

Summary Sheet

Council Report

Audit Committee

Title

Closure of the Accounts 2016/17

Is this a Key Decision and has it been included on the Forward Plan?

No.

Strategic Director Approving Submission of the Report

Judith Badger – Strategic Director of Finance & Customer Services

Report Author(s)

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Finance & Customer Services Directorate

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Ward(s) Affected

All

Executive Summary

The principal objective of the Council's annual financial statements is to make the Council accountable to a range of local and national stakeholders over the stewardship of its resources.

It is therefore important that the Council's financial statements are prepared in accordance with recognised accounting standards so that they can be relied upon by users of the accounts.

This report brings to Members attention the main changes to the local authority accounting framework in 2016/17, including their effect on the Council's accounting policies.

It also highlights the steps being taken to gear up for faster closure necessary to meet the tighter reporting timetable which comes into effect from 2017/18 (unaudited financial statements to be published by the end of May, audited financial statements to be published by the end of July).

Recommendations

The Audit Committee is asked to:

- i. Note the key accounting issues and main changes to the accounts in 2016/17 listed in Appendix A; and**
- ii. Note the changes to the Council's accounting policies that have been made as a result of changes to the local authority accounting framework in Appendix B**

List of Appendices Included

Appendix A – Key accounting issues and changes to the accounts in 2016/17

Appendix B – Changes to the Council's accounting policies

Background Papers

CIPFA Code of Practice on Local Authority Accounting 2016/17

Accounts and Audit Regulations 2015

Consideration by any other Council Committee, Scrutiny or Advisory Panel

No

Council Approval Required

No

Exempt from the Press and Public

No

Closure of the Accounts 2016/17

1. Recommendations

The Audit Committee is asked to:

- i. Note the key accounting issues and main changes to the accounts in 2016/17 listed in Appendix A; and**
- ii. Note the changes to the Council's accounting policies that have been made as a result of changes to the local authority accounting framework in Appendix B**

2. Background

- 2.1 The Code of Practice on Local Authority Accounting (the Code) together with the Accounts and Audit Regulations set the accounting and statutory framework for local authority financial reporting.
- 2.2 The Code prescribes the basis on which internationally recognised accounting standards (International Financial Reporting Standards or IFRS) are to be interpreted for local authority financial reporting. The accounts are prepared on an IFRS basis but then include a reconciliation of how revenue and capital is funded within Local Government by central government and local tax payers and rent payers. Changes have been made this year in the reporting of financial performance which seeks to provide a better link between the two bases.
- 2.3 There have been no changes to the statutory framework, the Accounts and Audit Regulations 2015.
- 2.4 Members are reminded that the Accounts and Audit Regulations 2015 made changes to the point at which local electors can exercise their rights to inspect the accounts and ask questions of the auditor. These commence for a period of 30 working days when the unaudited Statement of Accounts is published on the Council's website alongside the draft Annual Governance Statement and Narrative Report. The preparation of these three documents is being co-ordinated to ensure that the statutory deadline for publication in 2016/17 of 30 June is achieved.

3. Key Issues

3.1 Key Accounting issues and Changes to the Local Authority Accounting Framework

3.3.1 The key accounting issues and main changes to the Local Authority Accounting Framework that will impact on the 2016/17 Statement of Accounts are summarised in Appendix A.

3.3.2 Changes required to the Council's accounting policies as a consequence are summarised in Appendix B.

3.2 Faster closure

3.2.1 The Accounts and Audit Regulations 2015 confirmed that the timetable for preparing and publishing the Statement of accounts will be brought forward with effect from 2017/18.

At present, the statutory deadlines for publishing the unaudited and audited Statement of Accounts are 30 June and 30 September respectively. From 2017/18, these will be brought forward to 31 May and 31 July respectively.

3.2.2 CIPFA recognises the major challenge this represents and is looking to support local authorities by encouraging local authorities to focus on material items only in their financial reporting. The draft 2017/18 Code makes it explicitly clear that local authority financial statements only need disclose information which is material to the presentation of a 'true and fair' view of the financial position, financial performance and cash flows of the authority and to the understanding of users of the financial statements.

3.2.3 By way of a guide, KPMG have set an overall materiality level for planning purposes of £11 million in 2016/17 with individual differences of less than £550,000 being considered trivial.

3.2.4 We have conducted an initial review of which disclosures might be removed from the accounts as non material. This will be revisited once the 2016/17 unaudited Statement of Accounts has been published with a view to seeking early agreement with KPMG.

3.2.5 The 2016/17 closure of accounts will also be used as an opportunity to conduct a final "dry run" for achieving faster closure by identifying potential barriers and determining how they can be resolved in advance of the 2017/18 year end.

4. Options considered and recommended proposal

4.1 There is no discretion on whether to comply with the Code or the Accounts and Audit Regulations. The purpose of the recommendations is simply for Audit Committee to note the changes to the local authority accounting framework in 2016/17 and to note the actions being taken by officers to ensure that they are being implemented.

5. Consultation

- 5.1 Close liaison continues to be maintained with the Council's External Auditors to ensure that complex accounting issues and action taken in response to changes to the local authority accounting framework are agreed in advance of the financial statements being prepared.

6. Timetable and Accountability for Implementing this Decision

- 6.1 The statutory deadline for publishing this year's unaudited and audited Statement of Accounts is the same as previous years, namely 30 June and 30 September respectively. However, this year's closure of the accounts is being used as a "dry run" in readiness for the statutory reporting deadline being brought forward in 2017/18.

7. Financial and Procurement Implications

- 7.1 There are no financial or procurement implications directly associated with closure of the accounts, other than the impact on the audit fee of having good quality financial statements and supporting working papers which meet KPMG's expectations.

8. Legal Implications

- 8.1 None, other than ensuring compliance with the requirements of the Accounts and Audit Regulations 2015.

9. Human Resources Implications

- 9.1 There are no Human Resource implications arising from the report.

10. Implications for Children and Young People and Vulnerable Adults

- 10.1 There are no implications arising from the proposals to Children and Young People and Vulnerable Adults.

11. Equalities and Human Rights Implications

- 11.1 There are no implications arising from this report to Equalities and Human Rights.

12. Implications for Partners and Other Directorates

- 12.1 The NHS requires information on how the pooled budgets operated under the Better Care Fund have been spent to an earlier timetable than that of the Council. Arrangements have been made to ensure this earlier timetable is met. There are no other implications arising from this report to Partners or other directorates.

13. Risks and Mitigation

- 13.1 Robust project management arrangements have been put in place to ensure that the timetable is adhered to and quality standards met.

14. Accountable Officer(s)

Judith Badger - Strategic Director of Finance and Customer Services

Approvals Obtained from:-

Graham Saxton - Assistant Director, Financial Services

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<http://moderngov.rotherham.gov.uk/ieDocHome.aspx?Categories=>

KEY ACCOUNTING ISSUES / CHANGES TO THE ACCOUNTS IN 2016/17

Area of accounts	Issue	Action taken
Change in the reporting of financial performance (new CIES)	<p>Service expenditure reported in the Income & Expenditure Statement (CIES) was previously reported using a standard classification applicable to all local authority accounts irrespective of how local authorities were configured. A common set of principles were also applied to determining the total cost of delivering these services which included apportioning out overheads and support service costs to front line services.</p> <p>In 2016/17, the Accounting Code of Practice has abandoned the standard classification. The Code now requires service expenditure to be presented in the CIES in the way in which it is reported internally to management. Hence, the service expenditure heads should now be much more familiar : Adult Care & Housing, CYPS, Regeneration & Environment, Public Health, Assistant Chief Executive, Finance & Customer Services and Central Services.</p> <p>It is important to stress however, that the figures reported in the accounts will still adopt total cost principles and therefore include items which do not form part of the Council's cash limited budgets, for example capital charges. Hence, the outturn figures reported in the CIES will not correspond to those in the Revenue Outturn report.</p> <p>As the change in reporting represents a change in accounting policy, prior year comparatives will have to be restated so that they are on a like for like basis with the figures reported in 2016/17.</p> <p>The new format with restated comparatives is provided at the end of Appendix A by way of illustration (figures still subject to audit)</p>	<p>Principles for compiling the CIES in the new format agreed with KPMG.</p> <p>Prior year comparatives restated but still subject to audit.</p> <p>Accounting Policy 1 amended</p>
Change in the reporting of financial performance (Expenditure & Funding Analysis or EFA)	<p>A new disclosure note will be required in 2016/17 which seeks to reconcile the cost of services on a cash limited basis to the amounts reported in the CIES using total cost principles.</p> <p>In principle, this would involve reconciling the net expenditure and resources used to fund it reported in the Revenue Outturn report in respect of the</p>	<p>Principles for compiling the EFA agreed with KPMG.</p> <p>Prior year comparatives restated but still subject to audit.</p>

	<p>HRA and General Fund services to the surplus / deficit on the provision of services reported in the CIES.</p> <p>In practice, this will be difficult to achieve due to the way in which certain items of expenditure and transfers to / from reserves are dealt with in the accounts.</p> <p>Prior year comparatives are required.</p>	Accounting Policy 1 amended.
Triennial revaluation of the Local Government Pension Scheme	<p>The assumptions underpinning the 2016 triennial revaluation of the Local Government Pension Scheme will be reflected in the Council's share of the South Yorkshire Pension Scheme's overall deficit.</p> <p>This is likely to have a material impact on the pensions deficit reported in the Council's balance sheet (£330m at 31 March 2016)</p>	Assumptions to be used in estimating the deficit at 31 March 2017 agreed with the actuary
Valuation of council dwellings	<p>The value at which council dwellings are carried in the balance sheet is based on local sales values discounted to take account of the fact that social rents are below market rents.</p> <p>The discount factor for Yorkshire & the Humber which is specified by the Government has been reduced in 2016/17. This will lead to a material increase in the value of council dwellings of perhaps a third (c. £150m) against the carrying value at 31 March 2016 of £482m</p>	The revised discount factor has been taken into account in determining the valuation of council dwellings in 2016/17.
Schools converting to academy	<p>During the course of 2016/17, a further 15 schools have converted to an academy.</p> <p>The working capital and school balances relating to these schools will be removed from the Council's balance sheet.</p> <p>Income and expenditure post conversion will also cease to be included in the Council's accounts as the schools are no longer under Council control.</p> <p>The impact on both the balance sheet and income and expenditure is still being quantified but is likely to be material. A disclosure note will be provided to assist in understanding the effect.</p>	
Highways Network Asset	<p>The 2016/17 Code planned to introduce a very substantial change to the value at which Highways Infrastructure Assets are carried in the balance sheet.</p> <p>Had this change come into effect, it is estimated that the carrying value of Highways Infrastructure Assets may have increased from £136m at 1 April 2016 to a figure nearer £1.5bn.</p> <p>However, CIPFA have recently announced that</p>	None now required

	<p>the change to the Code has been postponed indefinitely unless the benefits of restating the Highways Infrastructure Assets on the new basis clearly outweigh the cost of introducing it.</p> <p>Accordingly, Highways Infrastructure Assets will continue to be stated in the balance sheet on the existing basis.</p>	
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Restated comparatives in the new format of the CIES

Gross Expenditure £000	Gross Income £000	2015/16 as restated Net Cost £000		Gross Expenditure £000	Gross Income £000	2016/17 Net Cost £000
111,313	(40,583)	70,730	Adult Care and Housing	0	0	0
71,320	(84,912)	(13,592)	Local Authority Housing (HRA)	0	0	0
90,625	(24,481)	66,143	CYPS Excl Schools	0	0	0
139,870	(131,059)	8,811	Schools	0	0	0
77,450	(29,441)	48,009	Regeneration and Environment Services	0	0	0
16,307	(16,036)	270	Public Health	0	0	0
7,287	(2,512)	4,775	Assistant Chief Executive Office	0	0	0
104,931	(95,870)	9,061	Finance and Customer Services	0	0	0
9,287	(13,164)	(3,876)	Central Services	0	0	0
628,391	(438,059)	190,332	Cost of Services	0	0	0
41,808	(6)	41,802	Other Operating Expenditure	0	0	0
45,167	(1,933)	43,234	Financing and Investment Income and Expenditure	0	0	0
0	(237,273)	(237,273)	Taxation & Non-Specific Grant Income and expenditure	0	0	0
715,366	(677,270)	38,096	(Surplus) / Deficit on Provision of Services	0	0	0
		(16,902)	(Surplus) on Revaluation of Non Current Assets			0
		(1,295)	Write down of Met Debt			(712)
		(51,883)	Remeasurements of assets and liabilities			0
		(70,080)	Other Comprehensive Income & Expenditure			(712)
		(31,984)	Total Comprehensive Income & Expenditure			(712)

CHANGES TO ACCOUNTING POLICIES

Accounting Policy 1 - General Principles

Amended for the changes to the way that financial performance is presented in the 2016/17 accounts in the revised CIES and the new Expenditure and Funding Analysis note. Wording as follows:

“From 2016/17, the service expenditure analysis in the CIES is based on that used for reporting internally to management rather than the standard analysis prescribed in the Service Reporting Code of Practice (SeRCOP). A key change is the treatment of support service costs or overheads. Under SeRCOP, support service costs are apportioned out to front line services to determine the total cost of providing a service. Under the new segmental reporting requirements, if support services are operated, managed and reported as a separate segment they are not apportioned across services but instead reported separately in their own right. This represents a major change to the presentation in the CIES and required comparatives in the 2016/17 accounts to be restated.

A new Funding and Expenditure Analysis has been introduced which provides a high level reconciliation of the expenditure analysis reported in the CIES to the net amount charged to the General Fund and HRA which is to be met by taxpayers and council house tenants.”

Accounting Policy 4 – Overheads and support services

Amended to reflect the fact that overheads and support service costs are no longer apportioned out to front line services if they are reported on internally as a separate expenditure head (which they are in the Council’s current organisational structure under Assistant Chief Executive’s Department and Finance & Customer Services).

Wording amended to:

“As a result of the new segmental reporting requirements, due to the fact that support services are operated, managed and reported as separate segments they are not apportioned across services but instead reported separately in their own right in the Comprehensive Income and Expenditure Statement”.

Accounting Standards issued but not yet adopted

The reference to the financial effect of the change in the basis of measuring the value of Highways Infrastructure Assets has been deleted following CIPFA’s decision to postpone its introduction indefinitely.