



Committee and date
Audit Committee

29 June 2017

Item

Public

STATEMENT OF ACCOUNTS 2016/17

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1. Summary

The 2016/17 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 2017 (Accounts and Audit Regulations 2015). The Draft Statement of Accounts for 2016/17 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 2015/16 Accounts and the 2016/17 Accounts.

The final revenue outturn for 2016/17 is an underspend of £0.894m on a gross budget of £568.8m. The final capital outturn shows a spend of £44.986m, representing 83% of the revised budget.

The authority's Earmarked reserves and provisions have increased by £2.508m. The general fund balance has decreased by £3.672m. Delegated Schools' balances have decreased by £0.893m. Full details of the revenue and capital outturn position and the reserves, provisions and balances held by the authority are set out in a separate report on the Agenda for this meeting.

2. Recommendations

It is recommended that Members:

- A. Receive and comment on the draft 2016/17 Statement of Accounts.
- B. Receive and comment on the changes made to the Council's accounting policies in 2016/17.

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 2016/17 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 2016/17 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 2016/17 Statement of Accounts is 30 September 2017.

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 2016/17 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 2016/17 Income and Expenditure Statement reports a deficit for the year of £28.746m, 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 a decrease of £3.672m which reflects the release of funds to the Financial Strategy reserve and the year end underspend on the revenue budget.
 - **The Balance Sheet** – this is fundamental to the understanding of the authority’s financial position as at the 31 March 2017. 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 £389,826m, a decrease of £28.746m which is analysed in the Movement in Reserves Statement. Assets have increased as a result of higher cash investments but this has been offset by the increase in the pension liability as a result of changes in actuarial assumptions. 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 2016/17 and assets and liabilities as at 31 March 2017.

- **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 2016/17, published by CIPFA (the Code). For 2016/17 the key change to the Code affecting the Council's statement of accounts is:
- Presentation of Financial Statements – new formats and reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement and the introduction of the Expenditure and Funding analysis

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 2016/17 from those adopted and followed in 2015/16 are as follows:
- Change to the method of calculating MRP for supported borrowing from 4%p.a. of the adjusted Capital Financing Requirement to a straight line basis over the expected life of the asset.
 - The accounting policy for the depreciation charge for HRA Council Dwellings has changed from using the Major Repairs Allowance as a proxy for the depreciation charge to a componentised depreciation basis, using the Planned Programme Approach. This was in accordance with the statutory requirement to adopt componentised depreciation for HRA dwellings by 2017/18.

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 2016/17 the materiality threshold (i.e. the level of change between 2015/16 and 2016/17) 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.

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 2016/17

Cabinet Member (Portfolio Holder)

Peter Adams, Chair of Audit Committee

Local Member

All

Appendices

1. Draft Statement of Accounts 2016/17 (Unaudited)
2. Analytical Review of Statement of Accounts

Analytical Review of Shropshire Council's Statement of Accounts for 2016/17

1. The analytical review for 2016/17 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 – Local Authority Housing (HRA) (Expenditure)**

2016/17 £000	2015/16 £000	Decrease (Value) £000	Decrease (%)
10,224	15,782	5,558	35%

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. In 2016/17 there was a revaluation gain of £4.08m, reflecting movement in housing prices in year and a revaluation loss on new build properties of £2.03m, reflecting the higher number of new build properties that became operational in 2016/17. This resulted in a decrease in expenditure of £5.03m.

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

2016/17 £000	2015/16 £000	Decrease (Value) £000	Decrease (%)
(28,230)	0	28,230	100%

The Government has agreed a change in the way that Social Housing is valued. The Beacon Factor which determines the basis for valuing dwellings, includes an adjustment factor which measures the difference between private open market rented and socially rented property at a regional level. Since 2010 the adjustment factor for Shropshire (West Midlands region) has been 34%, however the new directions now state that the adjustment factor should be 40%. The effect of this change is a revaluation gain within the Council Dwellings figure which is chargeable to the Housing Revenue Account. This equates to £28.230m and has been shown as an exceptional item on the face of the account.

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

2016/17 £000	2015/16 £000	Decrease (Value) £000	Decrease (%)
111,356	121,301	(9,946)	8.2%

In 2015/16 there was an increase to the impairment charge in relation to the Energy Renewable Facility in Battlefield as provided by Veolia under the Waste PFI contract. In 2015/16 the total impairment charged to Waste was £10.751 compared to £2.969m in 2016/17. Revenue Expenditure Funded from Capital under Statue (REFCUS) on Broadband reduced from £5.074m in 2015/16 to £2.383m in 2016/17.

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

Expenditure			
2016/17	2015/16	Decrease (Value)	Decrease (%)
£000	£000	£000	
24,120	28,748	4,628	16%

Income			
2016/17	2015/16	Decrease (Value)	Decrease (%)
£000	£000	£000	
(17,495)	(21,633)	4,138	19%

Expenditure within Public Health has decreased in 2016/17 as a result of the transfer of services back into the Council from ip&e. Shropshire Council paid ip&e via a contract for Public Protection and Help to Change services in 2015/16 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. It should be noted that this had no impact on the net position for the Council and only impacted on the gross expenditure and gross expenditure for the service. The costs of these services are now directly incurred by Public Health therefore gross expenditure and income have reduced by the cost of the recharge to ip&e. In 2015/16 the Council received a part year allocation of Public Health grant in relation to 0-5 Childrens services. In 2016/17 this allocation increased by £1.714m for a full year. This resulted in a corresponding increase in expenditure.

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

2016/17	2015/16	Decrease (Value)	Decrease (%)
£000	£000	£000	
6,590	10,259	3,669	36%

Corporate Services include any past service costs, curtailments or settlements made in relation to pensions. In 2016/17 the net of these items was -£1.124m in comparison to £0.883m in 2015/16. Settlements have increased from £1.052m in 2015/16 to £2.952m in 2016/17. A number of academies transferred in 2016/17 with a pension deficit which increased the income settlements. In 2015/16 we received the transfer in of the ip&e liability of £0.653m.

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

2016/17	2015/16	Increase (Value)	Increase (%)
£000	£000	£000	
43,160	28,667	14,493	51%

Losses on disposal of non-current assets have increased from £20.76m in 2015/16 to £35.44m in 2016/17. The major element of this loss was made up of Schools that transferred to Academies on 125 year leases or transferred to Diocese ownership and were written out of the Council balance sheet. In 2015/16 two schools previously on the Council balance sheet transferred to Academies plus some early years

facilities at 2 other schools, whereas in 2016/17, eight schools (6 Primary, 2 Secondary) previously on the Council balance sheet transferred to Academies/Diocese ownership.

- **Comprehensive Income and Expenditure Statement – Taxation and Non Specific Grant Income**

2016/17 £000	2015/16 £000	Increase (Value) £000	Increase (%)
(268,574)	(259,387)	9,187	4%

In 2016/17 the Council received additional grant funding of £9m as a result of an increase in New Homes Business and new Rural Services Support and Transition grant. Income from Council Tax increased by £7.1m as a result of an increase in the taxbase and a 3.99% increase to the Council Tax rate. Income from Business Rates increased by £3.0m as a result of the surplus on the Collection Fund. This surplus has arisen due to a reduction in the level of outstanding appeals. This surplus will be distributed in 2017/18 and 2018/19 as part of the budget setting process. These increase were partially offset by a reduction in the Revenue Support Grant and the loss of the Council Tax Freeze grant

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

2016/17 £000	2015/16 £000	Increase (Value) £000	Increase (%)
(35,853)	(26,901)	(8,952)	33%

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 2016/17 the surplus was £9m higher than in 2015/16. This was mainly in relation to upward revaluations of assets in 2016/17, with the value of upward revaluations £9.6m higher than in 2015/16, whilst the value of downward revaluations increased by £0.6m, from 2015/16. 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 an previous revaluation losses charged to service revenue accounts, which can be reversed if there is a subsequent revaluation increase.

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

2016/17 £000	2015/16 £000	Decrease (Value) £000	Decrease (%)
759	3,031	2,272	75%

This figure is the value of impairment losses charged directly to the Revaluation Reserve. In 2016/17 this reduced by £2.272m from 2015/16. 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 gains posted to the revaluation reserve.

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

2016/17 £000	2015/16 £000	Increase (Value) £000	Increase (%)
61,785	(35,144)	96,929	276%

Remeasurement of the Net Defined Benefit Liability has changed from a gain of £35.1m in 2015/16 to a loss of £61.785m in 2016/17. The total swing of £96.9m is made up of four 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 loss of £236.48m in 2016/17 compared to a Remeasurement gain of £59.42m in 2015/16. The second element an increase on Experience gains on liabilities of £7.4m. The third element is a gain on liabilities in relation to demographic assumptions of £19.0m. The fourth element relates to an increase in the return on plan assets (£172.6m) which has partially offset the change in liabilities.

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

2016/17 £000	2015/16 £000	Increase (Value) £000	Increase (%)
1,106,346	1,072,784	33,562	3%

This reflects the overall movement in property, plant & equipment. The movement consists of additions, disposals/recognitions, revaluations (upwards and downwards) and impairments. The breakdown by asset classification is as follows:

	2015/16	2016/17	Movement	Variance	
Council Dwellings	158,153	190,088	31,935	20%	West Midlands Social Housing adjustment factor increased from 34% in 2015/16 to 40% in 2016/17, combine with changes in housing price market values.
Other Land and Buildings	575,176	558,738	-16,438	-3%	In 2016/17 8 (6 Primary, 2 secondary) schools previously on the Council balance sheet transferred to Academies/Diocese ownership. Partly offset by net revaluation increase following 2016/17 revaluations.
Vehicles, Plant, Furniture & Equipment	5,093	12,627	7,534	148%	Large investment in vehicles and equipment as replacement expenditure by Veolia under the Waste PFI contract, which under the accounting treatment of the contract are accounted for as assets of SC.
Infrastructure Assets	325,610	335,395	9,785	3%	Increases annually by similar amount based on amount of expenditure and depreciation policy for infrastructure assets. Expenditure was slightly higher in 2016/17 due to additional funding provided from DfT in 2016/17 and catch up of recent years programme underspends.

Community Assets	2,633	2,486	-147	-6%	
Surplus Assets	2,070	917	-1,153	-56%	Assets previously classified as surplus assets now meet the criteria of Assets Held for Sale and have been reclassified accordingly.
Assets Under Construction	4,048	6,096	2,048	51%	Ongoing multi-year nature of schemes within the capital programme.
	1,072,783	1,106,347	33,564	3%	

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

2016/17 £000	2015/16 £000	Increase (Value) £000	Increase (%)
20,898	13,614	7,284	54%

New loans totalling £7.9m were provided to Housing Associations in 2016/17 as approved in the Council Treasury Management Strategy.

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

2016/17 £000	2015/16 £000	Decrease (Value) £000	Decrease (%)
55,326	67,430	12,104	18%

In 2015/16 Short Term Debtors included £3.4m in relation to money owed from other preceptors in relation to Business Rates. In 2016/17 the Collection Fund is in surplus and therefore money is owed out to the preceptors and is included in short term creditors. The prepayment in relation to the Council's PFI arrangements has reduced by £8.2m. Delayed expenditure from previous years in relation to the Waste PFI has been incurred in 2016/17 reducing the prepayment.

- **Balance Sheet Current Assets – Cash and Cash Equivalents**

2016/17 £000	2015/16 £000	Increase (Value) £000	Increase (%)
93,233	75,956	17,277	23%

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.

	2016/17 £000	2015/16 £000	Difference (Value) £000
Short Term Investments	59,000	58,850	150
Cash & Cash Equivalents	93,233	75,956	17,277
Bank Overdraft	(13,150)	(11,028)	(2,022)

139,083	123,778	15,305
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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 £7.08m increase in usable reserves in 2016/17 due to a number of factors including; the Revenue Outturn delivering an underspend, the HRA delivering an underspend and planned contributions to earmarked reserves.

ii. The capital budget had slippage of £9.3m in 2016/17 which meant that capital receipts generated during 2016/17 were not used and have been carried forward to 2016/17. Capital Grant unapplied account has increased due to CIL payments of £4m received in 2016/17 which have not been spent and the receipt of two new DCLG grants totalling £1m.

iii. Debtors reduced during 2016/17 by £12.1m due to a reduction in the amounts owed by precepting authorities for Business Rates and a reduction in the prepayment balance on the Waste PFI. Creditors in contract increased by £5m. This increase relates to the balances owed to precepting authorities in relation to the Business Rates Collection Fund. The Collection Fund for Business Rates has closed in surplus therefore we have collected more cash than we have paid out. This surplus will be distributed as part of the 2017/18 and 2018/19 budget setting process.

iv. Cash will have reduced by the value of new loans being provided to the Housing Association in 2016/17 of £7.9m and the repayment of borrowing that the Council has undertaken of £5m.

• **Balance Sheet Current Liabilities – Short Term Borrowing**

2016/17 £000	2015/16 £000	Increase (Value) £000	Increase (%)
(8,182)	(7,200)	(1,282)	(18%)

In 2016/17 three loans have transferred from long term borrowing to short term borrowing as they are due for repayment in 2017/18. This has been offset by the repayment of two loans totalling £5m

• **Balance Sheet Current Liabilities – Grant Receipts in Advance Revenue**

2016/17 £000	2015/16 £000	Decrease (Value) £000	Increase (%)
(4,635)	(6,296)	2,291	33%

At the end of 2015/16 the Council owed DWP £1.4m in relation to Housing Benefit Subsidy, in 2016/17 the Council is owed £1.5m.

• **Balance Sheet Current Liabilities – Grant Receipts in Advance Capital**

2016/17 £000	2015/16 £000	Increase (Value) £000	Increase (%)
(2,367)	(114)	(2,253)	1976%

The increase is due to four separate grants being received in 2016/17 that either relate to 2017/18 allocations or payments for schemes that have not yet been completed.

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

2016/17	2015/16	Increase (Value)	Increase (%)
£000	£000	£000	
(461,828)	(388,736)	(73,092)	19%

The increase in Pension Liability is mainly due to an increase in the value of pension liabilities due to a decrease in the discount rate during the year and an increase in the CPI inflation.

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

2016/17	2015/16	Increase (Value)	Increase (%)
£000	£000	£000	
(7,327)	(8,969)	1,642	18%

The provision for NDR appeals has reduced by £1.2m. The appeals provision is based on the number of outstanding appeals and an estimate of the loss for each of those based on previous losses. The number of outstanding appeals as at 31st March 2017 has reduced therefore the reducing the level of provision required.

- **Balance Sheet Financing – Unusable Reserves**

2016/17	2015/16	Decrease (Value)	Decrease (%)
£000	£000	£000	
288,295	325,124	36,829	11%

The decrease in Unusable Reserves includes the decrease in the Pensions Reserve as described above for the Pensions Liability. This decrease is offset by an increase in the Revaluation Reserve, the Capital Adjustment Account and the Collection Fund Adjustment Account. The Revaluation Reserve has increased by £21.9m which reflects the movement in asset values and disposals in 2016/17. The main area of increase was £39m in relation to the upward revaluation of assets. The Capital Adjustment Account has decreased by £9.3m in 2016/17 compared to movement of £20.5m in 2015/16. The movement reflects the movement in asset values, disposals and capital expenditure financing in 2016/17. The most significant areas of decrease were depreciation & impairment and amounts written out on disposals (again reflecting Academy/Diocese transfers). The most significant areas of increase were capital grants and contributions, MRP and revaluation gains mainly in relation to the HRA dwelling stock from the change to the Social Housing Adjustment factor (34% to 40%). The Collection Fund Adjustment Account has increased by £6.1m as a result of the movement from a deficit on the Collection Fund at the end of 2015/16 to a surplus in 2016/17.

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.