Committee and date	Item
Audit Committee 28 June 2018	 Public

STATEMENT OF ACCOUNTS 2017/18

Responsible Officer James Walton
Email: james.walton@shropshire.gov.uk Tel: (01743) 258915

1. Summary

The 2017/18 Statement of Accounts has been prepared in line with the faster closedown timetable introduced in the Accounts and Audit Regulations 2015. Therefore, the Draft Statement of Accounts for 2017/18 has been certified by the Section 151 Officer as a true and fair view of the financial position by 31st May 2018.

The Draft Statement of Accounts for 2017/18 is appended to this report. This report provides an overview of the Accounts and provides details of the reasons for the most significant changes between the 2016/17 Accounts and the 2017/18 Accounts.

The final revenue outturn for 2017/18 is an underspend of £0.529m on a gross budget of £563.3m. The final capital outturn shows a spend of £49.608m, representing 83% of the revised budget.

The authority's earmarked reserves and provisions have increased by £8.026m. The general fund balance has increased by £0.613m. Delegated Schools' balances have decreased by £0.905m. 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 2017/18 Statement of Accounts.

B. Receive and note the additional accounting policy included in the Statement of Accounts for 2017/18.

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.

4. Financial Implications

4.1. This report considers the projected outturn position for the 2017/18 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 2017/18 Statement of Accounts is attached at Appendix 1. The external audit by Grant Thornton is currently underway and will be completed in July, 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 2017/18 Statement of Accounts is 31 July 2018.

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 2017/18 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 2017/18 Income and Expenditure Statement reports a surplus for the year of £50.409m, 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 £0.613m which reflects 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 2018. 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 £439,529m, an increase of £49.702m which is analysed in the Movement in Reserves Statement. Assets have increased as a result of a reduction in the value of the Pensions Liability as a result of the early pension payment for the 2018/19 and 2019/20 pension lump sum deficit and a decrease in the value of pension liabilities 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 Limited, Shropshire Towns & Rural Housing, West Mercia Energy, Jersey Property Unit Trust and SSC No.1 Limited.

- **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 2017/18 and assets and liabilities as at 31 March 2018.

- **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 2017/18, published by CIPFA (the Code). For 2017/18 there were no significant changes to the Code requirements from those stipulated in previous years.

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. A new accounting policy was included in 2017/18 accounts to reflect the unquoted equity investments relating to the purchase of the shopping centre.

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 2017/18 the materiality threshold (i.e. the level of change between 2016/17 and 2017/18) 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 2017/18

Cabinet Member (Portfolio Holder)
Peter Adams, Chair of Audit Committee

Local Member
All

Appendices

1. Draft Statement of Accounts 2017/18 (Unaudited)
2. Analytical Review of Statement of Accounts

Analytical Review of Shropshire Council's Statement of Accounts for 2017/18

1. The analytical review for 2017/18 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 – Adult Social Care**

	2017/18 £000	2016/17 £000	Increase (Value) £000	Increase (%)
Expenditure	132,711	120,962	11,749	9.7
Income	(44,646)	(36,088)	(8,558)	23.7%

Purchasing costs within Adult Service have increased by approximately £9m in 2017/18 in addition to other inflationary pressures. This has been offset by additional income from the improved better care fund of £6m and additional care package income from service users of £2m.

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

2017/18 £000	2016/17 £000	Increase (Value) £000	Increase (%)
0	(28,230)	28,230	100%

The Government agreed a change in the way that Social Housing was valued in 2016/17. The Beacon Factor which determines the basis for valuing dwellings, included an adjustment factor which measured 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 was a revaluation gain within the Council Dwellings figure which was charged to the Housing Revenue Account and was shown as an exceptional item for 2016/17. There have been no further changes in 2017/18 and therefore there is no exceptional item shown in 2017/18.

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

2017/18 £000	2016/17 £000	Decrease (Value) £000	Decrease (%)
4,275	6,578	(2,303)	35%

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 -£3.751m in 2017/18. The decrease is because of income settlements increasing in 2017/18 due to several academies transferring with a pension deficit. Curtailment costs also reduced by over £1m as a result of reduced redundancy and efficiency retirement costs.

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

2017/18 £000	2016/17 £000	Decrease (Value) £000	Decrease (%)
29,715	43,160	13,444	31%

Losses on disposal of non-current assets have decreased from £35.44m in 2016/17 to £21.15m in 2017/18. 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 2016/17, eight schools (6 Primary, 2 Secondary) previously on the Council balance sheet transferred to Academies/Diocese ownership, whereas in 2017/18, six schools (all Primary) previously on the Council balance sheet transferred to Academies/Diocese ownership.

- **Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure**

2017/18 £000	2016/17 £000	Decrease (Value) £000	Decrease (%)
25,689	36,239	(10,551)	29%

(Income) and expenditure in relation to investment properties and changes in their fair value increased from £1.741m in 2016/17 to £9.687m in 2017/18. The net income from investment properties stayed broadly static (£0.981m to £0.949m), the movement was in the capital charges for changes in value of investment properties, for which the movement was £8.737m in 2017/18, compared to £0.760m in 2016/17. This followed revaluations of a number of investment properties in 2017/18 and in particular significant revaluations to 3 land holdings related to change in use. The net interest cost on pensions has reduced by £2.5m. The interest charge on pension liabilities has reduced by £4.9m and the interest on plan assets has reduced by £2.4m as a result of the increase in the discount rate which has offset the £4.9m.

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

2017/18 £000	2016/17 £000	Decrease (Value) £000	Decrease (%)
(13,292)	(35,853)	(22,562)	63%

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 2017/18 the surplus was £22.5m less than in 2016/17. This was mainly in relation to upward revaluations of assets in 2017/18, with the value of upward revaluations £25m lower than in 2016/17. These changes reflect the movement in property values for those revalued each year, compared to their last valuations and the properties revalued each year (valuations are done on a rolling programme) and whether there has been a previous revaluation loss charged to service revenue accounts, which can be reversed if there is a subsequent revaluation increase. The valuations are now on a 3 year cyclical programme (previously 5 year programme), so there is a shorter gap between valuation and property values have remained relatively stable over this period.

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

2017/18 £000	2016/17 £000	Increase (Value) £000	Increase (%)
(40,500)	61,785	(102,285)	166%

Remeasurement of the Net Defined Benefit Liability has changed from a loss of £61.785m in 2016/17 to a gain of £40.500m in 2017/18. The total swing of £102.9m 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 gain of £47.04m in 2017/18 compared to a remeasurement loss of £236.48m in 2016/17. The second element a decrease on Experience gains on liabilities of £7.4m. The third element is a decrease on liabilities in relation to demographic assumptions of £19.0m. The fourth element relates to a decrease in the return on plan assets (£154.9m).

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

2017/18 £000	2016/17 £000	Increase (Value) £000	Increase (%)
52,605	400	52,205	13051%

In 2017/18 Shropshire Council purchased an investment in the Charles Darwin, Pride Hill and Riverside Shopping Centres. Shropshire Councils share of this investment totalling £51.8m is included in the accounts as a long term investment.

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

2017/18 £000	2016/17 £000	Decrease (Value) £000	Decrease (%)
59,000	47,921	11,079	19%

Balance Sheet Current Assets – Cash and Cash Equivalents

2017/18 £000	2016/17 £000	Decrease (Value) £000	Decrease (%)
47,042	93,233	46,191	50%

Balance Sheet Current Assets – Bank Overdraft

2017/18 £000	2016/17 £000	Decrease (Value) £000	Decrease (%)
(14,625)	(13,150)	1,475	11%

The decrease 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.

There are six elements that detail the difference in cash:
i. Revenue outturn (movement in usable reserves)
ii. Capital
iii. Movement in debtors/creditors
iv. New loans provided/repaid
v. Purchase of investment
vi. Early Pension Payment

i. There was a £7.9m increase in usable reserves in 2017/18 due to a number of factors including; the Revenue Outturn delivering an underspend and planned contributions to earmarked reserves.

ii. The Capital Grant unapplied account has increased by £9.9m due to CIL payments of £6.6m received in 2017/18 which have not been spent and the receipt of three new grants totalling £3.5m.

iii. Debtors increased during 2017/18 by £4.9m due to an increase in amounts owed by NHS bodies and an increase in grant debtors including Housing Benefits and s31 Business Rates. Creditors in contract reduced by £0.8m.

iv. Cash will have reduced due to the repayment of borrowing that the Council has undertaken of £6m.

v. Cash will have reduced by the value of the investment in the Shopping Centre (£52.2m). This purchase was made using cash balances instead of borrowing in 2017/18

vi. In 2017/18 Shropshire Council paid the lump sum deficit to the Pension Fund in relation to the next 3 years in order to achieve financial savings. The value of this early payment relating to the year 2018/19 and 2019/20 is £14.7m and this will have reduced the cash balance.

- **Balance Sheet Current Liabilities – Deferred Income**

2017/18 £000	**2016/17 £000**	**Increase (Value) £000**	**Increase (%)**
(2,175)	0	(2,175)	(100%)

£2.4m has been placed in an escrow in relation to rent guarantees for the shopping centre. This has been included in temporary investments and deferred income. As the funding is drawn down into revenue the deferred income is reduced. £0.2m has been drawn down in relation to 2017/18 resulting in £2.2m remaining on the balance sheet as deferred income.

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

2017/18 £000	2016/17 £000	Increase (Value) £000	Increase (%)
(3,453)	(2,488)	(965)	(39%)

Short term provisions have increased by £0.965m due to the creation of two new provisions. The Environmental Maintenance provision of £0.578m was created to retain a balancing payment due to the outgoing highways contractors providing that the work completed has been done to a satisfactory quality. If no defects appear within a prescribed timeframe this payment will be released. The Shopping Centre Rent Top Ups provision of £0.267m (short term element) was created to hold a balance of income due to the authority relating to those units which were let with a rent-free period by the previous unitholders. This was compensated for in the completion statement. It is drawn down as and when the rent on the particular unit is due according to a detailed schedule.

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

2017/18 £000	2016/17 £000	Decrease (Value) £000	Increase (%)
(4,065)	(4,635)	570	12%

The difference of £0.570m is primarily due to the Council applying the Dedicated Schools Grant (DSG) in excess of the amount received in the year in order to utilise the brought forward balance and therefore reducing the carried forward balance by £0.710m These has been offset by £0.114m being held in relation to Business Rates Retention Scheme Section 31 grants as a result of MHCLG adjustments.

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

2017/18 £000	2016/17 £000	Decrease (Value) £000	Decrease (%)
(528)	(2,367)	(1,839)	78%

The decrease is due to the allocation of grants received in 2016/17 applied to expenditure incurred in 2017/18. The main grants that this relates to are:

- Department for Transport Pothole action fund - £0.67m
- Department for Education Basic Need Grant - £0.45m
- Environment Agency Flood Alleviation Scheme - £0.65m

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

2017/18 £000	2016/17 £000	Increase (Value) £000	Increase (%)
(419,636)	(461,828)	(42,192)	9%

Pensions Liability has decreased by £42.2m in 2017/18. £14.7m of this relates to the early pension payment for the 2018/19 and 2019/20 lump sum deficit. The remaining decrease in Pension Liability is mainly due to an decrease in the value of pension liabilities due to an increase in the discount rate during the year and a reduction in the CPI inflation assumption.

- **Balance Sheet Long Term Liabilities – Usable Reserves**

2017/18 £000	2016/17 £000	Increase (Value) £000	Increase (%)
119,315	101,532	17,783	18%

The Major Repairs Reserve increased by £2.1m due to slippage in the HRA Capital Programme which reduced the drawdown from the MRR to fund capital expenditure. Capital Grants Unapplied Account has increased by £9.9m. This is due to additional grants being received in 2017/18 which have not been spent and as there are no conditions attached to them they have been transferred to the Capital Grants Unapplied account. This includes DCLG Housing and Technologies grant of £1.66m, pothole action fund of £0.94m, flood resilience grant of £0.94m and CIL of £6.5m. Earmarked Reserves have increased by £6m as a result of planned contributions towards future years savings and unspent grant income which has been carried forward to be spent in future year.

- **Balance Sheet Financing – Unusable Reserves**

2017/18 £000	2016/17 £000	Decrease (Value) £000	Decrease (%)
320,214	288,925	31,919	11%

The increase in Unusable Reserves is due to an increase in the Capital Adjustment Account and Pensions Reserve and a decrease in the Collection Fund Adjustment Account. The Capital Adjustment Account has increased by £12.2m in 2017/18 compared to movement of £9.3m in 2016/17. The movement reflects the movement in asset values, disposals and capital expenditure financing in 2017/18. The most significant areas of decrease were depreciation & impairment and amounts written out on disposals (partly reflecting Academy/Diocese transfers). The most significant areas of increase were capital grants and contributions and capital receipts financing. The Collection Fund Adjustment Account has reduced by £4.9m 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. The Pensions reserve has moved by £27.5m as a result of a decrease in pension liabilities due to an increase in the discount rate and a reduction on the CPI inflation assumption. The movement to the Pension Reserve is different to the pensions liability above due to the early pension payment.

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.