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<b>REPORT TO:</b>	<b>FINANCE and MANAGEMENT COMMITTEE - SPECIAL</b>	<b>AGENDA ITEM: 6</b>
<b>DATE OF MEETING:</b>	<b>22<sup>nd</sup> SEPTEMBER 2016</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE and CORPOARTE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:Kevin.stackhouse@south-derbys.gov.uk">Kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/accounts/finalaccounts1516/state ment/ approval of accounts report sept 2016
<b>SUBJECT:</b>	<b>ACCOUNTS and FINANCIAL STATEMENTS 2015/16</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: FM 08</b>

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## **1.0 Recommendations**

1.1 That the Council's Audited Accounts and Financial Statements for 2015/16 are approved and signed by the Chairman of the Committee for publication.

## **2.0 Purpose of Report**

- 2.1 Under the Accounts and Audit Regulations 2015, the Council's audited accounts and financial statements are presented for approval. The Committee is required to approve the accounts with the knowledge of the opinion of the Council's External Auditor (i.e. Ernst and Young (EY) LLP).
- 2.2 Their findings were contained in a report which was presented to the Audit Sub-Committee on 21st September.
- 2.3 Some disclosure amendments were identified and agreed with the Council during the Audit to ensure that the final published document is fully compliant with accounting and financial disclosure standards.
- 2.4 There was one material misstatement which was adjusted in the final accounts together with one unadjusted misstatement. These are detailed later in the report.
- 2.5 No material issues were found an unqualified opinion was given on the Final Accounts.
- 2.6 The Final Accounts and Financial Statements for publication are now presented for approval. A final proof and reference check is being made prior to publication on 30<sup>th</sup> September.

### **3.0 Detail**

- 3.1 A full copy of the accounts is enclosed alongside this covering report. They will also be available on the Council's web-site at:  
[http://www.south-derbys.gov.uk/council\\_and\\_democracy/council\\_budgets\\_spending/statement\\_of\\_accounts/default.asp](http://www.south-derbys.gov.uk/council_and_democracy/council_budgets_spending/statement_of_accounts/default.asp)
- 3.2 The accounts will also be distributed to a selection of community points around the District but the printed version is only available in limited circumstances or if specifically requested. Their availability will be publicised on the Council's website and through the local media.
- 3.3 The Committee considered the budget out-turn for 2015/16 in a separate report in June. There were 2 adjustments to reserve balances following the Audit, although these were not material and are noted later in the report.
- 3.4 Summary financial information is being published in the Council's Annual Report for 2015/16 which is being reported separately to Full Council prior to publication.
- 3.5 The budget out-turn reports and the Annual Report, provide information regarding the Council's income and expenditure performance (against budget) for the year, together with the level of Reserves and Balances at the year end.
- 3.6 The Statement of Accounts is a much more complex and technical document that is prepared to meet wider accounting and financial standards. It acts as the statutory report on the Council's financial position
- 3.7 It is a much more in depth analysis of the Council's accounts, including its assets and liabilities and overall financial position at a point in time. The figures are supported by numerous commentaries and disclosure notes to help explain the various balances, together with income and expenditure in the Accounts.

#### **International Financial Reporting Standards (IFRS)**

- 3.8 The Accounts for 2015/16 have been prepared on a full IFRS basis and in accordance with the Code of Practice on Local Authority Accounting in the UK.

#### **The Statement of Accounts**

- 3.9 A summary of each of the main sections contained within the accounts is set out in the following sections.

#### **Narrative Report**

- 3.10 This sets out a summary to explain in more non-technical terms, the most significant matters reported in the Accounts. It gives an overview of the year's performance in terms of both revenue and capital spending.

- 3.11 The Foreword also outlines significant factors that affect the understanding of the accounts and provides an overview of assets, reserves and liabilities. It also provides a summary of the Council's medium term financial position and the financial issues and risks that the Council faces.

### **Governance Statement**

- 3.12 This sets out the local governance framework comprising the systems and processes, cultures and values by which the Council is directed and controlled. It also lays out how it accounts to and engages with the local community.
- 3.13 The Governance Statement reports on the effectiveness of the framework for 2015/16 and highlights any issues that need to be addressed to strengthen the internal control environment. The statement was considered and approved by the Audit Sub-Committee in June 2016 for inclusion in the accounts.

### **Comprehensive Income and Expenditure Summary (CIES)**

- 3.14 This is a summary that reports the accounting cost for the year of all functions for which the Council is responsible. However, the net expenditure is not the amount that is funded from taxation.
- 3.15 Councils raise tax to cover expenditure in accordance with regulations and this is usually different from the accounting cost which includes debt financing and capital accounting charges such as depreciation. The taxation position is shown in the Movement in Reserves Statement.
- 3.16 Further analysis of the figures reported in the CIES is contained within the disclosure notes that follow later in the document.

### **Movement in Reserves Statement**

- 3.17 This statement shows the movement in reserves held by the Council during the year. It includes amounts charged in and out of the Income and Expenditure Account for accounting purposes that are not a charge on the Council Tax or local Rent Payer. It reconciles the accounting cost in the CIES to the cost of services funded through taxation.
- 3.18 The bottom line balance as at 31<sup>st</sup> March 2016 reflects the level of resources available whether unallocated or held within earmarked reserves, i.e. *usable reserves*. Other reserves such as the revaluation reserve reflect accounting transactions and are not available for spending, i.e. they are *unusable reserves*.

### **Balance Sheet**

- 3.19 This shows the Council's overall financial position as at 31<sup>st</sup> March 2016 with a comparison to the previous year. It effectively shows the worth of the Council's assets and liabilities as currently valued. This includes the value of land and

property, money owing to and from the Council, together with its reserves and provisions.

- 3.20 It also reports the value of the Council's current pension liability under long-term liabilities. Again, further analysis is contained within the various disclosure notes that follow.

### **Increase in Net Assets**

- 3.21 The overall value of the Council's Net Assets increased in 2015/16 by approximately £8.4m, from £37.479 million to £45.908 million. Firstly, there was an overall increase in the Council's land and property holdings as valued by the District Valuer. This was mainly due to the 40 new council homes under construction at the year-end.
- 3.22 Secondly, there was a decrease in the Pension Fund deficit in 2015/16. The overall deficit was still projected at just under £24m as at March 2016, although this was approximately £6m lower than the previous year.
- 3.23 Although the return on investments in the Fund was lower than expected, this was more than offset by more optimistic assumptions being made by the Fund's actuary. In particular, the net discount rate which is used to measure future returns on investments was increased and this is favourable compared to the continuing level of low inflation.
- 3.24 Clearly, estimating future assets and liabilities depends on the accuracy of longer-term assumptions. However, the purpose of the valuation is to show that in the longer-term, the Council potentially faces a deficit.
- 3.25 In practice, statutory arrangements for funding the deficit mean that the financial position of the Council is not affected in any one year. Effectively, the deficit on the Pension Fund is being met over the long-term by increased contributions from employees and reducing benefits for future pensioners.
- 3.26 These are part of on-going changes to the Local Government Pension Scheme to ensure that pension deficits are funded with minimal impact on the Council Tax Payer.

### **Cash Flow Statement**

- 3.27 This shows the actual inflow and outflow of cash for the year by adjusting the accounts for all non-cash transactions.

### **Disclosure Notes to the Financial Statements**

- 3.28 These are designed to provide further explanation of the headline figures shown in the preceding statements. The notes are required under the Code of Practice to give added clarity and understanding for readers and users of the accounts.
- 3.29 The notes cover details of income and expenditure, including the Council's accounting policies, together with explanations regarding the critical judgements and assumptions used in preparing the accounts.

## **Supplementary Financial Statements**

3.30 These contain further detail relating to the ring-fenced Housing Revenue Account (HRA) and the Collection Fund. This shows the amounts collected in Council Tax and Business Rates and how that income has been distributed amongst the preceptors on the Fund.

## **Glossary**

3.31 This is not required under the Code, but it is considered best practice to incorporate a dictionary to help explain the terms and phrases used in the Accounts and the Financial Statements.

## **Changes and Adjustments**

3.32 Two small amendments to Reserve Balances were made prior to the Audit commencing as follows:

- A transfer from the Capital Financing Account to the General Fund Reserve of £59,000. This was due to a reversal of capital charges which was overstated in the draft accounts. This increased the final General Fund Reserve Balance from £6.929m to £6.988m as at 31<sup>st</sup> March 2016.
- Vehicle replacement costs of £15,000 were charged to the Asset Replacement Reserve after the year-end, which related to 2015/16. This reduced the balance on the Asset Replacement Reserve from £996k to £981k as at 31<sup>st</sup> March 2016.

## **Adjusted Misstatement**

3.33 This related to income received from Section 106 contributions. Section 106 income is held in an earmarked reserve pending payments to other agencies and to pay for Council services, in accordance with the various Section 106 agreements. The Council effectively acts a custodian of the funds as the Planning Authority until they are drawn down.

3.34 However, this income is accounted for in the Council's Income and Expenditure Account and then transferred to the Earmarked Reserve; it does not sit in the Council's General Reserves nor does it affect the level of expenditure and funding.

3.35 In one particular case in 2015/16, the Council billed a developer (in accordance with the Section 106 agreement) for £900,000. However, a proportion of this income (£400,000) was due directly to a neighbouring authority and this came to light after the Accounts were submitted for Audit.

3.36 Although this has been corrected in 2016/17, the Council's income in 2015/16 was overstated by approximately £500,000. This was a timing difference and although the Council's Accounts were adjusted accordingly in 2015/16 to reflect this transaction, there was no effect on the Council's reserves.

## **Unadjusted Misstatement**

- 3.37 This was in relation to the Collection Fund where the bad debts provision for Council Tax arrears was potentially understated by £279,000. This was due to an error in the calculation.
- 3.38 The amount is relatively insignificant (1/2%) in terms of the overall Council Tax due of £45.5m and its impact, being an estimate, on the Council's Accounts. Therefore, as the amount and its impact are not considered to be material, it was not adjusted in the final accounts.

## **Council Tax Arrears and the Provision**

- 3.39 The provision for bad debts is a subjective calculation, although it does have a formula basis which takes into account the age of the debt and type of debtor with arrears. The formula is applied on a consistent basis year-on-year. The calculation is the best estimate of the provision required in lieu of the arrears having to be written-off at a future date.
- 3.40 Any potential under-provision will be corrected in the Collection Fund in 2017/18 when the provision is recalculated as at 31<sup>st</sup> March 2017. The provisional amount can vary between years based on the performance in collecting arrears.
- 3.41 As at 31<sup>st</sup> March 2016, Council Tax arrears outstanding stood at approximately £4.6m. Of this amount, the provision (excluding the under-provision of £279,000) totalled just over £3m or 2/3rds of all arrears outstanding.
- 3.42 The provision assumes that none of the debt, which relates to 2010 and prior years (totalling £1.26m) will be collected. Where arrears are collected across any year, this reduces the provision required in future years. This is considered to be a prudent measure to reduce the risk of a large liability impacting upon the Council's Accounts in any one year.
- 3.43 The impact upon individual preceptors is also considered immaterial. Of the £279,000, approximately £30,000 is directly attributable to South Derbyshire. In addition, the overall Collection Fund remains in surplus. It is considered likely that any under-provision in 2016/17 will be contained in the Collection Fund without it directly impacting upon the General Funds of the Preceptors.
- 3.44 However, given this issue, the procedures for undertaking the calculation have been reviewed and will be strengthened for future years. The basis of the formula will also be reviewed ahead of the Final Accounts for 2016/17.

## **Value for Money and the Use of Resources**

- 3.45 As part of their audit work, the Auditor is also required to consider whether the Council has put in place "proper arrangements to secure economy, efficiency and effectiveness on its use of resources." For 2015/16, this is based on the overall evaluation criterion:

*“In all significant aspects, the audited body had proper arrangements to ensure that it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.”*

3.46 Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise the Council’s arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

3.47 In considering these arrangements, the Auditor will draw on the Council’s Corporate Governance Framework. The Auditor is only required to determine whether there are any risks that they consider significant, which the Code of Audit Practice defines as:

*“A matter is significant if, in the Auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public.”*

3.48 The assessment supports the Auditor’s view on whether they are able to deliver a safe conclusion on the Council’s arrangements to secure value for money.

3.49 As reported to the Audit Committee on 21<sup>st</sup> September, the Auditors have given an unqualified opinion on the Council’s value for money arrangement and have raised no issues, although they did highlight the fact that the Council will need to make budget savings over the life of the current MTFP.

#### **4.0 Financial Implications**

4.1 None.

#### **5.0 Corporate Implications**

5.1 None directly.

#### **6.0 Community Implications**

6.1 The production of the Council’s Statutory Annual Accounts and Financial Statements is an important part of stewardship and accountability for public resources.

6.2 Basically, it gives electors, those subject to locally levied taxes and charges, members of the Authority, employees and other interested parties detailed information about the Council’s Accounts and financial position.

#### **7.0 Background Papers**

- Code of Practice on Local Authority Accounting in the United Kingdom 2015/16