
REPORT TO:	FINANCE and MANAGEMENT COMMITTEE - SPECIAL	AGENDA ITEM: 6
DATE OF MEETING:	21st SEPTEMBER 2017	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE and CORPOARTE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) Kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/accounts/finalaccounts16 17/statement of accounts 16 17/ approval of accounts report sept 2017
SUBJECT:	ACCOUNTS and FINANCIAL STATEMENTS 2016/17	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

1.1 That the Council's Audited Accounts and Financial Statements for 2016/17 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 20th September.

2.3 The Council issued its draft Statement of Accounts by 30th June in accordance with the statutory requirement. During the Audit EY identified a number of presentational matters which included casting errors and consistency of cross-references which have been adjusted in the final version.

2.4 However, there was no impact on the reported financial performance of the Council and no material issues or misstatements were raised in the draft accounts; an unqualified opinion was given on the Statement of Accounts.

2.5 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 29^h September.

3.0 Detail

- 3.1 A full copy of the accounts is enclosed alongside this covering report. They will also be publicised in the media, via public notices and made available on the Council's web-site.
- 3.2 The Committee considered and approved the budget out-turn for 2016/17 in June. No changes have been identified during the Audit and the level of balances and reserves as at 31st March 2017 remain unchanged. These are now detailed within the Statement of Accounts.
- 3.3 Summary financial information is being published in the Council's Annual Report for 2016/17 which is being reported separately to Full Council prior to publication.
- 3.4 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.
- 3.5 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
- 3.6 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)

- 3.7 The Accounts for 2016/17 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

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

Narrative Report

- 3.9 This sets out a summary to explain in 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.
- 3.10 The Narrative 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

- 3.11 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 the Council accounts to and engages with the local community.
- 3.12 The Governance Statement reports on the effectiveness of the framework for 2016/17 and highlights any issues that need to be addressed to strengthen the internal control environment.

Comprehensive Income and Expenditure Summary (CIES)

- 3.13 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.
- 3.14 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.
- 3.15 Further analysis of the figures reported in the CIES is contained within the disclosure notes that follow later in the document.

Expenditure and Funding Analysis (EFA)

- 3.16 This is a new statement introduced into the accounts for 2016/17. It shows income and expenditure by policy committee in broadly a similar way to that reported in monitoring and out-turn reports to this Committee.

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 31st March 2017 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 31st March 2017 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 2016/17 by approximately £26m, from £46 million to £72 million. An analysis of this increase is shown in the following table:

Increase in the value of land and property	+ £30m
Increase in bank deposits and short-term investments	+ £5m
Increase in the Pension Fund Deficit (Liability)	- £9m
Total increase in Net Assets	+ £26m

Land and Property

- 3.22 All valuations are completed independently by the District Valuer for the East Midlands.
- 3.23 The increase in the value of land and property was mainly due to an additional 42 Council dwellings being added to the property portfolio through a combination of New Build and acquisitions, together with an increase in the social housing discount rate on the valuation of Council dwellings. This rate was increased nationally from 34% to 42% and resulted in an upward valuation of the Council's Housing stock of £17m.
- 3.24 The purchase of the industrial units for the new Council depot also increased the overall value of the property portfolio.

Bank Deposits and Short-term Investments

- 3.25 The increase reflects a greater amount of money held on deposit at the year-end (£11m to £16m).

Pension Fund Deficit

- 3.26 The deficit increased by £9m (£24m to £33m) between March 2016 and March 2017. The revised deficit was influenced by the actuarial triennial valuation carried out in 2016. Although the assumptions regarding the return on future investments were more favourable, the longer-term liabilities were increased due to a significant upward shift in the discount rate.
- 3.27 Effectively, the deficit shows that in the longer-term (25 years) liabilities in the Pension Fund are still in excess of assets. The value of the assets (effectively

investments) continues to grow slowly due to the low level of yields in the current economic climate.

- 3.28 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.
- 3.29 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.
- 3.30 In addition, following the triennial valuation in 2016, the Council's contributions were increased from 12.8% to 13.8% 2017/18.

Cash Flow Statement

- 3.31 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

- 3.32 These are designed to provide further explanations 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.
- 3.33 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

- 3.34 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

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

Value for Money Conclusion

- 3.36 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 2016/17, 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.”

3.37 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.

3.38 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.”

3.39 In EY’s Audit Plan for 2016/17, they identified two significant risks to their value for money conclusion, which were as follows:

- A significant risk in relation to control weaknesses in the procurement of services in the Housing and Environment Directorate.
- A significant risk in relation to securing financial resilience.

3.40 The Auditor’s review did identify that there were weaknesses in the Council’s arrangements to work with partners and other third parties, specifically in procuring supplies and services in the Housing and Environment Directorate, to effectively support the delivery of strategic objectives.

3.41 Therefore, based on their work, EY have issued a qualified “except for” VFM conclusion for the year ended 31st March 2017.

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 2016/17