

# Audit, Governance and Standards Committee

**26 June 2017**

Is the final decision on the recommendations in this report to be made at this meeting?

**Yes**

## Draft Statement of Accounts 2016-17

<b>Final Decision-Maker</b>	Audit, Governance and Standards Committee
<b>Lead Director or Head of Service</b>	Mark Green, Director of Finance & Business Improvement
<b>Lead Officer and Report Author</b>	Ellie Dunnet, Head of Finance
<b>Classification</b>	Non-exempt
<b>Wards affected</b>	N/A

**This report makes the following recommendations to the final decision-maker:**

1. To note the draft 2016-17 Statement of Accounts attached at **Appendix A**

**This report relates to the following corporate priorities:**

The Statement of Accounts shows how the council has managed its resources over the previous financial year. Effective financial management is integral to ensuring that value for money is achieved in the delivery of the council's objectives and this therefore underpins all corporate priorities.

<b>Timetable</b>	
<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	26 June 2017 (draft)
Audit, Governance and Standards Committee	18 September 2017 (final – audited)

# Draft Statement of Accounts 2016-17

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The draft statement of accounts attached at **Appendix A** to this report summarises income and expenditure for the financial year to 31 March 2017, and details the council's assets, liabilities and reserves at this date.
- 1.2 The council is required to submit a draft copy of the statement to its external auditors by 30 June in line with the amended Accounts & Audit Regulations 2011. Under these regulations the Audit, Governance and Standards Committee are required to formally approve the final audited Statement of Accounts by 30 September for the previous accounting period, in their capacity as the committee charged with governance.
- 1.3 The purpose of this report is to provide the committee with an early opportunity to review the draft accounts submitted for audit, prior to formally approving them in September.

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## 2. INTRODUCTION AND BACKGROUND

- 2.1 The Statement of Accounts consists of:

**Narrative Report** – this summarises the council's performance over the financial year 2016-17 and highlights the most significant elements of the financial statements. This year, the Narrative Report has been re-formatted in order to make it a user-friendly document that can be used widely to communicate how the Council is performing in financial terms.

**Comprehensive Income and Expenditure Statement (CIES)** – shows the accounting position of the council, and whether operations have resulted in a net surplus or deficit. The accounting position 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. Accrued expenditure represents the value of goods or services received by the authority by 31 March which have not been paid. Similarly, accrued income represents income due, but not yet received.

**Movement in Reserves Statement** – this is a financial statement which details the balances the council held in reserves at 31 March 2017, analysed into usable reserves (such as the general fund, earmarked balances and capital receipts reserve) and unusable reserves (such as the pensions reserve, revaluation reserve and capital adjustment account).

**Balance Sheet** – this can be seen as a 'snapshot' of the authority's financial position at a specific point in time, showing what it owns and owes at 31 March 2017.

**Cash Flow Statement** – sets out the authority's cash receipts and payments during the year, and analyses them into operating, investing and financing activities.

**Expenditure & Funding Analysis** – reconciles the net expenditure chargeable to the general fund to the accounting position shown in the CIES.

**Accounting Policies** – set out the accounting rules the authority has followed in compiling its financial statements.

**Disclosure Notes** – provide additional details on the headline figures included in the main financial statements.

**Collection Fund Statement** – summarises transactions relating to council tax and business rates for the 2016-17 financial year.

- 2.2 The council's financial statements must comply with CIPFA's Code of Practice on Local Authority Accounting, which is based on International Financial Reporting Standards (IFRS). Both frameworks require a number of complex and detailed disclosures which accompany the main financial statements.
- 2.3 The format of the comprehensive income and expenditure statement (CIES) has changed for 2016-17. This is now based on the council's service committees, rather than the standard headings prescribed by CIPFA as in previous years. The comparative figures for 2015/16 have also been restated in this format.
- 2.4 Officers have made efforts to 'de-clutter' the Statement of Accounts in recent years by removing unnecessary and immaterial disclosures. The remaining disclosures may appear extensive, but are considered necessary in order to comply with accounting standards.
- 2.5 The accounts show that the balance on the general fund and earmarked reserves has decreased by £1.5m to £17.35m at the end of 2016-17. The decrease relates to use of New Homes Bonus previously set aside for capital expenditure to fund large acquisitions during 2016-17.
- 2.6 Other headline messages from the Statement of Accounts can be summarised as follows:
  - The Revenue Outturn as set out in the CIES represents an underspend of £89,000 as compared with the budget for the year. This is an improved position as compared with the projected overspend reported in quarterly monitoring during the course of the year.
  - The value of property, plant and equipment has increased by £6.3m. This relates to two major property acquisitions made during 2016-17: the former Royal Mail site next to Maidstone East station, in partnership with Kent County Council, and Granada House in Gabriel's Hill.
  - Movements in the short term debtor and creditor balances reflect the council's role as lead authority for Kent Business Rates pool.
  - Movements in the value of short term investments and cash and cash equivalents represent a greater proportion of the council's surplus cash balances being invested in highly liquid, short term deposit accounts as interest rates are currently not sufficient to justify entering into longer term investments.

- Long term liabilities have increased by £16.9m, which predominantly results from the increase in the pensions liability following the annual assessment of the fund by actuaries acting on behalf of Kent County Council. There is a corresponding reduction in the value of unusable reserves. While this has a substantial impact on the net worth of the council as recorded in the balance sheet, statutory arrangements in place to fund the deficit mean that the financial position of the council remains healthy. The deficit is currently being addressed through increased contributions to the fund over the working life of employees, as assessed by the scheme actuary.

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### 3. AVAILABLE OPTIONS

- 3.1 The annual production and external audit of the Statement of Accounts is a statutory requirement and there are therefore no alternative options.

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### 4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 It is recommended that the committee notes the draft unaudited Statement of Accounts attached at **Appendix A** to this report.
- 4.2 It is considered appropriate to bring the draft Statement of Accounts to the committee at this stage to provide an early opportunity for committee members to review the Statement and to ask any relevant questions of officers in advance of the statutory deadline in September.

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### 5. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	Production of the annual Statement of Accounts which is free from material or significant error is a key element of the annual external assessment process. It is therefore important that the statement of accounts meets this requirement.	Director of Finance & Business Improvement
<b>Risk Management</b>	The primary risks are that the Council fails to produce its accounts in accordance with the requirements of the Code of Practice or statutory timetable.	Director of Regeneration & Place

	A risk assessment has been undertaken in order to mitigate this risk.	
<b>Financial</b>	The Statement of Accounts provides an overview of income and expenditure for the financial year to 31 March 2017, and details the council's assets, liabilities and reserves at this date.	Section 151 Officer & Finance Team
<b>Staffing</b>	Not applicable.	
<b>Legal</b>	Not applicable.	
<b>Equality Impact Needs Assessment</b>	Not applicable.	
<b>Environmental/Sustainable Development</b>	Not applicable.	
<b>Community Safety</b>	Not applicable.	
<b>Human Rights Act</b>	Not applicable.	
<b>Procurement</b>	Not applicable.	
<b>Asset Management</b>	Not applicable.	

## **6. REPORT APPENDICES**

The following documents are to be published with this report and form part of the report:

- **Appendix A:** Draft un-audited Statement of Accounts 2016-17
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## **7. BACKGROUND PAPERS**

None