AUDIT COMMITTEE **14 JUNE 2018**

SUBJECT:	**DRAFT STATEMENT OF ACCOUNTS 2017/18**
REPORT BY:	**CHIEF FINANCE OFFICER**
LEAD OFFICER:	**ROBERT BAXTER, FINANCIAL SERVICES MANAGER**

1. Purpose of Report

1.1 To present the draft Statement of Accounts for the financial year ended 31st March 2018, together with a short summary of the key issues reflected in the statutory financial statements, for scrutiny.

2. Executive Summary

2.1 The draft Statement of Accounts (SOA) for 2017/18 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 2017/18 with an audit opinion and certificate by no later than 31st July 2018.

2.3 The Audit Committee should note that the Statement of Accounts for 2017/18 are still subject to external audit. The audit of the accounts is being undertaken by KPMG, who commenced the audit in early June. Should any material changes be necessary as a result of this external audit work, these will be reported to a meeting of this Committee on 19th July 2018 when the audited Statement of Accounts are presented for approval.

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 1st June until 12th July 2018 and the External Auditor will be available to answer questions during this period.

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 31st May 2018. 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 31st July. The timescales involved with the approval of the Statement of Accounts for 2017/18 are:

a) Report draft accounts to Audit Committee 14th June 2018
b) Report to Audit Committee 19th July 2018
c) Report to the Executive 23th July 2018
d) Approval by Council 24th July 2018

3.2 In order to ensure that the statutory deadline of 31st July 2018 is met KMPG must complete their audit and issue the relevant audit opinion. Should any material changes be necessary as a result of this external audit work, these will be reported to a meeting of this Committee on 19th July 2018 when the audited Statement of Accounts will be presented for approval. The Audit Committee will also receive the Audit Opinion from KPMG at this meeting.

3.3 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. Training has been provided prior to this meeting to assist members in their understanding of the accounts and a short summary of the accounts will be produced to accompany the Final Statement of Accounts when it is presented to members in July. The remainder of this report sets out a short summary, which highlights the key figures in the financial statements which it is hoped will prompt questions in order for the Council to promote greater accountability and transparency for the significant sums of public money entrusted to the Council.

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 (Expenditure & Funding Analysis (*SOA page 20*)) that adjusts the expenditure that is chargeable to general fund and the HRA balances (as per the actual outturn position) to the accounting entries in the CIES under IFRS. To further assist members interpretation of the CIES the table below summarises the reconciliation between the net surplus on the Provision of Services of £6.214m in the CIES to the outturn position of an decrease in General Fund Balances of £0.702m as reported in the Financial outturn report (Executive 29th May 2018).

	£m	£m
Net (surplus)/deficit on the Provision of Services		**(6.214)**
Adjust for:		
Depreciation, revaluation losses and gains & impairment of non-current assets	9.452	
Revenue expenditure funded from capital under Statute	(4.612)	
Direct Revenue financing of capital expenditure	1.125	
Gain/loss on the sale of non-current assets	0.985	
Contribution to/from the pensions reserve	(4.019)	
Debt repayment and premiums & discounts on debt	0.484	
Short-term compensated absences	(0.010)	
Contribution to Government's Housing Capital Receipts Pool	(0.529)	
Capital grants & contributions unapplied credited to CI&ES	3.002	
Adjustment for Collection Fund	1.599	
Transfer to/from the HRA	(0.064)	
Transfer to/from Earmarked reserves	(0.497)	
Total Adjustments	**6.916**	
(Increase)/decrease in General Fund Balances		**0.702**

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 2017/18, in comparison to the revised budget for the year. As previously reported there was an underspend against the General Fund budget of £588k in 2017/18, which was agreed could be transferred into earmarked reserves in addition to an element carried forward for specific projects in 2018/19. Allowing for these adjustments, expenditure on the General Fund was in line with the budget and included a contribution of £702k from balances to support revenue budgets.

4.1.3 The Housing Revenue Account has also seen an underspend against the revised budget of £616k, which was agreed to be transferred into earmarked reserves. Allowing for this adjustment HRA balances were £1.023m and the HRA Repairs Accounts balance was £624k as at 31st March 2018, 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 24th and 29th May 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 31st March 2018 are:

4.2.2 **General Balances** – General balances have decreased by £0.766m during the year, as analysed below:

Description	Opening Balance £m	Closing Balance £m	Increase/ (Decrease) £m
General Fund balances	2,312	1.610	(0.702)
HRA balances	1.087	1.023	(0.064)
HRS	0.089	0.089	0
Total	**3.488**	**2.722**	**(0.766)**

4.2.3 **Earmarked Reserves** - in total monies carried forward to pay for specific future commitments (including the insurance fund) have reduced by £0.494m, as analysed below:

Description	Opening Balance £m	Closing Balance £m	Increase/ (Decrease) £m
Other Specific Reserves	10.575	10.081	(0.494)

This is due to a number of contributions to and from earmarked reserves as reported as part of the 2017/18 Provisional outturn to the Executive 29th May 2018 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 £33.308m exceed current liabilities of £20.499m by a ratio of 1.62:1, which represents a decrease from the previous year's ratio of 2.82:1. This is due to the £6m reduction in money market investments (as per the Council's borrowing strategy) in addition to the decrease in debtors, as analysed in 4.2.5 below.

4.2.5 **Debtors** – debtors have decreased by £7.733m to £10.241m. This is mostly due to £6.9m of grant funding relating to the Lincoln Transport Hub, which was outstanding as at 31st March 2017, in addition to the £1m deposit with Lloyds relating to the Council's Local Authority Mortgage Scheme (LAMS) which was repaid during 2017/18.

4.2.6 **Creditors** – have increased slightly by £1.987m to £15.364m. This is mainly due to a £1.3m increase in the balance on the Business Rates adjustment account, which absorbs the timing differences between statutory accounting requirements and full accruals accounting, in addition to an increase of £0.367m in the Business Rates cash control account (reflecting cash owed to business rates payers in the form of prepayments and overpayments as at 31st March 2018).

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 £30.9m** (9%) to £360.4m between 31st March 2017 and 31st March 2018 (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 2017/18 have seen an **overall increase in value of £12m**, 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 £12m net upwards movements due to revaluation gains and losses in 2017/18, there were:

    – **£11m 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 housing stock and assets held for sale (£1.45m).

  - **£1.0m 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 (£0.72m) of the council's heritage musical instruments and also an increase in the council's land and buildings.

- **Additions - New capital investment in assets belonging to the Council totalled £35.248m**. 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 £12.8m on the Lincoln Transport Hub and £8.7m on purchasing investment properties. To pay for this investment, the Council has used £2.6m of capital grants and contributions, £4.7m of capital receipts, £9.2m of the Major Repairs Reserve, £18.25m 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 2017/18 total depreciation was £12.2m** (of which £1.6m was charged for non-HRA dwellings and was replaced in the MiRS with £0.485m for the repayment of debt and £10.7m depreciation was charged to the HRA which is available in the Major Repairs Reserve for future investment).

- **Disposals – assets valued at £4.215m in the Balance Sheet were disposed** of in 2017/18. This included the Ermine School site and vacant general fund properties plus 67 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 £7.7m cost reflecting the retirement benefits earned during 2017/18 and to be funded in the future. This includes £5.5m current service costs and a net interest cost on the defined benefit obligations of £2.2m.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 £3.7m.

- **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 2017/18 the net liability has increased by £0.337m to £85.858m. This relatively small increase in the Pension Fund deficit resulted due to the default financial assumptions being relatively similar to 31st March 2017 and returns over the year being broadly in line with the 2017 expected return assumptions. 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 £85.858m 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.

- Between 31st March 2017 and 31st March 2018 the Council's total borrowing increased to £81.138m (excluding accrued interest which is shown in the Balance Sheet under short-term borrowing as at 31st March 2018).
- The total borrowing can be split between short term borrowing (payable within 12 months) of £3.784m and long term borrowing of £77.354m.
- The average rate of interest payable on borrowing was 4.09% which is a slight decrease on 2016/17 (4.15%) and due to the new loans taken being at low levels of interest.
- The Comprehensive Income and Expenditure Statement for 2017/18 includes £3.2m interest payable on borrowing (excluding leases) of which £0.8m relates to the General Fund and £2.4m to the HRA.

The maturity profile of the outstanding borrowing as at 31st March 2018 is as follows:

Within	**£m**	**% of Total Debt**
1 year	3.784	4.66%
1 – 2 years	2.000	2.46%
2 – 5 years	5.000	6.16%
5 -10 years	5.897	7.27%
10 years and over	64.457	79.45%
Total	**81.138**	**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 31st March 2018, total investments had decreased by £5.16m from £20.760m to £15.6m compared to the previous year end.
- Average investment balances during 2017/18 were £25.3m, compared to £27.5m in 2016/17.
- The average interest rate received on investments in 2017/18 was 0.67% (a small increase of 0.03% on the average rate achieved in 2016/17), which was 0.45% 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 2017/18.

5.2 Communication - The draft 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 31st July 2018. 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 31st July 2018.

7. Risk Implications

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

8. Recommendation

8.1 The Audit Committee are invited to scrutinise the draft Statement of Accounts.

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 2017-2022 Financial Performance - Outturn 2017/18
Lead Officer:	Robert Baxter, Financial Services Manager Telephone 873361