

## 2015/16 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 2015/16 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 Narrative Statement to the 2015/16 Statement of Accounts that provides more analysis on financial performance in 2015/16.

### 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 2015/16 County Council Statement of Accounts:

- In overall terms, revenue spending was in line with the Council's budget of £325 million. General balances at the end of the 2015/16 financial year will remain at £13 million, which is consistent with the Medium Term Financial Plan approved by Full Council in February 2016.
- Capital investment of £141.7 million has been made.

#### A break even compared to the cash limited budgets

2.2. The Statement of Accounts show an accounting deficit of £24.8 million within which the County Council was in line with the cash limited net budget of £325 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 2015/16.

**Table 1: General Fund Balance reconciliation**

	£ million	£ million
<b>General Fund Balance as at 31 March 2015</b>		<b>13.0</b>
Deficit on provision of services		(24.8)
Adjustments between accounting basis and funding basis		
Capital adjustments	1.2	
Pensions adjustments	16.4	
Other adjustments	(1.1)	16.5
Transfer from earmarked reserves		8.3
<b>General Fund balance at 31 March 2016</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 decreased by £3.6 million to £94.0 million.
- 2.6. Specifically the following movements occurred in the 2015/16 financial year:-
- Schools balances have increased by £1.3 million to £18.1 million. These reserves are maintained at the discretion of school governing bodies.
  - Directorate reserves have decreased by £1.0 million to £8.7 million. This represents between year flexibility to carry forward funding for specific initiatives.
  - Insurance reserves have increased by £0.6 million to £7.3 million and remain sufficient to meet insurance excesses and uninsured losses.
  - PFI grant reserves have decreased by £3.9 million to £14.7 million and are held to support future expenditure on PFI schemes.
  - Future capital investment reserve has decreased by £0.2 million to £5.1 million and is retained to preserve funding for existing projects in future years.
- 2.7. Revenue grants unapplied reserves have decreased by £4.4 million from £19.4 million to £15.0 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) increased by 1.4% to £821 million. New capital investment on PPE totalled £141.7 million. This is expanded upon in the table below together with the source of funds.

**Table 2: Capital expenditure summary**

	£ million
Schools	19.3
Transport Infrastructure	35.9
Energy from Waste loan Facility	54.5
Other	32.0
<b>Total</b>	<b>141.7</b>
Financed by:	
Applied contributions from revenue budgets	6.1
Prudential Borrowing	76.1
Capital Receipts	3.7
Capital Grant and Contributions from 3 <sup>rd</sup> parties	55.8
<b>Total</b>	<b>141.7</b>

- 2.9. The County Council derecognised £12.9 million of assets due to school buildings being transferred to newly established academy schools in 2015/16.

### External Borrowing

- 2.10. The Council's external borrowing has increased by £77.4 million to £338.7 million. The average rate of interest payable on long term borrowing was 3.95% for the year (4.29% 2014/15). 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**

	2015/16	2014/15	2013/14	2012/13
External Borrowing (£ million)	338.7	272.6	243.3	248.0
Income from Taxation (£ million)	326.3	336.5	339.0	331.3
Ratio	1.0	0.8	0.7	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. The ability for the County Council to use internal balances is diminishing as the County Council is starting 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 2016 compared to the equivalent position as at 31 March 2015.

**Table 4: Maturity Profile of external debt as at 31 March 2016**

	£ million	% of portfolio	£ million	% of portfolio
	As at 31 March 2016		As at 31 March 2015	
Within 1 year	40.3	11.9	40.6	15.5
1 – 2 years	27.7	8.2	25.9	9.9
2 – 5 years	21.7	6.4	16.6	6.4
5 -10 years	47.9	14.1	40.8	15.6
10 years and over	201.1	59.4	137.4	52.6
Total	338.7	-	261.3	-

### Other Long Term Assets

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

- Long term investments

The Council has 957,103 P1 preference shares and 6190 P2 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 £2.9 million measured at fair value (2014/15 £4.4 million measured at historic cost).

The County Council has purchased £0.1m of equity shares in the Municipal Bonds Agency UK .

- Long term debtors

The County Council is providing part of the Project finance to build the Energy for Waste Plant a variation to the Waste PFI. The loan is currently £76.4m within total long term debtors of £80.0 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 £115.9 million are less than its current liabilities of £139.0 million, a ratio of 0.8:1, in line with last year. The table below sets out the liquidity ratio over the recent past.

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

<b>£ millions</b>	<b>2015/16</b>	<b>2014/15</b>	<b>2013/14</b>	<b>2012/13</b>
Current Assets	115.9	114.6	128.2	136.4
Current Liabilities	139.0	147.3	144.4	137.0
Liquidity Ratio	0.83	0.78	0.89	1.0

### Debtors

- 2.15. Short Term debtors have reduced by £11.5 million to £40.4 million. The debtors figure is net of a bad debt provision of £5.7 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 (£1.1 million) and £4.6 million relating to the Council's proportion of the billing authorities council tax bad debt provision.
- 2.16. Trade debtors as a percentage of total debtors have reduced from 56% to 42% (£16.8 million). Other debtors relate mainly to other Local Authorities or Government Departments.

### Investments

- 2.17. 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 £2.5 million to £45.0 million over the year.
- 2.18. The average rate earned on investments was 0.41% for the year (0.38% in 2013/14).

### Creditors

- 2.19. Creditors have reduced by £6.8 million to £98 million. Trade creditors as a percentage of total creditors increased from 56% to 59% (£57.8 million).

### Provisions

- 2.20. Provisions of £2.0 million (£3.0 million in 2014/15) have been included in the accounts to allow for staff redundancy costs resulting from restructuring of £1.4 million, and various smaller provisions totalling £0.6 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 2015/16 County Council Statement of Accounts:

- **Movement in Net Assets**

The Pension Fund's Net Assets decreased by 1.8% (£35 million) to £1.95 billion. This included the addition of £38.1 million of investment income (£40.8 million in 2014/15) along with £(73.6) million profit and losses on disposal of investments and changes on the market value of investments.

- **Movement in Net Surplus / Deficit**

During the year a surplus resulted on the Pension Fund account totalling for 2015/16 £38.6 million, an increase of £49.7 million from the deficit of £11.1 million for 2014/15. A group transfer out of the Probation Service to the Greater Manchester Pension Fund of £52.3million took place in February 2015 due to the national restructuring of the National Offender Management Service, without which a surplus of £41.2 million would have resulted on the pension fund account for 2014/15.

- **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.