

Agenda Item No: 12 **Report No:** 132/16
Report Title: Statement of Accounts 2015/2016
Report To: Audit and Standards Committee **Date:** 26 September 2016
Ward(s) Affected: All
Report By: Alan Osborne, Deputy Chief Executive
Contact Officer(s)-
Name(s): Stephen Jump
Post Title(s): Head of Finance
E-mail(s): steve.jump@lewes.gov.uk
Tel No(s): 01273 471600

Purpose of Report:

To present the Statement of Accounts 2015/2016 for approval following audit.

Officers Recommendation:

1. To approve the Statement of Accounts 2015/2016, with the Chair signing on the Committee's behalf.
 2. To agree to delegate authority to the Deputy Chief Executive to make technical and presentational amendments to the Statement of Accounts 2015/2016 ahead of signature by the Chair of the Audit and Standards Committee.
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Reasons for Recommendations

- 1 The Accounts and Audit Regulations 2015 require the Deputy Chief Executive and councillors to certify and approve an audited set of accounts for publication by no later than 30 September.
- 2 At the time of writing this report, the Council's appointed auditor, BDO LLP was yet to complete the audit of the accounts. Some technical adjustments to the Statement of Accounts document attached at Appendix 2 may be required on completion of the audit.

Information

3 Approval of the Accounts

- 3.1 The Audit and Standards Committee is required to approve the Council's statutory annual Accounts, which include statements of its income and expenditure for the year and its balance sheet at the year end. The requirement stems from the Council's Constitution, the Accounts and Audit Regulations and the Code of Practice on Local Authority Accounting published each year by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 3.2 The Accounts for 2015/2016 continue to be produced in accordance with International Financial Reporting Standards (IFRS) which are applicable to both private and public sector organisations. There have been no significant changes to the accounting requirements for Lewes District Council in 2015/2016.
- 3.3 The 'Statement of Accounts 2015/2016 document' includes both the formal accounts which are subject to audit, as well as supplementary information (eg a narrative to explain, in simple terms, the year's key financial information).
- 3.4 A report to the meeting of the Audit and Standards Committee on 20 June 2016 explained that, as the Council's Chief Finance Officer, the Director of Corporate Services (now Deputy Chief Executive following the appointment of a Lewes District Council/Eastbourne Borough Council shared Corporate Management Team) would approve a draft Statement of Accounts on 29 June 2016 (30 June is the latest date permitted by the Accounts and Audit Regulations), and present it to the Council's external auditors (BDO LLP) for audit. This took place and BDO started their audit at the beginning of July.
- 3.5 BDO's work had been substantially completed at the time of writing this report. BDO have indicated that, subject to the successful resolution of outstanding matters, they anticipate issuing an unqualified opinion on the financial statements for the year ended 31 March 2016. This means that the Council's independent Auditor considers that the Council's financial statements give a true and fair view, in accordance with appropriate legislation and relevant accounting guidance, of the financial position of the Council at 31 March 2016 and its income and expenditure for the year.
- 3.6 BDO's report, which is included as a separate item on this Agenda, sets out in detail the results of their accounts audit work. In some cases BDO considered that the information provided within the draft accounting statements and accompanying notes departed from the expected accounting practice and presentation. These departures had no impact on the Council's overall financial performance during the year or its useable reserves and balances. Following discussion, officers have been content to make amendments and these are incorporated in the Statement of Accounts 2015/2016 which is attached at Appendix 2.
- 3.7 BDO have noted that some audit queries remain outstanding, including support for the valuation of assets held at depreciated replacement cost (eg property for

which there is no market-based evidence of current value due to its specialist nature, for example cemeteries and indoor leisure facilities). None of the outstanding queries have a bearing on the Council's overall financial performance during the year or its useable reserves and balances. Amendments to the Statement of Accounts attached at Appendix 2 may be necessary when the outstanding queries are resolved.

- 3.8** An overview of the Statement of Accounts 2015/2016 is given in Appendix 1. It is recommended that the Audit and Standards Committee should approve the Statement of Accounts, with the Chair signing on its behalf. In the event that BDO's audit work is not complete at the time of this meeting, it is recommended that delegated authority should be given to the Deputy Chief Executive to make technical and presentational amendments, prior to signature by the Chair.
- 3.9** Following approval, the Deputy Chief Executive will certify the Statement of Accounts and BDO will release their formal audit certificate. The accounts will then be published by the statutory deadline of 30 September. In order to minimise costs, a very limited number of paper copies of the Statement of Accounts will be produced. However, it will be made available for download from the Council's website and a paper copy will be sent free of charge to any interested person requesting it.

Financial Implications

- 4** There are no additional financial implications arising from this report.

Legal Implications

- 5** The legal framework covering the production, audit and publication of the Council's annual Statement of Accounts is explained in the body of this report.

Risk Management Implications

- 6** I have completed the Risk Management Questionnaire. The issues covered by the recommendations are not significant in terms of risk.

Equality Screening

- 7** This is a routine report for which detailed Equality Analysis is not required to be undertaken.

Background Papers

- 8** Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and Guidance Notes for Practitioners.

Appendices

Appendix 1 – Overview of Statement of Accounts 2015/2016

Appendix 2 – Audited Statement of Accounts 2015/2016

Overview of Statement of Accounts 2015/2016

The Statement of Accounts incorporates the formal accounting statements which have been produced in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Local Authority Accounting in the UK 2015/16. It consists of the key elements described below. **NB page references relate to the Statement of Accounts document, not the Agenda page numbers.**

1. Narrative Report (pages 3 to 25)

This Narrative Report does not form part of the formal Statement of Accounts and is not subject to BDO's audit certificate. Because of the complexity of the formal financial statements, CIPFA recommend that a Narrative Report is included within the document to explain the financial performance of the local authority and give contextual financial and non-financial information. It should be noted that the financial information included within the Narrative Report excludes 'technical' accounting items (for example unrealised gains from the revaluation of property) which have no impact on the Council's usable reserves or balances.

This section explains:

- that savings against service budgets in the year meant that the budgeted use of £0.398m Uncommitted General Fund Reserves was not required
- Housing Revenue Account (HRA) financial performance for the year resulted in a £0.088m net surplus of income over expenditure, a net positive variation of £0.579m compared with the budget
- that the total value of capital expenditure was £12.283m and identifies the sources of financing and required borrowing

2. Movement in Reserves Statement (pages 26 to 27)

This Statement shows:

- the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those the Council can apply to fund expenditure or reduce local taxation) and other reserves. The surplus on the provision of services (£19.277m in 2015/2016) shows the true economic cost of providing services, more details of which are shown in the Comprehensive Income and Expenditure Statement.
- that reversing adjustments (£14.477m in 2015/2016) are made through the accounts to ensure that technical accounting entries have no impact on the basis under which the General Fund and Housing Revenue Account are funded (Council Tax, rents, grants, etc).
- the balances held by the General Fund (£2.066m), HRA (£2.726m) and in earmarked reserves (£10.719m) at 31 March 2016.

3. Comprehensive Income and Expenditure Statement (page 28)

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 in accordance with regulations. There are three sections:

- the first section provides information on the cost of operating all of the Council's services, including HRA housing, net of specific grants and income from fees and charges. The service categories used are those which accounting guidance requires rather than the Council's own 'Councillor portfolios'. The net income from services in 2015/2016 was £6.827m.
- the second section comprises items of income and expenditure relating to the Council as a whole and not to any individual service. This includes income from the Council Tax and Business Rates. After taking these items into account the overall 'surplus' on the provision of services in 2015/2016 is £19.277m.
- the third section introduces other items that have contributed to the movement in the net worth of the Council (ie the total value of its assets less its liabilities). The total of this 'other income and expenditure' in 2015/2016 was net income of £33.946m, comprising a surplus on the revaluation of property assets (£23.711m) and actuarial gains in respect of the Pension Fund (£10.235m).

The combination of all three sections in the Statement shows that the total value of comprehensive income in the year, on an accounting rather than funding basis, exceeded expenditure by £53.223m.

4. Balance Sheet (pages 29 to 30)

This provides a snapshot of the Council's financial position as at 31 March 2016 and includes the General Fund and Housing Revenue Account balances. It sets out what the Council owns, owes and is owed at that point in time, along with details of its balances and reserves.

Significant items are:

- Property, Plant and Equipment – valued at £267.423m, an increase of £43.241m compared with the previous year. The Council commissions a complete independent valuation of its property assets every five years (different cycles apply to General Fund and HRA property), with the valuer also carrying out a 'desk-top' review annually to ensure that the impact of significant changes in the property market are reflected fairly in the Balance Sheet. The values of Council-owned homes are discounted against their open-market value by a standard factor which reflects their designated use as social housing.
- Heritage Assets – the value of these assets, which the Council holds principally for their contribution to knowledge and culture (for example Newhaven Fort), was £2.551m.

- Investment Property - £4.321m, with the highest value sites being School Hill House (£0.700m) and The Maltings (£0.420m) in Lewes.
- Investments - £1.001m.
- Short Term Debtors - £6.368m. This includes amounts owed by Government departments (grant payments, monthly VAT reimbursement, etc), as well as individuals (sundry debtors, council taxpayers, housing tenants)
- Cash and Cash Equivalents - £12.177m, held in Money Market Funds, on deposit, in the form of Treasury Bills or placed with another local authority and shortly to be returned
- Short Term Creditors - £5.714m. This includes amounts owed to Government departments and other local authorities as well as suppliers and contractors
- Long Term Borrowing - £56.673m. The amount of long-term borrowing remained unchanged through the year. The debt portfolio had been established at the end of 2011/2012 as a consequence of a national reform of housing finance, and there has been no reason to move away from that position
- Defined Pension Liability - £22.426m. This is the future liability to pay pensions to employees netted down by the value of assets held in the pension fund. The liability has reduced by £8.607m in 2015/2016 primarily as a result of increasing bond yields (which are used in calculating the value of future pension payments) , partially offset by lower than expected asset returns
- Total Usable Reserves - £25.361m. Over the course of the year, £4.800m was added to reserves in net terms, the largest element being capital receipts from the sale of assets, of the balance increased by £2.977m.

5. Cash Flow Statement (page 31)

This summarises the total receipts and payments of cash arising from the Council's activities in the year ie it excludes amounts which the Council owes but has not yet paid and is owed but has not yet received.

6. Notes to the Financial Statements (pages 32 to 100)

These explain the significant items within each of the core elements along with an explanation of the accounting policies that were followed when compiling and presenting the Accounts.

7. Housing Revenue Account and supporting notes (pages 101 to 106)

This statutory 'ring-fenced' account reports for the year on the management of the Council's housing stock. It shows the major elements of housing running costs: maintenance (£4.475m in 2015/2016), management (£2.719m), interest paid on borrowing (£1.852m) and how these are met by rents (£15.430m), service charges (£1.217m) and other income (£0.225m). After allowing for capital

expenditure funded from the HRA in the year (£0.051m) and setting aside funds for the future repayment of borrowing (£1.693m), the 'true' position on the HRA was a surplus of £0.088m, which was added to the HRA Balance at the end of the year.

8. Collection Fund Statement and supporting notes (pages 107 to 109)

This shows the Council's transactions in relation to the collection of non-domestic rates (£24.296m) and council tax (£60.632m). The Council paid shares of the council tax it collected to the 'precepting authorities' of East Sussex County Council (£42.113m), Sussex Police and Crime Commissioner (£5.034m), and East Sussex Fire Authority (£2.976m) and retained (£9.417m) as funding for its own services.

9. Statement of Responsibilities for the Statement of Accounts (page 110)

This explains the responsibilities of the Council and the Deputy Chief Executive in respect of the management and reporting of financial affairs.

10. Independent Auditor's Report (pages 111 to 113)

At the date of preparing this report for the Audit and Standards Committee, BDO were yet to complete the audit of the accounts. BDO's draft audit certificate is presented, pending signature.

11. Annual Governance Statement (AGS) (pages 114 to 123)

The Audit and Standards Committee approved the draft Annual Governance Statement at its meeting on 20 June 2016 and authorised officers to make final adjustments in the period up to the approval of the Statement of Accounts.

Following review and comment by BDO, a number of changes have been made to the AGS, primarily to update the position on a number of points where the outcome was not known in June but are known now. The AGS now includes references to the findings of the New Homes Project working group and the results of BDO's review into the governance and decision making processes followed by the Council in respect of this project.