



**AUDIT COMMITTEE**

**4<sup>TH</sup> JULY 2017**

**AGENDA ITEM (11)**

**STATEMENT OF ACCOUNTS 2016/17**

<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>	This report presents the Council's draft Statement of Accounts for the period 1 <sup>st</sup> April 2016 to 31 <sup>st</sup> March 2017.
<b>Recommendation(s)</b>	<p>(a) That the key balances and messages from the draft 2016/17 Statement of Accounts be noted.</p> <p>(b) That the Accounting Policies that have been applied in producing the Statement of Accounts (pages 50 to 60 of Appendix 'A') be noted;</p> <p>(c) That any questions on the draft Statement of Accounts be raised with the Chief Finance Officer by no later than 31<sup>st</sup> July 2017.</p>
<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.  The 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 - 23 <sup>rd</sup> February 2016 - Minute CL.49
<b>Background Documents</b>	None
<b>Appendices</b>	<b>Appendix 'A'</b> - Draft Statement of Accounts 2016/17

<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 2017.
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### Background Information

1. The Chief Finance Officer is responsible for ensuring that the Statement of Accounts is prepared and signed and dated by the Chief Finance Officer by 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 for the 2016/17 financial year at this Meeting.
2. Following approval by the Chief Finance Officer, the draft full Statement of Accounts is submitted to the Council's external auditors, Grant Thornton. While there is no statutory requirement, it is still considered good practice that the Committee should see the draft Statement as part of the Council's governance arrangements.
3. A copy of the draft Statement of Accounts at **Appendix 'A'** is enclosed as a separate document with this agenda for information. This report highlights the key balances and messages from the Statement. The Committee is encouraged to raise any questions on the draft Statement with the Chief Finance Officer by no later than 31st July 2017. This will enable Officers to address any issues or questions raised, make any resulting changes to the Statement of Accounts and for those changes to be audited in a timely manner.
4. The Statement of Accounts will be reviewed and formally audited during the summer and the audited Statement of Accounts will return to this Committee on 29<sup>th</sup> August 2017 for formal review and consideration of adoption, prior to publication together with the Audit Certificate and report by 30<sup>th</sup> September 2017.
5. The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('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.
6. Composition of the Statement of Accounts
  - 6.1 The Statement of Accounts comprises of the following documents:-
    - Narrative Report
    - Comprehensive Income and Expenditure Statement;
    - Movement in Reserves Statement;

- Balance Sheet;
- Cash Flow Statement;
- Collection Fund;
- Supporting Notes.

6.2 To obtain an overview of the Council's activities and financial position, each document provides a good summary (for example, Comprehensive Income and Expenditure of the operational financial activity, Balance Sheet of the assets and liabilities as at 31st March). To gain a detailed understanding of the Accounts, each document needs to be read in conjunction with its applicable Supporting Notes.

6.3 The purpose of each document is briefly outlined in paragraphs 6.4 to 6.9 below.

6.4 **The Narrative Report** sets the context for the Statement of Accounts. It provides a strategic overview of the Council and its financial position; the environment in which it operates; its Aim and Priorities; and a summary of overall performance during the year against its financial plans. It is designed to allow the user of the Statement to consider the document in a standalone way and to give a good overall summary of the accounts.

6.5 **The Comprehensive Income and Expenditure Statement (CIES)** shows of all of the Council's income and expenditure for the year. The top half of the CIES provides an analysis by service area/directorate. The bottom half of the CIES deals with corporate transactions and funding. The figures on the face of the Statement differ from the revenue outturn report presented to the Cabinet as the Statement is prepared based on international accounting standards while the management accounts are prepared based on internal reporting practices. The CIES includes entries for capital charges, notional changes in asset valuations, asset disposals and pension fund accounting. These entries are not reported to the Committee as part of the outturn report as they are purely accounting entries and do not represent a real charge to the Council Taxpayer.

6.6 **The Movement in Reserves Statement** is a summary of changes that have taken place in the bottom half of the Balance Sheet over the financial year. Reserves are divided into 'usable' which can be invested in service improvements or capital investment and "unusable" which must be set aside for specific accounting purposes and which cannot be spent.

6.7 **The Balance Sheet** is a 'snapshot' of the Council's assets, liabilities, cash balances and reserves as at the year-end, 31st March.

6.8 **The Cash Flow Statement** shows the reasons for changes in the Council's cash balances during the year, and whether those changes are due to operating activities, new investment or financing activities (such as borrowing or other long term liabilities).

6.9 **The Collection Fund** summarises the transactions relating to Council Tax and Business Rates collection, and the redistribution of some of that money to the Government, and the Preceptors - Gloucestershire County Council, the Police and Crime Commissioner for Gloucestershire, and Town/Parish Councils.

## 7. Accounting Policies

7.1 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.

7.2 Whilst it is the Chief Finance Officer's responsibility to set the policies, it is seen as best practice for this Committee to also agree the policies. The policies have a significant influence on the Accounts which the Committee has responsibility for approving, following completion of the external audit process.

7.3 The accounting policies are set out on pages 50 to 60 of the Statement of Accounts.

## 8. Revenue Outturn and Performance

8.1 The Council's base revenue budget (Total Cost of Services) for 2016/17 was £10,185,835. During the year, this was revised to £10,438,340 to reflect accounting adjustments for revenue costs to be funded from earmarked reserves. The Council planned to make a contribution to the General Fund balance of £610,446. At the end of the year, the Council has delivered further savings against budget of £42,056 and this has further increased the General Fund Working Balance

8.2 The revenue outturn position was reported to the Cabinet on 15<sup>th</sup> June 2017. A full breakdown of the revenue underspend, and variances against budget, are available in that report (Agenda Item (9) of 15<sup>th</sup> June 2017 refers).

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

9.1 The Comprehensive Income and Expenditure Statement (page 9 of the Statement of Accounts refers) shows the accounting cost in the year of providing services. A net deficit on provision of services of £961,000 is reported. The figures differ from the revenue outturn report (a surplus of £42,000) as the Statement is prepared based on international accounting standards while the management accounts are prepared based on internal reporting practices. Paragraph 6.5 sets out these differences in greater detail.

9.2 Note B1 'Expenditure and Funding Analysis' on page 10 of the Statement reconciles this difference between statutory financial reporting and management reporting. The accounting transactions, which are not reported to the Committee as they do not impact on Council Taxpayer financing of the Council, are set out in the column headed "Adjs. between accounting and funding basis" and amount to £1.6m. Once adjustments for transfers to and from earmarked reserves (£15,000) are taken into account, the net contribution to the Council's General Fund Balance is £652,000 (£610,000 planned contribution plus £42,000 in-year surplus).

## 10. Balance Sheet Movements

10.1 The Balance Sheet represents the value or 'net worth' of the Council at 31st March. The key movements in the Balance Sheet between 31st March 2016 and 31st March 2017, and reasons for the largest changes, are summarised below.

10.2 Long term investments have increased by £2m, reflecting a new long-term investment (for four years) made during the year.

10.3 Long term debtors have increased by £539,000, reflecting the financing element of vehicles which are leased to Ubico Ltd.

10.4 Short term investments have increased by £5.2m from the start of the year. The change in investments represents the Council's maximising its use of available balances to generate returns for the Council. The Council also borrowed £3m for operational purposes at the end of March 2017, instead of calling back some of its investments early.

10.5 The amount of short term debtors outstanding between years has fallen by £1.3m. The major reason for the change relates to one particular transaction which was on the balance sheet at 31<sup>st</sup> March 2016, for £1.8m which was owed to the Council (as a debtor). The debt related to a disposal of land in Bourton-on-the-Water, where 50% of the sale price was paid at the point of sale and 50% was deferred until September 2016. The second half of the sale proceeds were received, as per the terms of the contract, during 2016/17. This one transaction accounts for the large decrease in debtors outstanding at the Balance Sheet date, compared to the previous year.

10.6 Short-term borrowing has increased by £3m. Borrowing was undertaken at the end of the year to cover short-term cash flow needs. The Council borrowed in accordance with its Treasury Management policy, and the temporary borrowing was repaid in the first-week of April 2017.

10.7 Short term creditors have increased by £1.4m, because of increases in year-end balances due to Government Departments and local authorities. These balances reflect the accounting arrangements for the local Business Rate Retention scheme.

10.8 The largest change on the Balance Sheet relates to the valuation of the Pension Fund liabilities, which is shown under 'Other Long Term Liabilities'. The liability has increased by £5.5m. The valuation of Pension Fund assets has increased by £9m in the year. However, this growth has been eclipsed by the increase in liabilities of £14.5m. The actuary uses a number of financial assumptions when preparing the pension estimates for accounting purposes. One of the most significant assumptions is the Discount Rate which is applied to value liabilities. For 2016/17, the Discount Rate applied has fallen from 3.5% to 2.6% - a reduction of 0.9%. For each 0.5% reduction in the Discount Rate, the liabilities increase by £10.1m. Accounting standards require the Discount Rate to be set with reference to yields available on high quality corporate bonds. Hymans Roberson [the Actuary] bases the yield predictions on the constituents of the iBoxx AA corporate bond index.

10.9 The triennial Pension Fund valuation was completed in March 2016 and establishes the authority's pension fund contributions for the next three years. The annual valuation for accounting purposes will not therefore impact on the Councils physical pension fund contributions during 2017/18.

10.10 The Councils 'earmarked reserves' represent resources that have been set-aside by the Council for specific projects or money to provide specific schemes in the future. Overall contributions to earmarked reserves amounted to £2.3m, whilst expenditure amounted to £2.5m. The value of earmarked reserves therefore reduced by £150,000.

10.11 The 'general fund balance' increased by £652,000 from 1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017. The movement represents the budgeted transfers to the General Fund as planned in a sum of £610,000 and the underspend in the year of £42,000. The General Fund balance represents the unallocated revenue reserves of the Council. At 31<sup>st</sup> March 2017, the balance stood at £4,380,045.

10.12 The 'Net Assets' or 'Net Worth' of the Council has decreased by £4,939,492 during the year to £48,700,301. The Council remains financially secure and sustainable for the foreseeable future.

## 11. Early Closure of Accounts

11.1 Currently, local authorities are required to approve and publish their accounts by 30th June (draft) and 30th September (final) each year. 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 The Finance Team has reviewed practices and procedures to bring forward deadlines as a 'practice' for future early closedown. By reducing timescales and implementing internal deadlines, the team was able to produce draft accounts by 8<sup>th</sup> June 2017, in time for the external auditor to commence the audit of the accounts as planned.

11.3 Further lessons will be learned from this dry run and will be fed into planning for the 2017/18 process.

(END)