

DRAFT STATEMENT OF ACCOUNTS 2015-16

To: **Audit and Accounts Committee**

Date: **12th July 2016**

From: **Chief Finance Officer**

Electoral division(s): **All**

Forward Plan ref: **N/a** *Key decision:*

Purpose: **This report presents the unaudited draft Statement of Accounts for 2015-16.**

Recommendation: **The Committee is asked to acknowledge and comment on the attached 2015-16 Statement of Accounts as submitted for audit, ahead of its final review and approval at the Committee meeting on 20th September 2016.**

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1. BACKGROUND

- 1.1 The Council's Statement of Accounts is produced in accordance with the Code of Practice (CoP) on Local Authority Accounting in the United Kingdom 2015-16 (supported by International Financial Reporting Standards (IFRS)), and includes a full balance sheet and statement of cash flow movements.
- 1.2 In accordance with the Accounts and Audit (England) Regulations 2015, it is not a requirement for a designated committee of the Council to approve the draft financial statements at a meeting in June / July. However, in spite of the regulations, submitting a draft set of accounts at an earlier meeting is considered best practice and provides the Committee with an opportunity to review the accounts submitted to external auditors, ahead of the final review and formal approval in September.

2. STATEMENT OF ACCOUNTS

2.1 Presentation

- 2.1.1 The Statement of Accounts (including the separate Pension Fund accounts) is attached at Appendix 3. It is accompanied by a Narrative Statement and Annual Governance Statement (AGS) and its format is prescribed by the CoP 2015-16.
- 2.1.2 The classification of services in the Comprehensive Income and Expenditure Statement does not align with internal management arrangements and service structures, and is therefore presented differently to the Council's Outturn Integrated Resources and Performance Report. Instead, the Statement of Accounts has to conform to the service classification required by the Chartered Institute of Public Finance and Accountancy (CIPFA) Service Reporting Code of Practice (SeRCOP).
- 2.1.3 Whilst it is the Statement of Accounts on which the audit opinion is given, a reconciliation showing how the overall results within the accounts differ from that reported within the Outturn Integrated Resources and Performance Report is provided in note 25.

2.2 Review – Comprehensive Income and Expenditure Statement (CIES)

- 2.2.1 See Appendix 1 for a summary of changes from 2014-15 to 2015-16.
- 2.2.2 Net expenditure within Education and Children's services has increased by £71m when compared with 2014-15. This is as a result of a lower level of income, plus net revaluation losses within its property portfolio (overall this is off-set by gains in the revaluation reserve).
- 2.2.3 Corporate and Democratic Core and Non-Distributed Costs are impacted by a variety of technical accounting adjustments including reserve movements, accounting for retirement benefits (pension fund adjustments), debt charges and expenditure relating to long-term assets. The decrease this year represents the overall net change across all of these areas.

- 2.2.4 The significant increase in Other Operating Expenditure wholly relates to a much bigger loss on disposal of long-term assets in 2015-16 of £75.9m (£21.2m in 2014-15). The losses in both years are primarily a result of the statutory transfer of schools out of the Council's long-term assets portfolio, including 6 schools (one of which was a secondary school) converting to academy status.
- 2.2.5 The increase in taxation and non-specific grant income reflects the net position of an increase in the Council Tax precept of 1.99%, as well as the income recognised from capital grants and contributions as part of financing the capital programme. This increase was in part offset by reductions in the level of non-ringfenced government funding.
- 2.2.6 As stated, differences between the 'Net Cost of Services' and 'Deficit on Provision of Services' reported in the CIES, and the underspend reported in the Outturn Report, are the result of differences in presentational rules. A summary showing this variation is a disclosure requirement within the Code, and is shown in note 25 to the accounts.
- 2.2.7 The change in the surplus on revaluations reflects the statutory adjustments required in relation to Long Term Assets on an annual basis and as such includes the result of a detailed assessment of 20% of the Council's property portfolio by valuers as part of the 5-year revaluation rolling programme, plus an indexation adjustment on the remaining 80%. The significant decrease in the surplus, particularly in relation to land, is as a result of a significant step-change increase in land values during 2014-15, reflecting strong signs of recovery of the property market, which we would not expect to continue to experience each and every year.
- 2.2.8 The estimated pension deficit for the Council, measured on an actuarial basis, has decreased from £559m at 1 April 2015 to £479m at 31 March 2016. Financial assumptions at 31 March 2016 were more favourable than they were at 31 March 2015, resulting in the value of the Fund's liabilities decreasing. However, the actual investment return on the Fund's assets during 2015-16 was lower than the typical expected asset return at the start of the year. Overall, this combination of lower than expected investment returns, offset by more favourable financial assumptions, has resulted in a significant decrease in the deficit amount.

2.3 Review – Balance Sheet

- 2.3.1 See Appendix 2 for a summary of changes from 31 March 2015 to 31 March 2016.
- 2.3.2 The net book value of the Council's Property, Plant and Equipment assets combined with Assets Held for Sale and Investment Property assets has increased by £45.2m during 2015-16, to £1,784.2m. The material movements that have contributed to the overall increase to the balance sheet include the following
- Additions (capital expenditure) (+£107.5m)
 - Retirements (-£75.9m)
 - Revaluation increases (+£53.0m)
 - Depreciation charges for 2015-16 (-£39.4m)

- 2.3.3 Included within Long Term Investments is an amount of £400k relating to share capital in the Municipal Bonds Agency that will issue bonds on behalf of local authorities.
- 2.3.4 The Council's net working capital position has improved from 2014-15 to 2015-16, with Short Term Receivables reducing by more than the total decrease in Short Term Payables. Short Term Payables reduced by £6.1m and Short Term Receivables by £15.1m. This reflects the positive performance reported during the year in relation to the Council's debt collection and prompt payment processes.
- 2.3.5 The Council had a reduced cash and cash equivalents position in the year of £36.7m, with a balance at the 31 March 2016 of £758k. However, it should be noted that this does not represent the actual balance on the Council's accounts at the bank, but the book balance taking timing differences into account. The cash in current accounts is maintained at +/- £2 million, through use of temporary loans and deposits.
- 2.3.6 Total debt outstanding at the year-end was £359.7m, well within the maximum limit determined in accordance with legislation of £660m. There was a negligible increase of £0.1m in long-term loans in the year and a net decrease of £23.1m in short term loans. New loans were raised to fund the capital programme and working capital commitments. Cash surpluses during the year have been invested in accordance with guidance issued by the Government and the Council's agreed Treasury Management Strategy. The primary objective is to ensure that funds are invested prudently, with priority given to security and risk minimisation.
- 2.3.7 The £79.8m decrease in the pension scheme liability reflects the requirements of IAS 19 and is as advised by the Scheme's actuary. This is slightly offset by the increasing liabilities in relation to the Street Lighting Private Finance Initiative (PFI) scheme (due to the phased addition of assets), which explains the increase in Other Long Term Liabilities.
- 2.3.8 The £41.7m increase in unusable reserves (those that are not able to be used to provide services) is primarily a result of the decrease in the pension fund liability for the Council (as noted in 2.2.8 and 2.3.7), partially offset by decreases in the long term assets unusable reserves.
- 2.3.9 During the year, the total equity of the Council increased by £54.0m.

2.4 Other Matters

- 2.4.1 The published Statement of Accounts is accompanied by the Annual Governance Statement (AGS), which is subject to approval by the Audit and Accounts Committee at this meeting. Consideration of the AGS does not form part of the overall audit opinion.
- 2.4.2 A small number of disclosure and presentational changes to the Statement of Accounts document will be required ahead of the final version being approved in September. In summary these are:

- Any adjustments arising as a result of further work carried out by the finance team or external audit review;
- Inclusion of the independent auditors' report which contains the overall audit opinion after the audit of the Council's accounts has concluded.

3. FURTHER STAGES IN THE FORMAL PROCESS

- 3.1.1 As stated, the accounts are still subject to external audit, which started on 4 July 2016. This audit will conclude in September when the auditors will issue a formal opinion on the Council's accounts and this will be reported back to Audit and Accounts Committee on 20 September 2016.
- 3.1.2 In accordance with statutory requirements, the accounts will be open to public inspection for a period of 30 working days before the final audit opinion is issued. This follows the advertisement of the public notice on the Council's website.

4. ALIGNMENT WITH CORPORATE PRIORITIES

4.1 Developing the local economy for the benefit of all

There are no significant implications for this priority.

4.2 Helping people live healthy and independent lives

There are no significant implications for this priority.

4.3 Supporting and protecting vulnerable people

There are no significant implications for this priority.

5. SIGNIFICANT IMPLICATIONS

5.1 Resource Implications

There are no significant implications within this category.

5.2 Statutory, Risk and Legal Implications

There are no significant implications within this category.

5.3 Equality and Diversity Implications

There are no significant implications within this category.

5.4 Engagement and Consultation Implications

There are no significant implications within this category.

5.5 Localism and Local Member Involvement

There are no significant implications within this category.

5.6 Public Health Implications

There are no significant implications within this category.

Source Documents	Location
Code of Practice 2015-16 (based on IFRS) Statement of Accounts 2015-16 Statement of Accounts working papers. Outturn Integrated Resources & Performance Report for 2015-16	First floor Octagon (OCT 1114) Shire Hall, Cambridge CB3 0AP

Appendix 1: Comprehensive Income and Expenditure Statement Changes

	2015-16	2014-15	Change	Change	Ref
	£000	£000	£000	%	
Central services to the public	7,633	2,221	5,412	243.7%	
Culture and related services	9,857	9,880	-23	-0.2%	
Environment and regulatory services	28,437	21,782	6,655	30.6%	
Planning services	3,243	3,347	-104	-3.1%	
Education and children's services	173,531	102,553	70,978	69.2%	2.2.2
Highways and transport services	47,203	44,535	2,668	6.0%	
Adult social care	148,541	148,493	48	0.0%	
Corporate and democratic core	13,358	9,804	3,554	36.3%	2.2.3
Non distributed costs	-8,844	-1,340	-7,504	560.0%	2.2.3
Public Health services transferred from the PCT	0	0	0	0.0%	
Cost Of Services	422,959	341,275	81,684		
Other operating expenditure	71,572	16,308	55,264	338.9%	2.2.4
Financing and investment income/expenditure	32,186	42,413	-10,227	-24.1%	
Taxation and Non-Specific Grant Income	-413,032	-392,767	-20,265	5.2%	2.2.5
(Surplus) or Deficit on Provision of Services	113,685	7,229	106,456		2.2.6
Surplus on revaluation of long-term assets	-72,949	-170,107	97,158	-57.1%	2.2.7
Impairment and revaluation losses charged to the Revaluation Reserve	4,514	2,351	2,163	92.0%	
Remeasurement of net defined benefit/ liability	-99,262	100,221	-199,483	-199.0%	2.2.8
Other Comprehensive Income and Expenditure	-167,697	-67,535	-100,162		
Total Comprehensive Income and Expenditure	-54,012	-60,306	6,294		

Appendix 2: Balance Sheet Changes

	31-Mar-16 £000	31-Mar-15 £000	Change £000	Change %	Ref
Property, Plant & Equipment	1,760,925	1,737,899	23,026	1.3%	2.3.2
Heritage assets	20,717	20,716	1	0.0%	
Investment Property	22,615	0	22,615		2.3.2
Intangible Assets	0	0	0	0.0%	
Long Term Investments	400	0	400		2.3.3
Long Term Receivables	4,298	3,139	1,159	36.9%	
Long Term Assets	1,808,955	1,761,754	47,201	2.7%	
Investments	0	50	-50	-100.0%	
Assets Held for Sale	614	1,098	-484	-44.1%	2.3.2
Inventories	951	671	280	41.7%	2.3.4
Short Term Receivables	50,442	65,508	-15,066	-23.0%	2.3.4
Cash and Cash Equivalents	3,373	37,724	-34,351	-91.1%	2.3.5
Current Assets	55,380	105,051	-49,671	-47.3%	
Cash and Cash Equivalents	-2,615	-262	-2,353	898.1%	2.3.5
Short Term Borrowing	-3,428	-26,557	23,129	-87.1%	2.3.6
Short Term Payables	-96,055	-102,196	6,141	-6.0%	2.3.4
Provisions	-7,619	-6,172	-1,447	23.4%	
Capital Grants and Contributions Receipts in Advance	-22,659	-29,864	7,205	-24.1%	
Current Liabilities	-132,376	-165,051	32,675	-19.8%	
Provisions	-3,613	-3,612	-1	0.0%	
Long Term Borrowing	-356,305	-356,190	-115	0.0%	2.3.6
Other Long Term Liabilities	-600,257	-670,652	70,395	-10.5%	2.3.7
Capital Grants and Contributions Receipts in Advance	-59,446	-12,975	-46,471	358.2%	
Long Term Liabilities	-1,019,621	-1,043,429	23,808	-2.3%	
Net Assets	712,338	658,325	54,013	8.2%	
Usable Reserves	100,293	87,938	12,355	14.0%	
Unusable Reserves	612,045	570,387	41,658	7.3%	2.3.8
Total Reserves	712,338	658,325	54,013	8.2%	2.3.9