in the property market are reflected fairly in the Balance Sheet. When valuing Council-owned housing, the valuer takes into account the fact that each house or flat is being used as social housing and applies a 'discount factor' against the open-market value.
- Heritage Assets – the value of these assets, which the Council holds principally for their contribution to knowledge and culture, was identified for the first time in the 2011/2012 accounts. At 31 March 2013 the net value of these assets was £3.137m.
- Short Term Investments - £7.090m. This excludes the residual amount of the Council's deposit with the Icelandic bank, Landsbanki Islands hf, which is shown as a Long Term Investment because repayments are likely to be phased over a number of years.
- Short Term Debtors - £3.280m. This includes amounts owed by Government departments (grant payments, monthly VAT

reimbursement, etc), as well as individuals (sundry debtors, council taxpayers, housing tenants)

- Cash and Cash Equivalents - £5.644m debit balance. This contrasts with the position at the end of the previous year when the need to account for significant payments in transit had resulted in an overall overdrawn (credit) balance recorded in the 2011/2012 Balance Sheet.
- Short Term Creditors - £5.583m. This includes amounts owed to Government departments and other local authorities as well as suppliers and contractors
- Long Term Borrowing - £56.673m. The amount of long-term borrowing remained unchanged through the year. The debt portfolio had been established at the end of 2011/2012 in response to the housing finance reform, and there was no reason to move away from that position in 2012/2013.
- Defined Pension Liability - £16.978m. This is the future liability to pay pensions to employees netted down by the value of assets held in the pension fund. The liability has increased by £3.049m in 2012/2013 primarily as a result of financial assumptions (for example future discount rates) made by the actuary at 31 March 2013 being less favourable than a year previously.
- Total Usable Reserves - £20.737m. Over the course of the year, £3.401m was added to reserves in net terms. This includes £1.487m Government grant in respect of implementing the Food Waste Scheme which was received before the year end pending use in 2013/2014.

## **5. Cash Flow Statement (page 18)**

This summarises the total receipts and payments of cash arising from the Council's activities in the year ie it excludes amounts which the Council owes but has not yet paid and is owed but has not yet received.

## **6. Notes to the Financial Statements (pages 19 to 106)**

These explain the significant items within each of the core elements along with an explanation of the accounting policies that were followed when compiling and presenting the Accounts.

## **7. Housing Revenue Account and supporting notes (pages 107 to 115)**

This statutory 'ring-fenced' account reports for the year on the management of the Council's housing stock. It shows the major elements of housing running costs: maintenance (£3.418m in 2012/2013), management (£2.740m), interest paid on borrowing (£1.880m) and how these are met by rents (£13.933m), service charges (£1.054m) and other income (£0.342m). After allowing for capital expenditure funded from the HRA in the year (£1.189m) and setting aside funds for the future repayment of borrowing (£0.584m), the 'true' position on the HRA was a surplus of £0.729m in the year.

## **8. Collection Fund Statement and supporting notes (pages 116 to 118)**

This shows the Council's transactions in relation to the collection of non-domestic rates (£23.056m) and council tax (£64.101m), and their payment over to the Government and 'precepting authorities' of East Sussex County Council (£44.793m), Sussex Police Authority (£5.353m), East Sussex Fire Authority (£3.166m) and Lewes District Council (£10.298m).

## **9. Statement of Responsibilities for the Statement of Accounts (page 119)**

This explains the responsibilities of the Council and the Director of Finance in respect of the management and reporting of financial affairs.

## **10. Independent Auditor's Report (pages 120 to 122)**

As set out in BDO's report to this meeting of the Audit and Standards Committee, this explains the scope of BDO's audit and carries the auditor's formal certificate.

## **11. Annual Governance Statement (AGS) (pages 123 to 130)**

The Accounts and Audit Regulations require the AGS to 'accompany' the formal Statement of Accounts. It should be noted that it is not covered by the Independent Auditor's Report.

## **12. Glossary (pages 131 to 139)**

Definitions of terms which appear in the Annual Financial Report.