



# **Unaudited Statement of Accounts 2016/17**

*Presentation to Members 29/6/2017*

Charles Warboys, Director of Resources

Denis Galvin, Assistant Director of Finance

Ralph Gould, Head of Financial Control

Stephanie Pocock, Financial Controller

# Agenda

- Background and overview – Denis Galvin
- Commentary on the statements – Stephanie Pocock and Ralph Gould
- Conclusions and Next steps – Charles Warboys
- Any Questions

# Denis Galvin

## Assistant Director of Finance

# Accounts – Purpose

- Present a comprehensive picture of the financial health of the Council
- Encourage a focus on the assets and liabilities of the Council, not just on the bottom line
- Show income, expenditure, assets and liabilities for the year, in a format – total cost basis - which can be compared with other organisations
- Contain statutory disclosures, including those relating to Members' interests, allowances and officer remuneration

# Background

- International Financial Reporting Standards (IFRS) applied from 2010/11 – driven by private sector requirements as adapted for the public sector.
- Important differences with the private sector
  - Tax raising powers
  - No profit motive but an important legal emphasis on Stewardship, Probity and Transparency
  - Multiple statutory obligations to incur expenditure
  - Local Authorities cannot use assets to secure borrowing
  - Access to the Public Works Loans Board

# Background

- International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS)
- Interpreted for UK Local Government by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice - statutory best practice
- Accounting requirements are updated annually and are reflected in the Code supported by a Practitioner's Guide.

# Background

- The Statements do several things
  - follow public sector accounting practice
  - comply with various statutory requirements (e.g. Council Tax requirements, Housing Revenue Account ring fence, transparency best practice, capital expenditure controls.)
- Requires a number of Unusable Reserves to implement

# An Example

- **Removed** - Actual amounts paid in year to Bedfordshire LGPS - £20.0m reported to the Council as Expenditure by services (15/16 £19.6m) - Note 41
- **Replaced with** – Current Service Cost – employment benefits charged in the Net Cost of Services – as calculated under International Accounting Standard 19 (IAS 19) £19.3m (15/16 £22.6m) £3.3m (14.6%) decrease - explained later in the presentation.
- If not removed through the Movement in Reserves Statement, a positive impact on the General Fund (i.e. Council Tax) of £0.7m



# Other Examples

- Expenditure and Funding Analysis statement and associated notes - effectively the Council's management Accounts agreed to the Statement of Accounts
- Note 9 'Adjustments between Accounting Basis and Funding Basis under Regulations'
- Note 24 Details movements on 7 'Unusable Reserves' including the Capital Adjustment Account and Collection Fund Adjustment Account

# Overview of the document

- The Narrative Statement – not part of the Statements so not covered by audit opinion – but is examined
- Main Statements – statutory requirement to follow best practice – ‘The Code’
  - Expenditure and Funding Analysis – new this year, aims to show the movement between figures reported during the year and the financial statements
  - Comprehensive Income and Expenditure
  - Movement in Reserves
  - Balance Sheet
  - Cash Flow
- Notes to the Accounts – 45 Notes

# Overview of the document

- Supplementary Statements
  - HRA and Collection Fund
- Published with but NOT part of the Statements
  - Glossary
  - Annual Governance Statement

# Stephanie Pocock

## Financial Controller

# Commentary on the statements

## Handout

Expenditure and Funding Analysis

Comprehensive Income and Expenditure Statement

Movement in Reserves Statement

Balance Sheet

Cash Flow Statement

Employee Remuneration Note 31



# Reserves

- General Fund
- Revaluation
- Pensions

# Assets and Liabilities

## Assets

- Property, Plant & Equipment (PPE)
- Debtors
- Cash / Short-term investments

## Liabilities

- Borrowing – long and short- term
- Pensions
- Creditors

# Usable Reserves

	31/03/2016	31/03/2017	(Increase)/ Reduction	SoA
	£'000	£'000	£'000	Note
General Fund Balance	(15,517)	(15,569)	(52)	MIRS
General Fund Earmarked Reserves	(44,395)	(54,442)	(10,047)	10
HRA Balance	(2,000)	(2,000)	0	HRA Pg 115
HRA Earmarked Reserve	(17,252)	(21,571)	(4,319)	10
HRA Major Repairs Reserve	(200)	(200)	0	HRA Pg 115
Capital Receipts Reserve	(2,996)	(6,474)	(3,478)	23
Capital Grants Unapplied Reserve	(3,260)	(2,459)	800	23
<b>Total Usable Reserves</b>	<b>(85,619)</b>	<b>(102,715)</b>	<b>(17,096)</b>	



## The Purpose of General Fund Balances

- Key indicator of the financial health of the organisation
- A means for building up funds to meet known or predicted requirements. Where specific, funds are set aside as earmarked reserves
- A contingency to cushion the impact of unexpected events or emergencies
- Linked to risks facing the Council and the potential impact of those risks
- Can only be used once so not appropriate to fund continuing budget pressures

# Unusable Reserves

	31/03/2016	31/03/2017	(Increase)/ Reduction*	SoA
	£'000	£'000	£'000	Note 24
Revaluation Reserve	(180,575)	(236,580)	(56,005)	
Available for Sale Reserve	(150)	(279)	(129)	
Pension Reserve (*Debit Reserve)	320,562	416,484	95,922	
Capital Adjustment Account	(550,790)	(526,041)	24,749	
Collection Fund Adjustment Account	(2,780)	(1,814)	966	
Short Term Accumulated Absences (*Debit Reserve)	2,008	2,563	555	
<b>Total Unusable Reserves</b>	<b>(411,773)</b>	<b>(345,667)</b>	<b>66,106</b>	
<b>Total Usable Reserves</b>	<b>(85,619)</b>	<b>(102,715)</b>	<b>(17,096)</b>	
<b>Total Reserves</b>	<b>(497,392)</b>	<b>(448,382)</b>	<b>49,010</b>	



# Where the money comes from IFRS

Central Bedfordshire Council Comprehensive Income and Expenditure	2015/16	2016/17	
Income	£000	£000	
Specific Revenue Grants	208,940	217,005	38.10%
Council Tax	136,616	142,800	25.07%
Fees, Charges and Rents	106,643	112,459	19.74%
RSG (Government Grants)	30,072	20,152	3.54%
Business Rates net of Levy and Tariff	28,010	31,204	5.48%
Other non ring fenced grants	4,024	3,997	0.70%
Interest Income	357	353	0.06%
Capital Grants and Contributions	42,543	41,588	7.30%
	557,205	569,558	100.00%

# Assets

	31/03/2016 £'000	31/03/2017 £'000	Increase/ (Reduction) £'000	SoA Note
<b>Property, Plant &amp; Equipment</b>	1,193,334	1,269,878	76,544	14
Intangible Assets	8,670	12,185	3,515	15
Long Term Investments	5,150	5,279	128	16
Long Term Debtors	549	491	(58)	16
<b>Long Term Assets</b>	<b>1,207,703</b>	<b>1,287,833</b>	<b>80,130</b>	
Short Term Investments	564	1,007	443	16
Assets Held for Sale	173	6	(167)	20
Inventories	98	90	(7)	
<b>Short Term Debtors</b>	<b>54,700</b>	<b>44,726</b>	<b>(9,974)</b>	<b>18</b>
<b>Cash and Cash Equivalents</b>	<b>409</b>	<b>4,263</b>	<b>3,854</b>	<b>19</b>
<b>Current Assets</b>	<b>55,944</b>	<b>50,093</b>	<b>(5,851)</b>	
<b>Total Assets</b>	<b>1,263,646</b>	<b>1,337,926</b>	<b>74,279</b>	

Long Term Investments - Lime Fund

Short Term Investments - Deposits at 3 months Notice

# Liabilities

	31/03/2016	31/03/2017	(Increase)/ Reduction	SoA
	£'000	£'000	£'000	Note
Short Term Borrowing	(63,683)	(73,430)	(9,747)	16
Short Term Creditors	(48,071)	(59,791)	(11,720)	21
Provisions	(5,677)	(6,101)	(423)	22
<b>Current Liabilities</b>	<b>(117,431)</b>	<b>(139,321)</b>	<b>(21,890)</b>	
Long Term Borrowing	(274,146)	(274,279)	(133)	16
Private Finance Initiative - Long Term	(15,252)	(16,532)	(1,280)	
Net Liability Pensions	(320,562)	(416,484)	(95,922)	39
Capital Grants received in advance	(38,863)	(42,927)	(4,064)	34
<b>Long Term Liabilities</b>	<b>(648,823)</b>	<b>(750,222)</b>	<b>(101,399)</b>	
<b>Total Liabilities</b>	<b>(766,254)</b>	<b>(889,543)</b>	<b>(123,289)</b>	
Total Assets	1,263,646	1,337,926	74,279	
<b>Net Assets</b>	<b>497,393</b>	<b>448,382</b>	<b>(49,010)</b>	

# Supplementary Statements

- Collection Fund – pages 110 - 114
- HRA Account – pages 115 - 117

# Housing Revenue Account

- Benefiting from low interest rates
- Reserving for and funding independent living schemes and strategic priorities Cap Exp £11.4m (£17.6m15/16)
- Accounting follows Communities and Local Government – Accounting Directions and related restrictions



# Collection Fund

- Total Surplus position on Council Tax from £0.5m (13/14), £3.5m (14/15), £7.3m (15/16) to £4.4m (CBC share £3.7m)
- Business rate position Deficit reflecting new reliefs, valuation appeals and refunds. Deficit of £6.3m (13/14) £6.1m (14/15), £7.2m (15/16) now £3.9m (CBC share £1.9m)

## Other Items: Remuneration Note 31

- Number of staff paid over £50k in year (including redundancy)

	2014/15	2015/16	2016/17
Permanent	181	191	197

- The figures exclude members of the Corporate Management Team, who are disclosed individually.
- Teaching and non-teaching staff received pay award in 2016/17. The increase in permanent numbers paid over £50k was evenly split between schools and other staff.
- The contracts of 38 staff (68 in 15/16) were terminated in year with £673k (£778k in 15/16) paid as redundancy costs. Note 39

**Ralph Gould**

**Head of Financial Control**

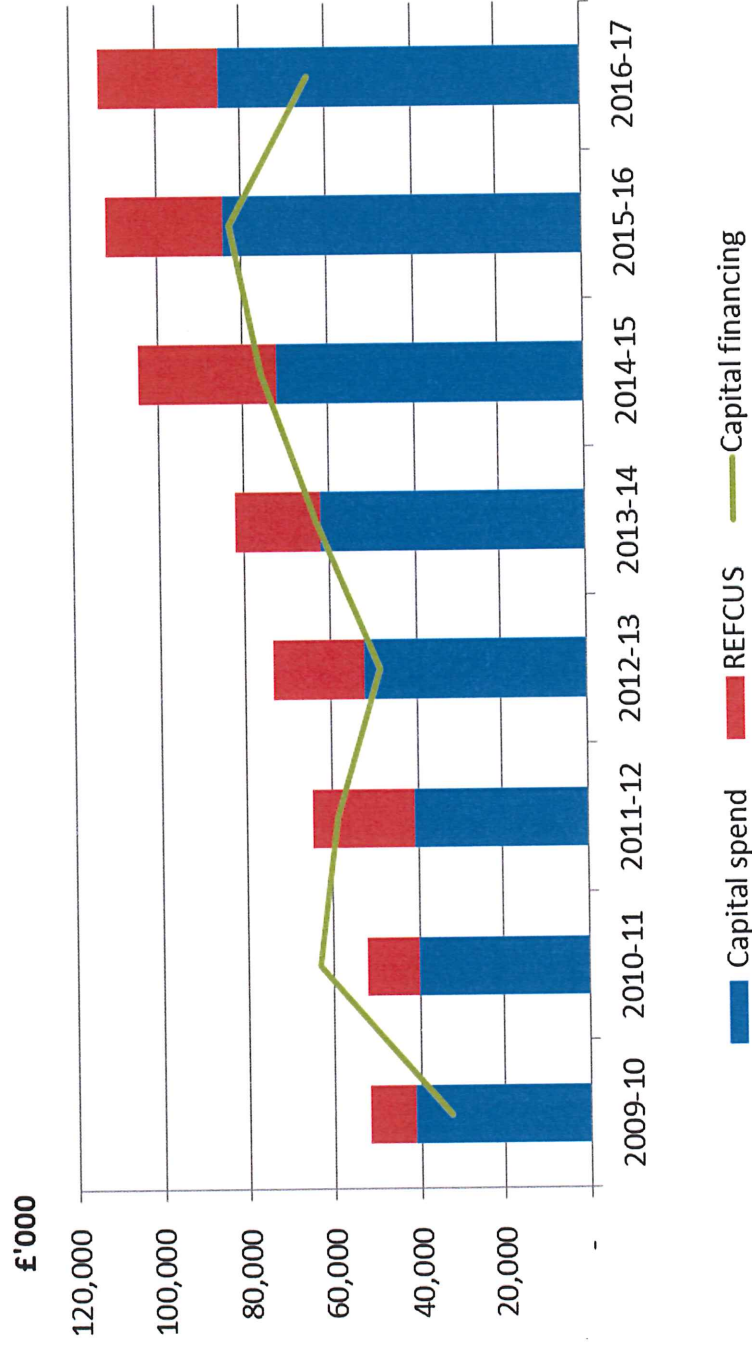
# Capital Expenditure and Borrowing Requirement

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2009-2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Capital investment:</b>									
Property, plant and equipment	41,231	38,873	39,360	51,715	61,962	71,173	83,930	83,882	472,126
Investment properties	-	-	97	84	101	335	-	-	617
Intangible assets	-	1,369	1,415	527	228	784	315	1,050	5,688
Revenue Expenditure Funded from Capital Under Statute (REFCUS)	10,619	12,103	23,890	21,085	19,773	32,241	27,506	28,275	175,492
Debt as a result of HRA Financing	-	-	164,995	-	-	-	-	-	-
Total Spend	51,850	52,345	229,757	73,411	82,064	104,533	111,751	113,207	
<i>memo line Adjusted for HRA Financing</i>	51,850	52,345	64,762	73,411	82,064	104,533	111,751	113,207	653,923
<b>Sources of finance:</b>									
Capital receipts	(1,490)	(29,826)	(3,780)	(3,665)	(2,851)	(1,636)	(5,081)	(10,268)	(58,597)
Government grants and other contributions	(25,514)	(24,722)	(41,808)	(38,481)	(44,564)	(52,415)	(52,863)	(42,388)	(322,755)
Major Repairs Allowance	-	-	(3,805)	0	(6,569)	(3,597)	(3,946)	(4,567)	(22,484)
Surplus set aside from revenue:									
Direct revenue contributions	(702)	(1,502)	(1,288)	(528)	(2,256)	(10,900)	(12,103)	(5,698)	(34,977)
Minimum Revenue Provision (MRP) / PFI principal	(4,473)	(7,025)	(5,534)	(5,874)	(7,074)	(7,250)	(8,867)	(1,648)	(47,745)
Other Movements	(549)	(227)	(2,778)	-	-	-	-	(3,554)	(3,554)
<b>Total Financing in year</b>	<b>(32,728)</b>	<b>(63,302)</b>	<b>(58,993)</b>	<b>(48,548)</b>	<b>(63,314)</b>	<b>(75,798)</b>	<b>(82,860)</b>	<b>(64,569)</b>	<b>(490,112)</b>
<b>Closing Capital Financing Requirement</b>	211,419	200,516	370,942	399,434	418,184	446,920	475,811	524,446	
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>19,122</b>	<b>-10,957</b>	<b>170,764</b>	<b>24,863</b>	<b>18,750</b>	<b>28,735</b>	<b>28,891</b>	<b>48,638</b>	<b>328,806</b>
									<b>163,811</b>
									<b>Cumulative borrowing need ex HRA 2009/17</b>

# Low Interest Rates

- The Council's capital financing requirement (need to borrow) has increased in the financial year (£48.6m), and the capital medium term financial plan projects an increase in future years
- With an ongoing capital programme the Council will need to continue to borrow externally in the next financial year.
- Movements in the market rates of interest paid on Corporate and Government Bonds has a significant impact on estimated liabilities of pension funds and IAS19 revenue costs.

## Spend for Capital Purposes

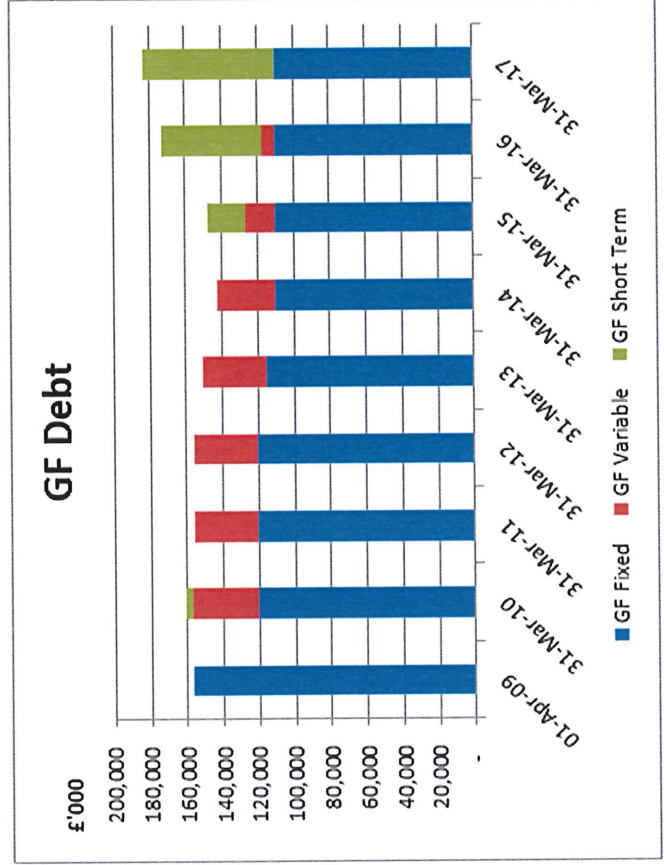
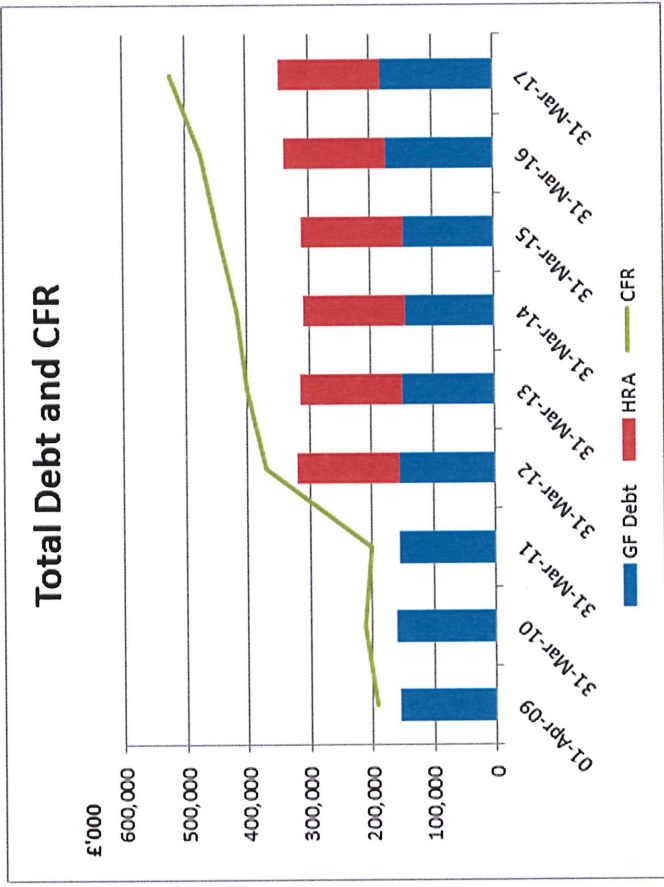


# Total Borrowing as at 31st March 2017

	General Fund Debt £'000	Average Interest Rate	HRA Debt £'000	Average Interest Rate	Total Debt £'000	Total Average Interest Rate
Fixed	110,565	4.33%	120,000	3.10%	230,565	3.98%
Variable	-		45,000	0.57%	45,000	0.57%
Short-term	72,280	0.34%	0	-	72,280	0.34%
Total*	182,845	3.98%	165,000	2.41%	347,845	3.08%

\* Total Debt value on SOA includes accrued Interest payable

# Debt Since 2009





# CBC Debt

Nominal Value Vs Fair Value

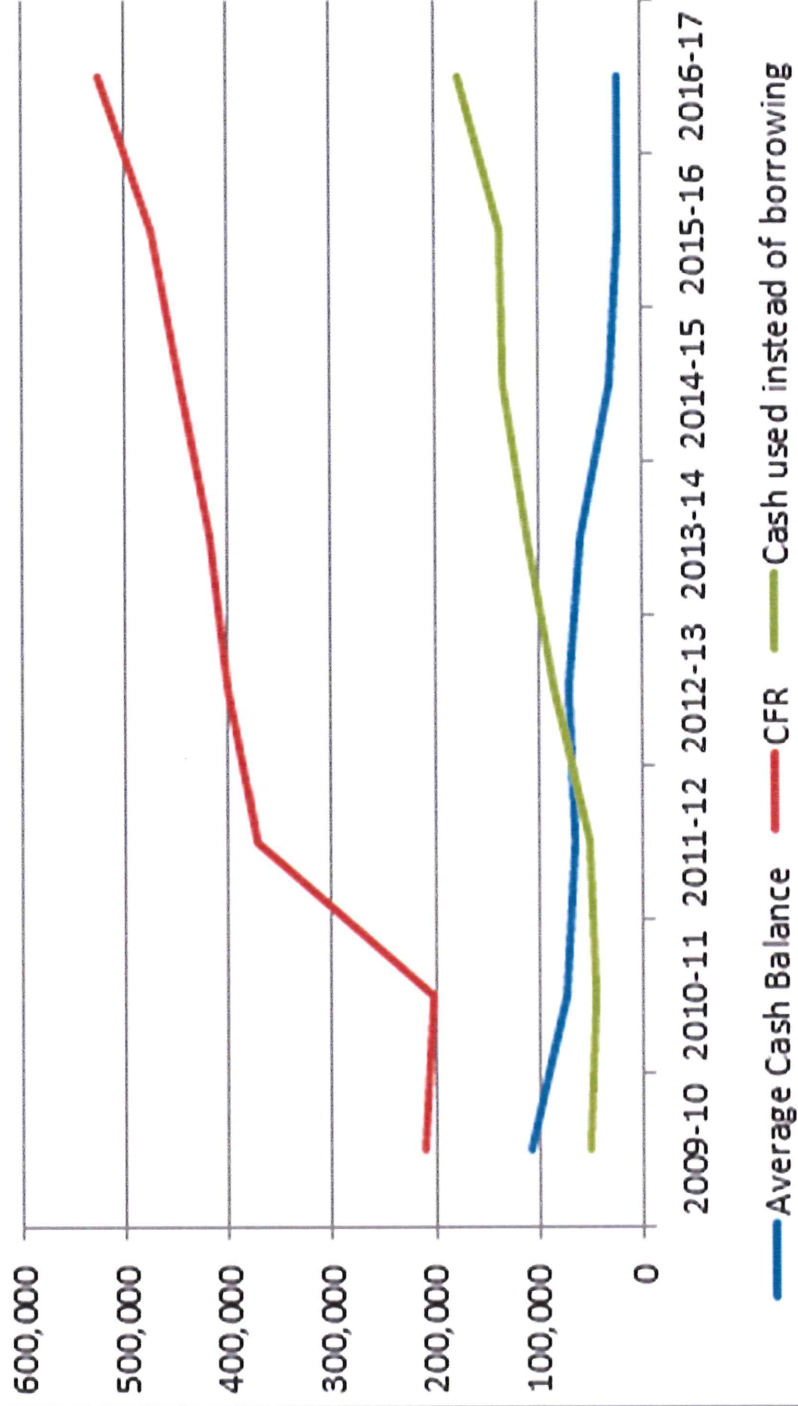
	Nominal Value £'000	Fair Value £'000
2009-10	161,259	163,400
2010-11	156,237	161,600
2011-12	320,586	350,800
2012-13	315,548	357,990
2013-14	307,992	329,775
2014-15	312,618	383,832
2015-16	338,072	380,602
2016-17	347,840	417,881

Interest costs

	GF £'000	HRA £'000
2009-10	6,971	-
2010-11	5,680	-
2011-12*	5,688	44
2012-13	5,637	3,977
2013-14	5,727	3,968
2014-15	5,267	4,013
2015-16	5,247	4,034
2016-17	5,025	3,975
* HRA debt taken 28th March 2012 interest payable for 4 Days		

## Trends in Cash/Cash usage instead of borrowing /CFR

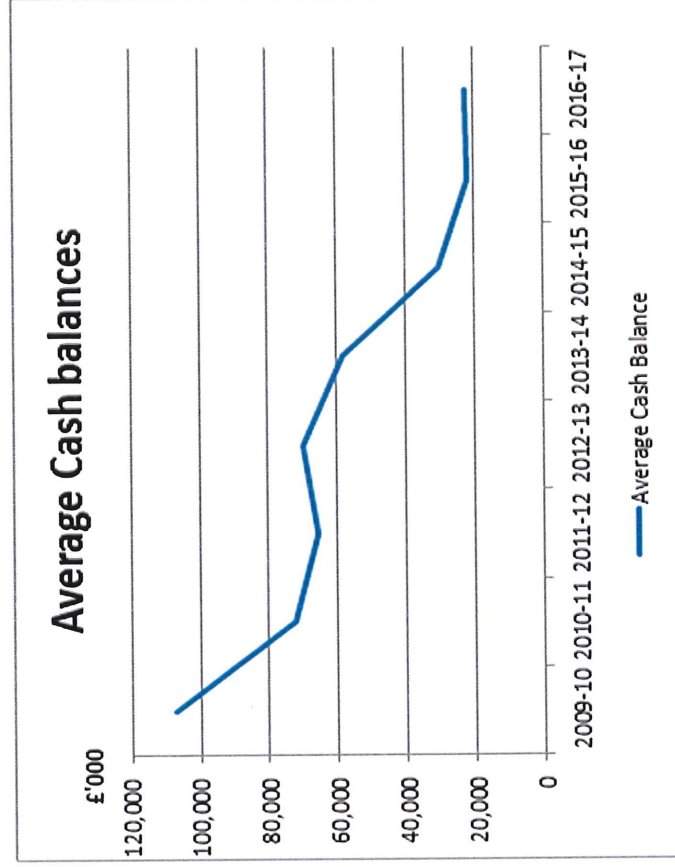
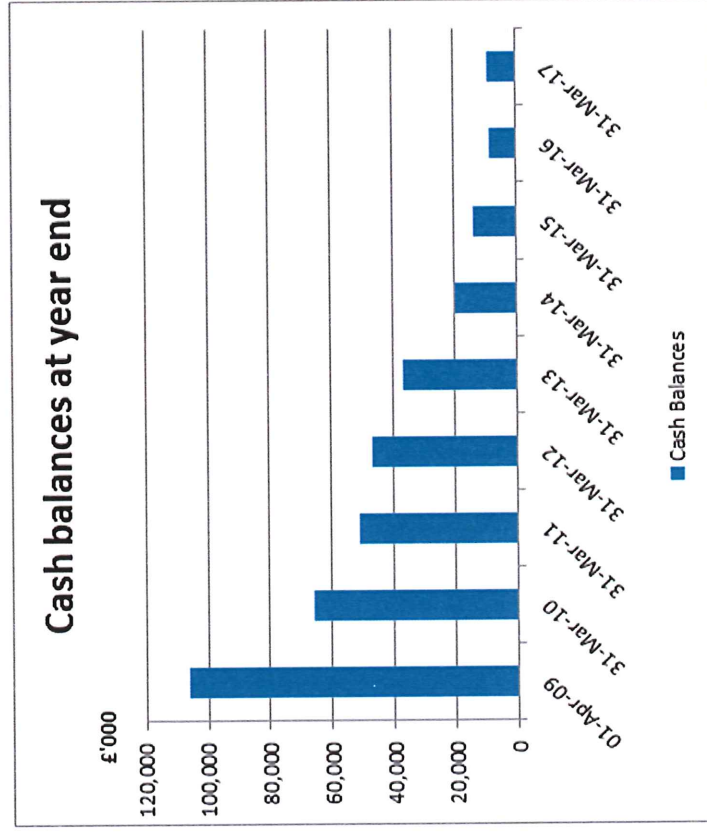
£'000



# Investment balances since 2009

(Excluding Lime Fund)

Includes schools balances from 20<sup>th</sup> November 2014



# Investment Return since 2009

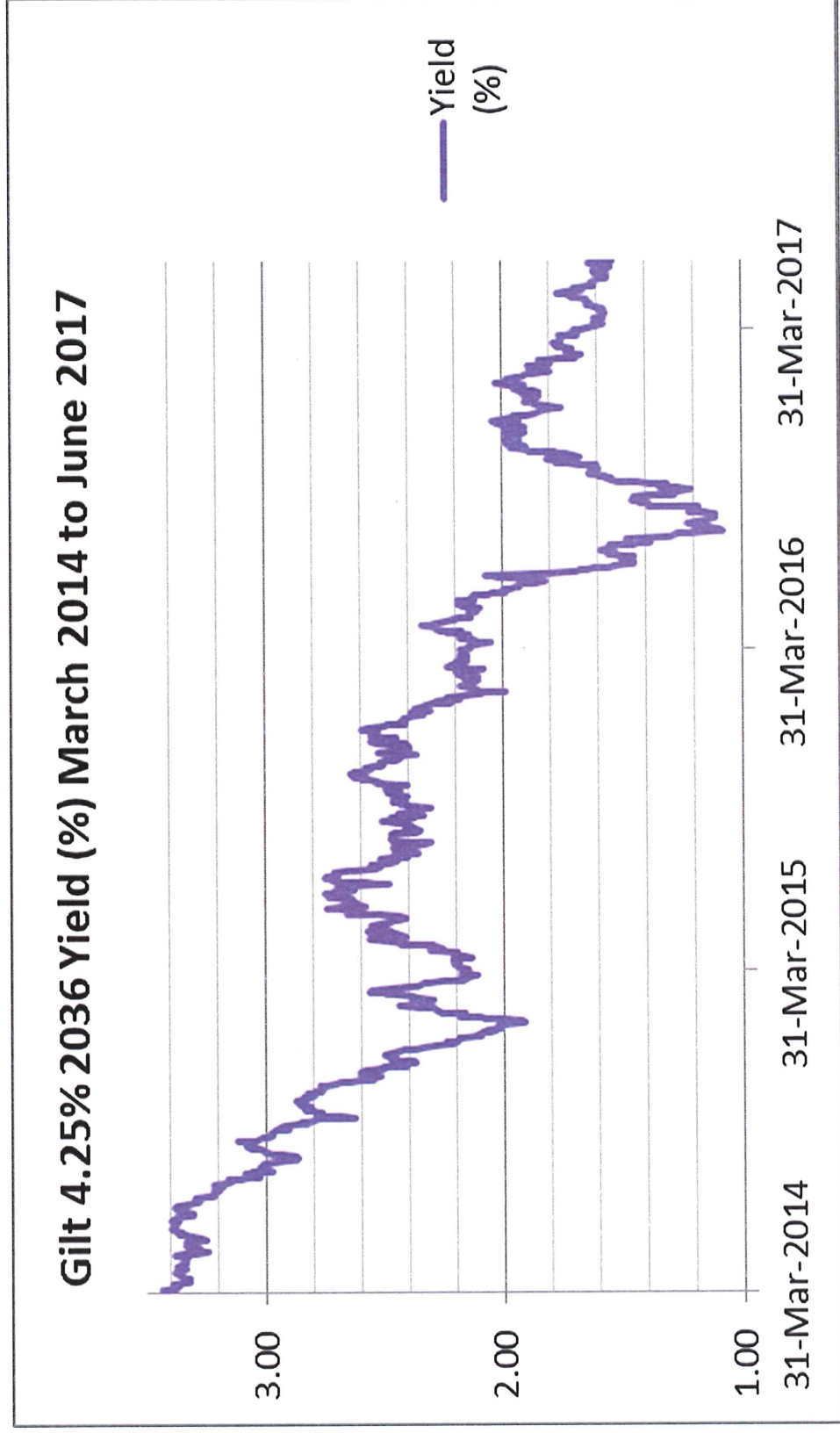
## (Ex Lime Fund)

	Average Investment £'000	Interest Earned £'000	Interest Rate
2009-10	107,233	1,755	1.64%
2010-11	72,474	1,035	1.43%
2011-12	65,873	894	1.36%
2012-13	69,790	673	0.96%
2013-14	58,294	432	0.74%
2014-15	30,533	161	0.53%
2015-16	22,074	121	0.55%
2016-17	22,438	96	0.43%

## LGPS Pension Scheme Deficits

- Council's largest liability at £416.4m an increase of £96m measured in line with IAS
- 19
- Schemes have many challenges not least improving life expectancy
  - Overwhelming influence is level of yields (interest rates) on corporate and government bonds - sets discount rate for liabilities (pension promises)

# Volatility in Gilt Yields



# Discount Rate Pensions

	31/3/10	31/3/11	31/3/12	31/3/13	31/3/14	31/3/15	31/3/16	31/3/17
Discount Rate	5.5%	5.5%	4.8%	4.5%	4.2%	3.2%	3.5%	2.6%
	£M	£M	£M	£M	£M	£M	£M	£M
Liabilities	(678.4)	(533.5)	(581.8)	(669.5)	(684.4)	(802.3)	(747.7)	(917.4)
Assets	352.1	336.2	332.2	365.7	377.2	422.7	427.1	500.9
Deficit	326.3	197.3	249.6	303.8	307.2	379.6	320.6	416.5
Funding level	52%	63%	57%	55%	55%	53%	57%	55%

# Pensions

- Assets and Liabilities follows IAS 19

	2013/14	2014/15	2015/16	2016/17	Change 15/16 – 16/17
Liabilities	(£684m)	(£802m)	(£748m)	(£918m)	£170m (23%)
Assets	£377m	£423m	£427m	£501m	£74m (17%)
Net Deficit	(£307m)	(£379m)	(£321m)	(£417m)	£96m (30%)
Assets as % Liabilities IAS 19	55.1%	52.7%	57.1%	54.6%	

- Actual Contribution rates follow triennial fund valuation different basis used 31 March 2016 Liabilities £639m (£550m 2013) Assets £422m (£361m) **Deficit £217m 66% Funded (£189m 66%)**



# Charles Warboys

## Director of Resources

# Changes

- The statutory deadline for producing the accounts is currently 30 June 2017. Under changes to the Accounts and Audit Regulations 2015 this has changed to 31 May, effective from 2017/18 SoA (i.e. 31 May 2018).
  - Used this year as a trial and produced the accounts in a faster period than previous years, a draft ready to sign 8 June 2017.
  - Learnt lessons for next year that will enable even faster close process.
- The Local Audit (Public Access to Documents) Act 2017 received Royal Assent on 27 April 2017 and is now law, coming into force on 27 June 2017. This extends Public Rights (which includes the rights of objection, inspection of the local authority accounting documentation and questioning of the external auditor with regard to the Statement of Accounts) to journalists as ‘interested parties’.

# Conclusion and Next Steps

- Accounts show the overall financial health of the organisation
- CBC is in a strong financial position and has added to general and earmarked reserves, held to protect the Council against identified risks
- There are significant uncertainties ahead relating to funding from Central Government
- Borrowing resulting from capital expenditure will be an important element of the accounts in future financial years. Interest rate risk is important and is being monitored closely

# Conclusion and Next Steps

- The accounts will be audited by Ernst & Young LLP during July
- Public Inspection Period 30<sup>th</sup> June to – 10<sup>th</sup> August (30 working days)
- The final accounts will be approved by Audit Committee in September

# Any Questions?

