

## Regulatory and Audit Committee

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<b>Title:</b>	<b>DRAFT Statement of Accounts for the year ending 31 March 2017</b>
<b>Date:</b>	24 May 2017
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<b>Electoral divisions affected:</b>	All

### Summary

The draft unaudited Statement of Accounts for Buckinghamshire County Council and Pension Fund for the year ended 31 March 2017 is presented to the Regulatory and Audit Committee for information.

The Committee may wish to consider if, in their opinion, the appropriate accounting policies have been followed and whether there are concerns arising from the financial statements that need to be brought to the attention of the Council.

The Director of Finance & Assets as the Council's appointed Section 151 Officer will sign the unaudited Statement of Accounts following this meeting, after which the audit of the Accounts can commence and the draft Accounts will be published on the Council's website.

The finalised Statement of Accounts is due to be approved by the Chairman of the Regulatory and Audit Committee and the Section 151 Officer following the audit and consideration of the Auditors report at Regulatory and Audit Committee on 26 July 2017.

### Recommendation

**To review the Draft Statement of Accounts for Buckinghamshire County Council and Pension Fund for the year ended 31 March 2017 and to note the timing and requirements for completion and authorisation of the draft and final Statement of Accounts.**



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## **Executive Summary**

### **Annual report**

The Statement of Accounts contains for the first time, information from our draft Annual report on our key achievements, working with our partners, for the last 12 months; bringing together our financial and performance reporting.

### **Telling the Story changes to the Accounts**

The key change introduced in the 2016/17 Accounts is to remove the link in the Consolidated Income & Expenditure Statement (CIES) to the standard Service Reporting Code of Practice (SeRCOP) headings that had previously been mandated for all Local Authorities. Income and Expenditure is now reported on the basis of the Council's organisational structure in line with financial reporting to Cabinet. This has removed the need to apportion support service overheads, which are now reported under the Resources Portfolio.

The Net Cost of Services is still presented in line with proper accounting practice and includes capital charges, such as depreciation and revaluation gains and losses. The new Expenditure and Funding Analysis (EFA) note provides a direct reconciliation between the way the Council reports financial performance to Cabinet (which is in line with the way local authorities are funded) and the accounting measure of financial performance as shown in the CIES.

### **Pension Liability**

This year has seen a sharp increase in the overall pension liability from £538.394m to £804.224m. The main factors in the increase are the changes to the financial assumptions adopted by the actuary in relation to the present value of the defined benefit pension liability. The discount rate used (which is the annualised yield at the 18 year point on the Merrill Lynch AA-rated corporate bond yield curve) reduced from 3.6% to 2.7%. This reflects a drop in corporate bond rates; should bond rates rise again the impact of this change would be reversed. In addition the pension increase assumption has increased by 0.3% from 2.3% to 2.6%.

Market conditions have been favourable for assets during 2016/17, with in particular equities showing very good returns over the year at around 20%. This has resulted in a strong year for asset growth with a net increase of £88.0m.

The pension liability as reported on an accounting basis has a substantial impact on the net worth of the Council as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- the deficit will be made good by increased contributions over the remaining working life of employees;
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The triennial valuation of the Pension Fund was undertaken during 2016/17 on a funding basis. This differs from the accounting valuation as the actuary has more flexibility to reflect and smooth out movements in assumptions and market conditions, compared to the prescribed accounting valuation. On a funding basis, the scheme is now 80% funded. There is an increase in employer contribution rates from 22.8% to 26.4% to help meet the underlying deficit.

### **Schools Revaluations and Prior Period Error**

Land and Buildings are held in the Council's balance sheet based on valuations. These valuations can vary depending on changes to market conditions. In 2016/17 an increase of £168.213m in the value of Schools Land & Buildings has been identified as part of the cyclical valuation programme impacting on assets last valued in 2011/12 and 2012/13. This is the

main factor in the £178.880m increase in asset values, as reported in Other Comprehensive Income and Expenditure.

The valuers have also advised of an error in the reporting of land held at Academy Schools under 125 year leases. The land element is retained on balance sheet; however due to the nature of the lease the Council's valuers have advised that the land should be recorded at notional value only (of £1,000 for each school) as the freehold value of the land should be deferred for the unexpired residual term of the lease. The impact of this error is to reduce the value of Property, Plant & Equipment reported in the balance sheet as at 31 March 2016 by £89.5m. In order to correct this error, the Council has restated the prior year balance sheet, prepared a third balance sheet and restated the Notes to the Accounts.

### **Pension Fund Accounts**

The Pension Fund Account and Net Asset Statement, shows that in the year to 31 March 2017 the value of the Pension Fund increased by £474m to £2.696 billion. This is the net result of the contributions made (£136m) including transfers in from other pension schemes, employers and employee contributions; payments out (£120m) including pensions, commutations, lump sum retirement benefits and death benefits, management expenses £17m plus net returns on investments (£475m increase).

### **Resource implications**

The overall position for Buckinghamshire County Council is a £6.020m underspend against the net revenue budget of £329.270m. The budget included planned use of the General Fund reserve of £1.105m. As a result the overall increase to General Fund reserves is £7.124m increasing the General Fund reserve to £24.507m. Earmarked reserves have decreased to £84.640m. There are no further planned reductions to the General Fund reserve in the MTP which is now around 7.5% of the Council's net budget requirement.

### **Legal implications**

None

### **Other implications/issues**

None

### **Feedback from consultation, Local Area Forums and Local Member views (if relevant)**

None

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### **Background Papers**

None

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