AUDIT COMMITTEE **19 SEPTEMBER 2017**

SUBJECT:	**STATEMENT OF ACCOUNTS 2016/17**
REPORT BY:	**CHIEF FINANCE OFFICER**
LEAD OFFICER:	**ROBERT BAXTER, FINANCIAL SERVICES MANAGER**

1. Purpose of Report

1.1 To present the Statement of Accounts (including the Annual Governance Statement) for the financial year ended 31st March 2017, together with a short summary of the key issues reflected in the statutory financial statements, for scrutiny.

2. Executive Summary

2.1 The Statement of Accounts (SOA) for 2016/17 provide a comprehensive picture of the Council's financial circumstances and are compiled to demonstrate probity and stewardship of public funds.

2.2 The Council is statutorily required to publish its Statement of Accounts for 2016/17 with an audit opinion and certificate by no later than 30th September 2017.

2.3 The Audit Committee should note that the Statement of Accounts for 2016/17 have been subject to external audit by the Council's external auditors KPMG, who are due to report on the audit conclusion, elsewhere on this agenda.

2.4 The Council must make the Statement of Accounts available for public inspection for 30 working days. Following notification from KPMG, this will run from 3rd July until 11th August 2017 and the External Auditor will be available to answer questions during this period. This is a change from previous years when the inspection period was 20 working days and the External Auditor was available for answering questions only on the day following the 20 working day inspection period, no questions were received.

2.5 The Council is also required to provide a documented annual review of the effectiveness of its governance arrangements (Annual Governance Statement), which sits alongside the Statement of Accounts. In 2016/17 the Council fundamentally reviewed its governance framework to reflect the new CIPFA/ SOLACE Framework for Delivering Good Governance in Local Government. The overall level of assurance provided in 2016/17 was high and is in line with our Code of Corporate Governance. However there are two defined significant issues carried over from the previous year that have not yet reached completely acceptable levels of performance and there are two further areas that are not considered significant, but are areas that we will retain a focus on for 2017/18 and will be regularly reported by management to the Audit Committee.

3. Background

3.1 The Accounts and Audit Regulations 2015 require the Statement of Accounts to be certified by the Council's Chief Finance Officer by the 30th June 2017. The Accounts will then be released to be audited by the Council's external auditor, KPMG. After completion of the audit the accounts must be published with the audit opinion and certificate, and before that must have been approved by Full Council, by no later than 30th September. The timescales involved with the approval of the Statement of Accounts for 2016/17 are:

a) Report draft accounts to Audit Committee	18th July 2017
b) Report to Audit Committee	19th September 2017
c) Report to the Executive	25th September 2017
d) Approval by Council	26th September 2017

3.2 There is a great deal of technical detail contained in the statutory rigid format of the Accounts that is not always easily understood by the reader unless they are familiar with accounting and audit standards. To assist members in their understanding of the accounts:

- Training has been provided to members
- A short summary of the accounts has been produced at Appendix A
- The remainder of this report sets out a short summary highlighting the key figures

4. Summary of Key Issues in the Financial Statements

4.1 The Comprehensive Income and Expenditure Statement

4.1.1 **The Comprehensive Income and Expenditure Statement (CIES)** (*SOA page 23*) – in line with statutory accounting practice the Comprehensive Income and Expenditure Statement (CIES) shows the Council's actual performance for the year measured in terms of the resources consumed and generated over the last 12 months. It should not be misinterpreted as the financial outturn position of the Council as this statement contains a number of accounting entries required under International Financial Reporting Standards (IFRS). Regulation allows local authorities to reverse these amounts out of the accounts before determining their outturn position. There is a note to the accounts (Note 9 – adjustment between accounting basis and funding basis under regulations (*SOA page 56*)) that applies these adjustments to the CIES position to reflect the actual outturn position of the Council for 2016/17. To assist members interpretation of the CIES the table below summarises the reconciliation between the net surplus on the Provision of Services of £56.294m in the CIES to the outturn position of an increase in General Fund Balances of £0.302m as reported in the Financial outturn report (Executive 12th June 2017).

	£m	£m
Net (surplus)/deficit on the Provision of Services		**(56.294)**
Adjust for:		
Depreciation, revaluation losses and gains & impairment of non-current assets	41.667	
Revenue expenditure funded from capital under Statute	(3.011)	
Direct Revenue financing of capital expenditure	1.555	
Gain/loss on the sale of non-current assets	4.076	
Contribution to/from the pensions reserve	(2.134)	
Debt repayment and premiums & discounts on debt	1.044	
Short-term compensated absences	0.019	
Contribution to Government's Housing Capital Receipts Pool	(0.534)	
Capital grants & contributions unapplied credited to CI&ES	13.548	
Adjustment for Collection Fund	0.480	
Transfer to/from the HRA	0.082	
Transfer to/from Earmarked reserves	(0.800)	
Total Adjustments	**55.992**	
(Increase)/decrease in General Fund Balances		**(0.302)**

4.1.2 Clearly the most significant issue for Members to be aware of from the Comprehensive Income and Expenditure Statement is how the Council performed financially in 2016/17, in comparison to the revised budget for the year. As previously reported there was an underspend against the General Fund budget of £167k in 2016/17, which was agreed could be carried forward for specific projects in 2017/18. Allowing for this adjustment, expenditure on the General Fund was in line with the budget and included a contribution of £302k to balances to support future revenue budgets.

4.1.3 The Housing Revenue Account has also seen an underspend against the revised budget of £73k, which was agreed to be transferred into an earmarked reserve to support the redevelopment of De-Wint Court. Allowing for this adjustment HRA balances were £1.087m and the HRA Repairs Accounts balance was £610k as at 31 March 2017, both in line with the HRA 30 year Business Plan.

4.1.4 Further details on these are provided in the Narrative Report in the Statement of Accounts (*SOA page 1*) and were subject to a separate report to Performance Scrutiny Committee and the Executive on 15th and 12th June 2017 respectively.

4.2 The Balance Sheet *(SOA page 24)*

4.2.1 **The Balance Sheet** is fundamental to understanding the Council's financial position at the year-end. It shows the Council's balances and reserves, long-term indebtedness, and the non-current and current assets employed in the Council's operations. The key information for members to be aware of in the Balance Sheet as at 31 March 2017 are:

4.2.2 **General Balances** – General balances have increased by £0.473m during the year, as analysed below:

Description	**Opening Balance £m**	**Closing Balance £m**	**Increase/ (Decrease) £m**
General Fund balances	2.010	2,312	0.302
HRA balances	1.005	1.087	0.082
HRS	0.000	0.089	0.089
Total	**3.015**	**3.488**	**0.473**

4.2.3 **Earmarked Reserves** - in total monies carried forward to pay for specific future commitments (including the insurance fund) have reduced by £0.887m, as analysed below:

Description	**Opening Balance £m**	**Closing Balance £m**	**Increase/ (Decrease) £m**
Other Specific Reserves	11.463	10.576	(0.887)

This is due to a number of contributions to and from earmarked reserves as reported as part of the 2016/17 Provisional outturn to the Executive 12th June 2017 and as detailed in Note 10 (Transfers to/ from Earmarked Reserves) in the Statement of Accounts (*SOA page 62)*.

4.2.4 **Liquidity** – a reliable indication of liquidity is the ratio of current assets (excluding inventories) to current liabilities. The Council's current assets (excluding inventories) of £41.6m exceed current liabilities of £14.8m by a ratio of 2.81:1, which represents an increase from the previous year's ratio of 2.03:1.

4.2.5 **Debtors** – debtors have increased by £9.672m to £17.974m. This is partly due to the year-end position with the Council Tax element of the Collection Fund and in particular the timing of arears at 31st March which depending on the day of the week the 31st falls can vary considerably from year to year. In addition to grant funding relating to the Lincoln Transport Hub.

4.2.6 **Creditors** – have increased slightly by £0.954m to £13.377m.

4.3 Cross Cutting Key Issues

4.3.1 There are a number of areas that have significant impacts or are of particular interest that sit both within the Comprehensive Income and Expenditure Statement and the Balance Sheet. To aid members understanding of the Accounts these are summarised below:

4.3.2 **Non-Current Assets** are shown in the Balance Sheet and represent the Council's land, building, heritage, community and intangible assets.

- **The value of non-current assets and assets held for sale in the Balance Sheet has increased by £54.579m** (19.8%) to £329.605m between 31 March 2016 and 31 March 2017 (see the Balance Sheet and Notes 14, 15 and 16 for further detail). This net increase is the result of a number of factors:

  - **Revaluations -** The Council's Assets are valued on a rolling programme, which ensures each asset is re-valued every 5 years as at the 1st April. In addition to this, all assets are reviewed for any material change in their value at the end of each financial year. The results for 2016/17 have seen an **overall increase in value of £29.6m**, which is the net result of valuation gains and losses across a range of assets.

    Accounting rules require that where a balance has not built up on the Revaluation Reserve for an individual asset (a reserve which holds accumulated gains following previous revaluations upwards) then any revaluation losses (downwards revaluation in asset values) must be recognised in the Comprehensive Income and Expenditure Statement (CI&ES) and then reversed out in the Movement in Reserves Statement before it impacts on Council Tax payers. Accounting rules also require that where a revaluation loss previously recognised in the CI&ES on an individual asset is subsequently reversed by an upwards revaluation, then the revaluation gain should be recognised in the Comprehensive Income and Expenditure Statement up to the value of the original revaluation loss. Within the £29.6m net upwards movements due to revaluation gains and losses in 2016/17, there were:

    – **£27m of net revaluation gain** required to be charged to Cost of Services in the CIES. This is mainly due to an increase in the value of Council Dwellings due to the change in the Existing Use Valuation in Social Housing (EUV-SH) factor from 34% to 42% of £42.385m and a net increase of £0.8m in the value of Investment Properties.

    – **£2.6m of net upwards revaluations** were reflected in the Revaluation Reserve (shown in Other Comprehensive Income and Expenditure in the CIES). This was mainly due to the upward revaluation (£3.5m) of several pieces of land (being revalued as potential residential development sites) and also an increase of £1.5m in the value of the Council’s surface car parks.

- **Additions - New capital investment in assets belonging to the Council totalled £24.96m**. The main areas of expenditure include £10.7m spent improving Council dwellings including re-roofing, kitchens and landscaping, and the purchase of land for a number of council house new build schemes. The other main areas of spend were £11.9m on the Lincoln Transport Hub and £3.9m improvement works to corporate properties. To pay for this investment, the Council has used £13.7m of capital grants and contributions, £2.7m of capital receipts, £8.0m of the Major Repairs Reserve, £3.1m of unsupported borrowing, and £0.5m of direct revenue financing.

- **Depreciation –** a charge is made to the Comprehensive Income and Expenditure account for depreciation to reflect the use of assets in the provision of services during the year. The value of non-current assets in the Balance Sheet is reduced by an equivalent amount. For General Fund services this charge is reversed out in the Movement in Reserves Statement (MiRS) and replaced with a statutory charge for the repayment of debt. In the HRA under self financing, depreciation is a real charge to the service however, it is set aside in the Major Repairs Reserve for future investment in the housing stock. **In 2016/17 total depreciation was £12.6m** (of which £1.6m was charged for non-HRA dwellings and was replaced in the MiRS with £1.1m for the repayment of debt and £11.0m depreciation was charged to the HRA which is available in the Major Repairs Reserve for future investment).

- **Disposals – assets valued at £12m in the Balance Sheet were disposed** of in 2016/17. This included the sale of the Lawn, various pieces of HRA land, and land/ premises associated with progressing the Transport Hub project and 62 Right to Buy sales of council dwellings.

4.3.3 **Pensions –** the payments made by the Council to the Lincolnshire County Council Pension Fund each year as employer contributions to the scheme and any addition costs relating to pension strain etc are reflected in the financial outturn position of the Council. However, accounting practice requires that in the Statement of Accounts pension costs are shown when the Council is committed to give them, even if the actual giving may be years into the future. This means that:

- The costs of providing retirement benefits to employees are recognised in the accounting period in which the benefits are earned by employees, and the related finance costs and any other changes in value of assets and liabilities are recognised in the accounting periods in which they arise.

- The financial statements reflect the liabilities arising from the Council's retirement obligations.

- The financial statements disclose the cost of providing retirement benefits and related gains, losses, assets and liabilities

Full details are provided in Note 44 to the accounts – Defined Benefit Pension Schemes *(SOA page 99)*. The impact of these accounting requirements in the core financial statements are:

- **Comprehensive Income & Expenditure Statement (CIES)** - The cost of retirement benefits in the CIES is shown as an actuarial estimate of £5.8m cost reflecting the retirement benefits earned during 2016/17 and to be funded in the future. This includes £3.5m current service costs and a net interest cost on the defined benefit obligations of £2.3m.This net cost is reversed out in the Movement in Reserves Statement (MiRS) and is replaced by the actual amount charged for pension contributions in the year of £3.6m.

- **Balance Sheet** – The Pension Reserve shows the underlying commitments that the Council has in the long term to pay retirement benefits based on an assessment by the pension schemes actuary. The balance on the Pensions Reserve is the net position of the schemes liabilities and assets. During 2016/17 the net liability has increased by £20.089m to £85.521m. This increase in the Pension Fund deficit resulted from mainly from changes in the actuaries financial assumptions, which have been partially offset by better than expected investment returns. The actuarial assumptions are detailed in note 44 to the accounts 'Defined benefit pension scheme'.

It is important for members to be aware that the statutory arrangements for funding the remaining liability of £85.521m means that this deficit will be made good by the increased level of annual employer contributions payable to the Pension Fund over the remaining estimated average working life of our employees in the Pension Scheme. The financial position of the Council remains healthy.

4.3.4 **Officer Remuneration –** note 35 to the accounts (*SOA page 88)* details senior staff salaries and the number of employees receiving more than £50k remuneration during the year (this includes receipt of any redundancy payments). Also detailed within the note is the redundancy/pension/payment in lieu costs paid in year, in line with Executive approvals of service review business cases and the Council's redundancy policy.

4.3.5 **Borrowing** – the Council takes borrowing to fund capital expenditure. It also occasionally takes short term borrowing for cash flow purposes, however this has not been necessary in recent years as a significant proportion of investments are liquid.

- Between 31 March 2016 and 31 March 2017 the Council's total borrowing remained almost the same at £76.730m (excluding accrued interest which is shown in the Balance Sheet under short-term borrowing as at 31 March 2017). The decrease being due to repayments on the interest-free Salix loans granted to fund energy-efficient projects.
- The total borrowing can be split between short term borrowing (payable within 12 months) of £1.376m and long term borrowing of £75.354m.
- The average rate of interest payable on long-term borrowing was 4.15% the same as in 2015/16 as there has been no new external borrowing taken in the year.
- The Comprehensive Income and Expenditure Statement for 2016/17 includes £3.1m interest payable on borrowing (excluding leases) of which £0.7m relates to the General Fund and £2.4m to the HRA.

The maturity profile of the outstanding borrowing as at 31 March 2017 is as follows:

Within	**£m**	**% of Total Debt**
1 year	0.561	0.74%
1 – 2 years	0.000	0.0%
2 – 5 years	2.500	3.32%
5 – 10 years	5.897	7.83%
10 years and over	66.396	88.11%
Total	**75.354**	**100.00%**

4.3.6 **Investments** – in line with its Treasury Management Strategy, the Council invests surplus cash on the money markets, typically for periods less than one year to approved organisations, although core cash balances may be invested for periods over 1 year if interest rates and market conditions are favourable.

- As at 31 March 2017, total investments had decreased by £1.195m from £21.955m to £20.760m compared to the previous year end.
- Average investment balances during 2016/17 were £27.5m, compared to £29.8m in 2015/16.
- The average interest rate received on investments in 2016/17 was 0.71% (a small increase of 0.05% on the average rate achieved in 2014/15), which was 0.36% above the target 7 day LIBID rate.

5. Significant Policy Impacts

5.1 Strategic Priorities – The Council's Statement of Accounts are a financial summary of the Council's activities in support of its Strategic Priorities during the financial year 2016/17.

5.2 Communication - The Statement of Accounts is available on the Council's website and the period of public inspection has been advertised. The completion of the audit of the Council's Statement of Accounts will be published on the Council website on 30th September 2017. The Statement of Accounts will also be made available on the website with a summary version of the accounts published in the Council's Annual Report.

6. Organisational Impacts

6.1 Finance - The financial implications are contained throughout this report.

6.2 Legal - In accordance with the Accounts and Audit Regulations 2015 the Statement of Accounts must be approved and published by the Council, together with the audit opinion and certificate, by the 30th September 2017.

7. Risk Implications

7.1 There are no direct risk implications arising as a result of this report.

8. Recommendation

8.1 Audit Committee are invited to scrutinise the Statement of Accounts prior to being reported to Full Council on 26 September 2017.

Key Decision	No
Key Decision Reference No.	N/A
Do the Exempt Information Categories Apply	No
Call in and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?	No
Does the report contain Appendices?	Yes
List of Background Papers:	Medium Term Financial Strategy 2016-2021 Financial Performance - Outturn 2016/17
Lead Officer:	Robert Baxter, Financial Services Manager Telephone 873361