

DRAFT STATEMENT OF ACCOUNTS 2016-17

To: **Audit and Accounts Committee**

Date: **25th July 2017**

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 2016-17.**

Recommendation: **The Committee is asked to acknowledge and comment on the attached 2016-17 Statement of Accounts as submitted for audit, ahead of its final review and approval at the Committee meeting on the 19th September 2017.**

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1. BACKGROUND

- 1.1 The annual Statement of Accounts (the Statement) provides a financial representation of the Council's direct and indirect activities over the course of the 2016-17 financial year. The publication of this document is an essential feature of public accountability as it details how the Council has used the public funds for which it is responsible.
- 1.2 The Statement is produced in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 (CoP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and based upon International Financial Reporting Standards (IFRS).
- 1.3 The process required for the approval and publication of the Statement is set out in the Accounts and Audit Regulations 2015. Accordingly, a draft Statement was certified by the Section 151 Officer by 30 June, prior to submission for audit by the Council's external auditor - BDO. Once the audit is completed, the finalised Statement will require further certification before being presented for approval by the Audit and Accounts Committee; the deadline for this approval is 30 September.
- 1.4 Although the Accounts and Audit Regulations do not require the draft Statement to be approved by this Committee, it is good practice to provide the opportunity to review the draft Statement ahead of the formal approval in September.
- 1.5 The deadlines required by the Accounts and Audit Regulations are changing from next year and the draft Statement for 2017/18 will be presented for audit before 31 May, with the final Statement presented for approval by 31 July. Work is being undertaken with colleagues across all LGSS authorities to identify the changes required that will allow these earlier deadlines to be met.

2. STATEMENT OF ACCOUNTS

2.1 Presentation

- 2.1.1 The draft Statement is produced in the format prescribed by the CoP and is attached at **appendix 3**.
- 2.1.2 The Statement is 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

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.

2.1.3 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.

2.1.4 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 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.

- 2.1.5 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 of Content – 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 sale 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 £18.3m 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 increased by £5.8m since 2015-16, largely due to 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 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 £30.1m.

2.4 Other Matters

- 2.4.1 The published Statement of Accounts is accompanied by the Annual Governance Statement (AGS), which is also subject to approval by the Audit and Accounts Committee at this meeting. The auditor's consideration of the AGS does not, however, form part of the overall audit opinion on the Statement of Accounts.
- 2.4.2 Certain disclosure and presentational changes to the Statement will be required ahead of the final version being approved in September, including those arising from:
- Further work carried out by either the finance team or the external auditor;
 - The inclusion of the auditor's report, which contains the overall audit opinion issued at the conclusion of the audit.

3. NEXT STEPS

- 3.1.1 The Statement is the result of a process vital to the delivery of robust financial management and provides a key element of the forward plan through confirming the availability of reserves and balances for future use.
- 3.1.2 As outlined above, the draft Statement is subject to external audit and this process started on 27 June. Once the audit is concluded, the auditor will issue a formal opinion on the Statement and this will be reported to the Audit and Accounts Committee on 19 September.
- 3.1.3 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 opportunity runs from 30 June to 10 August 2017 inclusive and is advertised on the Council's website. During this period, officers will be available to deal with enquiries from the public and electors may also raise questions directly with the auditor.
- 3.1.4 The statutory deadline for publication is 30 September and, in accordance with recognised practice, the Council considers the Statement is published from the date that a final, approved copy is made available 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
CIPFA Code of Practice 2016-17 Statement of Accounts 2016-17 Statement of Accounts working papers. Outturn Integrated Resources & Performance Report for 2016-17	First floor Octagon (OCT 1114) Shire Hall, Cambridge CB3 0AP

Appendix 1: Comprehensive Income and Expenditure Statement Changes

	2016-17 £000	2015-16 £000	Change £000	Change %	Para Ref
Economy, Transport and Environment	86,366	82,924	3,442	4.2%	
Children, Families and Adults	328,041	305,672	22,369	7.3%	
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	9,350	10,091	-741	-7.3%	
Cost Of Services	447,102	412,152	34,950		
Other operating expenditure	88,668	59,570	29,098	48.8%	2.2.4
Financing and investment income/expenditure	36,372	42,845	-6,473	-15.1%	
Taxation and Non-Specific Grant Income	-477,549	-431,941	-45,608	10.6%	2.2.5
(Surplus) or Deficit on Provision of Services	94,593	82,626	11,967		
Surplus on revaluation of long-term assets	-101,748	-72,986	-28,762	39.4%	2.2.6
Impairment and revaluation losses charged to the Revaluation Reserve	28,819	4,024	24,795	616.2%	2.2.6
Remeasurement of net defined benefit/ liability	8,478	-99,262	107,740	-108.5%	2.2.7
Other Comprehensive Income and Expenditure	-64,451	-67,535	103,773		
Total Comprehensive Income and Expenditure	30,142	15,091	115,740		

Appendix 2: Balance Sheet Changes

	31-Mar-17 £000	31-Mar-16 £000	Change £000	Change %	Para Ref
Property, Plant & Equipment	1,779,704	1,761,452	18,252	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	31,370	25,598	5,772	22.5%	2.3.3
Long Term Assets	1,839,658	1,810,825	28,833	1.6%	
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	82,626	53,593	29,033	54.2%	2.3.5
Cash and Cash Equivalents	28,173	1,064	27,109	2548.9%	2.3.4
Current Assets	115,253	56,221	59,032	105.0%	
Cash and Cash Equivalents	0	0	0		
Short Term Borrowing	-95,399	-3,428	-91,971	2682.6%	2.3.6
Short Term Creditors	-127,394	-95,066	-32,328	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	-233,635	-118,320	-115,314	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	713,782	743,924	-30,142	-4.1%	
Usable Reserves	97,778	112,587	-14,809	-13.2%	2.3.9
Unusable Reserves	616,004	631,337	-15,333	-2.4%	2.3.10
Total Reserves	713,782	743,923	-30,142	-4.1%	2.3.11