

**STATEMENT OF ACCOUNTS 2015-16**

*To:* **Audit and Accounts Committee**

*Date:* **20<sup>th</sup> September 2016**

*From:* **Chief Finance Officer**

*Electoral division(s):* **All**

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

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

*Recommendation:* **The Committee is asked to approve the 2015/16 Statement of Accounts.**

<b><i>Officer contact:</i></b>	<b><i>Member contact</i></b>
Name: Chris Malyon Post: Chief Finance Officer Email: <a href="mailto:chris.malyon@cambridgeshire.gov.uk">chris.malyon@cambridgeshire.gov.uk</a> Tel: 01223 699796	Name: Cllr. Michael Shellens Portfolio: Chairman of Audit and Accounts Committee Email: <a href="mailto:shellens@waitrose.com">shellens@waitrose.com</a> Tel: 01223 699612

## **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 This version of the Statement of Accounts replaces the draft version that was presented to the Committee for review on 12<sup>th</sup> July 2016 and now requires this Committee's approval.

## **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 Report 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) 2015-16.
- 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 24.
- 2.1.4 A number of amendments have been made to the Statement of Accounts since the draft set were reviewed by the Committee at the meeting on the 12<sup>th</sup> July. These changes have been made to incorporate adjustments due to further work by the finance team, external audit review, and feedback received from the Committee in July. The key amendments are outlined in section 3 of this report.

### **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 movement is due to a net revaluation loss of £15m in 2015-16 (compared to a £37m revaluation gain in 2014-15), and Revenue Expenditure Funded from Capital Under Statute (REFCUS) charges of £23m in 2015-16 (compared to £5m in 2014-15). Capital schemes relating to academy schools are treated as REFCUS

expenditure, as the academy assets are not recognised on the Council's balance sheet.

- 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 £59.2m (£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 24 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 £25.2m during 2015-16, to £1,764.2m. The material movements that have contributed to the overall increase to the balance sheet include the following

- Additions (capital expenditure) (+£107.5m)
- Retirements (-£85.2m)
- Revaluation increases (+£42.3m)
- 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 Debtors reducing by more than the total decrease in Short Term Creditors. Short Term Creditors reduced by £6.9m and Short Term Debtors by £14.3m. 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 £36.4m, with a balance at the 31 March 2016 of £1.1m. 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 £60.4m 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 £76.6m.

### 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 12<sup>th</sup> July 2016 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 Accounting treatment of Castle Court

3.2.1 The Castle Court building is being converted into student accommodation following an agreement between the Council and Study Inn.

3.2.2 In the draft Statement of Accounts, presented to the Committee in July, the accounting treatment had been to recognise Castle Court as an investment property. A valuation had therefore been undertaken by the valuers and it had been included in the draft Accounts on this basis.

3.2.3 Following discussion with the external auditors, and after reviewing the accounting treatment in line with the relevant International Accounting Standard (IAS17), a change to the accounting treatment for Castle Court has been agreed.

3.2.4 Castle Court will now been recognised as a long term lease within the Accounts, rather than as an investment property. Therefore the following adjustments have been made:

To reverse its reclassification to Investment Properties:

- |   |          |
|---|----------|
| • Balance Sheet – Property, Plant and Equipment | +£9,298k |
| • Balance Sheet – Investment Properties         | -£9,289k |

To reverse its revaluation as an Investment Property:

- |  |           |
|--|-----------|
| • Balance Sheet – Investment Properties                        | -£10,659k |
| • Balance Sheet – Capital Adjustment Account                   | +£10,659k |
| • CIES – Movement in fair value of Investment Properties       | +£10,659k |
| • MIRS – Adjustment between accounting basis and funding basis | -£10,659k |

Record the disposal of the asset:

- |  |          |
|--|----------|
| • Balance Sheet – Property, Plant and Equipment                | -£9,298k |
| • Balance Sheet – Capital Adjustment Account                   | +£9,298k |
| • CIES – Gains/Losses on disposal of non current assets        | +£9,298k |
| • MIRS – Adjustment between accounting basis and funding basis | -£9,298k |

Recognise the finance leases receivable:

- |  |           |
|--|-----------|
| • Balance Sheet – Long Term lease receivable                   | +£21,300k |
| • Balance Sheet – Capital Adjustment Account                   | -£21,300k |
| • CIES – Gains/Losses on disposal of non current assets        | -£21,300k |
| • MIRS – Adjustment between accounting basis and funding basis | +£21,300k |

### 3.3 Collection Fund accounting

3.3.1 Due to an error in the production of the working paper, adjustments in respect of collection fund creditors and debtors had mistakenly been made against cash and cash equivalents. This has now been corrected.

• Balance Sheet – Cash & Cash equivalents	-£664k
• Balance Sheet – Debtors	+£2,184k
• Balance Sheet – Creditors	-£1,520k

### 3.4 Cash and Cash Equivalents

3.4.1 Some items from the trial balances had been included within the Cash and Cash Equivalents balance in the draft Accounts. Upon investigation these items would found to relate to a combination of control accounts and suspense accounts rather than bank balances, so were more appropriate to be included within the debtors and creditors balances in the Accounts.

• Balance Sheet – Cash & Cash equivalents	-£873k
• Balance Sheet – Debtors	£967k
• Balance Sheet - Creditors	-£94k

### 3.5 Growth Deal

3.5.1 The 2015-16 funding in respect of the Growth Deal had been included within Capital Grants Receipts in Advance in the draft Accounts. An adjustment has been made to recognise this funding within the Comprehensive Income and Expenditure Statement.

• Balance Sheet – Long Term grants receipts in advance	+£17,422k
• Balance Sheet – Capital Adjustment Account	-£17,422k
• CIES – Net cost of services	-£7,002k
• CIES – Capital grants and contributions	-£10,420k
• MIRS –adjustments between accounting basis and funding basis	+£17,422k

### 3.6 PFI lifecycle replacement costs

3.6.1 An adjustment has been made to correct an unnecessary adjustment in the working paper for PFI lifecycle replacement costs for the Waste PFI scheme.

• Balance Sheet – Cash & Cash equivalents	+£1,842k
• Balance Sheet – Earmarked reserves	-£1,842k
• CIES – Net cost of services	-£1,842k
• MIRS – Transfers to/from earmarked reserves	+£1,842k

### 3.7 Provisions

3.7.1 Provisions held in the draft Accounts in respect of the Transformation programme were more appropriate to be accounted for as earmarked reserves.

• Balance Sheet – Provisions	+£1,962k
• Balance Sheet – Earmarked reserves	-£1,962k
• CIES - Net cost of services	-£1,962k

- MIRS – Transfers to/from earmarked reserves +£1,962k

### **3.8 Public Health**

3.8.1 Part of the Public Health funding received is spent on Public Health related services within other service headings. In the draft Accounts this funding had been double counted within the Income and Expenditure Statement. Whilst the net position was correct the gross income and expenditure had been overstated. This has now been corrected.

- CIES – Gross income +£7,640k
- CIES – Gross expenditure -£7,640k

## **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 20 September 2016. 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**

There are no significant implications within this category.

### **6.3 Equality and Diversity Implications**

There are no significant implications within this category.

### **6.4 Engagement and Consultation Implications**

There are no significant implications within this category.

## 6.5 Localism and Local Member Involvement

There are no significant implications within this category.

## 6.6 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	Octagon first floor, Shire Hall, Cambridge



## Appendix 1: Comprehensive Income and Expenditure Statement Changes

	2015-16 £000	2014-15 £000	Change £000	Change %	Ref
Central services to the public	810	2,221	-1,411	-63.5%	
Culture and related services	10,034	9,880	154	1.6%	
Environment and regulatory services	26,544	21,782	4,762	21.9%	
Planning services	3,104	3,347	-243	-7.3%	
Education and children's services	173,312	102,553	70,759	69.0%	2.2.2
Highways and transport services	47,256	44,535	2,721	6.1%	
Adult social care	148,541	148,493	48	0.0%	
Corporate and democratic core	11,396	9,804	1,592	16.2%	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%	
<b>Cost Of Services</b>	<b>412,153</b>	<b>341,275</b>	<b>70,878</b>		
Other operating expenditure	59,570	16,308	43,262	265.3%	2.2.4
Financing and investment income/expenditure	42,845	42,413	432	1.0%	
Taxation and Non-Specific Grant Income	-423,452	-392,767	-30,685	7.8%	2.2.5
<b>(Surplus) or Deficit on Provision of Services</b>	<b>91,116</b>	<b>7,229</b>	<b>83,887</b>		2.2.6
Surplus on revaluation of long-term assets	-72,459	-170,107	97,648	-57.4%	2.2.7
Impairment and revaluation losses charged to the Revaluation Reserve	4,024	2,351	1,673	71.2%	
Remeasurement of net defined benefit/ liability	-99,262	100,221	-199,483	-199.0%	2.2.8
<b>Other Comprehensive Income and Expenditure</b>	<b>-167,697</b>	<b>-67,535</b>	<b>-100,162</b>		
<b>Total Comprehensive Income and Expenditure</b>	<b>-76,581</b>	<b>-60,306</b>	<b>-16,275</b>		

## 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	2,658	0	2,658		2.3.2
Intangible Assets	0	0	0	0.0%	
Long Term Investments	400	0	400		2.3.3
Long Term Debtors	25,598	3,139	22,459	715.5%	
<b>Long Term Assets</b>	<b>1,810,298</b>	<b>1,761,754</b>	<b>48,544</b>	<b>2.8%</b>	
Short Term 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%	
Short Term Debtors	51,226	65,508	-14,282	-21.8%	2.3.4
Cash and Cash Equivalents	1,064	37,724	-36,660	-97.2%	2.3.5
<b>Current Assets</b>	<b>53,855</b>	<b>105,051</b>	<b>-51,196</b>	<b>-48.7%</b>	
Cash and Cash Equivalents	0	-262	262	-100.0%	2.3.5
Short Term Borrowing	-3,428	-26,557	23,129	-87.1%	2.3.6
Short Term Creditors	-95,302	-102,196	6,894	-6.7%	2.3.4
Provisions	-5,657	-6,172	515	-8.3%	
Capital Grants and Contributions Receipts in Advance	-22,659	-29,864	7,205	-24.1%	
<b>Current Liabilities</b>	<b>-127,046</b>	<b>-165,051</b>	<b>38,005</b>	<b>-23.0%</b>	
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	-42,024	-12,975	-29,049	223.9%	
<b>Long Term Liabilities</b>	<b>-1,002,199</b>	<b>-1,043,429</b>	<b>41,230</b>	<b>-4.0%</b>	
<b>Net Assets</b>	<b>734,908</b>	<b>658,325</b>	<b>76,583</b>	<b>11.6%</b>	
Usable Reserves	104,097	87,938	16,159	18.4%	
Unusable Reserves	630,810	570,387	60,423	10.6%	2.3.8
<b>Total Reserves</b>	<b>734,907</b>	<b>658,325</b>	<b>76,582</b>	<b>11.6%</b>	2.3.9

### Appendix 3: Summary of changes from draft to final accounts.

Section	Page	Detail
Narrative Report	5-6	<ul style="list-style-type: none"> <li>A section has been added to the Narrative Report summarising the Council's performance during 2015-16 against its Key Performance Indicators (KPIs). This is a summary of information taken from the Integrated Resources and Performance Report.</li> </ul>
	9-12	<ul style="list-style-type: none"> <li>Overview of the Year section. – The narrative, graphs and pie charts have been updated to incorporate the audit adjustments that have been made in the rest of the document.</li> </ul>
	13	<ul style="list-style-type: none"> <li>Movement on general fund and earmarked reserves – Chart has been replaced by a table.</li> </ul>
Statement of Responsibilities,	23-24	<ul style="list-style-type: none"> <li>Approval section included. To be signed off by the Chair of the Audit and Accounts Committee</li> </ul>
Movement in Reserves Statement (MIRS)	25	<ul style="list-style-type: none"> <li>Figures have been updated to incorporate the audit adjustments described in section 3 of this report.</li> </ul>
Comprehensive Income & Expenditure Statement (CIES)	26	<ul style="list-style-type: none"> <li>Figures have been updated to incorporate the audit adjustments described in section 3 of this report.</li> </ul>
Balance Sheet	27	<ul style="list-style-type: none"> <li>Figures have been updated to incorporate the audit adjustments described in section 3 of this report.</li> </ul>
Cash Flow Statement	28	<ul style="list-style-type: none"> <li>Figures have been updated to incorporate the audit adjustments described in section 3 of this report.</li> </ul>
Notes To The Core Financial Statements	30-46	<ul style="list-style-type: none"> <li>Policy in respect of Fair Value measurement has been reworded to add clarity.</li> </ul> <p>Accounting policies have been reviewed and those which were either not material or no longer required have been removed.</p>
	49	<ul style="list-style-type: none"> <li>Events after the balance sheet date. – Note added in respect of the EU referendum result.</li> </ul>
	54-57	<ul style="list-style-type: none"> <li>Property, Plant and Equipment note updated to take account of audit adjustments described in section 3.2.</li> </ul>
	58	<ul style="list-style-type: none"> <li>Long term finance leases receivable added to Long Term Debtors note. See section 3.2.</li> </ul>
	62-63	<ul style="list-style-type: none"> <li>Castle Court no longer included in Investment Properties. See section 3.2.</li> </ul>
	66	<ul style="list-style-type: none"> <li>Cash &amp; Cash equivalents note updated to take account of audit adjustments. See section 3.</li> </ul>
	67	<ul style="list-style-type: none"> <li>Transformation provisions have now been moved to earmarked reserves.</li> </ul>
	68	<ul style="list-style-type: none"> <li>Disclosure note added in respect of Other Long Term Liabilities.</li> </ul>
	80	<ul style="list-style-type: none"> <li>Officers remuneration – Separate column added to show expense allowances.</li> </ul>
Pension Fund accounts	81	<ul style="list-style-type: none"> <li>Employee remuneration above £50k. – Table updated to include termination benefits.</li> </ul>
	111-156	<ul style="list-style-type: none"> <li>Updated data and presentational changes following external audit.</li> </ul>