AUDIT & GOVERNANCE COMMITTEE

30th June 2016

Report of the Director of Finance

DRAFT ANNUAL STATEMENT OF ACCOUNTS & REPORT 2015/16

EXEMPT INFORMATION

None

PURPOSE

To receive the Draft Statement of Accounts (the Statement) for the financial year ended 31st March 2016.

RECOMMENDATION

That Members receive for review the Annual Statement of Accounts 2015/16.

EXECUTIVE SUMMARY

Current legislation, detailed in Accounts and Audit (England) Regulations 2015, requires the Council to prepare a Draft Statement of Accounts by 30th June (approved by the Council's Chief Finance Officer - the Executive Director Corporate Services), a Committee of the Council to approve the Statement by 30th September and for the Council to publish the Statement together with the Auditors' opinion by 30th September.

However, these deadlines are changing for future years and will mean that the accounts will need to be prepared by 31 May and audited by 31 July - for the accounts prepared from 2017/18.

For 2015/16 the Finance team planned to bring forward the completion date for the Statutory Accounts – with a target completion date of 31st May in line with the future deadlines. A first draft (subject to quality assurance review) was sent on 3rd June 2016 to Members of the Audit & Governance Committee and our External Auditors (Grant Thornton).

The final draft accounts as signed by the Executive Director Corporate Services, were issued to the External Auditor with the Committee Agenda on 22nd June 2016 - in compliance with the deadline of 30th June and subject to the normal External Audit review by Grant Thornton.

Although there is no formal requirement for this Committee to approve the accounts prior to audit, it is considered best practice that members have the opportunity to review the accounts. The Draft 2015/16 Statement of Accounts (subject to audit) is attached at **Appendix A**.

This Committee will be required to formally approve the final Statement of Accounts by the 30th September 2016, following the receipt of the External Auditors' 'The Audit Findings' report on the accounts.

Key issues affecting the 2015/16 accounts and the accounting process are detailed within the report.

RESOURCE IMPLICATIONS

For 2015/16, a revenue budget underspend for the General Fund of £1.9m is reported with an increase in General Fund closing balances of £1.8m. The Housing Revenue Account reports an underspend of £1.8m with a reduction in Housing Revenue Account closing balances of £1.2m.

It should be noted that the Medium Term Financial Strategy, approved in February 2016, identified estimated balances of £5.3m (at 1st April 2016) compared to the draft actual closing balances of £6.7m - additional balances of £1.4m. For the HRA balances of £3.3m were forecast at 1st April 2016 compared to the actual balances of £4.7m - additional balances of £1.4m. Balances above the minimum will be required to provide additional funds for uncertainties regarding future Government funding arrangements.

The outturn for the 2015/16 capital programme identifies an underspend of £10.1m against the approved budget of £16.3m (actual spend £6.2m - no change since Provisional Outturn). However, it has been requested that £9.5m of scheme spend be re-profiled into 2016/17. This will result in an overall underspend of £0.6m for the 2015/16 capital programme.

LEGAL / RISK IMPLICATIONS

Current legislation, detailed in Accounts and Audit (England) Regulations 2015, requires a Committee of the Council to approve the Statement by 30th September 2016 and for the Council to publish the Statement together with the Auditors' opinion by 30th September 2016.

REPORT AUTHOR

Stefan Garner, Director of Finance

LIST OF BACKGROUND PAPERS

Capital Outturn Report 2015/16 - Cabinet, 16th June 2016
Performance Healthcheck (including Provisional Outturn Report 2015/16) - Cabinet, 16th June 2016

BACKGROUND INFORMATION

The Annual Statement of Accounts for the year ended 31st March 2016 has been prepared in accordance with the guidelines contained within the latest Code of Practice on Local Authority Accounting in the United Kingdom.

The Code is based on International Financial Reporting Standards (IFRS), and has been developed by the CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Accounting Standards (IAS) Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance. The latest edition of the Code (2015/16) applies for accounting periods commencing on or after 1st April 2015. It supersedes the 2014/15 Code.

The changes for 2015/16 are principally around additional or changed disclosure notes, points of clarification and additional guidance – which have a minor impact within the following statements.

CHANGES IN ACCOUNTING POLICY FOR 2015/16

The need for changes in accounting policy can arise from:

(i) changes that are mandatory under the annual IFRS based *Code of Practice on Local Authority Accounting* and require a new or revised accounting policy to be adopted by all local authorities;

(ii) changes within the overall framework of the *Code of Practice* but where the policy to be adopted is discretionary and is dependent upon interpretation of local circumstances.

An updated Code of Practice, applicable for 2015/16 was issued by CIPFA in March 2015 – together with a supplementary code update in January 2016 which reflects changes since the code was originally issued (mainly amendments as a result of legislative changes and particularly the Accounts and Audit Regulations 2015).

Changes reflected in the 2015/16 updated Code and subsequent supplementary update do, on the whole, have to be incorporated into the Council's accounts but do not necessarily impact on the Council's accounting policies. This is because the changes are principally around additional or changed disclosure notes, points of clarification and additional guidance etc.

The only change to the Code of Practice that impacts on the Council's 2015/16 Accounting Policies concerns Fair Value Measurement (under IFRS 13) as set out in the Accounting Policies (Note 1).

The introduction of IFRS 13 has changed and made more consistent the definition of Fair Value across various types of financial and non-financial assets.

The main impact is on the way any Investment Properties, Surplus Assets and some Financial Instruments are valued. It introduces a new concept of Highest and Best Use and a Fair Value Hierarchy of observable and unobservable inputs.

However, the adoption of IFRS 13 has limited applicability to the public sector and the Council as exceptions have been permitted for all operational Property, Plant and Equipment and Intangible Assets. Therefore, this new accounting standard will only focus on and does require a significant increase in disclosures for any Investment Properties or Surplus Assets. The changes resulting from the adoption of IFRS 13 are only prospective and apply from 1 April 2015. As a result, no restatement of prior year balances are required.

There is also a new requirement arising from the Accounts and Audit Regulations 2015 for Council to prepare a narrative statement to replace the explanatory foreword – to include a commentary on the Council’s financial performance and value for money in its use of resources.

The Council's accounts for 2015/16 consist of the following:

Core Financial Statements:

Movement in Reserves Statement: shows the movement in the year on the different reserves held by the Authority, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

The Movement in Reserves Statement shows a net General Fund surplus of £1.8m for the year. This was £1.9m lower than the planned transfer from balances in the original budget at the start of the year and has resulted in an increase in General Fund Balances to £6.7m (£4.9m – 2014/15) – and reflects the risks and uncertainties facing the Authority over the medium term.

Comprehensive Income and Expenditure Account: shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

A surplus of £34.1m is reported for 2015/16 (£6.3m surplus 2014/15). This is mostly explained by a £15.5m gain on the disposal of the former Golf Course for £25.2m in January 2016 (following the Cabinet decision on 11th September 2014 to close the Golf Course with effect from 1st October 2014 and market the site for development).

It also included a re-measurement of the Net Defined Benefit Liability relating to the pension fund resulted in a surplus of £11m (a deficit of £8m was reported in 2014/15).

Balance Sheet: shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are £139.2m (£105.1m 2014/15) which are matched by the reserves held by the Authority. Key items are:

Long Term Assets

The Council holds property, plant and equipment assets of £154.2m (£151.7m 2014/15) – mainly due to Council dwellings of £134.4m (£133.3m 2014/15).

Working Capital

Net working capital has increased to £35.7m (£20.4m 2014/15) mainly due to a deferred payment arrangement, over 3 years, relating to the sale of the former Golf Course resulting in the following payment profile:

- £8m due to be received during 2016/17 - with a corresponding increase in short term debtors;
- the remaining £16.2m due in the following financial years – with a corresponding increase in long term debtors.

Provisions, Usable Reserves and Balances

The working balances as at 31st March 2016 are £37.2m (£30.6m 2014/15) and comprise provisions, earmarked reserves, revenue balances and the unused element of capital receipts.

Working balances of £18.9m (£13.0m 2014/15) relate to capital (including the Capital Reserve of £12.2m). The £9.5m capital commitments from 2015/16 and previous years carried forward to 2016/17 will be required to be financed from these balances (£4.0m 2014/15).

Borrowing Facilities

The Authority borrows funds where necessary to meet both long term capital expenditure commitments and short-term cash flow demands. Funds are borrowed from the Government (Public Works Loan Board - PWLB) and from the commercial money market (banks, building societies and other lenders). The Authority's debt at 31st March 2016 was £65.1m (£65.1m 2014/15) and was all borrowed from the PWLB.

Pensions

The pension fund deficit has reduced in the year to £40.6m (£48.9m 2014/15) and is required to be shown on the Balance Sheet of the Authority. This improvement is as a result of an increase in the net discount rate, the positive impact of which has outweighed the likely lower than expected asset returns.

It should be noted that there has been no impact on the net cost to the taxpayer arising from this - other than as part of the planned increase in annual contributions (from 19.6% to 22.4% - including 16.5% p.a. plus an increasing lump sum element) arising from the formal valuation on 31st March 2013.

Cash Flow Statement: shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

Supplementary Statements:

Housing Revenue Account: reflects the statutory requirement to maintain a separate account for Council Housing.

The overall revenue financial position relating to Council Housing shows a reduction in HRA balances for the year of £1.2m. This equates to an underspend of £1.8m when compared to the approved budget for the year. This has resulted in a reduction in balances from £5.9m to £4.7m to be carried forward to 2016/17.

The Collection Fund: shows the Council Tax income collected on behalf of Staffordshire County Council, the Office of the Police and Crime Commissioner (OPCC), the Stoke on Trent and Staffordshire Fire and Rescue Authority and this Authority's General Fund.

The fund also includes Non Domestic rates income under the Business Rates Retention Scheme.

The Collection Fund, subject to collection of outstanding arrears, achieved the following:

- Council Tax – surplus of £1.4m (the Authority's share is 11%), of which £0.8m will be distributed to preceptors during 2016/17;
- NNDR – deficit of £1.8m (the Authority's share is 40% net of any applicable Levy of 50%).

The deficit relating to the NNDR collection fund resulted from the inclusion of an increased provision of **£4.3m (£3.8m - 2014/15)** with **£1.7m this Authority's share (£1.5m - 2014/15)** for appeals outstanding on the 31st March 2016 of **£73.9m (£61.7m - 2014/15)**.

The increase of £0.5m due to additional appeals received during 2015/16, follows a large increase in appeal submissions in the last month of the 2014/15 financial year resulting from a deadline for appeal applications of 31st March 2015 - as any appeals received after 31st March will not be backdated to either the 2005 or 2010 Rating List.

In addition, the forecast surplus of £0.7m (share for this Authority) for 2014/15 included within the 2015/16 budget was not achieved and a forecast deficit of £0.6m was included within the 2016/17 budget.

This will mean that the forecast deficit will be £0.7m (share for this Authority) for 2015/16 compared to £0.6m included within the 2016/17 budget.

These accounting statements are supported by appropriate notes to the accounts including the Statement of Accounting Policies - this provides details of the framework within which the Council's accounts are prepared and published.

GENERAL FUND, HOUSING REVENUE ACCOUNT & CAPITAL OUTTURN

Below are details of the outturn fund balances for the General Fund and the Housing Revenue Account together with a summary of the outturn position on Capital Expenditure for the year.

GENERAL FUND

When compared to the final approved budget (which reflects decisions made by members during the financial year) an under-spend of £1.9m is reported, compared to the provisional outturn report projections in the following table. Closing General Fund balances as at 31st March 2016 were £6.7m:

General Fund Balances Movement 2015/16	Final Outturn £'000	Projected Outturn £'000
Balances B/fwd.	4,912	4,912
Approved Budget transfer to / (from) balances	(146)	(146)
Outturn variance - Surplus	1,914	1,551
Balance C/fwd.	**6,680**	**6,317**
MTFS Forecast as at 1st April 2016	***5,330***	***5,330***
Additional Balances	***1,350***	***987***

The main changes relating to the increased underspend of £363k since the provisional outturn was prepared are due to:

- the additional income received / reduced impairment levels relating to the Icelandic Investments (£63k);
- finalisation of the investment income for the year (£20k);
- a lower business rates levy payment (£23k);
- accounting for the interest element of the capital receipt for the sale of the former golf course (£87k);
- reduced interest payable due to lower HRA balances (£36k); and
- an increase in recharges to the Housing Revenue Account following finalisation of year end costs (£126k).

In addition to these, the remainder of the favourable outturn variance of £1.9m is mainly attributable to savings made in the following areas:

Variance between Budget & Actual Outturn	**£000**	**£000**
Increased / Non-Budgeted Income*		
Corporate Finance - Government Grants	(80)	
Corporate Finance - Unspent Reserves	(33)	
Corporate Finance - Icelandic Banking Impairment Adjustment	(254)	
Corporate Finance - Icelandic Banking Exchange Rate Adjustment	(90)	
Corporate Finance - Lease Income	(100)	
Development Control - Planning Applications Fee Income	(116)	
Car Parks - Additional Revenue	(86)	
Land Charges - Government Grants	(67)	
Commercial Property Management - Rents	(57)	(883)
Shortfalls in Income		
Non-Budgeted Expenditure / Overspends		
Treasury Management - Interest Payable to HRA	98	98
Savings / Underspends		
Corporate Finance - Contingency Savings	(65)	
Corporate Finance - External Interest Payable	(80)	
Joint Waste Arrangements - Contingency Savings	(50)	
Joint Waste Arrangements - Contract Savings	(56)	(251)
Other Variances - Net (Underspends) / Overspends		(878)
Total (Favourable) / Unfavourable Variance		**(1,914)**

It should be noted that the Medium Term Financial Strategy identified required balances of £5.3m (at 1st April 2016) compared to the draft actual closing balances of £6.7m – the additional balances of £1.4m (the majority of which is windfall income / reduced levy - highlighted in the table above *) above this minimum will be required to provide additional funds for uncertainties regarding future Government funding arrangements.

Members should be aware that any unplanned call on the above balance could adversely affect the Authority's ability to resource activity within the Medium Term Financial Strategy period.

HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) is underspent against the approved budget for the year by £1.8m, £129k less than reported in the provisional outturn report.

The Housing Revenue Account balances as at 31st March 2016 were £4.7m.

HRA Balances Movement 2013/14	Final Outturn £'000	Projected Outturn £'000
Balances B/fwd.	5,957	5,957
Approved Budget transfer to / (from) balances	(3,072)	(3,072)
Outturn variance - Surplus	1,840	1,968
Balance C/fwd.	**4,725**	**4,853**

The change since the provisional outturn was prepared is mainly due to:

- reduced interest receivable due to lower HRA balances (£36k); and
- an increase in recharges to the Housing Revenue Account following finalisation of year end costs (£89k).

In addition to these, the remainder of the outturn variance surplus of £1.8m shown above is mainly attributable to the following areas:

Variance between Budget & Actual Outturn	£000	£000
Increased / Non-Budgeted Income		
Council House Rent Income	(362)	(362)
Non-Budgeted Expenditure / Overspends		
Council Tax Payments	34	
Supporting People Contingency	50	
Item 8 Credit Interest	36	120
Savings / Underspends		
Contribution to Housing Repairs Account	(834)	
Specific Contingency	(100)	
Item 8 Debit Charges	(98)	
Provision for Bad Debts	(328)	
Repairs Contract Expenditure	(54)	
Estates Electricity	(40)	(1,454)
Other Variances - Net (Underspends) / Overspends		(144)
Total (Favourable) / Unfavourable Variance		**(1,840)**

It should be noted that the Medium Term Financial Strategy identified balances of £3.3m (at 1st April 2016) compared to the draft actual closing balances of £4.7m, which means additional balances of £1.4m.

CAPITAL OUTTURN

The outturn for the 2015/16 capital programme identifies an underspend of £10.1m against the approved budget of £16.3m (actual spend £6.2m - no change since Provisional Outturn). However, it has been requested that **£9.5m** of scheme spend be re-profiled into 2016/17 (£3.952m 2015/16). This will result in an overall underspend of £611k for the 2015/16 capital programme.

Full details are contained within the Capital Outturn Report reported to Cabinet on 16th June 2016.