Coventry City Council

Public report

Audit & Procurement Committee 13 June 2016

Name of Cabinet Member:
Strategic Finance and Resources (Councillor J Mutton)

Director Approving Submission of the report:
Executive Director of Resources

Ward(s) affected:
All

Title:
Unaudited 2015/16 Statement of Accounts

Is this a key decision?
No

Executive Summary:
The purpose of this report is to give Audit and Procurement Committee the opportunity to review the 2015/16 Statement of Accounts and raise any points that need to be addressed prior to their formal approval in July 2016. The Committee is the sole body for approval of this Statement in line with the Accounts and Audit Regulations 2011.

Recommendations:
Audit and Procurement Committee is recommended to review and comment on as appropriate, the 2015/16 Statement of Accounts.

List of Appendices included:
The Statement of Accounts is appended in its entirety.

Other useful background papers: Final Accounts Working papers – 5th Floor Broadgate House

Has it been or will it be considered by Scrutiny?: The Audit and Procurement Committee will consider the Statement.

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?: No

Will this report go to Council?: No

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Report title:
Unaudited 2015/16 Statement of Accounts

1. Context (or background)

This report presents the 2015/16 Statement of Accounts (SoA). The Council is required by law to produce this document and it is prescribed heavily by regulation. It is presented in draft format within this report to give the Audit and Procurement Committee the opportunity to review and comment on it. It is also subject to audit currently by the Council's external auditors, Grant Thornton. It will be brought back to Audit and Procurement Committee for formal approval in July 2016 reflecting any changes recommended by Grant Thornton and agreed by the Executive Director of Resources.

2. Options considered and recommended proposal

2.1 Given the highly technical, heavily prescribed and retrospective nature of the Statement of Accounts there are no options to consider. The Audit and Procurement Committee is recommended to review the draft statements, make any comments as appropriate prior to final approval. The paragraphs below explain the key aspects of the Statement.

2.2 In terms of the financial aspects of the Statement of Accounts, the Committee should be aware that the Council's accounts are presented in line with International Financial Reporting Standards (IFRS). The Council is required to include financial statements that are explained in Section 2.1 of the appended draft (unaudited) Statement of Accounts document.

2.3 The Statement of Accounts must ensure that any surplus or deficit that arises within the financial year is equal to the change in the net value of the authority's assets and liabilities and the change in the value of its equity. For 2015/16 the Council is reporting a £30 million surplus within its Comprehensive Income and Expenditure Statement. This surplus is matched by an increase in the value of the Balance Sheet and the same increase is reflected in the level of (useable plus unusable) reserves in the Movement in Reserves Statement.

2.4 The CIES surplus referred to above does not reflect the genuine position of the Council's General Fund, for which a £1.3m overspend has been reported in the Revenue and Capital Outturn Report which will be reported to Cabinet in July. The headline differences between the Income and Expenditure Account and the General Fund are explained below and detailed in the table that follows:

- The key reason for the deficit relates to the Council's pensions deficit position improving by £33 million, as a result largely of an increase in the discount rate from 3.2% to 3.3%. This rate is used by the actuary to discount the expected cost of future pensions to current values. The higher the rate used the lower the calculated cost of liabilities.
- There are a number of asset related adjustments: Under IFRS the value of assets has to be split into several individual components necessitating assessments of the value of each component part of each asset leading to £51m of asset value being derecognised and removed from the balance sheet in 2015/16. In addition. asset disposals of £26m have occurred within the year. Revaluation of assets is undertaken on a five yearly rolling programme and in 2015/16 this has led to a £26m increase in asset values. Notwithstanding the asset based explanations above, the large Capital Programme undertaken by the Council in 2015/16 has led to additions to the Programme of £80m. In total, the overall value of the Council's asset base has remained relatively constant in the year.

2.5 These circumstances within the Statement have not affected the Council's cash flows of income and expenditure in 2015/16. Instead they are either events that will never result in a reduced level of income or increased need to spend or at worst will only do so many years in the future. For this reason they do not form part of the management accounts which reflect a more current (and statutorily based) view of the need to spend and to finance this spend through grants, taxation and charges. The differences between the Statement of Account and management accounts are shown in the table below.

	£000	£000
Surplus Shown in Comprehensive Income & Expenditure Account (CIES)		**(30,064)**
Less changes that made the CIES worse than the management accounts		
Asset related adjustments including the rate that our assets go down in value over their lifetime due to wear and tear (depreciation) and any charges reflecting extra-ordinary one-off reductions in the value of our assets (impairment, revaluation and de-recognition).	(73,992)	
Items such as external schemes (e.g. Nuckle) that the Council funds from capital resources not revenue which do not result in the creation of new asset value for the Council.	(26,645)	
Sub-Total – changes that made the CIES worse than the management accounts		**(100,637)**
Add changes that made the CIES better than the management accounts		
The difference between a calculated whole-life cost of pensions and the pension contributions paid by the Council in the year. The pensions' deficit position has gone down this year due in large part to a change in the discount rate from 3.2% to 3.3%.	32,537	
Capital grants and other capital funding that is reflected in the CIES but not in the management accounts.	73,304	
A charge for the amount that we need to put aside to repay debt in the future, peculiar to local authorities, referred to as the minimum revenue provision. This is reflected in the management accounts but not the CIES	13,605	
Capital Expenditure charged against the Revenue Account (CERA)	1,143	
Difference between tax income amount credited to the CIES & tax income for the year)	2,902	

Capital Grants received but not applied in the year	5,352	
All Other Items	3,195	
Sub-Total – changes that made the CIES better than the management accounts		**132,038**
Surplus Shown in Outturn Report		**1,337**

3. Results of consultation undertaken

3.1 Given the nature of the report no consultation has been undertaken.

4. Timetable for implementing this decision

4.1 Forthcoming regulations are expected to shorten the timescale for completing local authority accounts from financial year 2017/18 onwards. These will require the draft accounts to be prepared by 31st May (currently 30th June) and the final audited Statement to be approved by 31st July (currently 30th September). As a result the Council has taken measures to bring forward its accounting timetable. These draft accounts were issued on 27th May and it is anticipated will be signed off by Audit Committee on 25th July once they have been audited by Grant Thornton. This complies with the new tighter statutory timescales two years ahead of schedule. Any material changes to the accounts following the audit of them will be reported to Audit and Procurement Committee at its July meeting.

5. Comments from Executive Director of Resources

5.1 Financial implications

The Statement is a heavily prescribed, highly technical and very detailed document and it is no exaggeration to say that even experienced finance professionals find it difficult to understand some of the more complex areas of the Statement. For this reason, this report only summarises the key aspects of the Statement and its implications for the Council. In reality, the 2015/16 Revenue and Capital Outturn Report which contains the end of year position of the Council's management accounts will be a more representative summary of the Council's in-year financial performance.

The Statement of Accounts provides a retrospective record of the Council's financial position on an accounting basis and it does not in itself have any specific financial implications for the Council. However, there is one material areas of analysis contained within the Statement that requires further explanation – the Council's pension liability.

Long-term trends have witnessed a significant worsening of the Council's Pension liabilities over time. In general, this means that the contributions and other income flows into the pension fund are not sufficient to meet the calculated cost of future outflows (the payment of pension benefits) from the fund. Action has been taken to reform local government pensions on a national level with the introduction of a revised Local Government Pension Scheme from 1st April 2014. In addition, employer contributions have been increased across all West Midlands authorities to pay for the past service cost of pensions and in Coventry's case these were built into the 2014/15 Budget. Whether or not these measures will redress the overall pension deficit over the medium to long term, other factors are always likely to cause year on year volatility which makes it difficult to assess any long-term trends in the early years. The Council's overall £554m pension deficit, albeit that this is the result largely of factors outside of the Council's control, represents a continued worrying position. The next triennial review of the Council's pension position effective on 31st March 2016 will influence the revised employer pension contributions that will be payable from 2017/18. Based on the current position, the Council will once again come under pressure to increase its budgeted pension contributions.

It is worth noting that changes to accounting regulations will, from 2016/17, increase massively the value of highways assets included within the local authority accounts. For Coventry, the strong likelihood is that we know already that this will add multiple millions of pounds to the Council's balance sheet. This in no way diminishes the need to resolve the pensions issues described above.

5.2 Legal implications

The Council is required by legislation to complete a draft Statement signed by the Chief Financial Officer by 30th June and to approve and publish audited accounts by 30th September in line with the Accounts and Audit Regulations 2011. The Audit and Procurement Committee approves the accounts on behalf of the Council.

6. Other implications

6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)?

The Statement of Accounts contributes to the Council's key objectives as one of the measures by which to judge whether the Council is using its resources effectively and that its performance is well managed.

6.2 How is risk being managed?

There is a detailed timetable for compiling the Statement of Accounts.

6.3 What is the impact on the organisation?

No specific impact.

6.4 Equalities / EIA

No specific implications.

6.5 Implications for (or impact on) the environment

None.

6.6 Implications for partner organisations?

None.

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