

Briefing Paper

Local Government Expenditure and Income

April 2014

Introduction

The purpose of this briefing paper is to provide an overview and summary of local government expenditure and income. It considers local government expenditure and financing and examples from a unitary council and a district council.

Local Government Expenditure and Financing

Local Government general fund expenditure in England in the years 2010/11, 2011/12 and 2012/13 is summarised in the table below:

	2010/11 £billion	2011/12 £billion	2012/13 £billion
Education	45.3	40.2	39.3
Highways & Transport	5.7	5.4	5.3
Social Care	21.1	21.2	21.2
Housing General Fund	21.0	21.9	21.8
Cultural, Environmental & Planning	10.7	9.7	9.5
Police	11.9	11.7	11.6
Fire & Rescue	2.2	2.1	2.2
Central Services	3.6	3.3	3.6
Other	0.3 Cr	0.3 Cr	0.0
Appropriations (accumulated absences)	0.1	0.0	0.0
Total Net Current Expenditure	121.2	115.2	114.4
Capital Financing	4.1	4.6	4.3
Capital Expenditure charged to Revenue	2.6	2.9	1.7
Other non-current expenditure	4.3	4.3	4.3
Appropriations (financial instruments)	0.0	0.2 Cr	0.0
Private Finance Initiative	0.0	0.0	0.1
Less:			
Interest Receipts	0.7 Cr	0.9 Cr	0.4 Cr
Specific Grants (outside AEF*)	27.2 Cr	26.5 Cr	25.8 Cr
Business rates supplement	<u>0.2 Cr</u>	<u>0.2 Cr</u>	<u>0.2 Cr</u>
Revenue Expenditure	<u>104.3</u>	<u>99.3</u>	<u>98.4</u>

It will be noted that the major services in terms of expenditure are Education, Social Care and Housing General Fund (including Housing Benefits). Capital Financing costs represent interest paid on long-term loans taken out to fund capital expenditure. Other non-current expenditure includes Council Tax benefit, discretionary non-domestic rate relief, flood defence payments to the environment agency and bad debt provision.

The main specific grants outside aggregate external finance in 2011/12 were as follows:

	£billion
Mandatory rent allowances subsidy	14.7
Council Tax benefit subsidy	4.3
Rent rebates granted to HRA tenants subsidy	3.7
Mandatory rent rebates outside HRA	1.2
Discretionary Housing Payments	0.1
Sixth Form funding from Young People's Learning Agency	1.5
Adult & Community Learning from Skills Funding Agency	0.3
Other	0.7
Total	26.5

The first five items are re-imbursements of the cost of housing benefit payments while the latter two are funding for education projects. These grants are considered in more detail in the sections on benefits and specific services.

This expenditure was financed as follows:

	2010/11 £billion	2011/12 £billion	2012/13 £billion
Revenue Support Grant	3.1	5.9	0.4
Redistributed Non-Domestic Rates	21.5	19.0	23.1
Police Grant	<u>4.4</u>	<u>4.5</u>	<u>4.2</u>
Total Formula Grant	29.0	29.4	27.8
Specific Grants (inside AEF*)	45.8	45.5	43.5
Area Based Grant	4.4	0.0	0.0
Local Services Support Grant	0.0	0.3	0.2
General Greater London Authority Grant	<u>0.0</u>	<u>0.1</u>	<u>0.1</u>
Total Specific Grants	50.1	45.8	43.7
Appropriations from Reserves	1.3 Dr	2.6 Dr	0.0
Other Items	0.1	0.1	0.1
Council Tax	<u>26.3</u>	<u>26.5</u>	<u>26.7</u>
Total	<u>104.3</u>	<u>99.3</u>	<u>98.4</u>

*AEF = Aggregate External Finance

Most expenditure is funded by government through either formula grant or specific grants. The balance is funded through Council Tax and sometimes from reserves. Council tax is discussed further in the section on revenues. Formula Grant is also discussed further in the section on revenues and includes revenue support grant, redistributed non-domestic rates and police grant.

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The main specific grants within aggregate external finance in 2011/12 were as follows:

	£billion
Dedicated Schools Grant	32.6
Pupil Premium Grant	0.5
Early Intervention Grant	2.2
Greater London Authority Transport Grant	3.3
Learning Disability & Health Reform Grant	1.2
Housing & Council Tax Benefit Administration Subsidy	0.5
New Homes Bonus	0.2
Private Finance Initiative	0.9
Council Tax Freeze Grant	0.6
Counter Terrorism Grant	0.4
Neighbourhood Policing Fund	0.3
Other	2.8
Total	45.5

Specific grants are discussed further in the sections on benefits and specific services.

Local Government expenditure can also be analysed subjectively. Total Net Current Expenditure for 2011/12 is analysed as such below:

	£billion	£billion
Employees' costs:		
Education	29.0	
Police	10.6	
Central Services	6.0	
Adult Social Services	3.9	
Children's Social Services	2.6	
Fire & Rescue	1.7	
Cultural Services	1.6	
Environmental Services	1.6	
Highways & Transport	1.3	
Planning & Development	1.1	
Other	0.8	
Sub-Total		60.2

	£billion	£billion
Procurement:		
Education	15.8	
Adult Social Services	15.6	
Highways & Transport	6.9	
Environmental Services	5.1	
Children's Social Services	4.4	
Cultural Services	2.8	
Housing General Fund	2.6	
Police	2.2	
Planning & Development	1.6	
Other	0.6	
Sub-Total		57.6
Levies & Transfers:		
Housing General Fund (Benefits)	19.8	
Sub-Total		19.8
Income:		
Adult Social Services	4.8 Cr	
Education	4.5 Cr	
Central Services	2.9 Cr	
Highways & Transport	2.7 Cr	
Environmental Services	1.7 Cr	
Cultural Services	1.4 Cr	
Housing General Fund	1.2 Cr	
Planning & Development	1.1 Cr	
Police	1.1 Cr	
Other	1.0 Cr	
Sub-Total		22.4 Cr
Total		115.2

The £57.6billion spent on procurement can be further analysed as follows:

	£billion
External contractors	27.7
Supplies & Services	17.7
Premises related expenditure	6.7
Transport	2.8
Internal trading services	2.0
Other	0.7
Total	57.6

Key points to note include:

- Total revenue expenditure totalled £99.3billion in 2011/12, a decrease of 5% from £104.3billion in 2010/11.
- Education expenditure for 2011/12 is not comparable to previous years because a number of schools changed their status to become academies that are centrally funded rather than funded by local authorities.

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- There has been a transfer of responsibilities between local government and the National Health Service relating to adults with learning difficulties in long-stay National Health Service institutions making expenditure on adult social care not strictly comparable.
- 35% of total net current expenditure in 2011/12 was on education, 18% on social care, 17% on housing benefits and 10% on Police.
- Capital financing costs in 2011/12 were £4.6billion, compared with £3.0billion in 2007/08, an increase of over 50%.
- In 2011/12, revenue accounts financed £2.9billion of capital expenditure, compared with £1.1billion in 2007/08. The Greater London Authority accounted for almost all of the increase.
- Revenue expenditure, in cash terms, increased by 139% between 1993/94 and 2011/12. This represents a real terms increase of 61%.
- In 2011/12, about 57% of revenue expenditure was funded through government grants, 27% from Council Tax and 19% through non-domestic rates. The corresponding figures in 1993/94 were 52%, 21% and 28%. (The figures do not round due to use of balances).
- Expenditure on employees exceeds expenditure on procurement with almost half of expenditure on employees being in the Education services. Of the £29.0billion spent in Education, £18.2billion was on Teachers' salaries.
- Of the £57.6billion spent on procurement, £27.7billion was spent on contractors.

Geographical analysis of expenditure shows that:

- Revenue expenditure per head is generally highest in London and parts of the North, and lowest in Central and Southern England.
- The patterns of high revenue expenditure generally reflect high grant levels through central government finance with a lower proportion of revenue raised through Council Tax in the highest spending areas.
- The lowest levels of revenue spending are generally in the more rural areas where there is a lower level of grant and a greater proportion of expenditure is financed by Council Tax.

Councils have general fund revenue reserves of which there are three main types:

- Unallocated reserves, usually representing accumulated general fund surpluses.
- Earmarked reserves that have been set aside for a particular purpose.
- Schools' reserves that represent amounts retained by schools out of their delegated budgets. These are only available for use by the schools.

Revenue reserves can be used to provide working balances or to finance future spending. The reasons why authorities choose to hold reserves include:

- To meet unexpected calls on their resources – including the consequences of ice, snow or flooding.
- To act as a cushion against uneven cash flows to avoid the need for temporary borrowing.
- To build up resources to cover certain or probable future liabilities.

The first reason is an important part of risk management strategy. Decisions on the level of reserves to hold should follow a careful assessment of risks and how they can be mitigated.

At 31st March 2012, Councils held £4.1billion in general reserves, £12.4billion in earmarked reserves and £2.4billion in schools' reserves. Non-schools' reserves totalled £16.4billion and showed an increase of £2.2billion when compared with the previous year.

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Examples:

The range of services provided in a County Council, District Council or Unitary Council differs, so examples of the accounts of a Unitary Council and a District Council are given below. The accounts of a County Council are similar to those of a unitary authority but exclude the services that are provided at a district level.

These examples are based on the published accounts of the local authorities concerned. These are prepared on a different basis to the national statistics shown above as they need to comply with various accounting standards.

Unitary Council

Unitary Councils provide the whole range of local government services. They include London Borough Councils, Metropolitan District Councils and Unitary Councils that have been created from former two-tier areas since the 1990s. This example is a London Borough Council.

The Comprehensive Income & Expenditure statement (CIES) 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. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the movement in reserves statement. For 2012/13 it shows the following:

	Gross Expenditure £million	Income £million	Net Expenditure £million
Central	28.2	24.7	3.5
Cultural & Related	12.7	2.3	10.4
Environmental & Regulatory	19.3	3.4	16.0
Planning	9.0	3.3	5.7
Children & Education	193.0	146.8	46.2
Highways & Transport	31.9	14.4	17.5
Housing General Fund	150.9	141.5	9.4
Housing Revenue Account	10.8	29.2	18.3 Cr
Adult Social Care	74.9	18.3	56.6
Corporate & Democratic Core	10.2	0.9	9.3
Non-Distributed Costs	1.6	0.6	1.0
Cost of Services	542.6	385.4	157.2
Other Operating Expenditure	8.4	5.1	3.3
Financing & Investment	26.5	6.3	20.2
Taxation and non-specific Grant	0.0	202.9	<u>202.9 Cr</u>
Surplus on Provision of Services			22.2 Cr
Surplus on revaluation of assets			2.0 Cr
Actuarial Losses on Pensions			<u>45.8</u>
Total Deficit			21.5
Balance brought forward			<u>144.1 Cr</u>
Balance carried forward			<u>122.6 Cr</u>

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The surplus on provision of services of £22.2million includes a surplus on the housing revenue account of £12.4million and a surplus on the general fund of £9.8million.

The other operating expenditure includes the levy to the West London Waste Authority of £6.8million, levies to other bodies of £1.6million and a credit for gains on the disposal of non-current assets of £5.1million.

The Council has a number of reserves in addition to the General Fund reserve. At 31st March 2013 the balances on these reserves were as follows:

	£million
General Fund	8.6
Earmarked General Fund	17.7
Locally Managed Schools Reserve	14.4
Housing Revenue Account	3.2
Capital Receipts Reserve	3.3
Major Repairs Reserve	3.4
Capital Grants Unapplied	15.3
Total	122.6

The General Fund Reserve represents accumulated surpluses on the General Fund and is potentially available to support any General Fund expenditure. The earmarked general fund reserves have been earmarked by the Council for specific purposes. The Locally managed schools reserve represents the accumulated surpluses of schools with delegated budgets and can only be spent by those schools. The Housing Revenue Account balance represents the accumulated surpluses on the ring-fenced housing revenue account and can only be spent in the housing revenue account on services related to council housing. The Capital Receipts reserve represents unspent capital receipts that could potentially be spent on funding new capital expenditure on repaying debt. The Major Repairs reserve represents sums that have been set aside from the housing revenue account to fund future major repairs to council housing. Capital grants unapplied represent capital grants that have been received by the Council but have yet to be spent.

The Movement in Reserves Statement shows the following for the General Fund:

	£million
Surplus on Provision of Services (excluding Housing Revenue Account)	9.8 Cr
Surplus on revaluation of assets	2.0 Cr
Actuarial Losses on Pensions	45.8
Adjustments between accounting basis and funding basis	<u>43.2 Cr</u>
Net increase in balances	9.2 Cr
Transfer to Earmarked Reserves	<u>8.2</u>
Increase in General Fund balances	1.0 Cr
Balance brought forward	<u>7.6 Cr</u>
Balance carried forward	<u>8.6 Cr</u>

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The adjustments between the accounting basis and the funding basis can be further analysed as follows:

	£million
Reversal of items debited or credited to the CIES:	
Depreciation	25.3 Cr
Impairment	2.7 Cr
Revenue expenditure funded from capital under statute	2.7 Cr
Non-current assets written out at disposal	0.2 Cr
Movements in the Market Value of Investment Properties	3.4
Capital grants and contributions unapplied	14.1
Capital grants and contributions applied	<u>3.0</u>
Sub-Total	10.4 Cr
Insertion of items not debited or credited to the CIES:	
Minimum Revenue Provision	13.5
Transfer of capital receipts credited to the CIES	4.5
Less administrative cost of disposals	0.1 Cr
Capital expenditure charged to the general fund	<u>0.7</u>
Sub-Total	18.6
Other adjustments:	
Actuarial Losses	43.8 Cr
Charges made for retirement benefits (IAS19)	24.7 Cr
Employer's pension contributions payable in the year	17.6
Accumulating Compensated Absences account	0.3
Premiums and Discounts on debt restructuring	0.3 Cr
Collection Fund adjustment account	<u>0.5 Cr</u>
Sub-Total	51.4 Cr
Total	43.2 Cr

The items that have been debited to the Comprehensive Income & Expenditure Statement but are then 'reversed out' are accounting entries that are required to meet accounting standards but that legislation does not require to be charged to the general fund. Depreciation, Impairment, movements in the market value of investment properties and the write-off of non-current assets at disposal are excluded because they are book entries that do not affect cash. Revenue expenditure that is funded from capital under statute and capital grants and contributions are excluded from the statutory accounts because they are capital items.

The items that are not debited or credited to the Comprehensive Income & Expenditure Statement but are charged to the general fund are generally items of a capital nature that are accounted for on the balance sheet under accounting conventions but are charged to the general fund under legislation. They include the minimum repayment provision (repayment of debt), capital receipts (less administration costs) and capital expenditure charged to the general fund (revenue contributions to capital outlay).

Other adjustments include the treatment of pension costs. The CIES recognises the increase or reduction in the value of the Council's share of the pension fund and the charges made for retirement benefits calculated as required by International Accounting Standard Nineteen (IAS19) while the statutory general fund only recognises the cash that the Council has paid in contributions to the fund. There are also relatively minor adjustments reflecting different treatments of staff holiday entitlements, premiums and discounts paid or received when restructuring debt and in accounting for Council Tax revenues through the collection fund.

The £8.2million that was transferred to earmarked reserves included the following:

	£million
Medium Term Financial Strategy Reserve	4.8
Business Risk Reserve	1.7
Other General Fund reserves (net)	<u>0.1</u> Cr
Sub-Total	6.4
Reserves held by Schools under scheme of delegation	<u>1.8</u>
Total	<u>8.2</u>

The Council has transferred £6.5million into reserves that are designed to meet the costs of restructuring as part of the medium term financial strategy and of business risks; and £1.8million has been transferred into schools' reserves.

District Council

The summarised accounts of a district council are shown below.

	Gross Expenditure £million	Income £million	Net Expenditure £million
Central Services	21.0	19.6	1.4
Cultural and related services	11.4	2.3	9.1
Environmental and regulatory services	11.8	5.6	6.2
Planning services	4.1	1.6	2.5
Children's and education services	0.1	0.1	0.0
Highways & Transport services	1.4	0.8	0.6
Housing Revenue Account	51.1	53.1	2.0 Cr
General Fund Housing	75.2	72.1	3.1
Adult Social Care	1.2	0.9	0.3
Corporate & Democratic Core	6.1	0.3	5.8
Non-distributed costs	0.1	0.0	0.1
Cost of Services	183.5	156.2	27.3
Other operating expenditure			3.0
Financing and investment			12.3
Taxation and non-specific grants			48.3 Cr
Surplus on provision of services			5.7 Cr
Surplus on revaluation of assets			1.2 Cr
Actuarial losses on pensions			8.7
Deficit			1.8

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The surplus on the provision of services includes a surplus of £7.3million on the housing revenue account and a deficit of £1.6million on the general fund.

The movement in reserves statement shows the following for the general fund:

	£million
Deficit on Provision of Services (excluding Housing Revenue Account)	1.6
Adjustments between accounting basis and funding basis	<u>3.2 Cr</u>
Net increase in balances	1.6 Cr
Transfer to Earmarked Reserves	<u>2.2</u>
Decrease in General Fund balances	0.6
Balance brought forward	<u>8.7 Cr</u>
Balance carried forward	<u>8.1 Cr</u>

The adjustments between the accounting basis and the funding basis can be further analysed as follows:

	£million
Reversal of items debited or credited to the CIES:	
Depreciation and Impairment	2.9 Cr
Revaluation losses on assets	0.1 Cr
Movements in the fair value of investment property	0.2
Revenue expenditure funded from capital under statute	0.2 Cr
Losses on disposal of non-current assets	<u>0.8 Cr</u>
Sub-Total	3.8 Cr
Insertion of items not debited or credited to the CIES:	
Statutory provision for financing capital investment	0.9
Capital expenditure charged against the general fund	<u>0.3</u>
Sub-Total	1.2
Other Adjustments:	
Capital grants and contributions unapplied	0.1
Transfer of capital receipts	0.9
Contribution to the government's capital receipts pool	0.7 Cr
Retirement Benefits debited under IAS19	5.8 Cr
Employer's contributions to the pension scheme	4.3
Collection Fund adjustments	0.2
Unequal pay and back pay adjustments	0.3
Accumulated absences	<u>0.1</u>
Sub-Total	0.6 Cr
Total	<u>3.2 Cr</u>

These adjustments are made for the same reasons as those in the example of a unitary authority.

Adrian Waite - April 2014

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Seminar & Workshop: All You Want To Know About Local Authority Finance 2014

October 2014

Local Government is going through a period of significant change following the 2010 Comprehensive Spending Review. There has been a significant reduction in funding for local authorities and this is requiring a fundamental redesign of how authorities are organised and services are delivered. There are now far fewer ring-fenced grants giving local authorities more discretion over how they spend their money. The Localism Act also promotes local decision making. An understanding of the finances of local government is now of critical importance.

In the current climate, a working knowledge of local authority finance will put you and your colleagues in a position of advantage.

Whether you are in a London Borough, Metropolitan, Unitary, County or District Council or otherwise involved in local government; whether you are an Elected Member, Non-Financial Manager, or even a member of the Finance Team, you could benefit from our seminar and workshop at which you will learn: **“All You Want To Know About Local Authority Finance”**

What the Session Covers:

The session will answer the following questions:

- How do Local Government Finances work?
- How does Local Government fund its Capital Programmes?
- What are the Implications of Localism and Austerity?
- What are the Financial Opportunities for Local Authorities?

The session includes a participatory case study and is accompanied by a very useful 100 page book that is designed for reference after the session entitled:

“All You Want To Know About Local Authority Finance 2014”

Venue and Date

London: Novotel Hotel, Waterloo – 7th October 2014

For further information or to make a booking please visit: <http://www.awics.co.uk/lafin.asp>

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About 'AWICS'

'AWICS' is a management consultancy and training company. We specialise in providing support in finance and management to clients in local government and housing in England, Scotland and Wales. We are well known for our ability to analyse and explain complex financial and management issues clearly.

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