Committee: Standards and General Purposes

Date: 30 June 2016

Wards: All

Subject: 2015/16 Draft Revenue Outturn and Final Accounts

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Councillor Mark Allison – Cabinet Member for Finance

Contact Officer: Stephen Bowsher – Chief Accountant 0208-545-3531

Key decision reference number: This report is written and any decisions taken are within the Budget and Policy Framework Procedure Rules as laid out in Part 4-C of the Constitution.

Recommendations:

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1. That Committee note and comment on the unaudited Statement of Accounts for the Council for the year ended 31st March 2016.
2. That Committee comment on the key statutory reporting changes introduced by the Accounts and Audit Regulations 2015, including earlier reporting deadlines from 2017/18.
3. That Committee discuss the options for adapting to the earlier reporting deadlines from 2017/18.

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1. **Purpose of report and executive summary**

1.1 This report presents the unaudited Statement of Accounts for the year ended 31st March 2016 for note and comment by the Standards and General Purposes Committee prior to the commencement of the annual audit of accounts. The unaudited Statement of Accounts include a new narrative statement and have been authorised by the Section 151 Officer and published on the Council's website, in line with statutory requirements.

1.2 The unaudited Statement of Accounts (including narrative statement) are attached as Appendix 2. A summary of the accounts is included as Appendix 1.

1.3 The Accounts and Audit Regulations 2015 introduce two key reporting changes; the requirement for a new narrative statement to accompany the 2015/16 Statement of Accounts, and earlier reporting deadlines from 2017/18 onwards.

2. **Details**

<u>Accounts and Audit Regulations 2015</u>

2.1 The 2015/16 Statement of Accounts is the first to be prepared under the new Accounts and Audit Regulations 2015 ("the Regulations").

2.2 The two main reporting changes introduced by the Regulations are:

i. There is a new requirement for a narrative statement to accompany the 2015/16 Statement of Accounts, featuring comment by the Authority on its financial performance and economy, efficiency and effectiveness in its use of resources.

ii. From 2017/18, the statutory deadlines for preparing both the unaudited and audited Statement of Accounts will be brought forward. Requirements for the approval of the Statement of Accounts will remain unchanged, as set out in Table 1 below.

Table 1 – Statutory requirements for publishing the Statement of Accounts

	2015/16 and 2016/17			**2017/18 onwards**		
	Approval required by:			**Approval required by:**		
	Member committee	**S151 Officer?**	**Publication deadline**	**Member committee**	**S151 Officer?**	**Publication deadline**
Unaudited accounts	No	Yes	30th June	No	Yes	31st May
Audited accounts	Yes	Yes	30th September	Yes	Yes	31st July

2.3 In advance of 2017/18, members are asked to consider the impact of the earlier deadlines on this Committee's involvement in reviewing the unaudited and audited Statement of Accounts.

2.4 For the unaudited accounts, as there is no requirement for Committee approval before publication, members are asked to consider the following two options for 2017/18 onwards.

Option 1

2.5 That the unaudited accounts be published within the statutory deadline, then circulated for information as soon as practically possible to members of this Committee.

Option 2

2.6 That the unaudited accounts be published within the statutory deadline, then dispatched as per current arrangements (i.e. within the standard committee report deadline) to June's Standards and General Purposes Committee, for note and comment by members at the June Committee.

2.7 For the audited accounts, from 2017/18 it will be necessary for a Committee of members to convene in late July to approve them before publication.

2015/16 Statement of Accounts

2.8 In preparation for 2017/18, officers undertook to produce the 2015/16 unaudited Statement of Accounts by 31st May 2016. Although considerably challenging, this earlier deadline was achieved.

2.9 The Statement of Accounts includes a new narrative statement, as required by the Accounts and Audit Regulations 2015.

2.10 Approval of the 2015/16 audited Statement of Accounts will be sought at this Committee on 8th September 2016.

2.11 The 2015/16 audit by our external auditor, Ernst and Young (EY), is scheduled to begin on 11th July and will run for approximately seven weeks. EY will advise in due course the date upon which they will sign the accounts.

2.12 The process of preparing the Statement of Accounts for the financial year represents the end of the financial reporting process. The purpose of this process is to provide members with information about the overall financial position of the Authority.

2.13 The accounts comply with the Code of Practice on Local Authority Accounting 2015/16 produced by CIPFA. The Code is based upon International Financial Reporting Standards (IFRS) and comprises accounting standards issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC). It also draws upon approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance.

2.14 For 2015/16 the Pension Fund Accounts will again be audited separately to the Authority's overall accounts. The Pension Fund Accounts contain both Pension Fund investment and Pension Scheme data. The Pension Fund Advisory Committee (PFAC) will convene on 29th June 2016 to consider the Pension Fund Accounts.

2.15 The Statement of Accounts comprises: -

- **The Movement on Reserves (MRS)** – this shows the movement in the year on the different reserves held by the authority and is used to adjust the net surplus or deficit on the Comprehensive Income and Expenditure Account to the amount chargeable under statute to the Council's General Fund.

- **The Comprehensive Income and Expenditure Account (CIES)** – this shows the accounting cost in the year of providing services for the functions for which the Council is responsible and demonstrates how they have been financed. The statement is designed to be comparable to the private sector in content in that it contains not only revenue transactions but also realised and unrealised capital gains or losses arising from the Council's capital transactions and changes in the value of pension fund assets and liabilities.

- **The Balance Sheet** – this summarises the Authority's financial position at the year-end.

- **The Cash Flow Statement** – this summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

- **Notes to the Core Financial Statements** - provide additional information which supports and explains the figures in the Core Financial Statements.

- **The Statement of Accounting Policies** – this explains the basis for the recognition, measurement and disclosure of transactions and other events in the accounts.

- **The Collection Fund** - reflects the statutory requirement for billing authorities to maintain a separate account that shows the transactions of the Council in relation to non-domestic rates and council tax.

- **Pension Fund Accounts** - these show the contributions to, and the benefits paid from, the Pension Fund and identifies the investments which make up the assets of the fund.

2.16 **Accounting and Auditing Standards**

2.17 The Director of Corporate Services is responsible for the preparation of the attached Statement of Accounts. The Statement is required to present a true and fair view of the Authority's financial position and its income and expenditure for the year ended 31st March 2016.

2.18 The Council's auditors, EY, are required to prepare a report under the International Standard on Auditing 260 (ISA 260). Under this Standard which covers "Communication of audit matters to those charged with governance" the auditor is required to report relevant matters relating to the audit to those charged with governance. This responsibility will be discharged following the conclusion of the audit by reporting relevant matters to the Standards and General Purposes Committee on 8th September 2016.

3. **Revenue outturn and variance analysis**

3.1 **Overall outturn**: Members have been advised in budgetary control reports, throughout the last financial year, of the Council's overall revenue position based on the predicted outturn of each service department. The final position is set out in Table 2.

3.2 In 2014/15, the overall £3.84m overspend (2.4% of budget) had represented a shift from the significant under spending seen in prior years.

3.3 In 2015/16 the outturn position is an overspend of £1.66m, or 1.1% of budget. Corporate provisions underspent by £2.80m, with net service expenditure overspent by £4.46m.

Table 2: Revenue Outturn (net direct i.e. excluding recharges to services)

OUTTURN	Current Budget 2015/16 £000s	Outturn £000s	Outturn variance £000s
Department			
Corporate Services	30,210	29,837	(373)
Children, Schools and Families	50,089	50,082	(7)
Community and Housing	56,453	57,393	940
Public Health	296	289	(7)
Environment & Regeneration	18,423	22,055	3,632
Net Recharges	(646)	(374)	272
NET SERVICE EXPENDITURE	**154,825**	**159,282**	**4,457**
TOTAL CORPORATE PROVISIONS	(129)	(2,926)	(2,797)
TOTAL GENERAL FUND	**154,696**	**156,355**	**1,659**
Business Rates	(33,371)	(33,371)	0
Grants	(39,859)	(40,819)	(960)
Council Tax and Collection Fund	(81,471)	(81,471)	0
FUNDING	**(154,701)**	**(155,661)**	**(960)**
NET	**(5)**	**694**	**699**

3.4 In 2014/15, there had been major service overspending in the areas of waste, children's social care and adult social care.

3.5 In 2015/16, the three largest areas of service overspending were parking, children's social care and adult social care, as shown in Table 3. The largest overspend was in parking income due to delays in the implementation of ANPR.

Table 3: Major factors

Service Spending 2015/16	Current Budget £'000	Outturn Variance to budget £'000	Outturn Variance to budget %	Budget as % of Council Budget £'000	Overspend as % of Overspend £'000
Adult Social Care	52,461	2,684	5.1%	33.9%	60.2%
Parking	-10,763	3,750	34.8%	7.0%	84.1%
Social Care , Youth Inclusion and Commissioning	28,601	617	2.2%	18.5%	13.8%
Total 3 major areas	**70,299**	**7,051**	10.0%	45.4%	158.2%
The Rest	**84,526**	**-2,594**	3.1%	54.6%	-58.2%
Total	**154,825**	**4,457**	**2.9%**	**100.0%**	**100.0%**

3.6 A detailed analysis of service spending and variances was reported to Cabinet on 6th June.

3.7 **Reconciliation**: The revenue outturn in the Statement of Accounts has been prepared in accordance with the CIPFA Service Reporting Code of Practice, which sets out a standard form for the reporting of services to enable this Authority to compare the gross and net cost of its services with all other local authorities. A reconciliation of the Cabinet reporting to the CIPFA Service Reporting Code of Practice is provided in disclosure note 2 of the Statement of Accounts. The reasons behind the difference in format are explained in Appendix 3.

4. Collection Fund

4.1 The Collection Fund accounts for the income raised from Council Tax and Non Domestic Rates (NDR) and its distribution. Under the Local Government Finance Act 2012 the Council retains 30% of NDR income as part of the Business Rates Retention Scheme, with precepts being paid to the Greater London Authority (GLA) (20%) and Department for Communities and Local Government (DCLG) (50%).

4.2 At 31st March 2016, there was a deficit of £0.537m on the Collection Fund comprising a £3.810m Council Tax surplus and a deficit of £4.347m relating to NDR. The surplus or deficit represents the difference between the amount collected by the Council (after granting statutory discounts and exemptions and allowing for provisions for non payment) and the amount budgeted for payment to the General Fund and other preceptors. Table 4 provides a breakdown of the surplus and deficit amounts due between the Council, GLA and DCLG.

Table 4: Council Tax Surplus and NDR Deficit

As at 31st March 2016	Council Tax	NDR	Total
	£000	£000	£000
London Borough of Merton (Surplus)/Deficit	(3,007)	1,304	(1,703)
Greater London Authority (Surplus)/Deficit	(803)	869	66
DCLG (Surplus)/Deficit	-	2,174	2,174
Total (Surplus)/Deficit	**(3,810)**	**4,347**	**537**

5. Pension Fund

5.1 For accounting purposes a valuation under IAS19 is carried out to produce an accounting figure of surplus or deficit as at the date of the Balance Sheet and in doing this, the methodology used is affected by current assumptions and short-term economic market conditions.

5.2 The Pension Fund deficit, on an IAS19 basis, decreased from £294m to £263m, a reduction of £31m. The Authority's actuary estimated that at 31st March 2016, future liabilities amount to £746m (£775m at 31st March 2015) with assets of £483m (£481m at 31st March 2015). The reduction in the deficit is mainly a result of favourable changes to the financial assumptions used by the actuary in calculating the value of future liabilities – such as those for inflation and discount rates. The deficit figure bears no relationship to the basis upon which the actuary will value the fund for the purpose of calculating the contributions required.

5.3 The impact of pensions on council tax is dependent on the actuarial valuation of the pension fund carried out every three years. This is carried out using a completely different methodology. The next applicable actuarial valuation will be as at 31st March 2016, which will affect contribution rates from 1st April 2017.

6. Reserves and balances

6.1 Revenue reserves and fund balances are shown in Table 5.

Table 5 - Actual Movement in Reserves 2015/16	Balance at 31/3/15	Net Movt. in year	Balance at 31/3/16
	£'000	**£'000**	**£'000**
General Fund Reserve	15,151	0	15,151
Earmarked Reserves	30,197	(1,457)	28,740
Grants & Contributions	3,335	(1,409)	1,926
Schools	16,938	2,635	19,573
Total Available General Fund revenue reserves	**65,620**	**(231)**	**65,389**
Fixed to Contracts	1,955	0	1,955
Total General Fund revenue reserves	**67,575**	**(231)**	**67,344**

Analysis			
Earmarked Reserves			
Outstanding Council Programme Board	9,515	(3,233)	6,282
For use in future years for budget	5,752	113	5,865
Revenue Reserves for Capital / Revenuisation.	6,062	1,685	7,747
Renewable Energy reserve	1,441	82	1,523
Repairs & Renewal Fund	1,424	(200)	1,224
Transforming families reserve	414	(414)	0
Pension Fund additional contribution	63	0	63
Local Land Charges Reserve	1,419	226	1,645
Apprenticeships	648	(242)	406
Community Care Reserve	1,386	0	1,386
Local Welfare Support Scheme	614	(81)	533
Economic Development Strategy	1,148	(529)	619
Governor Support Reserve	52	(33)	19
Wimbledon Tennis Courts Renewal	77	25	102
Corporate Services Reserve(other)	182	108	290
New Homes Bonus Scheme	0	1,037	1,037
Earmarked Reserves	**30,197**	**(1,457)**	**28,740**
Adult Social care contributions	425	(75)	350
Culture and Environment contributions	447	(313)	134
Culture and Environment grant	363	50	413
Childrens & Education grant	650	(279)	371
Adult Social Care grants	0	0	0
Supporting People balances	0	65	65
Housing Planning Development grant	190	(89)	101
Housing GF grants	106	0	106
Public Health	1,154	(1,132)	22
CSF reserve	0	365	365
Grants & Contributions	**3,335**	**(1,409)**	**1,926**
Sub-Total	**40,972**	**(7,439)**	**33,533**

Insurance Reserve	1,955	0	1,955
Fixed to Contracts	**1,955**	**0**	**1,955**

DSG Reserve	3,585	784	4,368
Schools Reserve	52	(52)	0
Schools PFI Fund	4,366	235	4,600
Refund of PFI contributions	400	(300)	100
Add Schools own reserves	8,535	1,969	10,504
Schools Reserves	**16,938**	**2,635**	**19,573**

Capital Outturn

7.1 A summary of the draft year end position is shown in Table 6.

Table 6: Capital Outturn

Department	Gross Programme	Final Budget	Outturn	Underspend Against			
	£000s	£000s	£000s	Gross Budget		Final Budget	
				£000s	%	£000s	%
Community & Housing	3,786	1,612	1,355	(2,431)	(64.20%)	(257)	(15.92%)
Corporate Services	9,866	6,857	2,697	(7,169)	(72.67%)	(4,160)	(60.67%)
Children, Schools & Families	18,806	14,619	14,327	(4,479)	(23.82%)	(292)	(2.00%)
Environment & Regeneration	15,414	14,127	10,948	(4,466)	(28.97%)	(3,179)	(22.50%)
Total	**47,872**	**37,215**	**29,327**	**(18,545)**	(38.74%)	(7,888)	(21.19%)

7.2 The capital programme for 2015/16 as approved in March 2015 was £41.9 million. Subsequently, slippage from 2014/15 (£7.2m) less other net adjustments of £1.2m resulted in an effective opening programme of £47.9m. However, during the financial year £10.7 million was re-profiled (moved) into subsequent financial years. These movements are shown below. Coupled with the £7.8m underspend there has been effectively a 39% slippage or reduction in schemes from the initial budget plus new schemes.

7.3 A detailed analysis of capital outturn and variances was reported to Cabinet on 6th June.

8. Whole of Government Accounts

8.1 The Whole of Government Accounts (WGA) comprises of a suite of returns based upon the Council's year end accounts that have to be submitted to HM Treasury. Officers will complete these returns for submission within HM Treasury's deadline. The returns are then audited and returned again to HM Treasury (post audit) in October 2016. The Income and Expenditure extract from the audited return will be presented as usual to Standards and General Purposes Committee in September.

9. Annual Governance Statement

9.1 The purpose of the Annual Governance Statement is to demonstrate the effectiveness of the Council's corporate governance. The Annual Governance Statement (AGS) is audited at the same time as the Statement of Accounts. There is a separate Committee report on this item on this agenda.

10 Next Steps

10.1 Local government electors have rights to inspect the unaudited accounts and to ask questions of the external auditors during the 30 working day period that follows publication of the unaudited accounts. These rights are advertised on the Authority's website. The 30 working day period runs until 11th August.

10.2 A further meeting of this Committee has been arranged for 8th September 2016 to consider the external auditors' final report. The ISA 260 requires auditors to report certain matters arising from the audit of the financial statements to "those charged with governance". These may include: -

- Any expected modifications to the audit report;
- Any unadjusted non-trifling misstatements;
- Any material weaknesses in accounting and internal control systems;
- Qualitative aspects of accounting practice and financial reporting;
- Matters required by other auditing standards to be reported to those charged with governance.

10.3 Following the conclusion of the audit, EY will make arrangements to present the Annual Audit Letter to members and for it to be debated in Committee and at Council.

10.4 If there are any issues arising from the annual accounts for 2015/16, these would be examined in detail by officers to identify if any had a continuing impact upon the 2016/17 budget and 2017/18 budget process, and which therefore would require further management action. The timing of the presenting of information to the Committee would be looked at as a priority.

11. Financial, resource and property implications

11.1 None for the purposes of this report.

12. Legal and statutory implications

12.1 As outlined in the report.

13. Human rights, equalities and community cohesion implications

13.1 None for the purposes of this report.

14. Risk Management and health and safety implications

14.1 None for the purposes of this report.

15. Appendices - the following documents are to be published with this report and form part of the report:

Appendix 1: Unaudited Summary Accounts 2015/16.
Appendix 2: Unaudited Statement of Accounts 2015/16.
Appendix 3: Explanation of the relationship between management accounts and financial accounts.

16. Background Papers

16.1 The following documents have been relied on in drawing up this report but do not form part of the report:
2015/16 Budgetary Control and Final Accounts Working Papers in the Corporate Services Department.

Appendix 3

Why do the financial accounts differ from the management accounts?

	Financial Accounts	Management Accounts
1. Purpose	Statutory reporting on a basis which is comparable with other local authorities and measures the economic value of changes in the financial position not impact on the taxpayer.	Internal revenue budgetary control showing the impact on the taxpayer.
2. Accounting Codes	Code of Practice (based on International Reporting Standard)-prescribes statements and disclosures. Service Reporting Code of Practice (Sercop)-for “below the level of the statement”- prescribes what must be charged to services and the order of services within the Comprehensive Income and Expenditure Account (CIES)	Based on organisational requirements
3. Key statements	The financial accounts report revenue outturn through two statements- • The Comprehensive Income and Expenditure Account (CIES). • The Movement in Reserves (MRS). The CIES shows ALL gains and losses due to the authority from all sources (including capital and pension fund). In this respect it is deliberately designed to follow private sector practice and includes items that are notional, in that they do not impact on the taxpayer. The MRS (which included notional reserves to achieve this) reverses out elements in the CIES to match the bottom line to what is chargeable to local taxation (See 4.)	There are no set formats. but generally follow departmental structures and the council tax bill
4. What is included?	The CIES includes gains/losses from ALL sources as set out below- 1. Revenue (based upon budget) Plus- 2. Additional IFRS-related revenue entries, such as impairments and leasing adjustments 3. Capital Gains and Losses- (a) Realised gains/losses from fixed asset disposals (b) Unrealised gains/losses from revaluations 4. Pension Fund- actuarial gains and losses based upon a completely different basis to that used to actually value the fund for contribution purposes All these extra entries (items 2-4) are charged or credited to the CIES but	The management accounts include 1 Revenue based upon budget. 2 Transfers to/from revenue reserves. (Under MRS in financial accounts)

	are reversed in the Movement in Reserves Statement and taken to Unusable Reserves or Usable Capital Reserves so that they do not get charged to taxpayers. Those entries which are proper charges or credits to the tax payer are substituted e.g. the Minimum Revenue Provision (to repay borrowing) replaces depreciation. In summary, the Movement in Reserves Statement (MRS) includes only transfers to/from reserves - 1. The reversal of all the entries which are not chargeable to the tax payer and their substitution with replacement entries where applicable 2. Transfers to/from earmarked and general reserves	
5. How are transactions managed to meet the different requirements of management and financial accounting?	A different hierarchical reporting structure (SERCOP) but using same bottom level posting codes as management structure	Management reporting hierarchy to meet needs of the organisation.
6. How are services organised in the CIES?	According to their technical purpose	According to where they are managed. E.g. Industrial Units are part of Environmental Services.
7. Why are reserves transfers treated differently between Financial and Management Reporting?	Reserves in terms of the financial accounts are not income or expenditure which arise from the generation or consumption of resources respectively. Reserves are transfers of resources; they neither add to nor reduce overall resources. Therefore they feature in the MRS not the CIES.	Reserves are included in the relevant income/expenditure line to show the net impact on the budget.
8. If capital grants are included in income where is capital expenditure?	Capital expenditure is not reported in the CIES or MRS but is held elsewhere where it receives funding entries from the MRS. The CIES includes capital grants and capital receipts which have been received and recognised as available to finance capital expenditure. These are transferred by means of the MRS to the Usable Capital Grants or Capital Receipts reserves (if available for funding but not yet applied in this way) or to the Capital Adjustment Account (if available and actually applied to financing capital expenditure).	Management revenue accounts do not include any capital elements in line with legislative requirements that capital grants and receipts cannot be used for revenue purposes. Capital expenditure is reported separate from revenue outturn within the management accounts.

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