Coventry City Council

Public report

Audit and Procurement Committee | 18 June 2018

Name of Cabinet Member:
Cabinet Member for Strategic Finance and Resources - Councillor J Mutton

Director Approving Submission of the report:
Deputy Chief Executive (Place)

Ward(s) affected:
All

Title:
Unaudited 2017/18 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 unaudited 2017/18 Statement of Accounts and raise any points that need to be addressed prior to approval of the audited Statement in July 2018. 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 unaudited 2017/18 Statement of Accounts.

List of Appendices included:

The Statement of Accounts is appended in its entirety

Background Papers

None

Other useful documents:

Final Accounts Working papers - Friargate 6th Floor

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

Report title: Unaudited 2017/18 Statement of Accounts

1. Context (or background)

This report presents the unaudited 2017/18 Statement of Accounts (SoA). The Council is required by law to produce this document and it is prescribed heavily by regulation. This version is presented to Audit and Procurement Committee to provide an opportunity to review and comment on it. The Statement 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 2018 reflecting any changes recommended by Grant Thornton and agreed by the Director of Finance and Corporate Services. Grant Thornton will present their own Audit Findings Report alongside the audited Statement in July.

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 and 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 SoA, 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 reflect local government accounting convention 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 2017/18 the Council is reporting a £68.2m surplus within its Comprehensive Income and Expenditure Statement (CIES). 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 (MiRS).

2.4 The CIES surplus referred to above does not reflect the genuine position of the Council's General Fund, for which a £1.6m underspend has been reported in the Revenue and Capital Outturn Report which was considered by Cabinet on 12th June. The headline differences between the Income and Expenditure Account and the General Fund are traditionally explained within this report and the key explanations are detailed in the table that follows. The two areas that usually represent the biggest reasons (pensions and asset values) are explained in more detail in 2.5 and 2.6 due to their relative complexity.

2.5 In recent years, there have been very significant movements in the Council's pension liability which have fed through to large movements in the Council's CIES. In 2017/18 the Council's pension liability has reduced by £71m. The key reasons for this are:

- A decrease in the discount rate from 2.7% to 2.55% (liability increase). The discount rate is the rate of interest used to discount post-employment benefits - the lower the rate, the higher the calculated cost of future pension liabilities.
- A reduction in the assumed % inflation rate for annual pension increases (liability decrease).
- An upfront payment of £93m made by the City Council to the Pension Fund in April 2017 which covers 3 years pension contributions (liability decrease). Two thirds (£62m) of this in effect represents a payment that would otherwise have been made in the next two years, the benefit of which will reduce over this time-period.

The upfront payment has received an accounting treatment, in line with initial advice from the Council's external auditors, whereby the (temporary) beneficial impact of the reduced liability has not been reflected in the CIES or the MiRS. Therefore, in 2017/18 Pensions do not represent a significant reason for the difference between the CIES and the Council's General Fund accounts.

2.6 There are a number of asset related adjustments. These include the net movement relating to depreciation, asset revaluations, asset disposals and de-recognition. Derecognition includes two broad categorisations: where the value of assets has to be split into several individual components necessitating assessments of the value of each component part of each asset; and the removal of recent academy school converters from the Council's balance sheet. The overall movement relating to these changes is relatively small in 2017/18 largely as a result of upwards revaluation balancing the other changes. Separately, grant funding for capital assets represents the biggest single change in the table below (£60m) representing the resourcing for part of the Capital Programme.

2.7 These circumstances within the Statement have not necessarily affected the Council's cash flows of income and expenditure in 2017/18. Instead they may be either events that will never result in an increased/reduced level of income or 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)		**(68,243)**
<u>Less changes that made the CIES worse than the management accounts</u>		
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 one-off changes in the value of our assets (impairment, revaluation and de-recognition).	(6,213)	
Items such as external schemes (e.g. Disabled Facilities Grants) that the Council funds from capital resources not revenue which do not result in the creation of new asset value for the Council.	(14,687)	
The one-off cost of repaying long-term debt (debt redemption premium).	(10,398)	
Sub-Total – changes that made the CIES worse than the management accounts		**(31,298)**
<u>Add changes that made the CIES better than the management accounts</u>		
Capital grants and other capital funding that is reflected in the CIES but not in the management accounts.	59,849	

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.	8,791	
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	10,241	
An increase in the overall value of general fund reserves which is reflected in the CIES but not in the management accounts	15,876	
All Other Items	3,216	
Sub-Total – changes that made the CIES better than the management accounts		**97,973**
Surplus Shown in Outturn Report		**(1,568)**

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 The final part of changes to the regulations governing the timetable of the accounts closedown process take effect for these 2017/18 accounts. These have shortened the timescale for completing local authority accounts requiring the draft accounts to be prepared by 31st May (previously 30th June) and the final audited Statement to be approved by 31st July (previously 30th September). As a result the Council has taken measures to bring forward its accounting timetable. These draft accounts were issued on 18th May and it is anticipated will be signed off by Audit Committee on 16th July once they have been audited by Grant Thornton. Therefore the Council will be able to comply with the new tighter statutory timescales. Any material changes to the accounts following the audit will be reported to Audit and Procurement Committee at its July meeting.

5. Comments from Director of Finance and Corporate 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 2017/18 Revenue and Capital Outturn Report which contains the end of year position of the Council's management accounts is 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 area 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. This reflects analysis indicating that contributions and other income flows into the pension fund have not been sufficient to meet the calculated cost of future outflows (the payment of pension benefits) from the fund. Over recent years, the Local Government Pension Scheme has been reformed at a national level whilst employer contributions have been increased across all West Midlands authorities to pay for the past service cost of pensions. In Coventry's case these have been built into the budgets since 2014/15. It is not clear whether or not these measures will redress the overall pension deficit over the medium to long term, since 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. Although to some degree the Council's £542m pension deficit is due to factors outside of the Council's control, it nevertheless represents a position that the Council needs to address over the long-term in line with actuarial advice. The Council is paying employer contributions that are anticipated to move towards a position of balance over the long-term. However, continued short-term volatility in this area is anticipated to continue to be a feature of local authority accounts generally.

5.2 Legal implications

The Council is required by legislation to complete a draft Statement signed by the Chief Financial Officer by 31st May and to approve and publish audited accounts by 31st July in line with the Accounts and Audit Regulations 2015. 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 Plan?

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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