

REVIEW OF AVDC DRAFT STATEMENT OF ACCOUNTS 2017-18

1 Purpose

- 1.1 This report set out the current position in terms of the Statement of Accounts preparation. The reports also sets out the provisional financial outturn for 2017/18.

2 Recommendations/ for decision

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| 2.1 | Members of the Committee are requested to consider the draft Statement of Accounts for 2017-18 (Appendix A) |
| 2.2 | Members of the Committee are requested to note the current position in relation to the Statutory Accounts preparation |
| 2.3 | Members of the Committee are requested to note the provisional financial outturn position for 2017-18. |

3 The Accounts Approval Process

- 3.1 The Council must make available for audit its draft Annual Accounts by 31 May 2018 and the aim is to produce the Final (Audited) Annual Accounts for approval by 31 July 2018.
- 3.2 The Accounts and Audit Recommendations require that the Statement of Accounts are formally signed off by the Chairman of the Audit Committee and the Director responsible for Finance.
- 3.3 It is intended that the Final Accounts be presented to the Audit Committee on 23rd July for final approval.
- 3.4 Whilst there is no requirement to do so, the guidance to the Accounts and Audit Regulations suggests it is good practice to give members an early notification of the financial outcome of the previous year and to this end, the draft Statement of Accounts is presented as part of this report.
- 3.5 The timetable for the preparation of the accounts was completed to a draft accounts deadline of 31 May 2018. The approval deadline is 31 July 2018. This "faster close" has been earlier than previous years and the change required have presented challenges for both the preparers and the auditors of the financial statements.
- 3.6 The draft accounts were published on 31st May 2018. The Council has liaised closely with external auditors and planned a shorter period for the production and audit of the Councils Annual Accounts.
- 3.7 From 1 June 2018 to 12 July 2018 inclusive, members of the public and local government electors may inspect the accounts of the Council for the year ended 31 March 2018 and certain related documents.
- 3.8 A copy of the Council unaudited statement of accounts is currently available on the Councils website.
- 3.9 The Council's accounts are subject to external audit by Maria Grindley of Ernst & Young LLP. The formal audit is scheduled to commence on 18th June 2018, and to continue for 3 weeks.
- 3.10 At the Audit Committee meeting on 23rd July 2018, Audit Committee members will, following the audit, consider and approve the statement of accounts. They will also be requested to consider the findings of the annual review of the

effectiveness of the system of internal control, approve the Annual Governance Statement and consider the Annual Audit letter

- 3.11 The Accounts presented detail the Accounts for the Authority but also extends to the group financial statements where the Council has material interests in subsidiaries and joint ventures. The accounts include results for Aylesbury Vale Broadband, Vale Commerce and reflect material interest in Aylesbury Vale Estates.

4 The Accounts

- 4.1 Local authority financial statements are known to be complex and can be difficult to understand: they must comply with CIPFA's Local Authority Code of Practice, which is based on International Financial Reporting Standards (IFRS), and also the requirements of accounting and financing regulations of central government.
- 4.2 The year end position within the Statutory Accounts contains transactions which are required by the Accounting Regulations. These transactions are intended to provide the reader with a complete picture of the Councils financial affairs during the course of the year.
- 4.3 The paper explains the key features of the primary statements and notes that make up the set of financial statements.
- 4.4 Narrative Report/Explanatory foreword: The purpose of the narrative report and the explanatory foreword is to provide a commentary on the financial statements. It includes an explanation of key events and their effect on the financial statements. The information included in the explanatory foreword will be familiar to Members from financial information provided during the year. The explanatory foreword reconciles the year end financial position reported to members (the outturn) to the statutory financial accounts.
- 4.5 Annual governance statement: The annual governance statement (AGS) sets out the arrangements the Council has put in place to manage and mitigate the risks it faces when meeting its responsibilities. The AGS gives the reader a clear sense of the risks facing the authority and the controls in place to manage them. While the AGS is prepared by the authority at the end of the year, it is built up from processes designed, run and tested throughout the year. The AGS will be presented to the July Audit Committee meeting.
- 4.6 Movement in reserves statement (MIRS): Reserves represent the authority's net worth and show its spending power. Reserves are analysed into two categories: usable and unusable. The movement in reserves statement (MIRS) analyses the changes in each of the authority's reserves from year to year. The statement provides detail on what has caused the movement in each reserve.
- Usable reserves: These result from the authority's activities and include the general fund, earmarked reserves and capital receipts reserve
 - Unusable reserves: These are derived from accounting adjustments and cannot be spent. They include pensions reserve, revaluation reserve and the capital adjustment account
- 4.7 Comprehensive income and expenditure statement: The comprehensive income and expenditure statement (CIES) reports on how the authority performed during the year and whether its operations resulted in a surplus or deficit. The CIES includes cash payments made to employees and for services, as well as non-cash expenditure such as depreciation and accruals. It also shows all

sources of income received and accrued in the year. The CIES shows the accounting position of the authority before statutory overrides are applied. It analyses income and expenditure based on services.

4.8 It includes:

- Cost of services: Presented in a standardised format as set out by the 'Service reporting code of practice for local authorities'. Includes service specific income and expenditure.
- Other operating income and expenditure: Includes the surplus or deficit from the sale of property, plant and equipment.
- Financing and investment income and expenditure: Includes interest payable and receivable.
- Taxation and general grant income: Includes revenue from council tax and the revenue support grant.
- Other comprehensive income and expenditure: Items which are not allowed to be accounted for elsewhere in the CIES, such as increases in the value of land and buildings and changes in the actuarial assessment of pension liabilities.

4.9 Balance sheet: The balance sheet is a 'snapshot' of the authority's financial position at a specific point in time, showing what it owns and owes at 31 March 2018. The balance sheet is always divided into two parts including a) assets less liabilities and b) reserves.

4.10 The main elements of the balance sheet are:

- Non current assets: including property, plant and equipment, heritage assets, intangible assets, investment property. Non-current assets have a life of more than one year. For AVDC, the biggest balance by far is property, plant and equipment. These are tangible assets that are used to deliver the authority's objectives.
- Current assets: includes cash and other assets that, in the normal course of business, will be turned into cash within a year from the balance sheet date. Other assets include investments, non-current assets held for sale, inventories and debtors.
- Current liabilities: Comprises short-term borrowing, trade creditors, amounts owed to other government bodies and receipts in advance.
- Long-term liabilities: Includes borrowings, any amounts owed for leases and private finance initiative (PFI) deals. There will also be an estimate for the cost of meeting the authority's pension obligations earned by past and current members of the pension scheme.
- Reserves: These are usable and unusable reserves.

4.11 The Accounts also include a number of other statements.

- Cash flow statement: Sets out the authority's cash receipts and payments during the year, analysing them into operating, investing and financing activities. Cash flows are related to income and expenditure, but are not equivalent to them.
- Collection fund: Shows the transactions in respect of council tax and

- Group accounts: Prepared if the authority has a significant subsidiary, such as a local authority trading company. Shows the combined income and expenditure and balances of all the constituent bodies
- 4.12 The Accounts also include Additional disclosures, contained within the notes to the financial statements. These include:
- Accounting policies: Set out the accounting rules the authority has followed in compiling its financial statements. They are largely specified by International Financial Reporting Standards and the Local Authority Code of Practice.
 - Estimates: The authority may need to use estimates to value assets, liabilities and transactions. The major sources of estimation uncertainty should be disclosed if there is a significant risk the estimate will need to be materially adjusted next year.
 - Property, plant and equipment: Details about assets acquired and disposed of during the year, whether they have been revalued, the impact of any changes in value and the amount of depreciation charged.
 - Leases and PFI schemes: Set out how much will be paid annually to leasing companies and how much will be paid in total over the lifetime of the agreement.
 - Employee remuneration: Details of the pay of the most senior officers, all officers' remuneration, disclosed in bands, and the cost of any redundancies. Other notes show the annual cost and cumulative liabilities of pensions.
 - Contingent liabilities: Details of possible costs that the authority may need to meet, but has not charged to the CIES because it thinks that it will probably be able to avoid them.

5 The Quarterly Financial Digest: 2017/18 Year End Position

- 5.1 The Statutory Accounts only present actual expenditure and income, without reference to budgeted levels. Therefore, whilst the accounts present the definitive position on the Authority by way of its financial resources, it does not inform the reader as to whether this was planned or expected position.
- 5.2 The Quarterly Financial Digest is the primary reporting tool for in-year financial management. The Digest provides Management information and is designed to explain significant financial events which occurred during the year by comparing them with the expected or budgeted equivalent figures.
- 5.3 The Quarterly Financial Digest for the financial year 2017-18 will be presented to the Finance and Services Scrutiny meeting in early July 2018.
- 5.4 Based on the provisional financial results for 2017-18, Audit Committee Members are asked to note the provisional financial outturn. These, as stated, as still subject to audit.
- 5.5 The Council reported a deficit of £0.453m for the financial year when comparing actual expenditure against that budgeted (before the transfer from general fund balances).
- 5.6 This is a slight reduction on the deficit assumed in Budget Plans for 2018/19 agreed by Council in January 2018. A deficit of £0.487m had been forecast, as at December 2017.

- 5.7 The slight improvement to the financial outturn leaves the general fund working balances at a marginally higher level than predicted. The closing balance on the general fund for 2017-18 is reported as £1.977m
- 5.8 The Councils 2017/18 revenue outturn position is shown in the table below.

General fund revenue	2017/18 Budget £000	2017/18 Actual £000
Expenditure	88,772	105,266
Income	(71,247)	(66,652)
Net cost of services	17,525	38,614
Cost of borrowing	2,656	817
Other costs	5,254	(17,688)
Investment interest	(2,101)	(2,222)
Retained business rates	(4,458)	(4,831)
Income from grants	(8,528)	(8,825)
Net expenditure	10,348	5,865
Local taxpayers	(10,243)	(10,243)
Net balance	-	453

General fund balances	2017/18 Budget £000	2017/18 Actual £000
Balance 1 April	(3,646)	(2,873)
Net balance from fund	-	453
Special application of balances	-	443
Balance 31 March 2018	(3,646)	(1,977)

- 5.9 The view, as presented above, reflects the general fund revenue account and balances. This presents the organisational structure and view used for the management reporting of the accounts during the financial year.
- 5.10 As reported to Members previously, the year end financial position is largely being driven by exceptional staff costs associated with the fundamental council-wide reorganisation which concluded during 2017/18.
- 5.11 Over the past 12 months, the Council has undergone a series of business reviews in order to position itself as a more customer centric, innovative and commercial organisation. The financial benefit of the reorganisation has been to realise significant savings and has been central to the Council setting a balanced budget for the next 4 years.
- 5.12 In the year to 31 March 2018, salary savings were recognised as a result of business reviews and vacancies. However, some of these vacant posts were being filled by temporary staff (agency and consultants) at a premium. Further staff cost pressures included redundancy costs of £1.725m.
- 5.13 A number of factors contribute to the financial position including:
- pay costs are the largest contributor to the reported in-year overspend;
 - housing benefits overpayments made in error due to system changes;
 - savings relating to transitional relief on payment of business rates refunds;
 - vehicle savings from the introduction of the new fleet, and savings on their running expenses;
 - above budgeted levels of income from lettings at Pembroke Rd and the Gateway;
 - use of reserves to fund redundancy costs; and
 - above budgeted receipt of government grant income in relation to business rates.
- 5.14 Whilst overall the variance has remained largely unchanged from the forecast outturn position reported at the end of December 2017, there have been some changes in the outturn at a granular level.

- 5.15 The forecast variance, at portfolio level, was worse than the year end position. These changes include:
- housing payments made in error as a result of system changes. This could not have been foreseen when completing the forecast at December 2017;
 - changes in forecast income for car parking income and lettings;
 - lower than forecast income from trade waste disposal fees and recycling credits. It had previously been indicated that income from recycling would reduce but this has happened earlier than anticipated;
 - the impact of the staff changes across the organisation have been difficult to assess with precise accuracy. For operational issues, some changes didn't happen as quickly as forecast, and additional unanticipated costs were incurred in the last quarter; and
- 5.16 There were also a number of changes in relation to the financing items, the overall impact of which was to offset the position reported at portfolio level. This included lower borrowing costs and higher than expected income from business rates.

6 Capital Outturn 2017-18

- 6.1 The Council spent £8.505m on the delivery of its capital programme in 2017/18.
- 6.2 Capital expenditure was financed by revenue contributions and capital receipts. It was anticipated during the year that a significant element of the programme would be funded from prudential borrowing.
- 6.3 The Council has taken a prudent approach to financing the capital programme by deploying revenue reserves and cash balances instead of using external borrowing where possible as this produces a lower net cost.

7 Reserves and Balances

- 7.1 The slight improvement to the financial outturn leaves the general fund working balances at a marginally higher level than predicted. The closing balance on the general fund for 2017-18 is reported as £1.977m
- 7.2 The detail of the general fund is outlined below:

GENERAL FUND STATEMENT OF BALANCES	ACTUAL OUTTURN 2016/17 £'000	ORIGINAL BUDGET 2017/18 £'000	ACTUAL OUTTURN 2017/18 £'000
Brought Forward 1st April	(3,975)	(3,646)	(2,873)
Planned Contribution to Balances	91	0	0
Less General (Under)/Overspend	(168)	0	453
Contribution to the HS2 Fund	10	0	3
Web & E-Commerce Project	424	0	0
Commercial AVDC Change Programme	745	0	440
Net Contribution from Balances	1,102	0	896
Working Balance Carried Forward	(2,873)	(3,646)	(1,977)

- 7.3 The total of provisions and reserves held at 31st March 2018 are as detailed in the table below:

RESERVES AND PROVISIONS	OPENING BALANCE 01/04/2017 £'000	INCOME TO 31/03/2018 £'000	SPEND TO 31/03/2018 £'000	CLOSING BALANCE 31/03/18 £'000
Total Provisions	(3,786)	(897)	98	(4,585)
Total Reserves	(32,622)	(17,658)	16,898	(33,382)

7.4 A full list of reserves and provisions is included in the Statement of the Accounts.

8 Reasons for Recommendation

8.1 The Accounts and Audit Recommendations require that the Statement of Accounts are formally signed off by the Chairman of the Audit Committee and the Director responsible for Finance by 31ST July 18

9 Resource implications

9.1 None.

Contact Officer
Background Documents

Nuala Donnelly (01296) 585164
2017-18 Accounts