

Audit and Governance Committee

Meeting to be held on Monday, 26 September 2016

Electoral Division affected: (All Divisions);
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Approval of the County Council's Statement of Accounts 2015/16

(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 should be considered and approved by members prior to publication by 30 September following the year to which they relate.

This report summarises the process of preparation and the main points of the Statement of Accounts for 2015/16, the Statement itself is attached as Appendix A.

The regulations governing the process require that the Chair of the Committee that approves the accounts must sign and date them.

Recommendation

The Committee is requested to review and approve the County Council's Statement of Accounts for 2015/16 and the Chair is requested to sign the copy of the Statement tabled 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 30 June 2016. Amendments agreed with the external auditor are reflected within the final Statement of Accounts.

Key Components of the 2015/16 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 main components of the Statement of Accounts are outlined below. The style and content of the Statement has been refreshed in order to make the accounts easier to understand.

Narrative report

This replaces the explanatory foreword in the 2014/15 accounts and includes additional requirements under the Accounts and Audit Regulations 2015.

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 auditor's findings are contained within the 2015/16 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.

Core Financial Statements

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement reports all of the Council's income and expenditure for the year. The top half of the statement provides an analysis by service area – this is a standard analysis provided by CIPFA so that local authority accounts and spending can be compared. The bottom half of the statement deals with corporate transactions and funding.

The surplus or deficit on the provision of services shows the true economic cost of providing the Council's services. The costs include transactions measuring the value of fixed assets consumed i.e. depreciation and the real projected value of retirement

benefits earned by employees in the year. These accounting costs are different to the statutory amounts required to be charged to the County Fund for council tax setting purposes. The taxation position is shown in the Movement in Reserves Statement following a series of statutory adjustments.

The net cost of services for 2015/16 was £932.1 million compared to £871.6 million in 2014/15, an increase in costs of £60.5 million.

The main variations are an increase in costs of £96.5 million for children's and education services with £92 million attributable to revaluation losses on secondary schools. This is partially offset by a reduction of £85.2 million compared to last year's costs on environmental and regulatory services following the revaluation of the waste plant in 2014/15 and an increase in planning services costs of £24.1 million due to expenditure on the Growth Deal and City Deal.

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council. They are analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The statement draws together data from other parts of the accounts as follows:

- The opening balance sheet figures,
- The results for the year as presented in the Comprehensive Income and Expenditure Statement, which are prepared in line with current accounting practices,
- The adjustments required to convert the amounts prepared on an accounting basis to the statutory amounts required to be charged to the County Fund for council tax setting purposes,
- Any discretionary transfers to or from earmarked reserves to arrive at the closing balance sheet figures.

The Council's reserves have increased in total by £252.1 million as reported in the Comprehensive Income and Expenditure Statement.

The unusable reserves have increased by £264.7 million mainly as a result of the re-measurement of the pension fund liability. The usable reserves have decreased by £12.6 million to £489.1 million which is due to the utilisation of earmarked reserves and also an increase in capital grants.

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 2015/16 have increased by £252.1 million from £886.1 million in 2014/15 to £1.1382 billion.

The main variations in assets relate to the increase of long term investments from £262.2 million to £445 million and the reduction of short term investments from £267.8 million to £119.7 million following the Council's decision to trade the short term corporate bonds and invest the proceeds in longer term corporate bonds to take advantage of the market conditions at that time.

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 order of the disclosure notes has been amended in order to assist the user's understanding of the accounts, with the initial notes providing information to support the Comprehensive Income and Expenditure Statement and an explanation of how that differs from the departmental income and expenditure shown in the outturn report. These are followed by notes supporting the Movement in Reserves Statement, Balance Sheet and Cash Flow Statement. Additional disclosures required by the Code follow at the end of the section.

Accounting policies

This section provides a summary of the main accounting policies used in producing 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

Presents the accounts of the pension fund which are considered separately

2016/17 Statement of Accounts

The *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* includes the adoption of the asset valuation requirements of the *CIPFA Code of Practice on Transport Infrastructure Assets* (The Transport Code). The Transport Code was first published in 2010 with the objective of using an asset management based approach to the provision of financial information in relation to transport infrastructure assets.

The Council's transport infrastructure assets are currently measured on a Historical Cost basis and depreciated in accordance with its current accounting policies. From 1 April 2016, these assets will be referred to as the 'Highways Network Asset' (HNA) and will be disclosed separately as a single asset on the face of the Balance Sheet,

with its valuation built up from data maintained by highways engineers. It will be measured at Depreciated Replacement Cost (DRC) by calculating the cost of replacing the asset with its modern equivalent, then applying deductions for all forms of physical deterioration based on relevant data relating to age and condition of the assets in use. This approach will harmonise the valuation methods used by local and central government and is considered by CIPFA to better reflect the economic value of the substantial assets held and maintained by local authorities.

This change, from the existing historic cost basis, will be applied prospectively i.e. with effect from 1 April 2016 with no requirement for the 2015/16 position to be restated.

The impact on the Council's Balance sheet will be significant, with the value of non-current assets likely to increase by several million pounds. It should be noted, however, that a compensatory increase to the Revaluation Reserve will nullify the impact so that the overall change to the net worth of the Council's Balance Sheet is zero. There will also be a commensurate increase in the amount of depreciation charged to service revenue accounts to account for the higher value asset base. As regulations prevent depreciation from being charged to the County Fund, there is no associated funding requirement and there will be no impact on the Council's budget.

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 relates:

- The responsible financial 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 a resolution of that committee **before 31 July**. The responsible financial 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 Authority'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 2015/16 Accounts commenced on 1 July 2016 and ended on 11 August 2016.

Implications:

This item has the following implications, as indicated:

Financial

The financial implications are set out in the report above and in the Statement of Accounts attached at Appendix 'A'.

Risk management

The County Council's accounts for 2015/16 must be approved by 30 September 2016 in order to meet its statutory deadlines.

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