

AUDIT COMMITTEE – 14 JULY 2016

STATEMENT OF ACCOUNTS 2015/16

Purpose of the Report

1. The purpose of this report is to provide Members of the Audit Committee with a summary of the 2015/16 Statement of Accounts and explain the core statements and a number of the key notes to the accounts. A full set of the draft accounts is now available on the Council's website [Statement of Accounts 2015/16](#). A full set of the final audited accounts will be presented to the Audit Committee on 15 September 2016.
2. This report also outlines the approval process for the statement of accounts and the Audit Committee's role in this process.

Introduction

3. The Statement of Accounts has been prepared in accordance with the IFRS-based (International Financial Reporting Standards) Code of Practice on Local Authority Accounting in the United Kingdom and the statutory Accounts and Audit Regulations. This ensures that local authorities produce their Accounts in a standard way, which facilitates comparisons.
4. The Accounts and Audit Regulations 2015 sets out the procedures for certification, approval and publication of the Statement of Accounts. The approval process is as follows:
 - 30 June 2016 – Unaudited accounts to be certified by the Executive Director of Resources. In 2017/18 the statutory deadline moves forward to 31 May; in preparation, the 2015/16 timetable achieved the earlier deadline for the first time, with the accounts certified on 27 May 2016.
 - June to September 2016 – The statement of accounts are subject to audit by the Authority's auditors, KPMG, and their findings will be reported to the Audit Committee in September. During this time there is a period where the public can inspect the accounts and related documents (Monday 13 June 2016 to Friday 22 July 2016).
 - No later than 30 September 2016 – Accounts to be re-certified by the Executive Director of Resources. In 2017/18 the statutory deadline moves forward to 31 July.

- No later than 30 September 2016 – Audit Committee considers and approves the statement of accounts. Following approval, the Chair of the Audit Committee signs and dates the Statement of Accounts. In 2017/18 the statutory deadline moves forward to 31 July, requiring the accounts to be certified in future at the July Audit Committee.
- No later than 30 September 2016 – Publish, on the Council’s website, the audited statement of accounts together with any certificate, opinion or report issued by the auditor. In 2017/18 the statutory deadline moves forward to 31 July.

Local authority accounting

5. The presentation of local authority accounts differs greatly to that of the private sector. Many of these differences occur due to legislative requirements for local government accounts and the recognition of costs for the purposes of budgeting and calculating the council tax. These differences mainly relate to the way the Council is required to account (or budget) for capital and pension costs.
6. Local authorities account for the revenue impact of capital in line with IFRS on the face of the Comprehensive Income and Expenditure Statement (CIES). This means including figures relating to movements in the value/cost of assets, including depreciation, revaluation, disposal and impairment. These “adjustments between accounting basis and funding basis under regulation” are shown in Note 9 to the draft accounts.
7. In terms of pension costs, local authorities are required to comply with an International Accounting Standard called IAS 19 (*Employee Benefits*), which means accounting for pension liabilities when local authorities are committed to them, not when they are actually paid out. This includes showing movements in the value of pension scheme assets and liabilities.
8. The Council complies with IAS 19 and recognises the Council’s share of the net liability of the South Yorkshire Pension Scheme in the balance sheet. Within the CI&ES the ‘Cost of Service’ figures have been adjusted so they represent the true costs of pensions earned. As stated above, IAS 19 does not have any effect on the calculation of the Council Tax Requirement as the entries are reversed out, and replaced by the cash contributions to the Pension Scheme, in an adjustment between accounting basis and funding basis under regulation.

9. The report on the Council's Revenue Outturn position at the end of the 2015/16 financial year was approved by Cabinet on 22 June 2016. This reported that there was an overall surplus on the General Fund of £561k, before carry forward requests and movements on reserves.
10. In contrast to this surplus, the CIES reports a surplus of £153.7m. The inclusion of items relating to capital and pensions is the major reason for this difference. The table below shows the reconciliation from the outturn position to the eventual CI&ES surplus:

| | £000 |
|---------------------------------------------------------------------------------------|------------------|
| Surplus on General Fund Revenue Account (per outturn report) | (561) |
| Net contributions to revenue reserves | (55,584) |
| Surplus / Deficit on Housing Revenue Account | 0 |
| Surplus on Schools' Accounts | 1,878 |
| Total Contribution to Reserves | (54,267) |
| Removal of debt charges | (30,474) |
| Removal of pension contributions | (31,352) |
| <i>Items that do not affect Council Tax:</i> | |
| Inclusion of accounting charges for depreciation, impairment, holiday pay, PFI, etc. | 94,796 |
| Gains and losses on Revaluation of Non-Current Assets, Pension Assets and other items | (132,442) |
| Surplus on Income & Expenditure Statement | (153,739) |

11. The Statement of Accounts comprise several key statements:

- Movement in Reserves Statement – **Appendix 1**
- Comprehensive Income and Expenditure Statement – **Appendix 2**
- Balance Sheet – **Appendix 3**
- Cash Flow Statement – **Appendix 4**
- Key Notes to the Core Financial Statements – **Appendix 5**

- Housing Revenue Account Income and Expenditure Account – **Appendix 6**
- Collection Fund – **Appendix 7**

Movement in Reserves – **Appendix 1**

12. This 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 unusable reserves.
13. The Surplus (or Deficit) on the provision of services line shows the true economic cost of providing the authority's services, more details of which are shown in the CIES. These are different from the statutory amounts required to be charged to the General Fund Balance and Housing Revenue Account for Council Tax setting and dwellings rent setting purposes, therefore an adjustment is made to the movement in reserves statement for adjustments between accounting basis and funding basis under regulation.
14. The “Net (increase) / decrease before transfers to earmarked reserves” line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Comprehensive Income and Expenditure Statement – **Appendix 2**

15. This Statement 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 (Council Tax). As stated earlier, local authorities raise taxation to cover expenditure in accordance with regulations and this is often different from the accounting cost.
16. The presentation of the cost of services is presented using the CIPFA Service Reporting Code of Practice (SeRCOP) classification, a statutory requirement. This is so comparisons between different local authorities can be made.

Consolidated Balance Sheet – **Appendix 3**

17. The 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 matched by the reserves held by the authority.

18. Reserves are reported in two categories:
- Usable reserves - those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use;
 - Unusable reserves - those that cannot be used to provide services. This category includes reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

Cash Flow Statement – **Appendix 4**

19. The 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.
20. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority.

Key Notes to the Accounts – **Appendix 5**

21. The notes to the accounts contain information in addition to that presented in the main statements. They provide narrative descriptions, disaggregation of items presented in the statements and further information about items in the statements.
22. Attached at Appendix 5 are some of the key notes to the accounts, including the note on Officers' Remuneration (note 35). Full details are required for senior employees whose salary is above £50,000 per annum, and an additional summary disclosure is required of the numbers of other staff whose total remuneration (i.e. salary plus overtime and allowances etc.) is above £50,000.
23. The Council's outturn position for 2015/16 reported a net surplus of £561k overall for the general fund revenue account. The Statement of Accounts is in line with the outturn report but sets out the more detailed financial position for the Council in a format required by legislation. The following two notes show the reconciliation between the outturn position and the Statement of Accounts CI&ES:

- *Adjustments between accounting basis and funding basis under regulations* (Note 9) – this note details how the CIES has been adjusted in accordance with accounting practice, and the resources that are specified by statutory provision as being available.
- *Amounts reported for resource allocation decisions* (Note 31) – this note reconciles the income and expenditure shown in the CIES to the budget outturn report. The note is in three parts:

Part 1 shows the income and expenditure for the Portfolios as reported in the outturn - £561k general fund surplus;

Parts 2 and 3 reconcile the £561k outturn to the two key sub-totals in the CIES, by detailing the adjustments made to arrive at the £443.1m sub-total Cost of Services and subtotal for the Deficit on Provision of Services £21.3m;

There are final adjustments, detailed in separate notes, for gains and losses on revaluation of assets and pensions to arrive at the final total of £153.7m surplus on the CIES.

Housing Revenue Account (HRA) – Appendix 6

24. The HRA Income and Expenditure Statement shows the economic cost in year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants.
25. Authorities charge rents to cover expenditure in accordance with regulations, which may be different from the accounting cost.

Collection Fund – Appendix 7

26. The Collection Fund is a statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and Business Rates.

Key Issues for 2015/16

Net worth

27. The Council's net worth, as shown on the Balance Sheet (**Appendix 3**), has increased by the surplus from the CIES £153.7m (or 25%) in 2015/16; the major factors being:
- A decrease in the Council's pensions' liability of £60.4m following the annual review by the actuary. As confirmed with the actuary the decrease is the result of actuarial assumptions (discount factor);
 - A net increase in the Council's fixed assets of £100.4m, due to revaluations, offset by;
 - An increase in the council's liabilities with respect to Private Finance Initiatives of £32.1m,

Usable Reserves

28. As shown in the Movement in Reserves Statement (**Appendix 1**), during the year, total usable reserves increased by £56.4m. The key reasons for the increase in this category of reserves are as follows:
- Earmarked General Fund Reserves increased by £53.2m during the year, largely due to a £25m transfer in to the Major Sporting Facilities Reserve, following a correction to prior year accounts (see below), with the remainder mainly the result of the re-payment of £24.7m, which was borrowed from reserves in 2014/15 that was used to make an early pension deficit payment.
 - Reserves used to fund capital expenditure on assets increased by £5.4m
 - The Council's usable reserves also includes £12.6m of Unallocated Reserves or General Fund Balances, which increased by £1.4m in 2015/16.
 - A draw on HRA reserves reduced the balances by £3.6m.

Prior Year Adjustments

29. Following discussions with the Council's External Auditors KPMG, there has been a change to the accounting treatment for repayments of the bond

financing for the Major Sporting Facilities (MSF). The transactions to amend the accounting, from revenue to capital, are detailed in the notes to the accounts *Prior Year Adjustments* (note 5).

Financial Implications

30. There are no direct financial implications arising from the recommendations in this report

Equal Opportunities Implications

31. There are no specific equal opportunities implications arising from the recommendations in this report.

Property Implications

32. There are no property implications arising from the recommendations in this report.

Recommendations

33. The Audit Committee is asked to note the core statements and the key notes to the Statement of Accounts for 2015/16.