

**NORTH YORKSHIRE COUNTY COUNCIL****AUDIT COMMITTEE****22 June 2017****DRAFT STATEMENT OF ACCOUNTS 2016/17****Report of the Corporate Director – Strategic Resources****1.0 PURPOSE OF THE REPORT**

- 1.1 To consider a draft Statement of Final Accounts (SOFA) for 2016/17 for the County Council in advance of:
- (a) these accounts being audited by KPMG during July and August 2017 and
  - (b) being re-submitted to this Committee for formal approval 7 September 2017 after the external audit has been completed.

**2.0 BACKGROUND**

- 2.1 The Accounts and Audit Regulations set out the requirements and timelines for Member approval of Local Authority Accounts and one of the Terms of Reference for this Committee is to approve the Annual SOFA.
- 2.2 There is no requirement for Member approval of a draft SOFA at this stage in advance of consideration and review by External Audit.
- 2.3 Currently the SOFA must be certified by the Section 151 (Chief Finance) Officer by 30 June and approved by Members (the Audit Committee) in advance of the certification and publication of the Accounts by 30 September. Therefore, the SOFA is being submitted to the Audit Committee in June for information and review/comment only, not formal approval.
- 2.4 The Accounts and Audit Regulations 2015 set out the requirement to accelerate the certification and publication of the accounts from 2017/18 onwards, so that draft annual accounts are produced by 31 May and audited, approved and published by 31 July following the end of the financial year.
- 2.5 In order to ensure compliance with the requirements of the new Accounts and Audit Regulations the County Council have been working to a revised timetable for the 2016/17 closure of accounts process, which is in line with the statutory deadlines set for 2017/18.
- 2.6 The draft SOFA includes the draft Annual Governance Statement (AGS). At this stage it remains draft pending further work including output as a result of the Governance sub-group.

2.7 The final SOFA, after External Audit, will be re-submitted to this Committee on 7 September 2017 for formal approval. (A reserve date has also been set aside as 28 September 2017 should it be required).

### 3.0 **STATEMENT OF FINAL ACCOUNTS 2016/17**

3.1 The County Council's draft SOFA for 2016/17 is attached as a separate booklet circulated with the agenda after being certified by the Corporate Director – Strategic Resources on 31 May 2017.

3.2 The format and content of the SOFA must comply with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. This Code prescribes the accounting treatment and disclosures for all transactions and balance sheet items of a Local Authority's Accounts and constitutes 'a proper accounting practice' under the terms of the Local Government Act 2003.

3.3 A Summary sheet giving a brief explanation of the various statements included in the SOFA is attached as **Appendix A**.

### 4.0 **CHANGES REFLECTED IN THE 2016/17 SOFA**

4.1 For 2016/17 there are only relatively minor presentational changes reflected in this year's SOFA as there were no significant updates arising from the 2016 Code of Practice on Local Authority Accounting. The main change being the introduction of the Expenditure and Funding Analysis statement, which sets out how the funding available to the County Council for the year has been used in providing services.

4.2 In terms of Accounting Policies, there have been no changes to the Code of Practice that have impacted on the County Council's 2016/17 Accounting Policies.

4.3 It was anticipated that CIPFA would instruct Local authorities to adopt the requirements of the Code of Practice on Highways Network Assets in the 2016/17 Accounts, which would have been a significant change in Accounting Policy. However, CIPFA initially postponed the full implementation of the Code of Practice on Highways Network Asset to 2017/18 in November 2016 and then subsequently announced in March 2017 that it would not be proceeding with the introduction of the Code indefinitely. CIPFA have determined that it will give further consideration to this issue only if provided with clear evidence that benefits outweigh costs for local authorities.

### 5.0 **REVENUE AND CAPITAL OUTTURN FOR 2016/17**

5.1 Revenue Budget and Capital outturn reports for 2016/17 were considered by the Executive on 13 June 2017. These reports and the spending details reported form only part of the information reflected in the full SOFA, which also includes a Balance Sheet, Cash Flow Statement, Group Accounts, Pension Fund Accounts etc.

5.2 The Council's in-year accounting and budgeting arrangements are designed to fit its organisational structure and are different to the statutory year-end requirements. Therefore, the management accounts have had to be reworked to fit these formal requirements.

5.3 The main differences between the County Council's management accounts and the published statutory accounts are set out at **Appendix B**.

5.4 Although the presentation of the figures in the SOFA (Income and Expenditure Account) is very different, the resulting changes do not affect the overall net expenditure to be funded from Central Government Grant, Business Rates and Council Tax or the levels of working balances.

## 6.0 KEY FEATURES

6.1 The key features of the accounts are highlighted below – the figures quoted relate only to the County Council activities and do not include activity relating to those companies reflected in the group accounts section of the SOFA.

### Revenue Spending

6.2 The net cost of the provision of service reported in the Comprehensive Income and Expenditure Statement is £411.4m. After accounting for other operating, financing, investment, taxation and non-specific income and expenditure the deficit on the provision of services is £35.6m. The movement from the cost of service to deficit on the provision of service in the Comprehensive Income and Expenditure Statement is shown in the table below:

Item	£m
Cost of Services - Gross Expenditure	984.3
Cost of Services - Income	-572.9
<b>= Net Cost of Services</b>	<b>411.4</b>
Other Operating Expenditure	57.0
Financing and Investment Income and Expenditure	26.7
Other Funding	-459.5
<b>= Deficit on Provision of Service</b>	<b>35.6</b>

6.3 The reported key figures from the Comprehensive Income and Expenditure Statement can be reconciled to the County Councils Management Accounts Outturn as follows:

Item	Net Expenditure £m	Funding £m	Deficit in Year £m
<b>Deficit on the Provision of Service</b>	495.1	-459.5	35.6
Different treatment of some Funding	-14.2	14.2	0.0
Other 'Non Cash Backed' Transactions			
Capital Accounting	-98.8	83.8	-15.0
Pensions Accounting	-16.9	0.0	-16.9
Movement in Earmarked Reserves	-2.8	-0.6	-3.4
Collection Fund Accounting	0.0	0.9	0.9
Holiday Pay Accounting	-1.8	0.0	-1.8
<b>= Management Accounts Outturn</b>	<b>360.6</b>	<b>-361.2</b>	<b>-0.6</b>

- 6.4 Net revenue spending of £360.6m was therefore, £0.6m below total funding of £361.2m with a breakdown by Directorate being as follows:

Directorate	Revised Estimate £m	2016/17 Outturn £m	Variation £m
Children and Young People's Service	66.1	67.7	1.6
Business and Environmental Services	64.7	64.9	0.2
Health and Adult Services	146.0	146.0	0.0
Central Services	60.0	59.6	-0.4
Corporate Miscellaneous	24.4	22.4	-2.0
<b>= Total Budget Position</b>	<b>361.2</b>	<b>360.6</b>	<b>-0.6</b>

- 6.5 The net spend of £360.6m shown above was funded by:

Item	Revised Estimate £m	2016/17 Outturn £m	Variation £m
Revenue Support Grant	37.4	37.4	0.0
Business Rates	60.2	60.2	0.0
Council Tax	260.0	260.0	0.0
Transitional Grant	3.0	3.0	0.0
Transfer (To)/From Strat. Cap. Reserve	0.6	0.0	-0.6
<b>= Total Budget Position</b>	<b>361.2</b>	<b>360.6</b>	<b>-0.6</b>

- 6.6 The Net Revenue Outturn saving of £0.6m is made up of a number of variances – these variances are explained in further detail within the Revenue Outturn Report:

Item	£m
Net Delayed Achievement of Savings	0.4
Achievement of Savings Not Previously Identified	-1.8
HAS Corporate Contingency Not Required	-1.0
Additional Rural Delivery Grant	-1.6
Inflation and Budget Provisions Not Allocated	-1.1
Voluntary Minimum Revenue Provision Contribution	5.0
Other One-Off Windfalls and Savings Net of Overspends	-0.5
<b>= Total Revenue Outturn Variation</b>	<b>-0.6</b>

### **Comprehensive Income & Expenditure Statement Surplus on Provision of Services**

- 6.7 The Statement of Accounts reflect a number of notional transactions that have to be included as revenue spending but do not impact on the actual expenditure or funding position of the County Council.
- 6.8 The notional transactions which impact on the reported surplus/deficit are referred to in more detail in **Appendix B**.

- 6.9 A further breakdown of the 'Capital Accounting' notional entries reflected in the Comprehensive Income and Expenditure Statement is as follows:

Item	£m
Property valuation losses arising from the annual revaluation of property	10.4
Depreciation charges to reflect the reduction in value of assets over their useful economic life	31.1
Capital expenditure identified as not enhancing the value of the County Councils assets	10.2
Loss on disposal of assets - this includes the transfer of school property on gaining academy status for no consideration	56.4
Other adjustments including the write down in value of intangible assets and capital expenditure not resulting in the creation of a fixed asset	24.3
Capital Grants used to fund capital expenditure in year	-106.1
Revenue financing of capital expenditure removed from service costs and replaced by a depreciation charge	-11.3
<b>= Total Impact of Capital Accounting Adjustments</b>	<b>15.0</b>

### Capital Spending

- 6.10 Capital expenditure in 2016/17 was £109.9m, which was £8.2m below the last Capital Plan update approved in February 2017 (£118.1m). The gross underspend resulted mainly from the capital expenditure being rephased from 2016/17 to 2017/18. Gross expenditure at Directorate level was:

Directorate	Capital Plan £m	2016/17 Outturn £m	Variation £m
Children and Young People's Service	36.7	26.4	-10.3
Business and Environmental Services	76.2	81.1	4.9
Health and Adult Services	0.5	0.0	-0.5
Central Services	4.7	2.4	-2.3
<b>Total Budget Saving</b>	<b>118.1</b>	<b>109.9</b>	<b>-8.2</b>

- 6.11 The £109.9m capital expenditure shown above was funded by:

Item	£m
Borrowing - External Sources (PWLB)	0.0
Borrowing - Internal Sources	-6.3
Capital Grants and Contributions	97.8
Schemes funded from Revenue	11.1
Capital Receipts	7.3
<b>= Total Financing of Capital Expenditure</b>	<b>109.9</b>

### Balance Sheet

- 6.12 The movement in the County Council's reserves position is shown in the table below:

<b>Earmarked Reserve</b>	<b>31 March 2015/16 £m</b>	<b>31 March 2016/17 £m</b>	<b>2016/17 Variation £m</b>
Earmarked for Schools	44.7	30.7	-14.0
Strategic Resources	36.0	46.2	10.2
Other Retained for Specific Initiatives	75.2	75.6	0.4
Smart Solutions and Other Traded	6.6	8.2	1.6
Grants & Contributions Reserve	30.0	29.0	-1.0
<b>TOTAL Earmarked Reserves</b>	<b>192.5</b>	<b>189.7</b>	<b>-2.8</b>
General Working Balances	27.3	27.3	0.0
<b>TOTAL Usable Reserves</b>	<b>219.8</b>	<b>217.0</b>	<b>-2.8</b>

6.13 In addition to earmarked reserves, sums set aside as provisions are as follows:

<b>Item</b>	<b>31 March 2016 £m</b>	<b>31 March 2017 £m</b>
Insurance	4.5	6.7
Highways Advance Payments	2.1	3.1
Other	1.1	0.7
<b>= Total Provisions</b>	<b>7.7</b>	<b>10.5</b>

6.14 Property, plant and equipment assets (land, buildings and infrastructure etc.) are valued at £1,498.1m at 31 March 2017 compared with £1,507.7m at 31 March 2016. The £9.6m reduction in 2016/17 reflects the following factors:

<b>Item</b>	<b>£m</b>
New Capital Spending	76.2
Depreciation Charges	-50.1
Disposal of Property (mainly transfer of Academy Schools)	-65.4
Property Revaluations	29.7
<b>= Total Movement in Year</b>	<b>-9.6</b>

6.15 External debt in relation to capital spending is £309.0m at 31 March 2017 compared with £316.6m at 31 March 2016. The £7.6m reduction reflects scheduled loan repayments being made and no new external loans being taken.

### **Pension Fund**

6.16 The value of the North Yorkshire Pension Fund was £3,035m at 31 March 2017 compared with £2,418m at 31 March 2016 (an increase of £617m). The increase in the Pension Fund value consisted of:

Item	£m
Contributions Income - Employees and Employers	127.3
Benefits Payable	-104.2
Net Transfers in to the Fund	2.4
Investment Income	19.6
Change in Market Value of Investments	589.4
Less Investment Management and Administration Expenses	-17.0
<b>= Total Increase in Value of Pension Fund</b>	<b>617.5</b>

## 7.0 CERTIFICATION OF ACCOUNTS

- 7.1 The Accounts and Audit Regulations do not require formal Member approval of the Draft SOFA. However, Member consideration, approval and certification is required for the Final SOFA.
- 7.2 On completion of the external audit of the 2016/17 accounts a report from the Auditor will be submitted to the meeting of this Committee scheduled for 7 September 2017. Following consideration of the Auditor's report, the Committee will be asked to consider and approve the SOFA with the Chairman being asked to sign and date the Accounts.
- 7.3 Any significant changes reflected in the Final SOFA compared with the Draft version attached, as a result of the audit, will be reported to Members on 7 September 2017.
- 7.4 The Accounts and Audit Regulations continue to require the responsible financial officer to sign and date the Draft SOFA by 30 June and certify that it presents 'a true and fair view of the financial position of the Authority at the end of the year and its income and expenditure for that year'. This was done on 31 May 2017.
- 7.5 The Chief Executive has also co-signed the SOFA recognising the unique position of the Chief Executive.
- 7.6 The responsible Financial Officer (Corporate Director – Strategic Resources) must also re-certify the Final version of the SOFA before it is approved by the Audit Committee 7 September 2017.

## 8.0 AUDIT OF ACCOUNTS

- 8.1 The Accounts and Audit Regulations require that the External Auditor formally signs off the County Council's 2016/17 accounts by 7 September 2017. KPMG will undertake the audit of the accounts during July and August 2017.
- 8.2 Following completion of the audit the External Auditor is then required to issue a report to those charged with governance, summarising the conclusions from the audit work. The External Audit report will be submitted to this Committee on 7 September 2017. Following consideration of this report from the External Auditor, Members will then be asked to approve a final SOFA prior to it being formally signed off by the External Auditor.

- 8.3 The Auditors' conclusion from their audit will also be included as part of the overall audit of the County Council for 2016/17 which will be reported in the usual way through the Annual Audit Letter. This Letter will be submitted to a future meeting of this Committee and the Executive, although the Auditor will be requested to sign off the Final Accounts at the meeting of this Committee on 7 September 2017 in order to achieve the 30 September statutory deadline.
- 8.4 The Local Audit and Accountability Act 2014 and Accounts and Audit Regulations 2015 require the County Council to notify the public that the Final Accounts are open for inspection for a four week period by way of advertisement and on its website. This Notice was placed on the website on 5 June 2017 with an inspection period between 5 June and 14 July 2017. During the period of inspection, any interested person is able to question the External Auditor about the content of the Accounts.
- 8.5 As soon as reasonably possible after the conclusion of the audit, the County Council is also required, to give notice through its website that the audit has been concluded and that the SOFA is available for inspection.

#### 10.0 **AUDIT AND ACCOUNTS REGULATIONS 2015**

- 10.1 The changes reflected in the new 2015 Accounts and Audit Regulations, some of which have been implemented in the 2016/17 accounts process are as follows.
- (a) Certification of the Accounts by the S151 Officer (currently 30 June) and publication on the authority's website by 30 June for 2016/17 remains unchanged. This deadline is then shortened by one month to 31 May from 2017/18.
  - (b) The full SOFA has to be re-certified by the S151 Officer, approved by Members (this Committee), the external audit opinion to be issued and both published by 30 September for 2015/16 and 2016/17, which is unchanged. This deadline is then shortened by two months to 31 July from 2017/18
  - (c) From 2017/18 where the Audit of Accounts has not been concluded by 31 July a notice must be put on the authority's website stating that it has not been able to publish the statement of accounts and the reasons for this and then subsequently publish the accounts as soon as reasonably practical after the receipt of any report from the auditor.
  - (d) The public's right of objection and inspection of the accounts and questioning of the auditor from 2015/16 will be through a single 30 working day period which must include the first 10 working days of July for 2015/16 and 2016/17 (transitory provisions) and then the first 10 working days of June from 2017/18 onwards.
  - (e) As from 2015/16 the SOFA must be available for public access for a period of not less than 5 years.



## 11.0 **ANNUAL GOVERNANCE STATEMENT**

- 11.1 The draft SOFA includes the draft Annual Governance Statement (AGS). Potential changes to the Statement will be considered by a Governance sub group with a final version of the AGS being submitted to this Committee on 7 September 2017 when it is asked to formally approve the final SOFA.

## 12.0 **RECOMMENDATION**

- 12.1 That Members consider the draft Statement of Final Accounts for 2016/17 in advance of the accounts being audited and resubmitted to the Audit Committee on 7 September 2017 for formal approval.

GARY FIELDING

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22 June 2017

**STATEMENT OF FINAL ACCOUNTS**  
**Brief Explanation of Contents**

**(a) Narrative Statement**

The purpose of this statement is to act as a guide to the most significant matters impacting on the County Council's finances. It gives provides commentary on the County Councils financial performance and value for money in its use of resources.

**(b) Independent Auditor's Report**

The report explains the auditors' responsibilities in relation to the Statement of Accounts. It also expresses an opinion on the Accounts and shows how this opinion was reached. The report also gives a value for money opinion in terms of the arrangements for securing economy, efficiency and effectiveness, (currently not included in draft SOFA).

**(c) Statement of Accounting Policies**

This statement explains the principles, bases, conventions and rules applied by the County Council in preparing the Statement of Accounts.

**(d) Statement of Responsibilities for the Statement of Accounts**

This statement outlines the County Council's responsibilities for the Accounts under local government legislation and any other requirements. It also details the legal and professional responsibility for the Accounts of the Corporate Director – Finance and Central Services (i.e. Section 151 officer).

**(e) Expenditure and Funding Analysis**

This statement demonstrates how the funding available to the County Council for the year has been used in providing services in comparison with those resources consumed or earned by the County Council

**(f) Comprehensive Income and Expenditure Statement**

This shows the Net Cost of the Services provided by the County Council and how this has been financed from general government grants and local tax payers. This Statement shows the accounting cost in the year of providing services in accordance with specified accounting principles, rather than the amount to be funded from taxation.

**(g) Movement in Reserves Statement**

This Statement shows the movement in the different reserves held by the County Council over the year. The Statement is analysed into usable reserves, those that can be applied to fund expenditure or reduce local taxation, and other unusable reserves.

**(h) Balance Sheet**

This is a statement of the overall financial position of the County Council at the end of the year and shows the Balances and Reserves at the County Council's disposal, its long term indebtedness and the fixed and net current assets employed in its operations.

**(i) Cash Flow Statement**

The Cash Flow Statement shows the changes in cash and cash equivalents of the County Council during the financial year. The Statement shows how the County Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

**(j) Notes to the Core Financial Statements**

These notes provide further details and explanation of the figures included in the Core Financial Statements.

**(k) Group Accounts**

The County Council conducts some of its activities through partnerships and separate undertakings. Some of these are not directly reflected in the statements (e) – (h) above due to legal and regulatory reasons. These Group Accounts are required to present a full picture of the County Council's economic activities and financial position in order to aid the primary financial statements.

**(l) North Yorkshire Pension Fund Accounts**

The Accounts show the income and expenditure of the North Yorkshire Pension Fund together with the financial position of the Fund on 31 March 2017.

**(m) Annual Governance Statement**

This statement sets out the framework within which financial control and corporate governance is managed and reviewed by the County Council and the main components of the system. It also reports on significant identified weaknesses and the actions undertaken to rectify these.

**(n) Glossary of terms**

## **APPENDIX B**

### **MAIN DIFFERENCES BETWEEN THE MANAGEMENT ACCOUNTS AND THE PUBLISHED STATUTORY ACCOUNTS**

#### **1.0 CAPITAL CHARGES**

In the SOFA, the County Council is required to adopt CIPFA's Capital Accounting Regulations which means that each service has to reflect a depreciation charge for the assets they use (land, building, plant and machinery etc.) Adjustments are also made for the following other types of capital charge:

- impairment of non-current (fixed) assets
- revaluation losses from the revaluation of property
- changes in the market value of Investment Properties
- amortisation of intangible assets
- revenue expenditure from capital under statute (capital expenditure that does not result in a County Council asset)

These capital charges replace the minimum revenue provision (MRP) for debt repayment which is included in the management accounts, and charged against the County Council's budget requirement. The MRP is therefore not charged to the Comprehensive Income and Expenditure Statement. Similarly, capital expenditure which is funded directly by the General Fund (funded by Council Tax, General Revenue Grant and Business Rates) is not charged to the Comprehensive Income and Expenditure Statement.

Capital charges are off-set by capital grants and contributions (which are used to fund expenditure on non-current (fixed assets)). These contributions are credited in full to the Comprehensive Income and Expenditure Statement in the year where the terms and conditions of these contributions have been satisfied but this treatment does not impact on the management accounts of the County Council. Where the conditions of these capital grants have not been met at year-end, the grant is held in the balance sheet as 'Capital Grant Unapplied'.

#### **2.0 TRANSFERS TO AND FROM RESERVES**

Transfers into, and expenditure funded from, reserves are not considered part of the net cost of services and are therefore not reflected at all within the Income and Expenditure Statement.

#### **3.0 EMPLOYER'S PENSION FUND CONTRIBUTIONS AND ADJUSTMENTS INVOLVING THE PENSION FUND RESERVE**

Accounting for retirement benefits (IAS 19) requires that employer's contributions to pension schemes, reflected in service accounts should only consist of 'current service' costs. As the actual contributions made to the North Yorkshire Pension Fund by the County Council include an element of back-funding to recover the Pension Fund deficit, the service expenditure figures reported in the SOFA have to be adjusted to reflect the current service cost as calculated by the Fund actuary.

In addition, the Comprehensive Income and Expenditure Statement also includes, as part of operating expenditure, the net impact of the notional return (County Council share) of the Pension Fund assets and the increase in accrued future pension liabilities.

The required changes also reflect the inclusion of the attributable share of Pension Fund assets and liabilities in the County Council's Balance Sheet. This reflects the County Council's commitment to the Pension Fund but does not mean however that legal title or obligation has passed from the trustees of the Pension Fund to the employer.

#### **4.0 COUNCIL TAX AND BUSINESS RATES (COLLECTION FUND) ACCOUNTING**

The County Council's Income and Expenditure Statement includes the Authority's share of the carried forward Council Tax and Business Rates Collection Fund surpluses and deficits of each of the seven District Councils at the year end. This is in place of the estimated sums at the previous year end that have been paid over to the County Council during the year and used for Budget/Council Tax setting purposes in future years.

#### **5.0 HOLIDAY AND FLEXI PAY ACCRUAL**

The County Council has to charge the Income and Expenditure Statement with an estimate of accrued and untaken Annual Leave and Flexi Leave at 31 March. This figure includes a substantial figure for untaken Teacher's (and other schools-based staff) holiday pay, in relation to the days worked and taken as holiday in the Spring Term at each school. This adjustment is purely notional and does not impact on the County Council's budget requirement or level or working balances (GWB).

#### **6.0 GAINS AND LOSSES ON THE DISPOSAL ON NON-CURRENT (FIXED) ASSETS**

An example of this would be where a School acquires Academy status and there is an automatic transfer of the ownership of the Land and Building of the school premises to the School's Board of Governors for nil value. Such a notional loss does not, however, impact on the day to day management accounts or level of general working balances.

#### **7.0 OTHER DIFFERENCES**

Certain other transactions such as interest earned and paid, precept payments to other bodies etc. are not considered as part of the net cost of services and are required to be shown as separate items below service expenditure totals in the Income and Expenditure account. Similarly some Government Grants and Funding sources are required to be shown as overall general funding, rather than being included in the Income and Expenditure Statement as Service income.