

AUDIT COMMITTEE

30 JUNE 2016

STATEMENT OF ACCOUNTS 2015/16

Report from: Phil Watts, Chief Finance Officer

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Summary

This report requests that the Audit Committee approve the Council's draft Statement of Accounts for 2015/16.

1. Budget and Policy Framework

1.1 Approval of the Statement of Accounts is a matter for the Audit Committee. Cabinet, as the body charged with the executive management of the council's budget, considered, at its meeting held on 7 June 2016, the final revenue and capital outturn position for the financial year ended 31 March 2016, which forms part of the draft Statement of Accounts.

2. Background

2.1 Local authorities are required under the Accounts and Audit Regulations 2015 (the Regulations) to produce an annual statement of accounts that is subject to scrutiny by the external auditors. The auditor will give an opinion on the accounts and additionally, interested persons have the right to inspect the accounts and make representations to the auditor. BDO are the auditors responsible for the audit of accounts that must be published by 30 September 2016. The Regulations now give authority to the 'responsible finance officer' to certify these by 30 June rather than formal adoption by the Council, however, it is good practice to formally present them to the authority as soon as practicable after completion.

3. Statement of Accounts

3.1 The Statement of Accounts is prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which sets out the proper accounting practices for accounting for transactions of the Council and the presentation of the financial statements. The Code is based on International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS) interpreted for use by Local Authorities.

- 3.2 In accordance with proper accounting practice, the Statement of Accounts includes the following elements which are subject to scrutiny by the appointed auditor:
- An explanatory introduction and statement by the Chief Financial Officer (the Narrative report);
 - A statement of responsibilities which outlines responsibility for efficiently managing the affairs of the Council;
 - The auditor's opinion which is given at the completion of the audit and must occur by 30 September 2016;
 - Annual Governance Statement, which will be reported to the Audit Committee on 29 September 2016 and incorporated into the accounts;
 - A statement of accounting policies which highlights practices adopted by the authority;
 - The principal financial statements which comprise:
 - The movement in reserves statement which shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be used to fund expenditure or reduce council tax) and other reserves;
 - The comprehensive income and expenditure statement which shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. This statement combines the income and expenditure relating to all the Council's functions including the General Fund and the Housing Revenue Account;
 - The balance sheet, which shows the value as at the year-end of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council; and
 - The cash flow statement which summarises the inflows and outflows of cash, arising from transactions between the Council and third parties, for revenue and capital;
 - Notes to the core financial statements, which give further explanation and analysis of some of the movement in the comprehensive income and expenditure statement and balance sheet together with a number of disclosures required by the Code.
- 3.3 Further supplementary financial statements are required to expand on the information included within the statements above;
- The Collection Fund which records council tax and business rate income and disbursements to precepting authorities (the Council's own requirement, Kent Police & Crime Commissioner, Kent Fire and Rescue Service and Parish Councils) and payments to central government in respect of the central share of non-domestic rate income.
 - The Housing Revenue Account (HRA) which summarises the major items of expenditure and income relevant to the account with supplementary notes where required.
- 3.4 The draft Statement of Accounts is attached as Appendix 1 to this report, however Members are more familiar with the revenue outturn analysis as set out in the narrative report in Section A and considered in section 4, below. The elements of

the financial statements that support this 'management accounting summary' are the comprehensive income and expenditure statement, movement in reserves statement and the balance sheet, which can be found in Section F of the Accounts.

- 3.5 The presentation of the comprehensive income and expenditure statement requires all expenditure and income to be allocated to service headings. This shows a 'deficit on the provision of services' of £72.5m (General Fund deficit of £95.1m and HRA surplus of £22.6m). This deficit is subsequently netted out through the Movement in Reserves Statement or other 'below the line' adjustments.
- 3.6 The audit of the statements is scheduled to be completed by the 30 September 2016. The actual audit of the statements is scheduled to commence on 11 July and clearly the draft Statement of Accounts that is presented for approval does not reflect any changes that this audit may require. The statements as amended by any adjustments agreed during the audit will be presented to Audit Committee in September for approval prior to formal publication.

4. Summary financial position for 2015/16 (General Fund)

- 4.1 Throughout the year, quarterly monitoring reports have identified the major variations from approved budgets. An initial forecast overspend of some £4.7 million has progressively reduced and the last report to Cabinet, based on January spend, had indicated a £3.15 million overspend. The final accounts now show a revenue surplus of £125k.
- 4.2 The final position, shown in table 1 below, which is replicated in the 'Narrative Report' to the Statement of Accounts, is a significant achievement and is a reflection both of the successful efforts to maintain services at minimum cost and the robustness of the budgets that were set.

Table 1 - General Fund Revenue Outturn

Budget Requirement:	Actual Spend £'000	Budget £'000	Variance £'000
Business Support	6,727	8,994	(2,267)
Levies	1,090	1,039	51
Interest & Financing	9,788	13,243	(3,455)
Capital Charges	(38,977)	(38,977)	0
Regeneration Community & Culture	80,405	80,984	(579)
Children & Adults	248,284	243,194	5,090
Public Health	12,112	12,663	(551)
Better for Less	0	(450)	450
Medway Norse	(124)	(263)	139
Category Management Savings	0	(1,070)	1,070
Total General Fund	319,305	319,357	(52)
Funded by:			
Net Contribution to/(from) Reserves	2,620	(1,150)	3,770
RSG	(38,784)	(38,784)	0
NNDR	(47,542)	(45,866)	(1,676)
Council Tax	(97,344)	(95,250)	(2,094)
DSG	(107,877)	(107,877)	0
Other School Grants	(6,004)	(6,004)	0
Specific Grants	(186)	(186)	0
Education Support Grant	(2,326)	(2,236)	(90)
New Homes Bonus	(6,225)	(6,242)	17
Public Health Grant	(15,762)	(15,762)	0
Total Funding	(319,430)	(319,357)	(73)
Total funding and expenditure	(125)	0	(125)

4.3 For Members information, some of the more significant variations to agreed budgets were:

4.3.1 Children and Adult Services (£5.1m overspend)

- **Children's Social care (£3,759k overspend)** – Client related spend accounts for the major element of this overspend where the numbers of looked after children have continued to rise throughout the year. The original budget for 2015/16 was constructed with the expectation that LAC numbers would reach 430 by the end of 2015/16, whereas in February there were 451 receiving a service. External placements represent £2.2m of the pressure realised, whilst internal pressures account for £0.5m. Independent foster agency placement costs are the main driver. In recent months the service has seen an increase in the cost of legal charges due to the commissioning of expert assessments, counsel fees and court fees (final overspend of £866k).
- **Deputy Director (£749k over-spend)** – The chief cost drivers remain the intense pressure on residential and nursing care services mainly for clients with disabilities and also, to a lesser degree, with mental health needs. Whilst there were a number of areas spending within budget, the placement activity remains the biggest pressure area. There was, in the event, a reduced outturn from that reported at

round three, i.e. £1.4m over; this is mainly due to the effect of the moratorium and management action.

- **Inclusion, Commissioning & School related budgets (£582k overspend)** - The SEN transport budget represents a major part of the net service pressure, with an over-spend of £1.053m due largely to increased numbers, challenge in holding down taxi costs and the fact 'savings' made have been taken out of this budget and allocated in a different budget line. The budget for school staff redundancies overspent by £323k due to increased historic retirement costs. Although the policy has been changed to ensure any future redundancies can be charged to schools, unfortunately the historic costs remain the responsibility of the Council. Many of the budgets within this area are funded from a ring-fenced DSG grant with clear and prescribed allocations.
The total overspend was offset by underspends elsewhere in this budget area.

4.3.2 Regeneration, Community and Culture (£580k underspend)

- **Frontline Services (£1.28m underspend)** - Significant planned savings were made by capitalising expenditure to the Local Growth Fund projects and also by ceasing maintenance works as part of the Council-wide moratorium.
- **Leisure & Culture (£393k overspend)** - A number of privately run low-cost gyms have recently opened and this has led to an under-achievement of income of £230k in Leisure & Sports against an income target of £4.5m. Deangate Golf Course overspent by £150k due to poor 'pay & play' usage. Arts, Theatres & Events overspent by £190k due to poor bar takings at the Corn Exchange (£67K off target) and staffing costs at the Theatres (£57K off target).
- **Housing & Regeneration (£297k overspend)** - Markets under-achieved their income targets by £100k and Housing overspent by £144k. Development Management reported an overspend of £96k due to an underachievement of Planning Fees income.
- The Directorate has a collective vacancy factor of £272k, which is reported as an overspend against service spend at outturn.

4.3.3 Public Health (£551k under-spend) – There has been a clear policy direction in Medway to embed Public Health activities across the whole Council in order to deliver public health outcomes. The underspend reported can be accounted for across a number of other pressure areas, within other directorates, covering public health related functions.

4.3.4 Other Budgets

- **Business Support (£2,267k underspend)** – The under spend across business support services is represented by a debtor in respect of housing benefit overpayments, various underspends due to staff vacancies which is offset by pressure on legal and organisational services budgets.
- **Interest and Financing (£3,455k underspend)** - A review of the council's asset life has reduced the Minimum Revenue Provision budget by £2.9m while other

successful treasury management operations have yielded a further underspend of £0.6m.

- **Levies (£51k overspend)** - The transfer of coroners officers from the police to the council have created more financial pressure than was originally anticipated; this is resulting in the £51k overspend.
- **Better for Less (£450k overspend)** – The focus on developing the new online transactions that will facilitate the release of savings have ultimately lead to the under delivery of savings in this area. These delays are mainly due to essential development work to the ICT infrastructure.
- **Medway NORSE (£139k overspend)** – The final profit share delivered by the partner company was not as high as budgeted. There are two reasons for this, firstly, profits across the last two financial years were approximately £70k less than expected, and secondly, emerging costs relevant to the early implementation of the national minimum wage account for a £70k adverse variance.
- **Category Management (£1,070k overspend)** - Category management realised only £730k (41%) of £1.8m baseline savings target. Therefore the overspend reported represents the shortfall of unrealised savings.

4.3.5 Housing Revenue Account (£404k shortfall on budgeted surplus)

The Housing Revenue Account (HRA), separately reported from the general fund budget, has an expenditure budget of £13.6m and an income budget of £14.6m. The HRA is showing a final outturn surplus of £582k which is an adverse position of £404k when compared to the approved budgeted surplus of £986k. The main reason for the adverse position is adjustments made in respect of capital financing decisions.

4.3.6 Planned Use of Reserves

- The final outturn utilised £1.15m to fund various revenue and capital projects agreed at the council meeting in February 2015. £1.0m was funded from the South Medway Development Fund and the other £100k from the Public Health Reserve. The free Christmas parking concession was again funded from reserves at £50k.
- Within the two collection accounts for council tax and business rates, a total surplus of nearly £3.8m was achieved over and above the budgeted figures. The practice is to draw down only the budgeted amounts, hence there's a contribution to reserves which can be utilised within the 2016/17 budget.

5. Capital

- 5.1 The capital programme year end position is shown below. £87.1m was carried forward to 2016/17 essentially reflecting the planned phasing of the programme over the medium term, although it does include some slippage against the plan.

Table 2 – Capital Outturn

Directorate	Approved Programme	Forecast Spend	Outturn	Variation to Forecast	Slippage to
	2015/16+ £'000	2015/16 £'000	2015/16 £'000	2015/16 £'000	2016/17+ £'000
Expenditure					
Business Support	5,892	2,324	2,529	205	3,363
Children and Adult Services	35,214	13,573	10,801	(2,772)	24,413
Regeneration, Community and Culture	66,814	24,603	21,585	(3,018)	45,229
Public Health	296	296	296	0	0
Member Priorities	402	374	101	(273)	301
Housing Revenue Account	20,589	8,163	6,784	(1,379)	13,805
Total	129,207	49,333	42,096	(7,237)	87,111

5.2 The capital programme represents significant investment in infrastructure and assets to deliver the Council's wide ranging social and physical regeneration agenda. These will have featured in the regular monitoring reports to Cabinet and Overview and Scrutiny. Key outputs were:

5.2.1 Children and Adult Services

- Continued progress and investment in creating the first phase of additional primary school places
- Significant condition works on the school estates amounting to around £2.7m, delivering roofs, boilers, asbestos works and other priority area
- Significant progress achieved in the Abbey Court relocations and expansion project

5.2.2 Regeneration, Community and Culture

- £10.4m was spent on highways maintenance including £200k on pot holes and £420k on structures including the Medway Tunnel
- £1.2m was spent on Disabled Facilities Grants
- A new multi-storey car park was built in Rochester
- £2.9m was spent on refurbishment of Medway's housing stock and £3.8m was spent on the building of new council properties
- £3.3m was spent on SELEP funded Growing Place Fund & Local Growth Fund projects

5.2.3 Business Support

- Smarter working at Gun Wharf supports the council's property rationalisation strategy for enhanced efficiency, including the instalment of solar panels

- Delivery of the building and repairs maintenance programme for corporate operational properties
- The Digitalisation programme supports the council's channel shift programme, to improve customer experience and resource efficiency

5.2.4 The Housing Programme (housing revenue account)

- The housing capital works improvement programme includes maintaining the 'Decent Homes' standards, disability adaptations and new build properties

5.2.5 Public Health

- Creating a prominent public health presence at the heart of the council for easy customer access to service to improve their health

5.2.6 Members Priorities

Considerable progress has been achieved on a great number of smaller projects across all directorates including:

- Allotment improvements
- Traffic calming measures
- Investment in play areas
- Works to village halls and community facilities.

6. Reserves

6.1 The Movement in Reserves Statement identifies the year-to-year position on the various reserves held by the Council and the following paragraphs provide commentary on the more significant useable reserves.

6.2 The General Fund Balance (contingency) has been maintained at £5.0 million, the level that it was reduced to in 2012/13.

6.3 The total of Earmarked Reserves (those held for specific purposes) has decreased from £34.5m to £31.5m in accordance with planned expenditure requirements across the year.

6.4 School Reserves have moved from £6.3m at the start of the year to £5.4m by year end.

6.5 The Housing Revenue Account reserve balance has moved from £2.2m at the start of the year to £2.8m at year end.

6.6 The Insurance Fund is held to protect the Council from uninsured losses (as the Council 'self insures' to balance the cost of external premiums with the potential risk). The Fund has reduced from £3.1m to £2.6m at the end of 2015/16, this has been due to allowing for an increase in the Insurance Provision for known insurance claims from £1.6m to £2.0m

7. Risk Management

7.1 The Council's Strategic Risk Register records the long term finances of the Council as one of the highest risks faced and the more short-term risks associated with in-

year budget management are regularly addressed as part of the monitoring cycle. The monitoring cycle provides for a continual review of forecast expenditure and income and enables corrective action to be taken where appropriate. The success of this continual review is clearly borne out by this and previous outturn results.

- 7.2 There remains a risk that the Auditor may find material errors or misstatements in the accounts and the results of the audit of the statements will not be known before they are presented for adoption by the Council as part of the Audit Committee function. Due regard has been given to the regulations and accounting requirements in producing the statements and the position put before the Audit Committee is the officers' interpretation of these requirements.

8. Financial and legal implications

- 8.1 The financial implications are contained within the body of the report.
- 8.2 The Accounts and Audit (England) Regulations 2015 has relaxed the requirement for Councils or a designated committee to adopt the unaudited statement of accounts by 30 June although best practice would indicate that the draft accounts are presented to the relevant committee as soon after this date as practicable.
- 8.3 The Regulations do still place a duty on the Council or a designated committee to publish the audited statement of accounts by 30 September and it is a function that cannot be delegated to Cabinet.

9. Recommendation

- 9.1 That the Audit Committee notes the revenue and capital outturns as reported and approves the draft statement of accounts for 2015/16.

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Background papers

Revenue and Capital budget monitoring reports to Cabinet during 2015/16. These are available on the Council's website www.medway.gov.uk

Appendices:

Appendix 1 - Draft Statement of Accounts