

Meeting: **Audit Committee/Statement of
Accounts Committee**

Agenda Item:

3

Portfolio Area: Resources

Date: **21 September 2017**

2016/17 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT

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1 PURPOSE

- 1.1 To present the External Auditor – Ernst & Young LLP’s Annual Report for consideration and approval and the audited 2016/17 Financial Report including the Statement of Accounts (SOA).

2 RECOMMENDATIONS

- 2.1 That the Annual Report to those charged with Governance for 2016/17 be approved (appendix three).
- 2.2 That the Council's Letter of Representation be approved (appendix four to follow).
- 2.3 That the Financial Report including the Statement of Accounts 2016/17 be approved (appendix two).
- 2.4 That the Annual Governance Statement is approved (appendix one)

3 BACKGROUND

- 3.1 This report is presented to the Audit Committee in its capacity as the body charged with Governance. The Auditor's report has been produced by the Council's External Auditors, Ernst & Young (appendix three).
- 3.3 The 2016/17 fourth quarter outturn position for the General Fund and the Housing Revenue Account was presented to the Executive on 12 July 2017. That report showed that the General Fund had a net under spend of £833,813 of which £449,950 related to carry forward requests. The HRA had an increase in surplus of £437,087 of which £273,720 related to carry forwards. Following the external audit the outturn positions for the General Fund and HRA remains unchanged.

3.4 Changes affecting the 2016/17 Statement of Accounts

- 3.4.1 The Statement of Accounts (SOA) has to be compiled in accordance with current International Financial Accounting Standards, statutory requirements, and CIPFA published guidance. The standards and guidance may change year on year.
- 3.4.2 In 2016/17, **two new disclosure notes** – the “Expenditure and Funding Analysis” and “Expenditure and Income Analysis by Nature” were introduced with the aim to give greater clarity between the funding basis (management accounts) and accounting basis (SOA) so that the reader can see the link between the budget monitoring reports presented to Members during the year and the published accounts. These new disclosure notes replaced the “Amounts reported for Resource allocation decisions” disclosure (note 26 in SOA 2015/16).
- 3.4.3 This year the council engaged external valuer Wilks Head and Eve (WHE) to undertake a full review of **General Fund asset valuations**. WHE have a large local authority client base and were appointed following a formal tender process based on quality and price. Based on their local authority knowledge WHE have used “Existing Use Value” (EUUV), which are derived from rental values, for certain assets, such as community centres and pavilions, as opposed to Depreciated Replacement Cost (DRC) which had been used in prior years. Both methods of valuation comply with RICS standards and are acceptable under the CIPFA code, however DRC valuations are known to give return high current values. Extra disclosure narrative has been provided in the SOA to explain the changes in valuation.

Definitions	
Existing Use Value (EUUV)	Depreciated Replacement Cost (DRC)
Based on rental streams (observed or estimated) for the site. Multiplier applied based on security of tenant and covenant. Land and Building included within this valuation.	Two part valuation process: Area of existing building taken and build costs applied for modern equivalent building then depreciated by the age of the building. Land element valued on price per acre for modern equivalent site.
Both methods are comply with RICS standards and acceptable under the CIPFA code. However it is expected that the DRC is the method of last resort and would only be applicable to specialist assets.	

- 3.4.4 The last triennial valuation of the **pension fund** was carried out as at 31 March 2016 and the results are incorporated into the SOA. The pension fund liability increased this year to £55Million. The value of assets held by the fund increased in year by £20Million to £149.6Million, however liabilities increased by £30Million to £204.6Million due to changes in actuarial financial assumptions.
- 3.4.5 Movements in the pension fund liability are not taken to the General Fund/HRA balances as both funds are only charged with the actual pension contributions paid over to the fund in year in accordance with statutory provision. The pension fund

liability reflects the outlook using assumptions which cover the very long term and are subject to wide fluctuations over that term. The Council continues to fund the scheme at the rate recommended by the actuary to ensure the scheme is able to meet its obligations.

3.4.5 The **Annual Governance Statement** is no longer included within the Financial Report. This is now shown as a separate document and is included at Appendix One to this report. This Committee is required to approve the SOA and the Annual Governance Statement.

3.5 Members were offered training prior to this committee to aid their understanding of the Statement of Accounts and issues raised by the external auditor.

3.6 The Council is required to send to the Council's External Auditors a Letter of Representation (Appendix Four).

4 REASONS FOR RECOMMENDED COURSE OF ACTIONS AND OTHER OPTIONS

4.1 Statement of Accounts

4.1.1 The 2016/17 Financial Report including the Statement of Accounts is Appendix Two to this report. At the time of writing the external audit had been completed and changes arising from the audit have been made.

4.1.2 Officers have agreed that three misstatements (one identified by the Finance Team) should not be adjusted in the final accounts as the impact is not material. These unadjusted misstatements are detailed below.

Un-adjusted Misstatement	Effect on Balance sheet	
Valuations	£'000's	£'000's
Business Technology Centre valuation	3,624	
Ridlins running track overstated	(4,410)	
Other land and building valuations		(786)
LEP grant - debtor accrual	416	
Debtors		416
LEP grant - Long term Creditor	(416)	
Long term Creditor		(416)
Total Impact on Net Assets		(786)
Usable Reserves		416
Unusable reserves		370
Total Impact on Reserves		786

4.2 Balance Sheet

4.2.1 The Council's Balance Sheet as at the 31 March 2017 showed total reserves of £525.8 Million, an increase of £39.2 Million over the Balance Sheet as at 31 March 2016. However of this increase only £8.8 Million relates to usable or cash

reserves, The increase in the Council's net worth can be assessed by reviewing the Useable and Non Useable Reserves.

4.2.2 Useable Reserves

4.2.3 Useable reserves are cash reserves that are available for the Council to spend on revenue and/or capital. As at the 31 March 2017 the Council's useable reserves increased by £8.8Million to £58.895Million. The increase was largely due to right to buy (RTB) capital receipts and within the £25.5 million capital receipts reserve is £10.9million of RTB one for one receipts that have a restricted use.

4.2.4 Table one below details the movement in useable reserves.

	Balance at 31 March 2016	Increase/ (Decrease) in Year	Balance at 31 March 2017
Revenue Reserves:			
General Fund Balance	7,887,791	(1,460,808)	6,426,983
Earmarked General Fund Reserves	4,251,311	(1,701,492)	2,549,819
Housing Revenue Account	16,955,084	2,794,487	19,749,571
Total Revenue Reserves	29,094,186	(367,813)	28,726,373
Capital Reserves:			
Major repairs reserve	4,652,265	(144,488)	4,507,777
Capital Receipts Reserve	15,994,554	9,522,941	25,517,495
Government Capital Grants Unapplied	305,461	(161,791)	143,670
Total Capital Reserves	20,952,280	9,216,662	30,168,942
TOTAL REVENUE AND CAPITAL RESERVES	50,046,466	8,848,850	58,895,316

4.2.5 Un-useable Reserves

4.2.6 Non useable or un-useable reserves are non cash reserves and include (but not exhaustive) the value of:

- Gains and losses from changes to the value of the Council's assets shown in the **Revaluation Reserve**.
- Timing differences between the purchase and use/or consumption of non-current assets (formerly known as fixed assets) shown in the **Capital Adjustment Account**.

- The calculated liability owed by the council at the Balance Sheet date for staff pensions shown in the **Pension Reserve**.
- The amount of money that would have to be paid to staff if all holiday entitlement due, but not taken was paid at the Balance Sheet date shown in the **Accumulated Absences Account**.
- The **Collection Fund Adjustment Account** which holds the timing difference between the recognition of Council Tax and Non Domestic Rates (NDR) income in the Income and Expenditure Statement as it falls due from council tax payers and business rate payers, compare with the statutory arrangement for paying across amounts to the General Fund from the Collection Fund (Council Tax and NDR), to match those calculated and approved at budget setting for that financial year.

4.2.7 The Council's un-useable reserves increased by £30.4Million to £466.9Million as at 31 March 2017. Included within un-useable reserves is the Council's **pension reserve** (deficit). The pension deficit increased by £9.1Million compared to 31 March 2017.

4.2.8 The **Revaluation Reserve** has increased by £45.2Million largely due to the in year net revaluation gains on Council House stock.

4.2.9 A summary of the movement in unusable reserves is shown in Table two below.

	Balance at 31 March 2016 £	Increase/ (Decrease) in Year £	Balance at 31 March 2017 £
Un-usable Reserves:			
Revaluation Reserve	50,550,335	45,231,247	95,781,582
Capital Adjustment Account	432,497,005	(6,889,716)	425,607,289
Deferred capital receipt reserve	194,272	(3,172)	191,100
Pensions Reserve	(45,889,000)	(9,119,000)	(55,008,000)
Collection Fund Adjustment Account	(552,352)	1,231,104	678,752
Accumulated Absences Account	(282,961)	(75,692)	(358,653)
Total Un-usable Reserves:	436,517,299	30,374,771	466,892,070

4.3 External Auditors Conclusions

4.3.1 As the Council's appointed Auditor, Ernst & Young LLP is required to review and report on the Council's financial statements and provide a value for money conclusion. Their findings and ISA 260 report are shown in appendix three.

4.3.2 At the time the time of writing the report, no objections were received by electors to the 2016/17 accounts

- 4.3.3 No requests were received for any further details on the Council's financial records.
- 4.2.4 As a result of the external audit there are no recommendations from Ernst & Young LLP in relation to the Statement of Accounts.

5 IMPLICATIONS

5.1 Financial Implications

The updated Accounts for 2016/17 are financial in nature. As this document is finance related, the financial implications are contained therein.

5.2 Legal Implications

- 5.2.1 The requirement under the Accounts and Audit Regulations England (2015) is for the Audit Committee and Council, (or a Committee delegated this function by Council), to consider and approve the accounts before 30th September after they have been audited. This report and subsequent recommendations by the Statement of Accounts committee meets this requirement.

BACKGROUND PAPERS

4th Quarter General Fund and HRA report 12 July 2016 Executive

4th Quarter Capital monitoring report 12 July 2016 Executive

APPENDICES

Appendix 1 – Annual Governance Statement

Appendix 2 - Post Audit Statement of Accounts 2016/17

Appendix 3 - Annual Report to those Charged with Governance

Appendix 4 - Letter of Representation (TO FOLLOW)