



**AUDIT COMMITTEE**

**28<sup>th</sup> JUNE 2016**

**AGENDA ITEM (10)**

**DRAFT STATEMENT OF ACCOUNTS 2015/16**

<b>Accountable Member</b>	Not Applicable
<b>Accountable Officer</b>	Jenny Poole Chief Finance Officer 01285 623313 <a href="mailto:jenny.poole@cotswold.gov.uk">jenny.poole@cotswold.gov.uk</a>

<b>Purpose of Report</b>	To update the Committee on progress on preparation of the Statement of Accounts for 2015/16.
<b>Recommendation(s)</b>	(a) That the key financial statements and extracts from the draft Statement of Accounts 2015/16 be noted; (b) that the Accounting Policies applied in producing the Statement of Accounts attached at Appendix 'C' to this report be noted.
<b>Reason(s) for Recommendation(s)</b>	The Council is statutorily obliged to have prepared its draft statement of accounts by 30 <sup>th</sup> June following the end of the financial year.

<b>Ward(s) Affected</b>	None
<b>Key Decision</b>	No
<b>Recommendation to Council</b>	No

<b>Financial Implications</b>	None
<b>Legal and Human Rights Implications</b>	None
<b>Environmental and Sustainability Implications</b>	None
<b>Human Resource Implications</b>	None

<b>Key Risks</b>	The quality of the financial statements and the supporting working papers will be reviewed by the Council's external auditors and will inform the opinion on the statement of accounts. If they are of a poor quality, there could be reputational damage to the Council.  Training of Officers and quality review of the accounts helps to mitigate this risk
<b>Equalities Impact Assessment</b>	Not Required

<b>Related Decisions</b>	Council 24 <sup>th</sup> February 2015 approved the 2015/16 budget.
<b>Background Documents</b>	None
<b>Appendices</b>	<b>Appendix 'A'</b> - Key Financial Statements <b>Appendix 'B'</b> - Narrative report from the Statement of Accounts <b>Appendix 'C'</b> - Accounting Policies

<b>Performance Management Follow Up</b>	The external auditors will audit the statements and the outcome of the audit will be presented to the Audit Committee in August 2016.
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### Background Information

1. The Council's Chief Finance Officer is responsible for ensuring that the Statement of Accounts are prepared and signed and dated by the Chief Finance Officer no later than 30th June immediately following the end of a financial year. The Committee is not, therefore, being asked to approve the Statement of Accounts at this Meeting.
2. Following approval by the Chief Finance Officer, the full draft Statement of Accounts will be submitted to the Council's auditors, Grant Thornton. While there is no statutory requirement, it is still considered good practice that the Committee should see the draft statements as part of the Council's governance arrangements, prior to their submission.
3. In 2014/15, the Committee received copies of the Comprehensive Income & Expenditure Account, Movement on Reserves and Balance Sheet statements, for review and a presentation on the relevance of each statement. For the 2015/16 accounts, the Comprehensive Income & Expenditure Account, Movement in Reserves Statements and Balance Sheet have been attached to this report at **Appendix 'A'**, with the addition of the Narrative Statement from the Statement of Accounts being attached at **Appendix 'B'**. The Narrative Statement is taken directly from the Statement of Accounts and is written to provide an executive summary of the full statement and provides a good overview of the accounts. The Accounting Policies applied in preparing the accounts are attached at **Appendix 'C'**.
4. The Committee is encouraged to take away a copy of the full draft Statement of Accounts and raise any questions or concerns with the Chief Finance Officer before 25th July 2016. This will enable the Chief Finance Officer to address any issues or questions raised by the Committee, make any resulting changes to the Statement of Accounts and for those changes to be audited in a timely manner.
5. The Statement of Accounts will be reviewed and formally audited during July 2016. The audited Statement of Accounts will return to this Committee on 23rd August 2016 to be formally reviewed and adopted. The Council has the statutory deadline to publish its accounts together with the Audit certificate and report by 30th September.

6. The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). The Council is statutorily obliged under the Accounts and Audit Regulations 2011 to prepare its Statement of Accounts in accordance with the Code.

## 7. The 'Core' Statements

7.1 The Statement of Accounts comprises four 'Core' Statements, with supporting notes, and the Collection Fund, with its supporting notes. To obtain an overview of the Council's activities and financial position 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.

7.2 The purpose of each Core Statement is briefly outlined below.

### 7.3 The Comprehensive Income & Expenditure Statement (CI&E)

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

7.3.2 The figures on the face of the CI&E differ from the revenue outturn report presented to the Cabinet as the CI&E is prepared based on international accounting standards while the management accounts are prepared based on internal reporting practices. The CI&E includes entries for capital charges, notional changes in asset valuations, asset disposals and pension fund accounting, all of which are reversed back-out of the accounts through the Movement on Reserves Statement as part of the accounts process. These entries are not reported to Members as part of the Revenue Outturn Report as they are purely accounting entries, and do not represent a real charge to the Council Taxpayer.

### 7.4 The Movement in Reserves Statement

7.4.1 The Movement in Reserves Statement (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.

7.4.2 The Council's reserves are classified as either useable or unusable reserves. Useable reserves are exactly that; they are 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'.

### 7.5 The Balance Sheet

7.5.1 The balance sheet summarises the financial position of the authority at a particular point in time [the balance sheet date of 31<sup>st</sup> 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 detail the Council's reserves, which represent the 'net worth' of the authority. The reserves of the authority are split into useable and unusable reserves as follows:-

- useable reserves, which (as the name suggests) include revenue and capital resources which are available for use, and can be used to meet future expenditure;

- unusable reserves which are primarily adjustment accounts which absorb the difference between the outcome of applying proper accounting practices and the requirement of statutory arrangements for funding expenditure. These accounts do not represent balances that can be spent.

## 7.6 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 should match the movement between years on the balance sheet.

## 7.7 The Collection Fund

7.7.1 Although not a 'Core' Statement as such, the Council also produces 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, and Town and Parish Councils) and this Council. The account also records the amount of Business Rates collected and allocated to the Government, Gloucestershire County Council and this Council under the Business Rates Retention Scheme.

7.7.2 The draft CI&E Statement, the MiRS and Balance Sheet are attached at **Appendix 'A'**. The Cash Flow statement and Collection Fund have not been included with this report.

7.7.3 A copy of the full draft Statement of Accounts 2015/16 will be provided to the Committee on 28<sup>th</sup> June 2016.

## 8. Accounting Policies

8.1 The Council's financial rules state that the Chief Finance Officer is responsible for setting the Council's accounting policies. The Statement of Accounts is prepared based on these policies.

8.2 While it is the Chief Finance Officer's responsibility to set the policies, it is seen as best practice for the Audit Committee to also agree the policies which are being applied as they do have a significant influence on the accounts which the Committee is ultimately required to approve.

8.3 A copy of the Council's accounting policies is attached at **Appendix 'C'**.

## 9. Significant Items Affecting the Accounts

9.1 The Council's 2015/16 budget strategy assumed a balanced budget, with a small £236 budget surplus and contribution to General Fund balances.

9.2 The outturn position for the 2015/16 financial year was an underspend against the Council's operational budget of £926,906. Additional funding of £14,529, and a surplus generated from the Business Rates Retention Scheme has added a further £394,649 to the overall surplus against budget.

9.3 In total, the accounts show £1,336,084 as the surplus for the year and the balances available to increase the General Fund working balance. At the time of writing this report, the Cabinet has not met to consider recommendations on the use of the surplus balances. The draft accounts have therefore been prepared based on no additional transfers to reserves from the General Fund. Any decisions made by the Cabinet will be adjusted during the period of the audit.

9.4 The Council's pension fund liability is calculated by the Pension Fund Actuary in accordance with International Accounting Standard 19 (IAS 19). The liability in the pension fund has decreased by £7.8m over the past year. The movement is largely due to changes in actuarial assumptions.

9.5 2015/16 saw a change in the Code of Practice, requiring a change in valuation basis for the 'surplus assets' asset group. In previous years, surplus assets would be valued based on their 'current use'. The 2015/16 Code changed this to 'best use'. A number of assets have been revalued upwards as the valuer deems them to have an increased value under the revised definition. In total, the Council's surplus assets were revalued upward by £3.8m.

9.6 During the year, the Council spent £4,030,003 against its approved Capital Programme. The most significant activity in the year was the purchase of the Packers Leaze Environmental Services depot (South Cerney) for £1.7m and the awarding of £616,000 in Disabled Facilities Grants.

9.7 The Council disposed of two land assets during 2015/16, which generated a combined sale fee of £4,027,000. Both assets sold were land, one in Bourton-on-the-Water (£3,652,000) and one site at Hammond Way, Cirencester (£375,000). Both receipts have been treated as capital receipts and will be used to support capital investment in future years.

9.8 During 2015/16, Ubico Ltd took on four new partners - Forest of Dean District Council, West Oxfordshire District Council, Tewkesbury Borough Council and Stroud District Council. The expanded number of partners means that this Council no longer has a controlling or significant influence in Ubico Ltd., due to its reduced shareholding. The 2015/16 Cotswold accounts therefore do not include group accounts.

#### 10. Reconciling the Comprehensive Income and Expenditure Statement to the Revenue Outturn Position Reported to the Cabinet

10.1 The CI&E Statement attached at **Appendix 'A'**, shows a deficit for the year on the provision of services of £144,456. The CI&E Statement reflects the full requirements of the accounting 'Code' and therefore includes the following items:-

- certain items of capital expenditure where the investment does not generate an asset to be recognised on the Balance Sheet, for example, Community Projects Fund Grants, Disabled Facilities Grants and other capital grants;
- depreciation and amortisation which is charged to represent the economic consumption of operational fixed assets;
- pension costs based upon the Actuary's assessment under International Accounting Standard 19;
- capital receipts from asset disposals (including Right to Buy clawback from Bromford Housing Association);
- Profit/Loss on the disposal of assets;
- unrealised gains or losses such as those resulting from a change in the market value of investment properties, which are shown in the revenue account;
- the balance before any transfers to or from earmarked reserves.

10.2 These items, although included in the CI&E Statement, are then adjusted for and reversed-out via the MiRS to bring the Statements back to the revenue out-turn figure of £1,336,085 quoted in paragraph 9.3, as required by legislation. The detailed analysis of these adjustments is shown in Note 7 to the accounts within the full Statement of Accounts.

10.3 The Core Statements attached at **Appendix 'A'**, and the full draft Statement of Accounts have been prepared before any recommendations to the Cabinet being approved. Any recommendations from the Cabinet on transfers to earmarked reserves will be included in the final audited version of the accounts.

## 11. Early Closure of the Accounts

11.1 Currently, local authorities are required to approve and publish their accounts by 30th June (draft) and 30th September (final). The Audit and Accounts Regulations 2015 give notice that, for the 2017/18 financial year, local authorities will be required to bring-forward the completion of their accounts by a month, to 31st May for the draft accounts and by two months to the 31st July for the audited Statement of Accounts.

11.2 Although two years in the future, the Finance team made an effort to review practices and procedures, and bring forward deadlines as a 'practice' early closedown. By reducing timescales and implementing its own internal deadlines, the team was able to effectively closedown approximately two weeks earlier than it had in 2014/15.

11.3 The process did highlight particular bottlenecks within the closedown process, which will be reviewed and built-in to the 2016/17 closedown timetable.

## 12. Key Balances

12.1 The MiRS attached at **Appendix 'A'** shows the reserves the Council has available to finance its activities and the movements in balances during the year.

12.2 The General Fund Working Balance has increased by £1,336,085 from £2,911,602 to £4,247,687. The level of earmarked revenue reserves has increased by £313,275 from £4,801,692 to £5,114,966.

12.3 The Council's balance of capital receipts, which are available to fund capital expenditure projects, has increased by £402,978 from £11,019,223 to £11,422,201.

12.4 The Net Assets of the Council stand at £49,251,598 at the balance sheet date. The balance sheet remains healthy with resources available to fund the Council's activity for the duration of the Medium Term Financial Strategy and beyond.

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