Committee: Standards and General Purposes
Date: 29 June 2017
Agenda item:
Wards: All
Subject: 2016/17 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 2017.

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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 2017 for note and comment by the Standards and General Purposes Committee prior to the commencement of the annual audit. The unaudited Statement of Accounts will be authorised by the Section 151 Officer and published on the Council's website within the statutory 30th June deadline. The unaudited accounts are subject to minor adjustments up to this date.

1.2 The unaudited Statement of Accounts are attached as Appendix 2. A summary of the accounts is included as Appendix 1.

1.3 Standards and General Purposes Committee are reminded that next year the statutory deadlines for preparing unaudited and audited Statement of Accounts will become 31st May and 31st July respectively (currently 30th June and 30th September). Accordingly, Committee resolved (at June 2016's meeting) to reschedule the annual June meeting to late July from 2018 onwards, to enable Committee to approve the audited accounts by the 31st July deadline. 2017 meeting dates are unaffected.

2. **Details**

2.1 The 2016/17 Statement of Accounts is prepared in accordance with the Accounts and Audit Regulations 2015. There is no requirement for a Council Committee to approve the unaudited accounts, however, there is a requirement for Committee to approve the audited Statement of Accounts at its September meeting.

2.2 The 2016/17 audit by our external auditor, Ernst and Young (EY), is scheduled to begin in July and will run for approximately seven weeks. EY will advise in due course the date upon which they will sign the accounts.

2.3 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.

2.4 The accounts comply with the Code of Practice on Local Authority Accounting 2016/17 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.

2.5 For 2016/17 the Pension Fund Accounts must 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 in due course to consider the Pension Fund Accounts.

2.6 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.

- **Expenditure and Funding Analysis -** demonstrates to council tax payers how the funding available to the authority for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices.

- **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.

2.7 **Accounting and Auditing Standards**

2.8 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 2017.

2.9 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 7th September 2017.

3. **Revenue outturn**

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.

Table 2: Revenue Outturn (net indirect i.e. including overhead recharges to services)

Draft OUTTURN	Current Budget 2016/17 £000s	Outturn £000s	Variance at year end £000s
Department			
Corporate Services	10,231	9,011	(1,220)
Children, Schools and Families	51,643	52,806	1,163
Community and Housing	56,743	67,115	10,372
Public Health	(347)	(331)	16
Environment & Regeneration	21,999	22,698	699
NET SERVICE EXPENDITURE	**140,269**	**151,299**	**11,030**
Corporate Provisions	5,107	60	(5,047)
TOTAL GENERAL FUND	**145,376**	**151,359**	**5,983**
Business Rates	(34,230)	(34,230)	0
Grants	(32,967)	(33,504)	(536)
Council Tax and Collection Fund	(80,399)	(80,399)	(0)
FUNDING	**(147,596)**	**(148,132)**	**(536)**
NET OVERSPEND	**(2,220)**	**3,227**	**5,447**
Transfers from General and Earmarked Reserves	2,220	(3,227)	(5,447)

3.2 A detailed analysis of service spending and variances has been despatched to the 3rd July Cabinet meeting.

3.3 **Reconciliation**: The revenue outturn in the Statement of Accounts has been prepared in accordance with the CIPFA's Code of Practice, which is based on International Financial Reporting Standards. A reconciliation of the revenue outturn reported to Cabinet and the revenue outturn reported in the Statement of Accounts is by in disclosure note 1 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 2017, there was a surplus of £1.2m on the Collection Fund comprising a £2.1m Council Tax surplus and a deficit of £0.9m 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 2017	Council Tax	NDR	Total
	£000	£000	£000
London Borough of Merton (Surplus)/Deficit	(1,663)	269	(1,394)
Greater London Authority (Surplus)/Deficit	(411)	180	(231)
DCLG (Surplus)/Deficit	0	449	449
Total (Surplus)/Deficit	**(2,074)**	**898**	**(1,176)**

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, increased from £263m to £368m, an adverse movement of £105m. The Authority's actuary estimated that at 31st March 2017, future liabilities amount to £967m (£746m at 31st March 2016) with assets of £599m (£483m at 31st March 2016). The deterioration of the net deficit is principally due to the £221m increase in the estimated value of future liabilities (£746m to £967m), which mainly results from unfavourable changes to the financial assumptions used by the actuary to calculate the future liability – such as those for inflation and discount rates – which are set-out in disclosure note 32 of the Statement of Accounts. This was partially offset by a strong performance in the scheme's assets over the year, which increased in value by 22% or £116m (£483m to £599m).

5.3 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. 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 latest applicable actuarial valuation is as at 31st March 2016, which affects contribution rates from 1st April 2017.

6. Reserves and balances

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

Table 5: Usable Reserve Movements

Actual Movement in Reserves 2016/17	Bal. at 31/3/16	Net Movt. in year	Bal. at 31/3/17
	£'000	£'000	£'000
General Fund Reserve	15,151	(2,372)	12,779
Earmarked Reserves	41,690	(1,455)	40,235
Balances Held by Schools	10,504	(2,258)	8,246
Total General Fund revenue reserves	**67,345**	**(6,086)**	**61,259**

Analysis			
Earmarked Reserves			
Outstanding Council Programme Board	6,282	(1,363)	4,919
For use in future years for budget	5,865	1,924	7,789
Revenue Reserves for Capital / Revn.	7,747	(932)	6,815
Renewable Energy reserve	1,523	0	1,523
Repairs & Renewal Fund	1,224	(77)	1,147
Pension Fund additional contribution	63	434	497
Local Land Charges Reserve	1,645	258	1,903
Apprenticeships	406	(104)	303
Community Care Reserve	1,386	0	1,386
Local Welfare Support Scheme	533	(90)	443
Economic Development Strategy	619	(518)	101
Corporate Services Reserve(other)	290	486	776
Wimbledon Tennis Courts Renewal	102	25	126
Governor Support Reserve	19	24	43
Redundancy Costs reserve	0	600	600
New Homes Bonus Scheme	1037	(746)	291
Adult Social care contributions	350	(350)	0
Culture and Environment contributions	134	(120)	13
Culture and Environment grant	413	(163)	250
Childrens & Education grant	371	(65)	307
Supporting People balances	65	(65)	0
Housing Planning Development grant	101	(101)	0
Housing GF grants	106	0	106
Public Health	22	325	347
CSF reserve	365	(365)	(0)
Insurance Reserve	1,955	0	1,955
DSG Reserve	4,368	(705)	3,663
Refund of PFI contributions	100	0	100
School Standard Fund	0	6	6
Schools PFI Fund	4,600	226	4,826
Total Earmarked Reserves	**41,690**	(1,455)	**40,235**

Capital Grants	1,143	(831)	312
Capital Contributions	3011	3,929	6,940
Capital Receipts	29,582	(6,596)	22,986
Capital Reserves	**33,736**	**(3,498)**	**30,238**

Capital Outturn

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

Table 6 – Capital Outturn 2016/17

Department	Final Capital Budget £000s	Final Outturn £000s	Outturn Variance to Budget £000s
Children Schools and Families	13,396	12,506	(890)
Community and Housing	1,951	1,663	(288)
Corporate Services	8,854	3,911	(4,943)
Environment and Regeneration	14,051	12,546	(1,505)
Leasing	213	0	(213)
Total	**38,465**	**30,626**	**(7,838)**

7.2 Total capital expenditure for 2016/17 was £30.6 million compared to the budget of £38.5m. There were considerable variances on individual schemes which will be reported to the 3rd July Cabinet meeting.

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 2017. 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 7th September 2017 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 2016/17, these would be examined in detail by officers to identify if any had a continuing impact upon the 2017/18 budget and 2018/19 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
Appendix 2: Unaudited Statement of Accounts
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:
2016/17 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 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) - prescribes what income and expenditure must be charged to 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 are reversed in the Movement in Reserves Statement and taken to	The management accounts include 1 Revenue based upon budget. 2 Transfers to/from revenue reserves. (Under MRS in financial accounts)

	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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