

## Leicester City Council Audit & Risk Committee

Introduction to the Statement of  
Accounts  
July 2014

## Agenda

- Structure & principles
- How the accounts differ from the Outturn
- Explanatory Foreword
- A brief explanation of double entry accounting
- Movement in Reserves Statement and Income & Expenditure Statement
- Balance Sheet
- Governance notes
- Questions and feedback

## Structure & Principles

- Narrative foreword
- Core Statements (Balance Sheet, Income & Expenditure Statement (I&E), Movement in Reserves Statement (MIRS), Cashflow)
- Notes supporting the core statements
- Other notes – governance & disclosure
- International Financial Reporting Standards (IFRS) – what does this mean?
  - Full accounting position, like a company
  - All values shown per accounting standards
  - Accruals accounting, not cash

## Structure & Principles

- What is accruals accounting?
  - Matching income and expenditure to time period when goods & services provided
  - Reflecting liabilities when they emerge, not when they happen
  - Reflecting assets only when confident of their existence

## Structure & Principles

- IFRS tries to show the full extent of income, expenditure, assets and liabilities required for the user to have a materially correct understanding
- What is 'materiality'?
  - A judgement about what really matters for the accounts to be correct
  - Material by size or by importance
  - Materially correct means that errors would not affect the judgements you make based on the accounts

## Structure & Principles

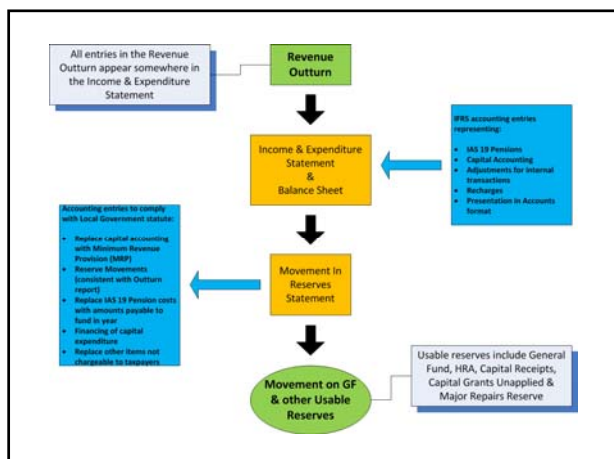
- The accounts are prepared on an IFRS basis but there are several departures under Local Authority legislation. The most significant are:
  - Capital
  - Pensions
  - Financial Instruments (e.g. investments)
  - Collection Fund

## Structures & Principles

- Local government has specific rules on capital
- Capital funding is restricted
  - Ring-fenced capital funding including capital receipts – we can't use capital funding, or sell things, to fund ongoing operations
  - We must treat expenditure as capital if its ultimate purpose is capital even if it does not create an asset for the Council
- Minimum Revenue Provision (& voluntary set aside)

## How the accounts differ from the Revenue & Capital Outturn

- Revenue
  - Outturn shows position against budget
  - Corollary in the accounts is the movement on the General Fund
  - Items not in Revenue Outturn
    - Impact of accounting for capital assets, grants, financing
    - IAS19 Pensions
    - Internal recharges to show total cost
    - No material impact on General Fund



## How the accounts differ from the Revenue & Capital Outturn

- Capital Outturn focuses on spending by scheme, compared to budget and planned spend profile
- Accounts focus on the value of assets under accounting standards and revenue impact of changes in these values
  - Depreciation
  - Gain/loss on disposal
  - Impairment
  - Revaluation
- No link of comparable simplicity to Revenue Outturn & movement on General Fund

## Explanatory Foreword

- Management's narrative explanation of key elements of the Statement of Accounts
- Aims to highlight the things members need to know about and give an overview of the financial position
- CIPFA keen that this section is promoted as useful to users - feedback welcome!

## Introduction to Double Entry Accounting

- Every entry has two sides
- Every item is either
  - Asset (Dr): something we own or someone owes us
  - Expenditure (Dr): something we have spent
  - Income (Cr): something we have earned
  - Liability (Cr): something we owe someone
- Debit entries are positive, Credit entries are negative
  - Assets + Expenditure + Liabilities + Income = 0
  - Assets = Liabilities + Capital (liability to owner)

## Introduction to Double Entry Accounting

- Double entry means that we illustrate (to the best of our knowledge) the real underlying financial position
  - Accruals
  - Provisions
  - Long term liabilities
  - Movements on asset values & consumption of economic benefits of assets
- Many public sectors still use cash accounting and this does not give the same level of assurance

## MIRS and I&E Statement

- For a company, the I&E would be the key statement for users of the accounts
- For a Council, the I&E is more complex – the judgements within it are important, but final statement is more obtuse
- MIRS represents the ‘real’ bottom line impact for the Council (per statutory rules)
- Notes 7, 8, 23 & 24 support the MIRS

### Comprehensive Income & Expenditure Statement

- Net Cost of Services £296m
- Oth Operating Expenditure
  - Gain/loss on disposal
- Financing & Investment
  - Interest paid/recvd
  - Surplus on trading
  - Pensions interest cost
- Taxation & Non-specific grants
  - CT & NNDR
  - Capital grants
  - Government grants
- Surplus on Provision of Services of £81.7m
- Other Comprehensive I&E - £94.3m

Name	2013/14		2012/13
	Service Exp £000	Revenue £000	
Control Services to the Public	13,679	(8,306)	4,373
Cultural and Recreational Services	40,887	(17,703)	23,184
Environmental and Regulatory Services	32,954	(15,205)	17,749
Planning and Development Services	14,171	(15,434)	1,263
Education and Children's Services	417,993	(327,144)	90,849
Highways and Transport Services	32,282	(17,974)	14,308
Local Authority Housing (LHA)	42,193	(89,867)	(47,674)
Other Housing	152,648	(143,434)	9,214
Health Social Care	442,536	(442,642)	(106)
Public Health	23,726	(20,021)	3,705
Corporate and Commercial Core	13,729	(1,866)	11,863
Non-Distributed Costs	23,347	(3,091)	20,256
<b>Cost of Services</b>	<b>877,828</b>	<b>(687,044)</b>	<b>190,784</b>
Other Operating Expenditure		(10,003)	
Financing and Investment Income and Expenditure	18	37,384	
Surplus or Deficit of Discontinued Operations		-	
Taxation and Non-Specific Grant Income	11	(403,478)	
(Surplus) or Deficit on Provision of Services			(81,741)
Assets and Joint Ventures Accounted for on an Equity Basis - Authority share of results of operations and joint ventures			
Tax Provision - Corporation Tax Payable			(81,741)
(Surplus) or Deficit on Realisation of Property, Plant and Equipment Assets	24	(42,205)	
Surplus or Deficit on Realisation of Available for Sale Financial Assets			
Measurement of the Net Defined Benefit Liability	47	130,003	
Other Gains/Losses			
Other Comprehensive Income & Expenditure			84,344
<b>Total Comprehensive Income &amp; Expenditure</b>			<b>12,803</b>

### Movement in Reserves Statement

- £1.78m increase in General Fund
- General Fund Balance is £25.94m – consistent with Revenue Outturn report
- S151 officer has to have regard to this
- £1.7m net decrease in earmarked reserves
- £6.7m increase in HRA balance
- £8.9m increase in capital receipts reserve
- Capital Grants Unapplied – accounting treatment, not new resource!

	General Fund Balance (Reserves)	Earmarked Reserves	Housing Revenue Account	Major Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31st March 2013 brought forward	(24,183)	(194,281)	(7,744)	(1,200)	(20,118)	-	(207,487)	(88,410)	(1,193,190)
Movement in Reserves during 2013/14									
Transfer on disposal of provision of services	(43,120)	-	(13,410)	-	-	-	(56,530)	-	(56,530)
Other Comprehensive Income and Income								34,334	34,334
Total Comprehensive Income and Income	(43,120)	-	(13,410)	-	-	-	(56,530)	34,334	(12,606)
Adjustments between Accounting books & Funding Items and regulations	76,367	-	12,891	-	(8,927)	(27,336)	2,995	(2,995)	-
Net (Increase)/Decrease before Transfer to Special Reserves	(66,853)	-	(6,519)	-	(8,927)	(27,336)	(103,635)	31,339	(72,296)
Transfer to Special Reserves	3,281	1,357	-	-	-	-	4,638	(3,281)	-
Net (Increase)/Decrease in Reserves	(63,572)	1,357	(6,519)	-	(8,927)	(27,336)	(98,997)	28,058	(70,939)
Balance at 31st March 2014 carried forward	(28,840)	(192,924)	(14,463)	(1,200)	(29,045)	(28,487)	(208,475)	(59,352)	(1,193,429)

### Balance Sheet

- Top half represents assets and liabilities – net assets of £1,180m
- Bottom half represents financing of these assets
  - Increases in
    - Asset values £104m
    - Cash £44m
    - Pension liability £(163)m
    - PFI liability £(41)m
    - Usable Reserves £73m
    - Provisions £(5)m
  - Decreases in
    - Overdraft £11m
    - Capital grants RIA £26m
    - Unusable reserves £86m

31st March 2012	31st March 2013		Note	31st March 2014
£000	£000			£000
1,896,900	1,873,738	Property, Plant & Equipment	12	1,959,745
50,299	74,844	Heritage Assets	51	80,500
1,101	1,250	Intangible Assets	14	1,691
8,274	8,274	Long Term Investments	15	7,785
307	359	Long Term Debtors	18	2,780
<b>1,956,871</b>	<b>1,998,473</b>	<b>Long Term Assets</b>		<b>2,052,601</b>
50,106	104,365	Short Term Investments	15	116,159
14,775	4,312	Assets Held For Sale (<1 year)	20	19,359
3,909	3,423	Inventories	19	2,953
49,919	56,814	Short Term Debtors	18	53,436
50,588	41,650	Cash and Cash Equivalents	19	65,445
<b>178,188</b>	<b>210,464</b>	<b>Current Assets</b>		<b>277,352</b>
(41,208)	(29,544)	Bank Overdraft	19	(18,329)
(16,853)	(3,611)	Short Term Borrowing	15	(3,510)
(120,227)	(119,458)	Short Term Creditors	21	(125,294)
(8,723)	(4,600)	Provisions (<1 year)	32	(8,003)
<b>(182,554)</b>	<b>(157,222)</b>	<b>Current Liabilities</b>		<b>(143,096)</b>
(9,504)	(10,259)	Provisions (>1 year)	22	(13,361)
(245,135)	(244,314)	Long Term Borrowing	15	(243,108)
(415,296)	(520,586)	Other Long Term Liabilities	15	(722,217)
(13,743)	(43,474)	Capital Grants Deposits in Advance	36	(17,900)
<b>(701,638)</b>	<b>(818,616)</b>	<b>Long Term Liabilities</b>		<b>(994,586)</b>
<b>1,250,874</b>	<b>1,180,100</b>	<b>Net Assets</b>		<b>1,180,497</b>
164,293	207,487	Represented by:		
1,086,581	985,613	Usable Reserves	23	280,687
		Unusable Reserves	24	899,810
<b>1,250,874</b>	<b>1,180,100</b>	<b>Total Reserves</b>		<b>1,180,497</b>

## Governance notes

- Notes 3-6 set out estimations, judgements and events affecting the accounts
- Notes 22, 48 & 49 cover provisions and contingent assets & liabilities
- Notes 34, 35 & 45 – remuneration
- Note 39 – related parties
- Notes 46 & 47 – pensions

Any questions or feedback?

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