



Committee and date
Audit Committee

23 June 2016

Item

Public

STATEMENT OF ACCOUNTS 2015/16

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1. Summary

The 2015/16 Statement of Accounts, which is subject to audit, must be certified as a true and fair view of the financial position of the authority by the S151 Officer by 30 June 2016 (Accounts and Audit Regulations 2015). The Draft Statement of Accounts for 2015/16 is appended to this report. This report provides an overview of the Accounts and also provides details of the reasons for the most significant changes between the 2014/15 Accounts and the 2015/16 Accounts.

The final revenue outturn for 2015/16 is an underspend of £2.816m on a gross budget of £594m. The final capital outturn shows a spend of £44.439m, representing 86% of the revised budget.

The authority's specific reserves and provisions have increased by £4.175m. The general fund balance has increased by £3.164m. Schools' balances have increased by £3.216m. Full details of the revenue and capital outturn position and the reserves, provisions and balances held by the authority are set out in separate reports on the Agenda for this meeting.

2. Recommendations

It is recommended that Members:

- A. To receive and comment on the draft 2015/16 Statement of Accounts.
- B. To note and agree the changes made to the Council's accounting policies in 2015/16.
- C. To agree that the Head of Finance, Governance and Assurance be authorised to make any final adjustments to the Statement of Accounts prior to the 30 June 2016.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1. Details of the potential risks affecting the balances and financial health of the Council are detailed within the report. Each projection is also RAG rated to confirm the level of risk to the Council's balances.

4. Financial Implications

- 4.1. This report considers the projected outturn position for the 2015/16 revenue budget and the implications on the level of general fund balances of any overspends or spending pressures.

5. Background

- 5.1. A copy of the 2015/16 Statement of Accounts is attached at Appendix 1. The external audit by Grant Thornton will take place during July and August, after which the Statement of Accounts will be formally published and a final report brought to Full Council. Any material changes as a result of the audit will be reported to the Audit Committee and Council at the earliest opportunity once the Accounts have been signed off by the External Auditor.
- 5.2. The statutory deadline for the formal publication of the audited 2015/16 Statement of Accounts is 30 September 2016.

6. Statement of Accounts

- 6.1. The purpose of the Statement of Accounts is to give electors, those subject to locally levied taxes and charges, Members of the Authority, employees and other interested parties clear information about the Authority's finances. The format of the Statement of Accounts is governed by the "Code", to make the document as useful as possible to its audience and so as to make meaningful comparisons between authorities possible. The Code requires:
- All Statement of Accounts to reflect a common pattern of presentation, although at the same time not requiring them to be identical.
 - Interpretation and explanation of the Statement of Accounts to be provided.
 - The Statement of Accounts and supporting notes to be written in plain language.
- 6.2. All of the above has been taken into consideration when producing the authority's own Statement of Accounts. These accounts comprise various sections and statements, these are all briefly explained below:
- **Narrative Report** – this provides an explanation of the authority's financial position for 2015/16 and details the performance of the Council during the financial year.

- **The Statement of Responsibilities** – this details the responsibilities of the authority and the Section 151 Officer concerning the authority's financial affairs and the actual Statement of Accounts.
- **The Audit Opinion and Certificate** – this is provided by the External Auditor following the completion of the annual audit, this document is therefore draft pending the outcome of the audit.
- **The Core Financial Statements**, which comprises:
 - **The Movement in Reserves Statement** – this shows the movement in the year on the different reserves held by the authority which is analysed into 'usable reserves' and other reserves.
 - **The Comprehensive Income and Expenditure Statement** – this is fundamental to the understanding of a Council's activities. It brings together all of the functions of the Council and summarises all of the resources that the Council has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Council, before allowing for the concessions provided by statute to raise council tax according to different rules and for the ability to divert particular expenditure to be met from capital resources. The 2015/16 Income and Expenditure Statement reports a surplus for the year of £27.513m, however, this is not cash as this takes into account a number of significant theoretical amounts for matters relating to pensions and use of assets. The actual movement on the General Fund Balance was an increase of £3.164m which reflects the year end underspend on the revenue budget in addition to the budgeted contribution to the General Fund Balance of £0.409m.
 - **The Balance Sheet** – this is fundamental to the understanding of the authority's financial position as at the 31 March 2016. It shows the balances and reserves at the authority's disposal, long term liabilities and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held. As can be seen from the balance sheet the authority's total equity amounts to £418.572m, an increase of £27.513m which is analysed in the Movement in Reserves Statement. This is primarily due to the reduction in the pension liability as a results of changes in actuarial assumptions and also the increase in the Earmarked Reserves and School Balances. It should be noted that the equity value in the balance sheet does demonstrate that the authority's assets exceed liabilities and therefore represents a very healthy financial position.
 - **The Cash Flow Statement** – this consolidated statement summarises the authority's inflows and outflows of cash and cash equivalents arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand and deposits repayable on demand less overdrafts repayable on demand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash.
- **The Notes to the Core Financial Statements**, which provides supporting and explanatory information on the Core Financial Statements and includes the Council's accounting policies.

- **The Group Accounts** – these are prepared to account for the Council's share in IP&E (Group) Limited, Shropshire Towns & Rural Housing and West Mercia Energy.
- **The Pension Fund Accounts** – the Shropshire County Pension Fund is administered by this Authority, however, the pension fund has to be completely separate from the Authority's own finances. This statement and supporting notes are an extract from the pension fund annual report and summarises the financial position of the Shropshire County Pension Fund, including all income and expenditure for 2015/16 and assets and liabilities as at 31 March 2016.
- **The Housing Revenue Account** – the authority is required to account separately for local authority housing provision, as defined in the Local Government and Housing Act 1989 as amended. The account details the income and expenditure relating to the local authority housing provision and details of the movement on the Housing Revenue Account Balance for the year.
- **The Collection Fund Account** - this account shows the transactions of the billing authority in relation to non-domestic rates and the council tax and illustrates how these have been distributed to preceptors and the General Fund.

6.3 The format of the Statement of Accounts is governed by The Code of Practice on Local Authority Accounting 2015/16, published by CIPFA (the Code). For 2015/16 the following changes have been made within the Code to reflect changes in accounting practices and accounting standards. The key changes affecting the Council's statement of accounts are detailed below:

- Fair value measurement – new accounting standard has been released (IFRS 13).
- Narrative Report has replaced the Explanatory Foreword

7. Accounting Policies

7.1 The accounting policies that the Council uses to determine the treatment of items within the Statement of Accounts are detailed in Note 1 to the Core Financial Statements. The changes made to the accounting policies in 2015/16 from those adopted and followed in 2014/15 are as follows:

- Change to valuation method for surplus assets – amended to reflect the requirements of the new fair value accounting standard.
- Housing Revenue Account Council Dwellings valuation – now subject to an annual desktop review undertaken by the Valuation Office Agency.
- New accounting policy for fair value measurement – as required under the new fair value accounting standard.

8. Analytical Review

8.1 An analytical review has been carried out on each element of the Draft Statement of Accounts, this is a final check that provides assurance that the Statement of Accounts is free of material errors and misstatements. The analytical review focuses on figures within the Statement of Accounts that have changed materially when compared with the previous year's accounts. For 2015/16 the materiality threshold (i.e. the level of change between 2014/15 and 2015/16) used was 10% or £8m, which is used to ensure that all questions that the external auditors are likely to raise have

been reviewed and explanations are readily available. Details of the significant changes between the two years are shown in Appendix 2.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

CIPFA's Code of Practice (Code) on Local Authority Accounting

CIPFA/SOLACE guidance on the Annual Governance Statement

Revenue and Capital Budget 2015/16

Cabinet Member (Portfolio Holder)

Brian Williams, Chair of Audit Committee

Local Member

All

Appendices

1. Draft Statement of Accounts 2015/16 (Unaudited)
2. Analytical Review of Statement of Accounts

Analytical Review of Shropshire Council's Statement of Accounts for 2015/16

1. The analytical review for 2015/16 highlighted a number of areas where there were material changes, the most significant are detailed below along with an explanation of why these changes have occurred:

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Environmental and Regulatory Service (Expenditure)**

2015/16	2014/15	Increase (Value)	Increase (%)
£000	£000	£000	
48,938	37,321	11,617	31%

The increase is due to an impairment that was charged to the Revenue Account following the addition of the Energy Renewable Facility in Battlefield as provided by Veolia under the Waste PFI contract. The total impairment charged to Waste was £10.75m.

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Local Authority Housing (HRA) (Expenditure)**

2015/16	2014/15	Increase (Value)	Increase (%)
£000	£000	£000	
15,588	5,012	10,576	211%

In 2014/15 dwellings were indexed to 31/03/15 using ONS figures (7.3% increases), this generated a £10.7m revaluation increase. New build properties were also revalued from historic cost to Existing Use Value, this resulted in a £3m revaluation loss. In 2015/16 there was a net revaluation loss of £2.98m, following a desktop review of the dwellings valuation as undertaken by the District Valuation Office with a valuation date of 31/03/16. This resulted in an increase in expenditure of £10.6m.

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Planning Services (Expenditure)**

2015/16	2014/15	Increase (Value)	Increase (%)
£000	£000	£000	
25,219	20,657	4,562	22%

In 2015 services in relation to planning and public protection transferred to ip&e. Shropshire Council paid ip&e via a contract for this service but the staff remained employed by the Council and were seconded to ip&e. As a result of this the Council paid for the staff and then invoiced ip&e for the costs. This has resulted in additional expenditure and income of £3.4m in relation to planning services. It should be noted that this has had no impact on the net position for the Council and only impacts on the gross expenditure and gross expenditure for the service.

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Public Health (Expenditure)**

2015/16	2014/15	Increase (Value)	Increase (%)
£000	£000	£000	
14,204	10,488	3,716	35%

In 2015/16 additional public health grant of £1.889m in relation to 0-5 children services was received. This resulted in a corresponding increase in expenditure. The provision of Help to Change services was transferred to ip&e in 2015. Shropshire Council paid ip&e via a contract for this service but the staff remained employed by the Council and were seconded to ip&e. As a result of this the Council paid for the staff and then invoiced ip&e for the costs. This has resulted in additional expenditure of £0.765m within Public Health. Again, it should be noted that this has had no impact on the net position for the Council and only impacts on the gross expenditure and gross expenditure for the service.

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Non Distributed Costs (Expenditure)**

2015/16	2014/15	Increase (Value)	Increase (%)
£000	£000	£000	
2,454	(485)	2,939	606%

Non-distributed costs represent any past service costs, curtailments or settlements made in relation to pensions. In 2014/15 we had a number of Academies transfer with a pension deficit and therefore the Council received income settlements to balance off the Council's pension position and net down the other pension liability costs. In contrast, 2015/16, there have been fewer Academies transferred and we have received the additional transfer in of the ip&e liability of £0.653m).

- **Comprehensive Income and Expenditure Statement - Other Operating Expenditure**

2015/16	2014/15	Decrease (Value)	Decrease (%)
£000	£000	£000	
28,667	70,519	41,852	59%

Losses on disposal of non-current assets have decreased from £63.67m in 2014/15 to £20.76m in 2015/16. The major element of this loss was made up of Schools that transferred to Academies on 125 year leases and were written out of the Council balance sheet. In 2014/15 seven schools previously on the Council balance sheet transferred to Academies, whereas in 2015/16, two schools (1 Primary, 1 Secondary) previously on the Council balance sheet transferred to Academies, plus some early years facilities at 2 other schools.

- **Comprehensive Income and Expenditure Statement, Surplus or Deficit on Revaluation of Property, Plant and Equipment Assets**

2015/16 £000	2014/15 £000	Decrease (Value) £000	Decrease (%)
(26,901)	(9,354)	(17,547)	188%

This figure is the value of upward or downward revaluations that are debited/credited directly to the Revaluation Reserve, rather than to service revenue accounts. In 2015/16 the value of upward revaluations increased by £14.9m, whilst the value of downward revaluations decreased by £3.1m in 2014/15. These changes reflect the movement in property values for those revalued each year, compared to their last valuations and the properties revalued each year (valuation are done on a rolling programme) and whether there have been previous revaluation losses charged to service revenue accounts, which can be reversed if there is a subsequent revaluation increase. The increase in valuations in 2015/16 was applied across the board and did not constitute a significant increase for a particular asset.

- **Comprehensive Income and Expenditure Statement, Remeasurement of the Net Defined Benefit Liability**

2015/16 £000	2014/15 £000	Decrease (Value) £000	Decrease (%)
(35,144)	101,795	(136,939)	135%

Remeasurement of the Net Defined Benefit Liability has changed from a loss of £101.8m in 2014/15 to a gain of £35.1m in 2015/16. The total swing of £136.9m is made up of two elements. The first is a change in liabilities as a result of a change in financial assumptions used by the actuary. This has resulted in a remeasurement gain of £59.42m in 2015/16 compared to a Remeasurement loss in 2014/15 of £148.3m. The second element relates to a reduction in the return on plan assets (£70.8m) which has partially offset the change in liabilities.

- **Balance Sheet Non Current Assets – Property, Plant & Equipment**

2015/16 £000	2014/15 £000	Increase (Value) £000	Increase (%)
1,072,784	995,904	76,880	8%

This reflects the overall movement in property, plant & equipment. The movement consists of additions, disposals/recognitions, revaluations (upwards and downwards) and impairments. The most significant area of change in 2015/16 was the addition of the Battlefield ERF, as provided by Veolia under the Waste PFI contract, but accounted for on the Council balance sheet in accordance with Accounting regulations. The NBV of this asset was £86.3m at 31/03/16.

- **Balance Sheet Long Term Assets – Long Term Debtors**

2015/16 £000	2014/15 £000	Increase (Value) £000	Increase (%)
13,614	7,240	6,374	88%

New loans totalling £6.77m were provided to Housing Associations in 2015/16 as approved in the Council Treasury Management Strategy.

- **Balance Sheet Current Assets – Assets Held for Sale**

2015/16 £000	2014/15 £000	Increase (Value) £000	Increase (%)
5,860	3,635	2,225	61%

The balance sheet value of assets in this classification reflects the position the Council are at with regards disposing of assets and whether they meet the criteria to be classified as Asset Held for Sale at the balance sheet date. Significant transfers into this category for 2015/16 were the former Radbrook Office Complex, The Hollies and 2 Smallholdings for which disposals have been agreed.

- **Balance Sheet Current Assets – Short Term Investments**

2015/16 £000	2014/15 £000	Increase (Value) £000	Increase (%)
58,850	41,730	17,120	41%

The increase in short term investments needs to be combined with the balances of cash and cash equivalents and the bank overdraft to explain the true difference in cash balance during the two years, and any increase will have been invested and will either feed into short term investments or cash and cash equivalents depending on the type of investments in place at the 31st March.

	2015/16 £000	2014/15 £000	Difference (Value) £000
Short Term Investments	58,850	41,730	17,120
Cash & Cash Equivalents	75,956	68,343	7,613
Bank Overdraft	(11,028)	(10,131)	(897)
	<u>123,778</u>	<u>99,942</u>	<u>23,836</u>

There are four elements that detail the difference in cash:

- i. Revenue outturn (movement in usable reserves)
 - ii. Capital outturn
 - iii. Movement in debtors/creditors
 - iv. New loans provided/repaid
- i. There was a £12.9m increase in usable reserves in 2015/16 due to the Revenue Outturn delivering an underspend, the HRA delivering an underspend, Schools underspending and holding more funds in delegated school balances, and planned contributions to earmarked reserves.

- ii. The capital budget had slippage of £7.4m in 2015/16 which meant that capital receipts carried generated during 2015/16 were not used and have been carried forward to 2016/17.
- iii. Debtors reduced during 2015/16 by £4.8m mainly due to a reduction in the level of outstanding debtors invoices requiring payment during the years. Creditors in contract increased by £11m and the majority of this increase relates to an increase in the cash balance held for the Marches LEP. In 2014/15 the Council held £8.8m for the LEP and in 2015/16 this has increased to £16.8m. There has also been an increase of £2.1m in S106 balances held during the year.
- iv. Cash will have reduced by the value of new loans being provided to the Housing Association in 2015/16 of £6.77m and the repayment of borrowing that the Council has undertaken of £8.9m.

- **Balance Sheet Current Liabilities – Short Term Creditors**

2015/16	2014/15	Increase (Value)	Increase (%)
£000	£000	£000	
(62,785)	(51,883)	10,902	21%

As highlighted above, the increase in creditors is due to an increase in the cash balance held for the Marches LEP. In 2014/15 the Council held £8.8m for the LEP and in 2015/16 this has increased to £16.8m. There has also been an increase of £2.1m in S106 balances held during the year.

- **Balance Sheet Long Term Liabilities – Other Long Term Liabilities**

2015/16	2014/15	Increase (Value)	Increase (%)
£000	£000	£000	
(118,426)	(22,676)	(95,750)	422%

Addition of the Battlefield ERF in 2015/16, as provided by Veolia under the Waste PFI contract, but accounted for on the Council balance sheet in accordance with Accounting regulations. The asset was added to the Council balance sheet, matched by a long term liability for finance lease.

- **Balance Sheet Long Term Liabilities – Pensions Liability**

2015/16	2014/15	Increase (Value)	Increase (%)
£000	£000	£000	
(388,736)	(407,792)	19,056	5%

The decrease in the Pension Liability is mainly due to a reduction in the value of Pension liabilities due to a gain on financial assumptions caused by a higher discount rate being used by the Actuary when calculating the year end position.

- **Balance Sheet Financing – Usable Reserves**

2015/16	2014/15	Increase (Value)	Increase (%)
£000	£000	£000	
94,449	78,898	15,551	20%

The increase in Usable Reserves reflects the increase in the General Fund Balance due to an underspend within the Revenue Account for 2015/16 (£2.8m); an increase in the HRA balance due to an underspend in year in addition to the planned contribution to balances (2.7m); an increase in Earmarked Reserves (£5.8m) which includes an increase in delegated school balances of £3.2m; and an increase in capital grants unapplied accounts reflecting the slippage within the capital programme for 2015/16.

- **Balance Sheet Financing – Unusable Reserves**

2015/16	2014/15	Increase (Value)	Increase (%)
£000	£000	£000	
324,125	312,161	11,964	4%

The increase in Unusable Reserves includes the increase in the Pensions Reserve as described above for the Pensions Liability. In addition to this the Revaluation Reserve has increased by £14.8m which reflects the movement in asset values and disposals in 2015/16. The main area of increase was £29.4m in relation to the upward revaluation of assets. There was also a lower amount written out in relation to asset disposals, reflecting the lower level of disposals in 2015/16. To offset these two increases, the Capital Adjustment Account has decreased by £20.5m which was in line with the level of movement in 2014/15. The movement reflects the movement in asset values, disposals and capital expenditure financing in 2015/16. The most significant areas of decrease were depreciation & impairment and amounts written out on disposals (again reflecting Academy transfers). The most significant areas of increase were capital grants and contributions, MRP and movements in the value of Investment Properties.

2. The analytical review will be part of the papers to be considered by the external auditors during the annual audit and will be used in forming their opinion on the Statement of Accounts that will be reported in the Audit Opinion and Certificate.