

STATEMENT OF ACCOUNTS 2016-17

To: **Audit and Accounts Committee**

Date: **19th September 2017**

From: **Head of Integrated Financial Services**

Electoral division(s): **All**

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

Purpose: **This report presents the draft Statement of Accounts for the 2016/17.**

Recommendation: **The Committee is asked to approve the 2016/17 Statement of Accounts.**

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|---|---|
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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 2016-17 (supported by International Financial Reporting Standards (IFRS)), and includes a full balance sheet and statement of cash flow movements.
- 1.2 This version of the Statement of Accounts replaces the draft version that was presented to the Committee for review on 25th July 2017 and now requires this Committee's approval.
- 1.3 The auditor has set out the remaining work they need to complete as part of the draft ISA 260 before issuing the certificate of audit completion. This includes:
- Clearance of outstanding issues on the audit queries tracker currently with management, and completion of the associated audit procedures, including:
 - Receipt of evidence to support a sample of adult social care income and expenditure transactions
 - Receipt of evidence to support capital commitments disclosed in the financial statements
 - Receipt of evidence to support a sample of debtors and creditors recognised in the financial statements
 - Receipt of evidence to support a sample of capital grants recognised in the comprehensive income and expenditure statement
 - Receipt of evidence to support existence of additions to assets under construction
 - Confirmation of adjustments to be made to the cash flow statement
 - Completion of testing of IT general controls
 - Agreement of accounting treatment to be applied to City Deal grant income and heritage assets
 - Completion of ongoing review of the audit file and clearance of review points
 - Subsequent events review
 - Receipt and review of final version of financial statements to confirm all agreed audit adjustments have been made and final approval of the financial statements
 - Management representation letter to be approved and signed

Subject to completing this work, we expect all significant revisions to the accounts required as a result of the audit to have been made. There remains the possibility that material adjustments to the accounts will be required and a verbal update will be provided to the Committee when it meets, and a specific revision requested in the recommendation if necessary.

2. STATEMENT OF ACCOUNTS

- 2.1 The Statement of Accounts are made up of the following sections:
- The Narrative Report - providing a summary of the most significant matters reported within the accounts and of the Council's financial position, this section is intended to outline the overall context within which the Council operates and provide a commentary on the Council's performance in 2016-17
 - Statement of Responsibilities – provides details of the formal responsibilities assigned to the Council and the Chief Finance Officer in respect of the Statement and the financial management of the Council.
 - The Core Financial Statements – providing a financial snapshot at 31 March 2017 of the Council's position and activity during the preceding year, they comprise:

Comprehensive Income and Expenditure Statement (CIES)

Reports the net cost for the year of all of the functions for which the Council is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers.

Movement in Reserves Statement (MIRS)

Shows the movement in the year on the different reserves held by the Council. The reserves are analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves

Balance Sheet

Presents the value of the Council's current and non-current assets and liabilities as at 31st March 2017 with the bottom line effectively being the net worth of the organisation.

Cash Flow Statement

Summarising the inflows and outflows of cash arising from transactions with third parties, this analysis shows how the Council generates and uses cash and cash equivalents.

Expenditure and Funding Analysis (EFA)

Demonstrating to council tax payers how the funding available to the Council has been used to provide services, the EFA also shows how this expenditure is allocated between the Council's directorates.

- Notes to the Core Financial Statements – provide further supporting details in order to aid readers' understanding.
- Accounting Policies – this section details the accounting policies followed by the Council throughout the year and applied in producing the Statement
- Local Government Pension Scheme Accounts – details the financial activities relating to the pension fund, together with a snapshot of the assets and liabilities of the fund at 31 March 2017.
- Glossary – the Statement inevitably includes a number of technical terms and this section provides an explanation of their meaning.

2.1.2 Although there are no significant changes in accounting treatment in 2016-17, the Committee may recall that changes were planned in respect of the valuation of Highways Network Assets. For various technical reasons these have not yet been progressed by CIPFA and there are no changes to the treatment of such assets in the 2016-17 accounts.

2.1.3 A significant change in the presentation of the CIES has, however, been introduced in 2016-17. The CIES shows revenue expenditure and income for the year and, in previous years, this was presented under service headings prescribed by CIPFA (The Chartered Institute of Public Finance and Accountancy). The objective was to ensure a standard presentation, allowing comparability between authorities. This approach created problems, however, as it broke the link between the Council's monthly financial monitoring reporting and the statutory accounts, where the Council's internal Directorate structure was not reported. The change for 2016-17 allows the Council to use this internal reporting structure within the CIES, allowing consistency with internal reports.

2.1.4 A further change in 2016-17 is the inclusion of the Expenditure and Funding Analysis (EFA) within the Core Financial Statements. The EFA explains the difference between the CIES 'Deficit on Provision of Services' and the internal Outturn Report. This variance is made up of a series of technical accounting adjustments, including those associated with capital assets, such as depreciation and impairment, the pension fund and the Collection Fund.

2.2 Review – Comprehensive Income and Expenditure Statement (CIES)

- 2.2.1 **Appendix 1** provides a summary of financial variances between the CIES produced for 2015-16 and 2016-17. The causes of key variances are described below:
- 2.2.2 The Corporate Services line of the CIES contains a variety of technical accounting adjustments including reserve movements, accounting for retirement benefits, debt charges and expenditure relating to long-term assets. The increase from 2015/16 to 2016/17 reflects the net change across all of these areas.
- 2.2.3 Similarly, the reduction in net expenditure on Assets and Investments arises from accounting adjustments associated with capital funding and long term asset revaluations.
- 2.2.4 The increase in Other Operating Expenditure is caused by losses on disposals of long-term assets, resulting from the transfer of schools converting to academy status. The figure of £88.7m for 2016-17 relates to the transfer of 16 sites and this compares to £69.6m for 9 sites in 2015-16. The 2015-16 figure also included a gain of £12m in relation to the lease of Castle Court, which reduced the overall loss in that year.
- 2.2.5 Included within the net increase in Taxation and Non-specific Grant income is a reduction in the Revenue Support Grant of £20.4m (£33.3m in 2016-17 / £53.7m in 2015-16), reflecting the changing nature of central finance for Local Government.
- 2.2.6 The large changes relating to the revaluation of long term assets reflect the changes required by the detailed reassessment of 20% of the Council's property portfolio, undertaken in line with the 5-year rolling programme of revaluation.
- 2.2.7 The movement in the value of the Pension Fund assets and liabilities is included in the 'remeasurement of net defined benefit/liability' and reflects the changes in the actuary's financial and demographic assumptions since 1 April 2016.

2.3 Review – Balance Sheet

- 2.3.1 **Appendix 2** provides a summary of financial variations from 31 March 2016 to 31 March 2017. The causes of key variances are described below:
- 2.3.2 The net book value of the Council's Property, Plant and Equipment assets has increased by £17.7m during 2016-17. The key movements that have contributed to this net increase are:
- Disposals – reduction of £89m
 - Depreciation charges – reduction of £38m
 - Reclassifications to other asset classes – reduction of £4m
 - Revaluation increases – increase of £34m
 - Infrastructure additions – increase of £46m
 - Asset Under Construction (AUC) – increase of £69m

This includes £27m in respect of a new secondary school that is due to be completed during the summer of 2017.

- 2.3.3 Long term debtors has decreased by £14.2m since 2015-16, largely due to the drawdown of £20m of the Greater Cambridge City Deal Infrastructure, partially offset by a £4m loan issued to Arthur Rank Hospice.

- 2.3.4 The total for Cash and Cash Equivalents has increased largely due to a £35.5m balance held in the Money Market Fund account at 31 March and for which there is no equivalent balance in the prior year. This relates to the short term borrowing referred to at paragraph 2.3.6 and reflects the need to maintain liquidity.
- 2.3.5 Short term debtors / Short term creditors – a large volume of transactions pass through these categories, including trade creditors, and the balance at the year-end provides a snapshot of this activity. As such, the balance is impacted by the timing of the recording and payment of these transactions.
- 2.3.6 The total for Short Term Borrowing includes £92m of short-term loans arranged in 2016-17 as a result of the strategy to move away from long-term, high interest loans towards short-term, low interest loans.
- 2.3.7 The reduction in the balance of Capital Grants and Contributions Received in Advance is largely due to £17.8m of City Deal Funding that was carried forward from 2015/16 being applied in 2016/17.
- 2.3.8 Other Long Term Liabilities include the Council's pension liability, which is adjudged by the actuary to have increased by £30.4m during 2016-17. The actuary provides estimates based on various assumptions including, for example, investment returns, mortality rates and future salary levels. The evaluation of this liability is independent of Council influence and is reported in accordance with the relevant accounting standards. Movements in the Pension Fund liability do not affect the Council's General Fund or other Useable Reserves.
- 2.3.9 The decrease in Usable Reserves reflects the requirement to fund the net Council overspend in 2016/17, which was largely due to overspending on Children's Families and Adults, offset by a £2.2m underspend on Debt Charges.
- 2.3.10 The reduction in the balance of Unusable Reserves is primarily a result of the movement in the pension fund deficit, partially offset by increases in the revaluation reserves relating to long term assets.
- 2.3.11 The net result of these and all other changes is that, during the financial year 2016/17, the total equity of the Council decreased by £50.7m.

3. AMENDMENTS TO NOTE SINCE THE DRAFT ACCOUNTS

- 3.1 The table in Appendix 3 below summarises all the significant amendments to the draft Statement of Accounts submitted at the Audit & Accounts Committee meeting on 25th July 2017 which have been incorporated into the final document. Individual amendments are listed below. These are as a result of further work by the finance team and any findings from the review by the external auditors.

3.2 Correction of Misposted Cash and Cash Equivalent Balances

To correct misposting to cash and cash equivalents for items that relate to current debtors and current creditors

| | |
|---|--------|
| Balance Sheet - Dr Other Debtors | +£285k |
| Balance Sheet - Cash and Cash Equivalents | +£38k |
| Balance Sheet - Cash and Cash Equivalents | -£285k |
| Balance Sheet - Other Creditors | -£38k |

3.3 Intragroup Income and Expenditure

Removing Income and Expenditure in respect of services provided to group schools by the Council

| | |
|--|----------|
| CIES – Income (CCS and Financial Advisory) | +£8,194k |
| CIES – Expenditure (Schools) | -£8,194k |

3.4 Reclassification of REFCUS to Impairment

Reclassification of REFCUS to impairments to exclude non enhancing capital expenditure and capital expenditure below the capitalisation threshold

| | |
|--------------------|----------|
| CIES – Impairments | +£9,054k |
| CIES – REFCUS | -£9,054k |

3.5 Greater Cambridge City Deal

To correctly recognise the full £100m of grant awarded

Prior Period Adjustment (2015/16)

| | |
|--|-----------|
| CIES – Capital Grants | -£80,000k |
| MIRS – Capital Grants Unapplied Account | +£80,000k |
| Balance Sheet – Capital Grants Unapplied | -£80,000k |
| Balance Sheet – ST Debtors | +£20,000k |
| Balance Sheet – Long Term Debtors | +£60,000k |

2016/17 Adjustment

| | |
|--|-----------|
| CIES – Capital Grants | +£20,000k |
| MIRS – Capital Grants Unapplied Account | -£20,000k |
| Balance Sheet – Capital Grants Unapplied | -£60,000k |
| Balance Sheet – ST Debtors | +£20,000k |
| Balance Sheet – Long Term Debtors | +£40,000k |

4. OTHER MATTERS

- 4.1 In light of ongoing work, some disclosure and presentational changes to the Statement of Accounts may still be required before this meeting of the Audit & Accounts Committee on the 19th September 2017. Any such changes will be discussed in the pre-briefing with the Chairman of the Audit & Accounts Committee, and tabled at the meeting.

5. ALIGNMENT WITH CORPORATE PRIORITIES

5.1 Developing the local economy for the benefit of all

There are no significant implications for this priority.

5.2 Helping people live healthy and independent lives

There are no significant implications for this priority.

5.3 Supporting and protecting vulnerable people

There are no significant implications for this priority.

6. SIGNIFICANT IMPLICATIONS

6.1 Resource Implications

There are no significant implications within this category.

6.2 Statutory, Risk and Legal Implications

These are set out within sector 3 of this report.

6.7 Equality and Diversity Implications

There are no significant implications within this category.

6.8 Engagement and Consultation Implications

There are no significant implications within this category.

6.9 Localism and Local Member Involvement

There are no significant implications within this category.

6.10 Public Health Implications

There are no significant implications within this category.

| Source Documents | Location |
|---|---|
| Code of Practice 2016-17 (based on IFRS) | Octagon first floor, Shire Hall, Cambridge |
| Statement of Accounts 2016-17 | |
| Statement of Accounts working papers. | |
| Outturn Integrated Resources & Performance Report for 2016-17 | |

Appendix 1: Comprehensive Income and Expenditure Statement Changes

| | 2016-17 £000 | 2015-16 £000 | Change £000 | Change % | Ref |
|--|-----------------|-----------------|----------------|-------------|-------|
| Economy, Transport and Environment | 86,916 | 82,924 | 3,992 | 4.8% | |
| Children, Families and Adults | 327,532 | 305,672 | 21,860 | 7.2% | |
| Public Health | 274 | 75 | 199 | 265.3% | |
| Corporate Services | 11,451 | -4,603 | 16,054 | -348.8% | 2.2.2 |
| LGSS Managed | 6,497 | 3,932 | 2,565 | 65.2% | |
| Assets & Investments | 5,123 | 14,061 | -8,938 | -63.6% | 2.2.3 |
| LGSS Operational | 9,859 | 10,091 | -232 | -2.3% | |
| Cost Of Services | 447,652 | 412,152 | 35,500 | | |
| Other Operating Expenditure (Note 9) | 88,668 | 59,570 | 29,098 | 48.8% | 2.2.4 |
| Financing and Investment Income and Expenditure (Note 10) | 36,372 | 42,845 | -6,473 | -15.1% | |
| Taxation and Non-Specific Grant Income (Note 11) | -457,549 | -511,941 | 54,392 | -10.6% | 2.2.5 |
| (Surplus) or Deficit on Provision of Services | 115,143 | 2,626 | 112,517 | | |
| (Surplus) or deficit on revaluation of fixed assets | -101,748 | -72,986 | -28,762 | 39.4% | |
| Impairment losses on non-current assets charged to the Revaluation Reserve | 28,819 | 4,024 | 24,795 | 616.2% | 2.2.6 |
| Actuarial (gains) / losses on pension assets / liabilities | 8,478 | -99,262 | 107,740 | -108.5% | 2.2.7 |
| Other Comprehensive Income and Expenditure | -64,451 | -168,224 | 103,773 | | |
| Total Comprehensive Income and Expenditure | 50,692 | -165,599 | 216,290 | | |

Appendix 2: Balance Sheet Changes

| | 31-Mar-17 £000 | 31-Mar-16 £000 | Change £000 | Change % | Ref |
|--|-------------------|-------------------|-----------------|--------------|--------|
| Property, Plant & Equipment | 1,779,154 | 1,761,452 | 17,702 | 1.0% | 2.3.2 |
| Heritage assets | 20,705 | 20,717 | -12 | -0.1% | |
| Investment Property | 7,222 | 2,658 | 4,563 | 171.7% | |
| Intangible Assets | 258 | 0 | 258 | 0.0% | |
| Long Term Investments | 400 | 400 | 0 | 0.0% | |
| Long Term Debtors | 71,370 | 85,598 | -14,228 | -16.6% | 2.3.3 |
| Long Term Assets | 1,879,108 | 1,870,825 | 8,283 | 0.4% | |
| Short Term Investments | 0 | 0 | 0 | | |
| Assets Held for Sale | 3,531 | 614 | 2,917 | 475.2% | |
| Inventories | 924 | 951 | -26 | -2.8% | |
| Short Term Debtors | 102,910 | 73,593 | 29,318 | 39.8% | 2.3.5 |
| Cash and Cash Equivalents | 27,926 | 1,064 | 26,863 | 2525.7% | 2.3.4 |
| Current Assets | 135,291 | 76,221 | 59,071 | 77.5% | |
| Cash and Cash Equivalents | 0 | 0 | 0 | | |
| Short Term Borrowing | -95,399 | -3,428 | -91,971 | 2682.6% | 2.3.6 |
| Short Term Creditors | -127,432 | -95,066 | -32,366 | 34.0% | 2.3.5 |
| Provisions | -4,013 | -5,657 | 1,644 | -29.1% | |
| Capital Grants and Contributions Receipts in Advance | -6,829 | -14,169 | 7,340 | -51.8% | 2.3.7 |
| Current Liabilities | -233,673 | -118,320 | -115,352 | 97.5% | |
| Provisions | -5,682 | -6,215 | 534 | -8.6% | |
| Long Term Borrowing | -345,298 | -356,305 | 11,008 | -3.1% | |
| Other Long Term Liabilities | -633,190 | -600,257 | -32,933 | 5.5% | 2.3.8 |
| Capital Grants and Contributions Receipts in Advance | -23,326 | -42,024 | 18,698 | -44.5% | 2.3.7 |
| Long Term Liabilities | -1,007,495 | -1,004,802 | -2,693 | 0.3% | |
| Net Assets | 773,232 | 823,924 | -50,692 | -6.2% | |
| Usable Reserves | 157,778 | 192,587 | -34,809 | -18.1% | 2.3.9 |
| Unusable Reserves | 615,454 | 631,337 | -15,883 | -2.5% | 2.3.10 |
| Total Reserves | 773,232 | 823,924 | -50,692 | -6.2% | 2.3.11 |

Appendix 3: Summary of changes from draft to final accounts

| Section | Page | Detail |
|---|---------|---|
| Narrative Report | 4-19 | Updated to incorporate: <ul style="list-style-type: none"> • Clarifications requested at the last audit committee • Changes identified during the audit period by External Audit • Updated to reflect changes within the core statements and associated notes to the accounts due to audit adjustments outlined in the section 3 above |
| Comprehensive Income & Expenditure Statement (CIES) | 23 | Figures have been updated to incorporate the audit adjustments described in section 3 of this report. |
| Movement in Reserves Statement (MIRS) | 24 | Figures have been updated to incorporate the audit adjustments described in section 3 of this report. |
| Balance Sheet | 25 | Figures have been updated to incorporate the audit adjustments described in section 3 of this report. |
| Cash Flow Statement | 26 | Figures have been updated to incorporate the audit adjustments described in section 3 of this report. |
| Notes To The Core Financial Statements | 27-94 | Figures have been updated to incorporate the audit adjustments described in section 3 of this report. In addition, Note 45 (p94) has been updated to reflect the prior period adjustments required to recognise the £100 City Deal Funding. |
| Pension Fund accounts | 112-155 | Updated data and presentational changes following external audit. |