

# FAREHAM

## BOROUGH COUNCIL

### **Report to Audit and Governance Committee**

**Date**                    **17 July 2017**

**Report of:**            **Director of Finance and Resources**

**Subject:**              **STATEMENT OF ACCOUNTS 2016/17**

#### **SUMMARY**

This report explains the process for auditing, approving and publishing the Statement of Accounts for the year ended 31 March 2017.

This report also summarises the changes to the process as a result of changes to the Accounts and Audit Regulations which requires next year's Accounts to be published by the end of May.

We have therefore carried out a pilot run this year to produce the accounts earlier and now bring the unaudited Statement of Accounts for 2016/17 for member's review.

#### **RECOMMENDATION**

It is recommended that the Committee notes:

- a) The unaudited Statement of Accounts for the year ended 31 March 2017 in Appendix A.
- b) The audited Statement of Accounts for the year ended 31 March 2017 will be approved at the next Audit and Governance Committee on 25 September 2017.
- c) The timescales for producing, approving and publishing the Statement of Accounts will be brought forward in future years in order to meet the requirements of the Accounts and Audit Regulations 2015.

## **INTRODUCTION**

1. The Accounts and Audit Regulations 2015 require every local authority to produce and publish an annual Statement of Accounts in accordance with “proper practice”, and prescribes the procedures to be followed preceding the publication of the accounts and sets out the dates by which the accounts must be approved and published.
2. The Local Government Act 2003 (Section 21) defines proper accounting practices for this purpose to be the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting (the Code) for the relevant year.
3. The unaudited Statement of Accounts set out in Appendix A has been prepared in accordance with the Code.

## **THE PURPOSE OF THE STATEMENT OF ACCOUNTS**

4. The Code is based on approved accounting standards so that an authority’s accounts present a “true and fair view” of the financial position and transactions of the authority. It has been prepared on the basis that the purpose of a local authority’s published Statement of Accounts is to give electors, Members and other interested parties clear information about the authority’s finances.

## **THE AUDIT PROCESS**

5. The Council’s external auditors, Ernst & Young LLP (EY) are responsible for forming an opinion on the Statement of Accounts and certifying that it is a “true and fair” view of the financial position of Fareham Borough Council as at 31 March 2017.
6. The auditors will carry out a detailed audit during August 2017 in accordance with the Code of Audit Practice.
7. Before the audit opinion is issued, EY will report to Members, in accordance with the International Standards of Auditing (ISA260), whether or not there are any issues arising from the audit of the accounts.
8. The published Statement of Accounts will contain the external auditor’s opinion on the accounts and their view as to whether the accounts are a true and fair view of the Council’s financial position and performance for the year.

## **FASTER CLOSING – ACCOUNTS AND AUDIT REGULATIONS 2015**

9. The Accounts and Audit Regulations 2015 came into force with effect from 1 April 2015 required the Council to produce, audit and publish the accounts earlier in future years.
10. The requirements are that next year’s 2017/18 unaudited accounts are produced and published by the end of May (instead of the end of June) and the audited accounts be approved and published by the end of July (instead of the end of September).
11. Although this requirement is effective from 2017/18, officers have used the 2016/17 accounts as a dry run to ensure that the earlier deadlines for next year are achieved.

## KEY ISSUES AND MATTERS OF INTEREST

12. The key issues and matters of interest arising from the unaudited Statement of Accounts for 2016/17 are:

- **Holly Hill Leisure Centre** – The £9 million leisure centre in Sarisbury Green opened in October 2016.
- **Housing Stock** – During the year, 10 homes were sold under the right to buy scheme (15 in 2015/16). Also, 35 new flats at the Sylvan Court Sheltered Housing Scheme, at a cost of £4.8 million and 16 new flats in Palmerston Avenue, at a cost of £1.9 million became operational.

The Council housing valuation increased by £18.1m. This was mainly due to the increase in the social housing adjustment factor which increased by 1% to 33% (£10.3 million) and new housing at Sylvan Court and Palmerston Avenue (£7.1 million).

- **Daedalus** - Assets at Daedalus were revalued by an external valuer and increased by £16.4 million. The main increase was at Daedalus East (£13.7 million) which largely reflected the increase in land value due to the development opportunities at the site.
- **Commercial Property Acquisitions** – During the year the Council purchased a new commercial property, as part of the commercial property investment acquisition programme, at a cost of £11.2 million (two were purchased in 2015/16 for £9.9 million).
- **Investments** – The Council's investments reduced from £32.4 million to £14.8 million at year end. This was mainly due to using internal borrowing for the commercial property acquisition and the purchase of two cottages on the proposed Welborne site.
- **Community Infrastructure Levy (CIL)** – The Council raised £2.5 million from CIL during 2016/17 (£1.1 million in 2015/16). This has been transferred to the Council's capital reserves. £370,000 of CIL reserves were used to fund the Hill Head coastal protection scheme and bus shelter improvements.
- **Pension Fund** – The Council's pension fund liability increased by £9.1 million to £58.3 million during 2016/17 (£2.8 million decrease in 2015/16). The main reason for the change is due to actuarial gains as a result of changes to the financial assumptions used.
- **Reserves** – The General Fund reserve increased by £812,000 reflecting the net underspend in year on revenue income and expenditure. Council reserves now total £156.2 million, £32 million of which are in 'usable' reserves which can be used to fund Council services; subject to certain limitations and the need to maintain prudent reserves for financial stability.

## **CHANGES TO THE CONTENT OF THE STATEMENT OF ACCOUNTS**

13. The 2016/17 Code has changed the segmental reporting arrangements for the Comprehensive Income and Expenditure Statement and introduced a new note (Note 1) called the Expenditure and Funding Analysis.
14. Both statements now include a segmental analysis based on how the Council is structured and how we operate, monitor and manage financial performance. The statements therefore show the costs separately by committees, portfolios and the Housing Revenue Account rather than a nationwide standardised type of service such as Cultural Services and Highways and Transport Services.
15. The Comprehensive Income and Expenditure Statement figures for 2015/16 have been restated to reflect the new reporting segments.
16. There are also two new notes to supplement the External and Funding Analysis:
  - Note 2 - Note to the Expenditure and Funding Analysis
  - Note 3 - Expenditure and Income Analysed by Nature

## **THE CONTENT OF THE STATEMENT OF ACCOUNTS**

17. The following paragraphs give a brief outline of the various sections included within the Statement of Accounts.

### **Narrative Report**

18. The narrative report helps to explain the content of the accounts; provides summaries of the different types of income and expenditure (revenue and capital) for the General Fund and Housing Revenue Account (HRA); explains the levels of reserves and pension fund liability and describes the significant developments during the year.

### **Statement of Responsibility for the Statement of Accounts**

19. This statement sets out the responsibilities of the Council, the Audit and Governance Committee and the Director of Finance and Resources for the production and approval of the accounts.

### **Confirmation of Approval by Members**

20. This section carries the signature of the Chairman of the Audit and Governance Committee to confirm the details of the approval of the Statement of Accounts by the Audit and Governance Committee.

### **Core Statements**

21. The following core accounting statements are included:

**Comprehensive Income and Expenditure Statement** - This statement brings together all of the Council's day to day (revenue) income and expenditure as well as transactions relating to the value of long term assets and pension costs.

**Balance Sheet** - The Balance Sheet shows the assets that the Council owns, how much the Council owes or is owed, and the Council's net assets (sometimes referred to as net worth).

**Movement in Reserves Statement** - This statement shows the movement between the Council's reserves (which are split between usable and unusable) and the total adjustments needed (in respect of revaluations, capital items and notional pension costs) to the reported surplus and deficit on the Comprehensive Income and Expenditure Account, to arrive at the actual movement in the General Fund Balance.

**Cash Flow Statement** - This statement shows the amount of cash received and paid out during the year and the net inflow and outflow of cash and cash equivalents.

**Notes to the Core Financial Statements** - This section includes the accounting policies and explanatory information relating to the core statements.

22. The following supplementary statements are also included:

- HRA Income and Expenditure Account
- Statement of Movement on the HRA Balance
- Collection Fund

### **Glossary**

23. This section of the Statement of Accounts sets out a detailed explanation of the various accounting terms that are used in the document.

### **Independent Auditor's Report**

24. The external auditor's opinion on the accounts will be included after the audit has been completed and will be included within the final published document will be published by 30 September 2017.

### **RISK ASSESSMENT**

25. There are no significant risk considerations in relation to this report.

### **CONCLUSION**

26. Members are asked to note:-

- a) The unaudited Statement of Accounts for the year ended 31 March 2017 in Appendix A.
- b) The audited Statement of Accounts for the year ended 31 March 2017 will be approved at the next Audit and Governance Committee on 25 September 2017.
- c) The timescales for producing, approving and publishing the Statement of Accounts will be brought forward in future years in order to meet the requirements of the Accounts and Audit Regulations 2015.

**Background Papers:** None

**Reference Papers:** Code of Practice on Local Authority Accounting 2016/17

**Appendix A:** Unaudited Statement of Accounts 2016/17

**Enquiries:**

For further information on this report please contact Caroline Hancock. (Ext 4589)