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| <b>SUBJECT:</b>            | <i>Draft 2016/17 Statement of Accounts</i>                                         |
| <b>REPORT OF:</b>          | <i>Director of Resources – Jim Burness</i>                                         |
| <b>RESPONSIBLE OFFICER</b> | <i>Director of Resources – Jim Burness</i>                                         |
| <b>REPORT AUTHOR</b>       | <i>Principal Accountant - Jacqueline Ing<br/>01494 732292 jing@chiltern.gov.uk</i> |
| <b>WARD/S AFFECTED</b>     | <i>All</i>                                                                         |

## 1. Purpose of Report

- 1.1 The purpose of this report is to present to Members the draft 2016/17 Statement of Accounts.

### RECOMMENDATIONS

- 1. That the draft 2016/17 Statement of Accounts be noted by the Audit & Standards Committee.**

## 2. Background

- 2.1 Each year the Authority is required to produce a formal Statement of Accounts document in accordance with the Accounts and Audit Regulations.
- 2.2 These Accounts must:
- Follow the format laid out in the Accounting Code of Practice – which is based on International Financial Reporting Standards (IFRS).
  - Be approved by the Council's s151 senior finance officer by 30 June.
  - Be subject to external audit.
  - Be made available to the public for inspection.
  - Be considered and approved by Members by 30 September; and
  - Be published by 30 September.

## 3. Report Structure

- 3.1 The Statement of Accounts is a complex document and to assist Members in reviewing them a commentary on each of the main sections of the Accounts is detailed below using the following standard headings.
- Narrative Report
  - Statement of Responsibilities
  - Comprehensive Income and Expenditure Statement
  - Movement in Reserves Statement
  - Balance Sheet
  - Cashflow Statement

- Notes to the Accounts
- Collection Fund
- Auditor's Report
- Annual Governance Statement.

#### **4. Narrative Report**

- 4.1 The purpose of the Narrative report is to offer interested parties a summary of the most significant matters reported in the Accounts.
- 4.2 It gives a high level overview of the year's performance in terms of both revenue and capital spend, and highlights the Authority's financial position at the end of the year and the outlook for the future. It also outlines significant factors that affect the understanding of the Accounts.

#### **5. Statement of Responsibilities**

- 5.1 The Statement of Responsibilities is a formal requirement to set out what the Authority is responsible for and what the most senior Council Finance Officer (the Director of Resources) is responsible for with regard to preparing and producing the Statement of Accounts. The wording is based on best practice requirements and does not tend to change from year to year.

#### **6. Comprehensive Income and Expenditure Statement (CIES)**

- 6.1 The CIES is fundamental to the understanding of the Council's activities in that it reports the net cost for the year of all the functions for which the Council is responsible, and demonstrates how that costs has been financed from general Government grants and income from local taxpayers.
- 6.2 The statement is split into a number of sections:
- The first section provides information on the cost of the Council's different operations, net of specific grants and income from fees and charges, to give the Net Cost of Services of £11,946,000. This year for the first time the Cost of Services is split by the Council's Portfolio areas (rather than a prescribed format).
  - The second section comprises items of income and expenditure relating to the Council as a whole i.e. not service specific – primarily the Parish Precepts of £2,653,000.
  - The third section shows Financing and Investment income and expenditure.
  - The fourth section shows the income from local taxation and general Government grants, including Council Tax £10,185,000 and business rates £1,494,000.
- 6.3 With regard to business rates income, CDC is able to keep a proportion of any growth over and above the 'baseline' estimate of income. In 2016/17 there was growth of almost £700,000. Normally CDC would have had to pay £334k of this over to central Government.

However as CDC opted into a business rates pool for 2016/17 this payment was reduced to £237,000, a gain from pooling of £97,000.

## **7. Movement in Reserves Statement**

7.1 The Movement in Reserves Statement brings together all the recognised gains and losses of the Authority, to show how the different reserves held by the Authority have changed over the year.

7.2 The key movements in the Council's usable reserves are as follows:

- The General Fund Balance decreased by £702,000 to £3,594,000. This is because of in year transfers to earmarked reserves and adjustments relating to retained income from Non-Domestic Rates.
- Earmarked reserves increased by £1,554,000 to £10,729,000. This is mainly due to transfers to Earmarked Reserves from the General Fund.
- The Council's Capital Receipts Reserve reduced by £1,225,000 to £689,000. This is primarily because Capital Receipts were used to fund the Council's capital investment programme.

7.3 The final position of the General Fund Balance at the end of the year is an important indication of the Council's financial stewardship. There is no statutory guidance as to the level of this reserve. Local authorities are expected, on the advice of their chief finance officer, to make their own judgement on the minimum level taking into account all relevant local circumstances. For 2016/17 the Director of Resources' recommended minimum level for this reserve was £880,000.

7.4 The key movements in the Council's unusable reserves are as follows:

- The Pensions deficit increased by £9,887,000. The accumulated estimated pension fund deficit now stands at £46,449,000.
- The Revaluation Reserve balance increased by £4,124,000 due to upwards revaluation of the Authority's Property, Plant and Equipment.

## **8. Balance Sheet**

8.1 The balance sheet reports on the Council's financial position as at 31 March and shows the value of its assets and liabilities.

8.2 The following table provides a summary of the Council's key assets and liabilities.

|                                     | Value<br>31 March<br>2016<br>£m | Value<br>31 March<br>2017<br>£m |
|-------------------------------------|---------------------------------|---------------------------------|
| <b>Assets</b>                       |                                 |                                 |
| Property, Plant and Equipment       | 40.5                            | 43.3                            |
| Investment Property                 | 2.7                             | 2.7                             |
| Investments, Cash and Bank Holdings | 19.0                            | 23.9                            |
| Debtors                             | 7.7                             | 3.7                             |
| <b>Liabilities</b>                  |                                 |                                 |
| Short Term Creditors                | 5.8                             | 6.3                             |
| Short Term Provisions               | 1.5                             | 0.9                             |
| Finance Lease Liability             | 1.5                             | 1.1                             |
| Pension Liability                   | 36.6                            | 46.4                            |

- 8.3 With regard to the pension liability, this valuation is an accounting valuation calculated at a point in time in accordance with IAS19 and is different to the triennial actuarial revaluation which determines the Council's cash contributions into the pension fund. The accounting valuation methodology and the derivation of the main financial assumptions used can produce very volatile numbers from one year to another. The deficit will be made good by ongoing contributions into the fund over the remaining life of employees.

## 9. Cashflow Statement

- 9.1 The cashflow statement shows the inflow and outflow of cash for the year for both revenue and capital and shows how the Council's cash position has changed on a year on year basis.
- 9.2 It shows that in 2016/17 the amount of cash and cash equivalents held by the Authority increased by £4,895,000. This is mainly due to timing differences in relation to Business Rates and Council Tax, and the fact that payments were received from preceptors in respect of this in 2016/17 for deficits made in previous years.

## 10. Notes to the Accounts

- 10.1 Accompanying the Accounts are a large number of disclosure notes that give further explanations of the figures. The notes are required under the Code of Practice to give added clarity and understanding for the readers of the accounts.
- 10.2 Detailed below is a commentary on a number of the key notes.

### Note 1: Accounting Policies

- 10.3 This note details the accounting policies that have been used to compile the Accounts. The accounting policies that all major local authorities are required to use are set out in the Accounting Code of Practice. The policies set out are therefore in line with the standard requirements.

Note 9: Property, Plant and Equipment

- 10.4 This note provides a breakdown of the Council's Property, Plant and Equipment.

Note 10: Investment Properties

- 10.5 This note provides further information about the Council's Investment Properties (the London Road Depot). Investment properties are those land and buildings that are not used to provide Council services but are instead rented out to generate income.

Note 12: Financial Instruments

- 10.6 This note provides more information on the Council's investments and contractual debtors/creditors.

Note 18: Officers Remuneration

- 10.7 This note shows the amounts paid to senior staff. As the Senior Management Team are shared with SBDC, all shared staff are shown in this note; although CDC only bears 54.9% of the cost.

Note 23: Leases

- 10.8 This note provides additional information about the lease commitments that the Authority has. This is so that the technical reader can see the long term lease commitments that the Authority has.

Note 24: Defined Benefit Pension Scheme

- 10.9 This note provides additional information about the Council's pensions arrangements. It is long and detailed as the method of calculating future pension liabilities is complex and it is considered important that the technical reader can understand the specific assumptions that underpin the pension valuation include in the Accounts.

Note 26: Nature and Extent of Risks arising from Financial Instruments

- 10.10 This note provides extensive details about the potential risks that the Council faces from its financial dealings. It is long and detailed so that the technical reader can understand the full implications of the Council's investment strategy/debt profile.

**11. Collection Fund**

- 11.1 The Collection Fund is a separate account which receives all income from Council Tax and Non Domestic Rates (NDR).
- 11.2 This account pays out Council Tax, in the form of precepts, to Bucks County Council, Chiltern District Council (including an element for Town/Parish Councils), the Police & Crime Commissioner for Thames Valley, and Bucks and Milton Keynes Fire Authority.
- 11.3 NDR Income is shares as follows:
- Central Government 50%
  - Chiltern District Council 40%
  - Bucks County Council 9%
  - Bucks Fire 1%

11.4 Any surplus, or deficit, arising on the account is either paid out to, or recovered from, the appropriate parties in subsequent years.

11.5 During 2016/17 £71,367,000 of Council Tax income was due and £20,437,000 of NDR income was due.

## **12. Auditors' Report**

12.1 In accordance with the Accounts and Audit Regulations the Authority's external auditors, Ernst & Young, are required to audit the Accounts to ensure that they present fairly the financial position of the Authority. Once their audit is completed they issue a formal opinion on the Accounts and this has to be included in the Statement of Accounts document.

12.2 The external audit commenced on the 5<sup>th</sup> June.

12.3 Once the audit work has now been completed, the accounts will be brought back to the Audit Committee for final approval.

## **13. Annual Governance Statement**

13.1 One of the key requirements of the Accounts and Audit Regulations is that an Annual Governance Statement is produced and published alongside along-side the financial statement. This statement describes the Council's framework of internal control and governance arrangements.

13.2 This statement will also be considered by the Audit & Standards Committee at its meeting on the 29 June.

## **14. Formal Approval of Accounts**

14.1 The Accounts and Audit Regulations require the Chairman of the Committee receiving the accounts to sign and date the Accounts to formally represent completion of the Authority's approval process.

14.2 The Chairman of the Audit Committee will therefore be requested to sign the declaration in the financial statements once Members have considered the final accounts in September.

## **15. Member Review of the Accounts**

15.1 Members should note that, as the Accounts are an important public document, it is considered good practice that these are subject to appropriate review. Members should therefore feel free to ask questions about the Accounts and if appropriate request additional information to support the figures presented. However, due to the length and complexity of the Accounts, Officers would request advance notice if possible of any particularly detailed questions in order to provide comprehensive answers.

15.2 There is a risk that the CDC Accounts will be incorrect due to fraud or error. The risk of fraud is considered to be low and the risk of error is low/medium due to the complexity of the Accounts. The following controls mitigate against this risk.

- The Council has detailed Financial and Contract Procedure rules.
- Access to the finance system is limited to authorised staff and password protected.
- Internal audit carry out annual reviews of all key finance systems.
- The Accounts are produced by an experienced finance team.
- The Authority has obtained and followed the appropriate Codes of Practice and associated guidance notes.
- Key staff in the finance team attend update courses, to ensure that they are aware of any changes to the Accounts.
- A comprehensive timetable/checklist of what needs to be done and when is produced, and progress is monitored against this.
- Working papers are produced to support the figures in the Accounts.
- The Director of Resources reviews the Accounts and signs these off.
- The Principal Accountants, Head of Finance and Director of Resources are qualified accountants and are therefore required to comply with their Accounting institutes' codes of practice.
- Members have the opportunity to review the Accounts and ask questions about any of the figures.
- The Accounts are subject to external audit review.

## 16. Corporate Implications

16.1 There are no direct financial, legal or human resources implications from this report.

## 17. Next Step

17.1 The Accounts will be reviewed by external audit as part of their audit review process, and will be available for inspection by members of the public.

17.2 The Accounts will be brought back to the Audit & Standards Committee in September for final review and sign off.

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| <b>Background Papers:</b> | None |
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