

Narrative Report

Local authorities in England are required by the Accounts and Audit Regulations 2015 to publish a narrative statement within the Statement of Accounts. This 'Narrative Report' replaces the Explanatory Foreword that introduced the Statement of Accounts in previous years.

The purpose of this report is to provide an understandable guide to the most significant matters reported in the accounts and to provide information on the Council's financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.

1. The 'core' statements

The statement of accounts comprises four 'core' statements, the Collection Fund and Council Group Accounts, with its supporting notes. To gauge an idea of the Council's financial position and activities the 'core' statements provide a good summary. To gain a detailed understanding of the accounts the core statements need to be read in conjunction with the supporting notes to the accounts.

The purpose of each of the core statements is briefly outlined below.

The Comprehensive Income & Expenditure Statement (CI&E)

The CI&E statement shows the accounting cost of providing services; it represents the 'running costs' of the Council for the year. The statement is prepared in accordance with generally accepted accounting practices rather than the amount to be funded by taxation.

The Movement in Reserves Statement

The Movement in Reserves Statement (or MiRS) provides a summary of the changes that have taken place in the bottom-half of the Balance Sheet over the financial year. It does this by analysing:

- The increase or decrease in the net worth of the authority as a result of incurring expenses and generating income
- The increase or decrease in the net worth of the authority as a result of movements in the fair value of its assets
- Movements between reserves to increase or reduce the resources available to the authority according to statutory provisions

The Council's reserves are classified as either usable or unusable reserves. Usable reserves are as they sound, available for use. Unusable reserves are those reserves held for accounting purposes and do not represent funds that can be spent. The total of the reserves represents the 'net worth' of the Council.

The Balance Sheet

The balance sheet summarises the financial position of the authority at a specific point in time. For these accounts the balance sheet represents the position as at 31st March. The 'top half' of the balance sheet summarises the assets and liabilities that the Council holds, or has accrued with other parties. The 'bottom half' of the balance sheet details the Council's reserves, which represent the 'net worth' of the authority, as described above.

The Cash Flow Statement

The cash flow statement summarises the flows of cash that have taken place into and out of the authority's bank accounts over the financial year. It separates flows into: those that have occurred as a result of the authority's operations; those arising from the authority's investing activities (including cash flows related to non-current assets), and; those attributable to financing decisions. The movement in cash and cash equivalents on the cash flow statement match the movement between years on the balance sheet.

The Collection Fund

Although not a core statement as such, the Council is also required to produce a Collection Fund statement. The collection fund is a statutory fund separate from the main accounts of the Council. It shows the various transactions relating to council tax and business rates collection. The account illustrates the amount of council tax collected and how the council tax has been distributed to preceptors (Gloucestershire County Council, Gloucestershire Police and Crime Commissioner, Town and Parish Councils) and this Council. The account also records the amount of business rates collected and how this has been distributed to the Council, Gloucestershire County Council and central government, under the Business rates Retention Scheme.

2. Financial Performance and Value for Money

Financial Performance

The Council's 2015/16 budget strategy assumed a balanced budget with a small £236 surplus and contribution to General Fund balances. The outturn position resulted in a £1,336,084 underspend as shown below.

Service Directorate	Original Budget £	Revised Budget £	Actual Outturn £	(under) / overspend vs. budget
Chief Executives	1,161,123	1,214,123	1,084,954	(129,169)
Corporate Management	1,938,830	1,938,830	1,998,371	59,541
Corporate Resources	798,085	659,447	305,997	(353,450)
Waste Management	3,803,252	3,743,526	3,660,048	(83,478)
Parking Services & Public Conveniences	(1,081,037)	(749,825)	(910,957)	(161,132)
Other Environmental Services	1,973,338	1,995,794	1,898,348	(97,446)
Leisure & Cultural Services	1,208,990	1,047,671	1,062,367	14,696
Planning	1,323,581	1,027,831	789,521	(238,310)
Sustainable Communities & Housing	1,344,817	1,686,893	1,659,198	(27,695)
Interest from Investments Income	(231,270)	(319,411)	(367,567)	(48,156)
Other accounting adjustments	(974,374)	(1,085,102)	(947,409)	137,693
Net revenue budget	11,265,335	11,159,777	10,232,871	(926,906)
RSG	(1,510,389)	(1,510,389)	(1,510,389)	0
Business Rates Retention	(2,339,300)	(2,339,300)	(2,733,949)	(394,649)
New Homes Bonus and Other Grants	(2,615,629)	(2,510,071)	(2,524,364)	(14,293)
Council Tax Income [Council share]	(4,708,463)	(4,708,463)	(4,708,463)	0
Collection Fund (surplus)/deficit	(91,790)	(91,790)	(91,790)	0
Contribution to / (from) General Fund	236	236	1,336,084	1,335,848
	0	0	0	0

Employee budgets across the Council are approximately £111,000 underspent. This is in excess of the budgeted vacancy factor (of £300,000) for the year. The major contributing factor has been the establishment of the 'core' 2020 project team, to which a number of staff were seconded. As a result, a share of the employment cost of the Chief Executive, Strategic Director and Business Improvement Manager have been funded by the 2020 project.

Services across the whole of the Council have underspent; expenditure has been tightly controlled and income targets have been exceeded in most income-generating services with the exception of Building Control fee income. Some savings from the 2020 Partnership Working have been delivered earlier than anticipated and have therefore contributed to the operational budget surplus.

The £394,649 additional funding from the Council's share of Retained Business Rates includes a distribution of £114,854 for the surplus delivered by the Gloucestershire Business Rates Pool.

Operational Performance

Operational performance is measured against a number of key tasks identified in the Corporate Strategy and Plan. Overall service delivery and performance during the year has been maintained, and is on the whole, slightly higher than performance in the previous year. At the end of the year, thirty-two key tasks had been completed, with the majority of the remaining key tasks to be delivered in 2016/17.

Over 85% of all performance indicators achieved their targets or achieved their target 'within tolerance'.

Efficiency Measures

The Council's efficiency is measured against a basket of indicators. For each indicator, performance is ranked against the performance of all 201 shire district councils, with the best performance ranked '1' and the lowest '201'. The rankings for individual indicators are aggregated to produce an overall ranking for each council; the council with the lowest score is the best performing or 'most efficient' council.

Baseline rankings for all indicators and overall ranking was established (primarily based on 2011/2012) data) which is used to gauge future improvements.

The latest ranking exercise (primarily based on 2014/15 data) placed the Council in 8th position. New rankings for each of the indicators will be updated as benchmarking data becomes available.

The Council's Summary Performance Report for 2015/16 was considered by Cabinet on 16th June 2016. The report details the key variances for the year and explanations of the major balances. All Committee papers are available from the Council website at: www.cotswold.gov.uk.

3. Material Assets and Liabilities acquired during the year.

During the year the Council acquired a waste transfer depot, valued at £1.7m at the Balance Sheet date.

4. Pensions liability

Cotswold District Council is a member of the Gloucestershire County Council Pension Fund, for which Gloucestershire County Council is the administering authority.

The scheme is a defined benefit statutory scheme that is administered in accordance with the Local Government Pension Scheme Regulations 1997 (as amended). It is contracted out of the State Second Pension.

At the balance sheet date the actuarial valuation had the pension fund in deficit (liabilities exceed assets). The valuation was represented as follows:

	£000
Fair value of employer assets	57,854
Present value of defined benefit obligation	(93,558)
Surplus / (deficit) on the pension fund	(35,704)

Every three years, the pensions fund is formally valued by the fund actuary. The valuation is used to inform decisions on the level of contributions into the fund. The last valuation was carried out as at 31st March 2013. The Council is making contributions to cover liabilities accruing for employees that are members of the scheme and an annual lump-sum contribution to fund the deficit.

For a full breakdown of the disclosures on the pension fund see Note 47 to the accounts.

5. Explanation of any material and unusual charges or credits in the accounts

Changes in the valuation of pension fund liabilities

The Council's pension fund liability is calculated by the actuary in accordance with International Accounting Standard 19 (IAS 19). The net liability in the pension fund has decreased over the past year by £7.8m.

The most significant change is the change in discount rate which had led to a reduction in the value placed on liabilities, compared to the financial assumptions adopted at 31st March 2015.

Assumptions:	2014/15	2015/16
• Rate of inflation (CPI)	2.4%	2.4%
• Rate of increase in pensions	2.4%	2.2%
• Rate of increase in salaries	3.8%	3.7%
• Discount rate	3.2%	3.5%

The next formal valuation of the fund will be carried out as at March 2016 when the level of contribution will be reviewed. The outcome of the triennial review will be received toward the end of 2016 will feed into the 2017/18 budget setting process.

Significant areas of income and expenditure within the revenue account include:

Description	2014/15 £	2015/16 £
<u>Expenditure:</u>		
Staff employment costs	8,700,356	8,674,804
Housing benefit payments	20,337,497	20,089,878
<u>Income:</u>		
Housing benefit subsidy grant	(20,018,994)	(19,914,729)
Revenue support grant [RSG]	(2,003,593)	(1,510,388)
Non-domestic rates net income	(2,163,504)	(2,733,949)
Council tax receipts [CDC share]	(4,909,927)	(4,708,463)

6. Significant changes in accounting policy

The Council's statement of accounts has been prepared based upon International Financial Reporting Standards, in accordance with the local authority adaptation of the standards, documented within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'). The Council's accounting policies are based upon the requirements of the Code.

2015/16 saw the application of IFRS 13, *Fair Value Measurement*, which has impacted upon the valuation of the Council's surplus assets. Surplus assets are now valued on a 'highest and best use' rather than existing use basis. This change has increased the value of surplus assets on the Council's balance sheet. See Note 12 to the accounts for further details.

There have been no other changes in accounting policy which had had a significant impact upon balances or accounting treatments within the Council.

7. Major changes in functions

No major changes in functions have taken place during 2015/16.

8. Non-current asset [fixed asset] purchases and disposals

During the year the Council purchased and disposed of a number of assets. The Council's purchases of non-current assets, capital enhancement works and asset disposals during 2015/16 can be summarised as follows:

Class of asset	Purchases [cost] £	Disposals [sale price] £
Property, Plant and Equipment (PPE)	2,587,678	375,000
Assets held for sale	201,500	2,652,000
Investment Property	0	0
Intangible assets [ICT software]	145,871	0
Total	2,935,049	4,027,000

The most significant addition in 15/16 was the purchase of a waste transfer depot, for approximately £1.7m.

The Council disposals related to two areas of land; one in Bourton-on-the-Water and one at Hammond Way, Cirencester.

9. Summary of the Authority's internal and external sources of funds to meet its capital plans, and commitments

The Council is currently debt free. It has no external borrowing.

A summary of the balances available to the Council in reserves to fund its future plans and meet its future commitments are as follows:

Funding source [reserves]	31st March 2015 £	31st March 2016 £
General Fund balance	2,911,603	4,247,687
Earmarked reserves	4,801,692	5,114,966
Capital grants unapplied account	155,363	59,749
Capital receipts	11,019,223	11,422,201
	18,887,881	20,844,603

The Council plans to utilise its capital receipts to fund its capital programme. There are currently no plans to use Prudential Borrowing powers over the life of the Council's Medium Term Financial Strategy.

10. Significant provisions or contingencies

At 31st March the Council has £1,114,729 set aside in provisions. £1,035,741 is a result of arrangements for the retention of business rates that came into effect as at 1st April 2013, whereby local authorities assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. The provision represents the Council's potential share of the outstanding liability at the balance sheet date.

Details of all provisions are included in note 22 to the accounts. Contingent liabilities are disclosed under note 48.

11. Events after the reporting date

There are no additional events to report after the balance sheet date.

12. Impact of the current economic climate and the outlook for the future

New Homes Bonus began in 2011/12 as a 'reward' over a six year period for additional housing generated within the District. The Council will receive its anticipated New Homes Bonus in 2016/17 (the sixth year since the start of the scheme). However, as part of the governments finance settlement it was announced the system is going to be changed and indications are that there could at least be a reduction of 33% future funding. As a result the Medium Term Financial Strategy has assumed a new reduced basis of allocation from 2017/18 although the overall scheme is under a consultation process and specific details are still to be agreed.

The '2020 Vision for Joint Working' is progressing and a Joint Committee for all partner Councils came into operation in February 2016. The Council's Chief Executive is undertaking a new role as Partnership Managing Director, with two Strategic Directors now sharing responsibilities to manage West Oxfordshire District Council and Cotswold District Council. The 2020 Programme has appointed a number of 'Group Managers' to plan business cases to incorporate a cross section of services from the partner Councils into the 2020 Programme. The overall business case for the Programme is currently being reviewed and updated and initial indications are that the original savings programme will be achieved. Some savings have already been taken by partner Councils and the Public Protection Project is now complete with a phased implementation up to August 2016 when the new structure will be fully operational. The 2020 Vision project is a fundamental part of all partner Councils Medium Term Financial Strategies to achieve the level of efficiency savings that will be required over the coming years.

13. Further information

For further information on the accounts please contact: Jenny Poole, Chief Finance Officer, Cotswold District Council, Trinity Road, Cirencester, Gloucestershire, GL7 1PX; or via email at Jenny.Poole@Cotswold.gov.uk.

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