



PAPER D

Purpose: For Decision

Committee report

Committee	AUDIT COMMITTEE
Date	25 JUNE 2015
Title	DRAFT OUTTURN STATEMENTS 2014/15
Report of/to	HEAD OF FINANCE AND S151 OFFICER

EXECUTIVE SUMMARY

1. The Accounts and Audit (England) Regulations 2011 require approval of the Statement of Accounts by the council sitting as a whole, or by a committee with delegated powers to make such a decision, no later than 30 September each year. This is to allow members to be made aware of the findings of the annual audit of the accounts and to enable a better informed decision to be made before approving the accounts for publication. The Isle of Wight Council has delegated this authority to the Audit Committee.
2. However, it is viewed as good practice to provide members of the Audit Committee with early notification of the financial results for the previous financial year. This allows members to consider the council's draft outturn and financial position at the end of the 2014/15 financial year and to seek clarification of any significant issues arising as a result. Having given due consideration to the report, and any explanations provided, members are asked to approve the council's draft financial position at 31 March 2015 and supporting appendices, pending conclusion of the annual audit process and approval of the full Statement of Accounts for publication during September 2015.
3. As part of the approval process, members are also asked to approve any significant changes to accounting policies that have taken place during 2014/15.

BACKGROUND

4. The report sets out the council's draft financial position at 31 March 2015 and supporting appendices, including relevant management accounting information. The financial accounts are still subject to the annual external audit process.

5. It is not appropriate for the Executive to approve the council's accounts each year as they are required to be approved by a committee which has proportionate representation in accordance with the political make-up of the council. Authority has been delegated to the Audit Committee to approve the accounts on behalf of the council.
6. The Accounts and Audit (England) Regulations 2011 require approval and publication of the full Statement of Accounts no later than 30 September each year which allows members to be made aware of the findings of the annual audit of the accounts, and to consider the external auditor's annual governance report, prior to approving the accounts for publication. A report seeking approval of the full Statement of Accounts by members will be submitted at the meeting in September 2015.
7. The regulations require the responsible finance officer to sign and date the draft Statement of Accounts no later than 30 June each year. This report is therefore asking members to approve the draft outturn statements which is deemed to be good practice although not a statutory requirement. It is also deemed to be good practice for members to note and approve any significant changes to accounting policies during the year.

STRATEGIC CONTEXT

8. Approval of the council's draft outturn statements, and the overall stewardship of public funds, form an integral part of the council's corporate governance framework and make a positive contribution towards the achievement of the corporate priority 'Ensuring that all the resources available to the Island are used in the most effective way in achieving the Island's priorities' within the council's Corporate Plan 2015 to 2017 which was approved by Full Council on 1 April 2015. However, there is a need for regular review of the corporate priorities and Medium Term Financial Strategy to ensure the key priorities of the council continue to be deliverable within the reduced resources available to the council, and consistent with the expected outcomes set out in the Corporate Plan.

ACCOUNTING POLICIES

9. Accounting policies are defined as 'the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements'. The council's significant accounting policies are reviewed on an annual basis to take account of any changes and presented as notes to the accounts within the Statement of Accounts.
10. On this occasion there have been only minimal changes to the council's accounting policies applied in preparing the draft 2014/15 Statement of Accounts compared to those applied in preparing the 2013/14 Statement of Accounts.

11. The full list of 2014/15 accounting policies will be presented to the Audit Committee as part of the final Statement of Accounts following completion of the external audit in September 2015.

2014/15 DRAFT OUTTURN STATEMENTS - PERFORMANCE

12. Appendix 1 shows the management accounting position at the year-end which identifies that the council had a net saving compared to budget at the year-end of £0.241 million. This represents the draft outturn position after allowing carry forward requests of £0.336 million, and after allowing for the carry forward of grants and contributions and slippage to meet commitments in 2015/16. Further details of the various carry over arrangements are set out in paragraphs 17 to 20 of the report
13. The 2014/15 overall revenue budget monitoring position was reported to the Executive on a regular basis during the financial year, and included in the report to council on 25 February 2015 on the Medium Term Budget Strategy. The report to council identified that based on the monitoring position for quarter 3 pressures in adult social care, waste management and concessionary fares were likely to lead to a net overspend of £2.4 million, but were offset by savings in other budget areas leading to a net forecast overspend of £1.3 million. However it was still hoped that the budget would be in balance at the year end. As can be seen from Appendix 1 the position had improved by the year end to the extent that there is an overall net saving of £0.241 million. It is proposed that saving is retained in the General Fund to assist the budget position in 2015/16. That means the General Fund balance at the year-end will increase from £7.310 million to £7.551 million which represents a positive outcome for the council given some of the budget pressures managed during the financial year.

REVENUE BUDGET PERFORMANCE

14. Details of the revenue outturn position, including budget, actual spend, and the net position for each service area, are set out in Appendix 1. After applying the full amount of year end carry forward adjustments the overall net expenditure is £0.241 million lower than anticipated in the revised budget.
15. This represents a very positive outcome for the council based on a net revenue budget of £131.0 million. It is a particularly good result when considering the fact that the council had to achieve net savings of £5.9 million during the year following reductions in government funding and while allowing continued investment in key priorities to deliver outcomes, and managing demographic pressures in adult services. Strong financial management and control measures in place across all service areas, including the Authorisation Panel, Service and Budget Review Steering Group (and its replacement the Joint Executive/CMT Board) and Procurement Board have all contributed to the achievement of a net saving of £0.241 million at the year end.
16. One of the key risks identified by the external auditors in their Audit Plan presented to members of the Audit Committee on 19 May 2015 related to

Firefighter Pension Scheme ill-health benefits. This is a national issue, not one restricted to the Isle of Wight Firefighters Pension Scheme, and as a result of a review of charging arrangements during February 2015 it was identified that payments in respect of 11 retained firefighters, who were not members of the pension scheme but were eligible for a pension payment as a result of ill-health retirement, had been charged to the Firefighters Pension Scheme rather than the revenue account. The calculated value of these charges over a period of years is £0.611 million, adjustments have been made in the accounts to reflect these charges and correspondence with the Department for Communities and Local Government is ongoing.

17. The key components of the net saving are as follows:

- Net overspend of £1.783 million on adult social care, main pressures in residential care, homecare and nursing care offset by savings in personal budgets and independent living budgets
- Net overspend of £0.760 million on procurement and contract management, in particular on the waste management contract and concessionary fares budgets
- Net overspend of £0.457 million on highways and coastal management, in particular under-recovery of income from highways and costs incurred outside the Highways PFI contract, with a smaller overspend on coastal repairs and maintenance
- Net saving of £0.865 million on children's services including residential care and adoption, education participation, 14 to 19 education, school improvement and education welfare, offset by an overspend on Home to School transport
- Net saving of £0.546 million on planning and regulatory services, planning policy, supporting people and homelessness
- Net saving of £0.227 million on support services including finance, human resources, shared services and ICT
- Net saving of £1.215 million on corporate budgets, capital financing and vacancy management
- Net saving of £0.209 million on the strengthening families programme
- Net saving of £0.180 million on managing director, corporate governance and democratic services, and economic development and asset management

CARRY FORWARD OF BUDGETS INTO 2015/16

18. Following the implementation of International Financial Reporting Standards there was a change in the accounting treatment of grants and contributions which has an impact of the carryover arrangements for the council, and also the amount included in reserves and balances. Under the previous accounting standards any grants and contributions not applied in year would be held as a receipt in advance on the balance sheet and then applied to expenditure in subsequent years as incurred with a view to matching grants and contributions to expenditure. That accounting treatment still applies where specific conditions are attached to grants and contributions, and also if there is a possibility that the amount may have to be repaid if the conditions are not fulfilled. However,

where grants and contributions have no conditions attached they must be treated as income in the year of receipt, irrespective of when they were received and in which year the funding will be applied. If they are to be applied in a subsequent financial year they must be transferred to an earmarked reserve and carried forward to the following year.

19. During closure of the 2014/15 accounts £0.391 million of grants and contributions was transferred to an earmarked reserve for this purpose, mainly related to special educational needs and flood prevention planning. This figure is significantly reduced when compared to previous years, and reflects the fact that a number of grants and contributions have been transferred into specific earmarked reserves as they are required to support the integration of health and social care services, including the Better Care Fund and My Life a Full Life programme. Details of the grants and contributions carried forward are set out in Appendix 2.
20. Every year there are a number of service areas and project budgets where costs span more than one financial year and arrangements are put in place to carry forward budgets from one year to the next to meet commitments in the following year. Once the carryover is put in place via an earmarked reserve the budgets will then be added to the service budget for one year only, and spend monitored as part of the standard budget monitoring processes of the council. On this occasion the slippage of expenditure from 2014/15 into 2015/16 amounts to £0.109 million. The most significant carry forward budget is to support the pre-apprentice scheme. Details are also set out in Appendix 2.
21. Similarly, each year there are a number of service areas where budget underspends/savings have been managed and carryover requests are made to fund costs to be incurred in the subsequent financial year, usually linked to investment in corporate priorities. On this occasion the total of such requests approved for carry forward has been limited to £0.336 million, largely to fund the redesign of the participation team in August 2015 (£0.082 million), the recruitment and training of foster carers (£0.077 million), fire service training requirements (£0.030 million) and ICT developments (£0.055 million). Details are set out in Appendix 2. Given the overall budget position of the council, if any of the budgets are not used for the purposes intended then they will be transferred to corporate resources.

CAPITAL BUDGET PERFORMANCE

22. Appendix 3 shows the outturn position in terms of capital expenditure for 2014/15. The council began the year with a less ambitious programme of capital investment projects than in previous years, and which was subject to significant reprofiling during the year. This reprofiling of the capital programme is intended to allow for more accurate monitoring of progress in delivering approved capital projects. At the end of quarter 3 it was anticipated that the capital programme would achieve spend of £17.7 million by the end of the year based on profiled budgets, with a number of projects slipped into 2015/16.

23. By the time the accounts for 2014/15 were closed the council had delivered £12.0 million of capital investment in year, equivalent to 67 per cent of the reprofiled budget. This is significantly lower than previous years and reflects the fact that the capital programme is much smaller in overall terms with many of the larger build projects being complete or in the final stages of completion. It also reflects the fact that investment in highways infrastructure projects is now contained within the Highways PFI contract rather than the capital programme.

RESERVES AND BALANCES

24. The year-end position for reserves and balances is outlined at Appendix 4. There are a number of factors that have led to the change in the year end position from that assumed in the budget. A significant part of the change relates to amounts to be carried forward from 2014/15 into 2015/16 which are transferred to a specific earmarked reserve (£0.835 million in total). There are also significant changes as a result of the requirement to provide specific earmarked reserves for the Highways PFI contract and public health. The net revenue saving of £0.241 million referred to in paragraph 13 of the report is included within the figure for the General Fund balance.
25. Earmarked reserves include specific reserves the council is required to maintain, such as the Licensing Account and the Elections Account; reserves to support specific projects such as the job evaluation project; reserves which support the costs of organisational change; and reserves which support the delivery of corporate priorities including waste project procurement, NHS support for social care and strengthening families. Other significant amounts set aside to meet future costs include a general redundancy reserve (£0.707 million), a teachers redundancy reserve (£0.481 million) where the costs fall to be met from the General Fund from April 2013, and a reserve to cover any costs arising from the recent changes to the localised council tax benefit and business rates schemes, including spreading the cost of backdated national non domestic rates appeals over four years in accordance with recent legislation.
26. As explained in paragraph 18 there are a number of specific reserves set aside for the integration of health and social care services, including Section 256 agreements between the council and NHS Trust/Clinical Commissioning Group, the Better Care Fund and My Life a Full Life programme. These reserves amount to some £4.9 million.

CONSULTATION

27. The Accounts and Audit (England) Regulations 2011 require the council's accounts and accounting records to be available for inspection by members of the public for a period of 20 working days. For 2014-15 the accounts and supporting records will be open for inspection throughout the period from Monday 20 July to Friday 14 August 2015.
28. The Corporate Management Team has been consulted on a regular basis with the financial information contained within this report, in particular through draft

outturn reports by the head of finance and Section 151 officer, and on the arrangements for the carry forward of budgets into 2015/16, particularly external grants and funding and slippage, as part of the closing entries for 2014/15. The Scrutiny Committee Budget Task and Finish Group has also been fully consulted on the arrangements for the carry forward of budgets into 2015/16 and the amount of reserves and balances at the year end.

29. As far as the content of the appendices to this report are concerned, the managing director and heads of service receive regular budget monitoring reports during the year at service boards providing up to date financial information and identifying potential budget pressure areas and options for dealing with them. Financial management information is also an integral part of internal management reports which consider performance, risk and finance in-year; such information is then included within quarterly reports to the Executive and is also considered by Scrutiny Committee. An overview of the council's financial position and progress with achieving the savings set out in the budget strategy is also provided to and considered by the Service and Budget Review Steering Group (and its replacement the Joint Executive/CMT Board) on a regular basis during the financial year.

FINANCIAL / BUDGET IMPLICATIONS

30. The financial information included in this report is collected and monitored internally on a monthly basis. Summary financial information is also provided on a quarterly basis to the Executive and Scrutiny Committee as an integral part of the quarterly performance, risk and finance reporting framework. However, as an annual process, it is necessary to produce financial information in this format to comply with external reporting requirements, codes of practice and the specific requirements of the Accounts and Audit (England) Regulations 2011.
31. A number of key budget areas have ongoing budget requirements as a result of changing demographics which have been addressed through the council's medium term financial plan, in particular those relating to adult social care. In addition the council has invested a significant amount of resources in children's services to improve outcomes for children, delivered through the strategic partnership arrangement with Hampshire County Council. In view of the reduced resources available to the council from central government and the need for investment in the strategic priorities set out in the corporate plan, it will be necessary to continue with robust financial control measures and consider options for service delivery to ensure the achievement of the council's savings strategy in 2015/16 and subsequent financial years.

LEGAL IMPLICATIONS

32. The Accounts and Audit (England) Regulations 2011 require approval of the Statement of Accounts by the council sitting as a whole, or by a committee with delegated powers to make such a decision, no later than 30 September each year. The regulations also require the responsible finance officer to sign and date the statement of accounts no later than 30 June.

33. Improving financial management standards, as part of the council's performance management framework, is an integral part of the Corporate Plan priority to deliver statutory duties and achieve value for money. Local authorities have a statutory duty to put in place arrangements for securing value for money and continuous improvement when providing services to local people.
34. The audit of the accounts is scheduled to commence during July 2015 and the external auditors expect to issue their report and opinion on the accounts before 30 September 2015, the statutory date for publication of the audited Statement of Accounts. As part of that process, the auditors are required to present a report including any relevant matters relating to the audit to those charged with governance under ISA 260 (International Standards on Auditing). The independent report of the external auditor will be presented to the committee during September 2015, prior to issue of their final report and audit certificate to be published with the Statement of Accounts. This will allow members of the committee to consider any issues identified during the audit prior to approving the council's Statement of Accounts for publication.

EQUALITY AND DIVERSITY

35. The council has a legal duty under the Equality Act 2010 to have due regard to issues of equality and diversity. There are no specific equality and diversity implications arising from the content of this report and approval of the council's draft outturn position and changes in accounting policies for any of the protected characteristics. However equality and diversity is an important governance issue for the council. A full equality impact assessment is in place for the council's Medium Term Budget Strategy, this report and the underlying accounting records of the council set out details of the council's financial performance during 2014/15 and financial position at 31 March 2015. The draft accounts have been compiled in accordance with the requirements of the Accounting Code of Practice and International Financial Reporting Standards.

OPTIONS

36. Options are as follows:
 - 1) Option 1 – to consider the contents of the report and the draft financial position at 31 March 2015 and seek further information and explanations of any issues requiring clarification; or
 - 2) Option 2 – having considered the contents of the report and the draft financial position at 31 March 2015, to approve the net outturn position.

RISK MANAGEMENT

37. The key risk in terms of the council's financial accounts relates to not producing and approving the council's Statement of Accounts in accordance with relevant codes of practice and financial reporting standards, and in particular the requirements of the Accounts and Audit (England) Regulations 2011. Failure to

approve the accounts in accordance with the timeframe set out in the Accounts and Audit Regulations, or to comply with external reporting requirements, would represent a potential risk to the reputation of the council.

38. The council's strategic risk register includes the following risk in terms of the resources available to the council:

Insufficient financial resources.

39. The strategic risk relates to the council's ability to deliver the revenue priorities and capital programme within budget, and the sustainability of the amounts of reserves and balances available to the council. While the risk score for 2012/13 was low, indicating a healthy financial position, it was increased during 2013/14 once details of the council's grant settlement were known, and remained high during 2014/15. The council has a significant savings target to achieve between 2015/16 and 2016/17 and the indications are that the local government sector will be asked to find further savings beyond those already included in the grant settlement. On that basis the risk rating will remain high for the foreseeable future.
40. Currently, this risk is being managed by putting in place the budget management processes of the council, including regular financial reporting and internal financial control arrangements to monitor the budget and ensure financial control standards are being met, including action plans put in place and delivered within an agreed timescale when significant variations from the approved budget are identified. Regular service board meetings for each service area and the continuation of quarterly performance, risk and finance reports for the Executive and the Scrutiny Committee are a significant factor in mitigating such risks to the financial health of the council.
41. Significant variations of service and financial plans from those included in the approved budget will be likely to have an impact on the delivery of services to local residents, and ultimately can pose a threat to the financial health of the council if the amount of reserves and balances is significantly diminished as a result.

EVALUATION

42. The budget for 2014/15 was approved by Full Council on 26 February 2014. Regular monitoring reports for performance, risk and finance have been provided to the Executive and the Scrutiny Committee throughout the year, including updates on the financial position and delivery of the budget strategy. In addition to these quarterly reports, a mid-year budget review report was made to Full Council on 17 September 2014, and regular reports on the savings strategy were presented to the Service and Budget Review Steering Group (and its successor the Joint Executive/CMT Board). A programme of robust financial control measures has been in place throughout the year, with the result that by the end of the year we were anticipating a break even position against the approved budget, despite significant budget pressures in adult social care, waste management and concessionary fares. This report sets out

the draft financial position at 31 March 2015 and shows that after allowing for the carryover of resources into 2015/16 to meet commitments in that year, the net saving at the year end is £0.241 million. Members are asked to approve the draft financial position at 31 March 2015.

RECOMMENDATION

43. Option 2 – having considered the contents of the report and the draft financial position at 31 March 2015, to approve the net outturn position.

APPENDICES ATTACHED

44. [Appendix 1](#) – Draft Revenue Outturn Summary Statement 2014/15
[Appendix 2](#) – Carry Forward Summary 2014/15
[Appendix 3](#) – Draft Capital Outturn Summary Statement 2014/15
[Appendix 4](#) – Reserves and Balances Summary at 31 March 2015

BACKGROUND PAPERS

45. [Budget Report to Council 26 February 2014](#)
[Mid-term Budget Report to Full Council 17 September 2014](#)
[Budget Report to Council 25 February 2015.](#)

Contact Point: Stuart Fraser, Head of Finance and S151 Officer ☎ 821000
e-mail stuart.fraser@iow.gov.uk

STUART FRASER
*Head of Finance and
S151 Officer*

COUNCILLOR IAN STEPHENS
Executive Member for Resources