

Audit and Governance Committee

Meeting to be held on Monday, 31 July 2017

Electoral Division affected: (All Divisions);
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Approval of the Council's Statement of Accounts 2016/17

(Appendix 'A' refers)

Contact for further information:

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Executive Summary

The County Council has delegated the approval of the Council's Statement of Accounts to the Audit and Governance Committee. The Accounts and Audit Regulations 2015 require that the accounts be considered and approved prior to publication on 30 September 2017 following the year to which they relate.

However, from 2017/18, the timescales in relation to the signing, approval and publication of the Statement of Accounts will change as follows:

- The Council's section 151 officer must authorise the Statement of Accounts for issue by 31 May 2017;
- The Audit and Governance Committee must consider the Statement of Accounts and approve them by 31 July 2017;

The Council committed to meeting these reduced timescales for 2016/17 in preparation for next year. This report summarises the process of preparation and the key components of the Statement of Accounts for 2016/17, attached at Appendix 'A'. The Pension Fund accounts are included as the Council is a pension fund administering authority. They show the transactions and net assets/liabilities of the pension fund as a whole. At the meeting of the Pension Fund Committee on 30 June 2017 the committee resolved that their review of the 2016/17 Accounts of the Lancashire County Pension Fund is noted and the Accounts are referred to this committee for approval.

Recommendation

The Audit and Governance Committee is recommended to:

- (i) Approve the Statement of Accounts for the County Council and the Lancashire County Pension Fund for 2016/17 as set out at Appendix 'A';
- (ii) Authorise the Chair to sign a copy of each of the above at the meeting.

Background and Advice

The County Council has delegated the approval of the Council's Statement of Accounts to the Audit and Governance Committee.

The Statement of Accounts has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom.

The draft Statement of Accounts was certified by the Director of Financial Resources on 26 May 2017. Amendments agreed with the external auditor are reflected within the final Statement of Accounts.

Key Components of the 2016/17 Statement of Accounts

Local authority accounts are complex due to the need to produce financial statements that address both an accounting framework and a legislative framework. This dual accounting approach requires some items to be accounted for in ways that do not reflect how the Council manages its budget.

The format of the Statement of Accounts has been revised following the outcome of CIPFA's 'Telling the Story' review, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.

The main change allows local authorities to report on the same basis as they are organised by breaking the formal link between the Service Reporting Code of Practice (SeRCOP) and the Comprehensive Income and Expenditure Statement.

It also introduced a new Expenditure and Funding Analysis which provides a direct reconciliation between the way local authorities are funded and budget and the Comprehensive Income and Expenditure Statement.

The Expenditure and Funding Analysis is supported by a streamlined Movement in Reserves Statement.

The main components of the Statement of Accounts are outlined below.

Narrative report

The narrative report includes additional requirements under the Accounts and Audit Regulations 2015 and is intended to provide information on the Council, its main objectives and strategies, and the principle risks that it faces. The narrative report provides a commentary on how the Council has used its resources to achieve its desired outcomes. It also highlights the most significant matters reported in the Statement of Accounts.

Core Financial Statements

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the cost of providing services in line with International Financial Reporting Standards.

From 2016/17 local authorities are no longer required to report based on the service expenditure analysis in the Service Reporting Code of Practice (SeRCOP) but to report on the same basis as the Council's budget and performance monitoring reports. This new format means that the service section of the Comprehensive Income and Expenditure Statement supports accountability and transparency as it reflects the way in which services operate and performance is managed.

The surplus or deficit on the provision of services shows the economic cost of providing the Council's services. However, the amounts chargeable to council tax are limited by statutory requirements and require certain accounting entries to be adjusted. These adjustments are detailed in the Movement in Reserves Statement.

The net cost of services for 2016/17 was £984.6 million compared to £932.1 million in 2015/16, an increase in costs of £52.5 million.

The variations are largely attributable to the revaluation of assets with an increase in costs of £82 million for Community Services in respect of the waste plant, which is partially offset by a reduction in costs of £49.2 million for Children's Services due to the revaluation of schools and additional costs relating to Adult Services which have been primarily funded from reserves.

Movement in Reserves Statement

This statement shows the impact of the financial year on the Council's reserves.

It includes details of the income and expenditure that is recognised under accounting rules but then removed from the accounts by legislation to give the amount of expenditure that has been funded by the local tax payer.

Reserves are analysed into usable reserves which can be used to fund future expenditure and unusable reserves which arise as a result of accounting entries required by legislation.

The Council's reserves have decreased in total by £363.1 million as reported in the Comprehensive Income and Expenditure Statement.

The unusable reserves have decreased by £319.3 million mainly as a result of the re-measurement of the pension fund liability. The usable reserves have decreased by £43.8 million to £439.2 million which is due to the utilisation of earmarked reserves.

Balance Sheet

The Balance Sheet shows the Council's assets, liabilities, cash balances and reserves at the year-end date.

The net assets of the Council for 2016/17 have decreased by £363.1 million from £1.132 billion in 2015/16 to £768.9 million, the main variations are outlined below.

The balance sheet shows a decrease in long term investments of £174 million as a result of core bond sales which took advantage of the favourable market conditions. Some of these proceeds were re-invested in the short term in order to achieve higher yields.

The cash and cash equivalents increased by £133 million, mainly as a result of the investment sales.

The increase in short term borrowing of £65 million is largely due to the increased capital borrowing requirements.

The pension scheme liability rose by £281 million with a corresponding reduction in the pension reserve (unusable reserves) as a result of the latest actuarial valuation supplied by Mercers Consultants Limited.

Cash Flow Statement

This statement shows the changes in cash and cash equivalents of the Council during the year. It analyses cash flows into those generated by operating activities, investing activities and financing activities.

Notes to the Financial Statements

The notes to the accounts provide additional information in support of the core financial statements.

Expenditure and Funding Analysis

The expenditure and funding analysis reconciles the financial position reported on the basis of proper accounting practices with the amounts charged to the financial statements under statute. Further detail on the statutory adjustments is also provided in the Movement in Reserves Statement and Note 14 - adjustments between accounting basis and funding basis under regulations.

Technical Annex

The additional disclosures required for financial instruments and post-employment benefits have been included in a separate technical annex together with details of the significant accounting policies used in preparing the accounts.

Group Accounts

The section on related parties outlines the Council's investments in other companies and group accounts have been produced which reflect the Council's interest in Lancashire County Developments Limited.

Pension Fund Accounts

These are included in the County Council accounts as the Council is a pension fund administering authority. They show the transactions and net assets/liabilities of the pension fund as a whole. At the meeting of the Pension Fund Committee on 30 June 2017 the committee resolved that their review of the 2016/17 Accounts of the Lancashire County Pension Fund is noted and the Accounts are referred to this committee for approval.

Annual Governance Statement

The Annual Governance Statement sets out the Council's governance arrangements.

Independent Auditor's Report

The External Auditor will report whether in their opinion the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

Full details of the external auditor's findings are contained within the 2016/17 Audit Findings Report which has been submitted to the Audit and Governance Committee as a separate item.

Throughout the audit process officers have continued to work on the Statement in order to ensure that it presents a comprehensive picture of the Council's finances. This has resulted in some changes from the draft that are set out in the auditor's findings report.

2017/18 Statement of Accounts

From 2017/18, the timescales in relation to the signing, approval and publication of the statement of accounts, as specified in the Accounts and Audit Regulations 2015, will change. The relevant dates specified below all relate to the financial year immediately following the end of the financial year to which the statement of accounts relate:

- The Council's s.151 officer must sign and date the statement of accounts, confirming that they present a true and fair view of the financial position of the Council at the end of the financial year to which it relates and the Council's income and expenditure for that financial year, **by 31 May**.
- The period for the exercise of public rights (of inspection of the accounts) must include the **first 10 working days of June**.

- Following the conclusion of the period for the exercise of public rights and the audit of the accounts, the Council's Audit and Governance Committee must consider the Statement of Accounts and approve them **by 31 July**. The s.151 officer must re-confirm on behalf of the Council that they are satisfied that the Statement of Accounts presents a true and fair view before the Audit and Governance Committee approval.
- After approving the Statement of Accounts the Council must publish (which must include publication on the Council's website) the Statement of Accounts together with any audit certificate or opinion, the annual governance statement, and the narrative statement **by 31 July**.

Consultations

Within the Accounts and Audit Regulations the County Council is required to open the accounts for public inspection. This enables any member of the public to inspect the Accounts, ask questions and to request copies of related documents where appropriate. The period of inspection for the 2016/17 Accounts commenced on 15 June 2017 and ended on 26 July 2017.

Implications:

This item has the following implications, as indicated:

Financial

As set out in this report.

Risk management

The Council's accounts for 2016/17 must be approved by 30 September 2017 in order to meet its statutory deadlines, however, the Council committed to meeting the reduced timescales for 2016/17 in preparation for the changes which come into effect from 2017/18.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Tel
Accounts and Audit Regulations	2015	Khadija Saeed, Head of Corporate Finance, (01772) 536195

Reason for inclusion in Part II, if appropriate

N/A