

Chichester District Council

CORPORATE GOVERNANCE AND AUDIT COMMITTEE 29 September 2016

Statement of Accounts for 2015-16

1. Contact(s)

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2. Recommendation

2.1. That the Committee consider the audited Statement of Accounts shown in Appendix 1 for the financial year ended 31 March 2016, and note the audited outturn position and agree the Letter of Representation.

3. Main Report

3.1. Introduction

3.1.1 The Accounts and Audit Regulations 2015 set out the requirements for the production and publication of the annual Statement of Accounts. These regulations require that the following procedures are adhered to for the approval and publication of the annual accounts:

- No later than 30 June following the financial year end the responsible financial officer must certify the annual accounts before they are passed to the auditor.
- The responsible financial officer must re-certify the presentation of the annual accounts after the audit is completed and before member approval is given.
- The annual accounts must be published with the audit opinion and certificate, and before must have been approved by members. The Council must also secure approval and publication by no later than 30 September.

3.1.2 The Head of Finance and Governance Services, the Council's responsible financial officer, certified the draft Statement of Accounts as authorised for issue on 29 June 2016. The draft statements were then passed to the Council's external auditors, Ernst & Young LLP.

3.1.3 The draft Statement of Accounts was also placed on deposit for public inspection for the period 1 July 2016 to 11 August 2016. During this period the Council did not receive any questions or objections to its accounts from the public.

- 3.1.4 Ernst & Young LLP performed their audit during July to September 2016. Finance officers met with the Audit Manager during the audit period to address issues and agree any changes that were highlighted during the audit. The Head of Finance and Governance Services re-certified the audited Statement of accounts on 19 September 2016. It is anticipated that the external auditors will issue their unqualified opinion on the accounts on 30 September 2016. The Audit Manager will be presenting his audit findings to this committee ahead of this report.

3.2. The Statement of Accounts

- 3.2.1 The Statement of Accounts, as defined in the regulations and specified in the relevant sections of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Accounting Code of Practice comprises:
- A Narrative Report
 - Statement of Responsibilities for the Statement of Accounts
 - The accounting statements
 - A statement of accounting policies
 - Notes to the accounts.

The Council's draft accounts for consideration are attached in Appendix 1.

3.3. The Accounting Statements

- 3.3.1 The Comprehensive Income and Expenditure Statement (CIES) provides a summary of the resources generated and consumed by the Council in the year that have contributed to the changes in resources shown in the Movement in Reserves Statement.
- 3.3.2 The format and headings disclosed within the CIES comply with CIPFA's Service Reporting Code of Practice (SeRCOP) and The Code of Practice on Local Authority Accounting in the United Kingdom. All local councils must follow these Codes to enable direct comparisons to be made of the accounting information across local authorities.
- 3.3.3 The Movement in Reserves Statement shows the movement in the year on the different reserves held by the council, analysed into those reserves that can be used to fund expenditure 'Usable Reserves', and other reserves 'Unusable Reserves'.
- 3.3.4 The Balance Sheet sets out all the Council's assets and liabilities at the end of the financial year. The statement shows the balances and reserves at the Council's disposal, its liabilities and assets employed in its operations, together with summarised information on the assets held.
- 3.3.5 The Cash Flow Statement shows the changes in cash and cash equivalents of the council during the year and how the movements in cash resources have been reflected in cash flows.
- 3.3.6 The Collection Fund is an agent's statement that reflects the council's statutory requirement as a billing authority to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the

collection of council tax and national non-domestic rates (NNDR) from taxpayers and its distribution to precepting bodies, and the government. For council tax, the precepting bodies are the District Council, Parish Councils, West Sussex County Council, and the Police and Crime Commissioner for Sussex.

From 1 April 2013, the regime around the income that local councils collect from NNDR changed from one where the council collects purely on behalf of central government, to one where this income is shared between central government, the local council and other major precepting bodies (West Sussex County Council in Chichester's case). The main aim of the scheme, known as the Business Rates Retention scheme, is to give councils a greater incentive to grow businesses in their area. It does however also increase the financial risk due to non-collection, appeals against the rating list and the volatility of the NNDR aggregate rateable value.

The scheme allows the council to retain a proportion of the total NNDR received. Notionally Chichester's share is 40% with the remainder being paid to central government (50% share) and West Sussex County Council (10% share). However, a complicated mechanism of tariffs and levies means that this Council's share of NNDR from day one of localisation is just 5% of the amount collected, and will retain 20% of any growth thereafter.

The Collection Fund is incorporated in the Balance Sheet and the Cash Flow Statement.

A council tax collection rate of 98.3% was achieved in 2015-16 (98.1% 2014-15). For business rates, a collection rate of 98.2% was achieved for the year (98.8% 2014-15).

The Council opted to form an NNDR Pool for 2015-16 along with West Sussex County Council and the other coastal West Sussex District and Borough Councils, in order to maximise the benefit from retained business rates. Under this arrangement the Pool gains by avoiding the levy payable to the government on business rate growth that would be required from the participating District/Borough Councils if they did not pool their business rates with the County Council. The levy avoided (or gain) is then used to fund initiatives that benefit the pool member authorities. This pooling arrangement will remain for 2016-17 as agreed in the Financial Strategy.

3.3.7 The Statement of Responsibilities for the Statement of Accounts details the respective responsibilities of the Head of Finance and Governance Services and the Council.

3.3.8 Further interpretation of the accounts highlighting key issues is contained within the narrative report section of the Statement of Accounts.

3.4. Analysis of the 2015-16 General Fund position

3.4.1 The audited outturn position on the General Fund for 2015-16 is a surplus of £1.263m that is transferred to the General Fund Balance.

3.4.2 The main variances between the General Fund original budget and the outturn position in 2015-16 are as follows:

Ref		£'000
	<u>Underspend / Additional Income</u>	
a	Chichester Contract Services activities	(380)
b	Earmarked reserves transfers to the General Fund	(319)
c	Car parks	(316)
d	Investment property income	(299)
e	Housing service staffing	(174)
f	Homeless Hostel income	(104)
g	Estates income	(89)
h	Unringfenced Government grants	(62)
i	Electoral Services	(60)
j	Business Rates Retention Scheme	(46)
		<u>(1,849)</u>
	<u>Overspend / Shortfall of Income</u>	
k	Provisions raised during the year	206
l	Approved service restructuring costs	120
m	Information Communication Technology	80
n	Leisure Centres	70
o	Land charges income	48
p	MMI Settlement Clawback	25
	Minor variations	37
		<u>586</u>
	Total variance	<u><u>(1,263)</u></u>

The following paragraphs provide an explanation for the main variances:

- a. Chichester Contract Services identified more efficiency savings and generated additional income from services, as follows:
 - an above RPI increase on certain Trade Waste Service charges, ranging from 6.5% to 8.7% (£126,000);
 - A revised process for apportioning additional Recycling credits from WSCC to local District Councils and Boroughs (£179,500);
 - 1,100 more customers subscribed to the Green Waste service (£43,500); and,
 - Staff vacancy savings (£31,000).

£118,800 of the operating surplus for 2015-16 is recurring and has been reflected in the base budget for 2016-17.

- b. A review of earmarked reserves by the Heads of Services identified that a number of reserves were no longer required. As a result £319,000 has been returned to the Council's General Fund.
- c. Car Parks - generated an increased surplus of £316,000 due to:
 - The area available for free on-street parking reducing, creating increased sales of off-street car park season tickets (£162,100);

- Staff vacancy savings (£83,300), where posts were held vacant pending a service restructure;
- Reduced use of external contractors and increased use of Chichester Contract Services (£60,100); and,
- CCTV Staff saving (£10,500).

£245,400 of the operating surplus for 2015-16 is recurring and has been included in the base budgets for 2016-17.

- d. Investment Properties generated a surplus of £290,000 due to two new acquisitions:

- Crane Street £181,000
- Woodruff Centre £118,000.

£270,400 of this additional income is recurring and has been reflected in the base budget for 2016-17.

- e. Housing Service staffing costs decreased by £174,000 due to savings for posts held vacant pending a service restructure.
- f. Occupancy levels at the Council's Homeless Hostel were significantly higher than budgeted for, therefore generating additional income via rents. These rents are generally recovered from Housing Benefit payments which are subsidised by the government. ▬
- g. The Estates service generated a surplus of £89,000 due to higher occupancy and rent levels at :
- St James (£21,000)
 - Terminus Road (£99,000)
 - Industrial estates and shopping parades (£13,700).

This was partially offset by increased periods of vacancy at other sites (£44,000).

- h. The Council received a number of unanticipated government grants during 2015-16:
- Localisation of council tax support (£20,000)
 - NNDR transitional replenishment grant (£1,000)
 - Repair & renew administration grant (£1,000)
 - Transparency code set up grant (£8,000)
 - Council tax annexe discount (£7,000)
 - Land Charges search claim (£26,000).
- i. Electoral Services underspends due to:
- Staff vacancy savings (£35,000); and,
 - An additional grant contribution from the Cabinet office as a contribution towards changes required to the register of electors (£41,500). This was partially offset by additional printing costs (£16,500).

j. Business rate retention scheme – Additional income £46,000

Additional Business Rates generated from renewable energy schemes that were not anticipated in the base budget for 2015-16.

- k. The Council provided for an increased risk of non-payment of debt owed to the authority. In some cases this was due to higher levels of debt compared to 31st March 2015, in others it was due to changes in the estimated likelihood of the debt being repaid. The changes are as follows:
- Council tax and business rates court costs £20,000
 - Housing hostel and letting agency £9,000
 - Housing benefit overpayments £131,000
 - General bad debts £46,000.
- l. There were additional approved service restructuring costs during the year of:
- Redundancy costs £78,000
 - Retirement costs £42,000.
- m. There was a salary overspend of £80,000 in respect of Information Communication Technology. This mainly related to the appointment of an ICT Manager post. Offsetting savings to fully fund this post have not yet been identified.
- n. The Council's Leisure Centres suffered a shortfall in income of £70,000 mainly due to reductions in Direct Debit memberships, dry-side activities and catering income.
- o. Fewer land charge searches were requested in 2015-16 (9,363) compared to 2014-15 (10,348)
- p. MMI Settlement Clawback

Municipal Mutual Insurance Ltd (MMI), the Council's previous insurer, was the predominant insurer of public sector bodies prior to ceasing its underwriting operations in September 1992 having suffered substantial losses. The Council and most of MMI's public sector members elected to participate in a 'Scheme of Arrangements' effectively becoming 'Scheme Creditors', meaning they may have to pay back part of all claims for which they have received settlements since 1993 in the event of the Scheme of Arrangements being triggered.

Following a review of the financial position of the company by the Scheme Administrators and the continuing high level of mesothelioma and child abuse claims being reported, the administrators have increased the levy rate payable by scheme participants from 15% to 25%.

For the Council, the total payments subject to the levy is some £246,000, and after deducting the levy already paid at the 15% rate, a further payment of £25,000 was required.

- 3.4.3 The impact of these variations will be taken into account while monitoring and forecasting the 2016-17 budget, and will also be considered when the setting the 2017-18 base budget.

3.5. Pension Costs

- 3.4.1 Accounting standards require Councils (and businesses) to disclose the deficits/surpluses in their pension funds on an annual basis and to include the deficit within the Balance sheet. This necessitates actuaries identifying for each authority investing in fund, the pension assets and liabilities contained within the fund at a point in time basis i.e. what the value of Pension Fund investments were worth on 31 March. It should be noted that this is a snap shot of the pension fund on just one day and that equities and bond prices go up and down on a daily basis.
- 3.4.2 The calculations provided the by Council's pension Actuary shows a deficit of £4.130m at the 31 March 2016 (£16.537m deficit at 31 March 2015) which represents the difference between the assets that the Council has within the fund (equities, bonds, property and cash) which amount to £140.21m (£138.21m at 31 March 2015) while liabilities amount to £144.34m (£154.75m at 31 March 2015). In his report to the council, the actuary identifies the reason for the improved position for 2015-16 as being due to an increase in the net discount rate over the period; the positive impact of which has outweighed the likely lower than expected asset returns.
- 3.4.3 The actual contributions payable by the Council are based on the Actuary's own assumptions in a valuation that is undertaken on a triennial basis. This valuation was last undertaken at 31 March 2013 and shows the council's share of the pension fund is currently funded to 99%. This takes a longer-term view of the pension fund rather than the annual adjustments required by IAS19.
- 3.4.4 Although the 2016 triennial valuation of the Pension fund was undertaken during Summer 2016, we do not expect to hear the outcome of this until October. Given interest rates are expected to remain low over the medium term, the most likely outcome at this point is an increased forecast deficit for the scheme which will flow through into adjusted contribution rates for employers over the coming years.

3.6. Financial Strategy and Impact of the Recession

- 3.1.1 The Council's financial position remains strong relative to many local authorities. However, the Council will continue to face financial pressure for the foreseeable future.
- 3.1.2 Although the Council has been able to achieve a balanced position over recent years, including the 2015-16 out-turn and 2016-17 budget, further government reductions in our settlement are expected and alongside other budgetary pressures over the next five year period. Cabinet approved a new deficit reduction plan of £3.8m on 6 September 2016, and the Council is currently considering seeking a four-year financial settlement from the Department for Communities and Local Government to help increase certainty in financial forecasts.

3.1.3 The issues currently facing the Council include:

Government Issues

- Level of Government Funding
- Specific Government Grants
- Localisation of Business Rates including further proposed changes
- Anticipated changes to New Homes Bonus funding
- Council Tax Capping
- Welfare Reform
- Amended Waste Regulations and increased recycling targets
- Devolution deals and proposals for the 3SC area

Economic Issues

- Low interest rates
- Competitive employment market
- Generally low inflation, but some contractual costs increasing
- Possible effects of “Brexit”

Local Issues

- Income Streams
- Use of Reserves

3.1.4 It is standard practice to analyse previous year underspends when determining the forthcoming budget. Therefore the 2015-16 outturn position will be taken into account in the forthcoming annual budget process when preparing the 2017-18 detailed revenue estimates, although many recurring variances that were identified early in last year via budget monitoring have already been removed from the 2016-17 budget as detailed in the variance analysis above.

3.7. Outstanding Litigation and Claims

3.6.1 It is considered good practice to report to those charged with governance in respect of outstanding litigation and claims at the year end. A report on outstanding litigation and claims was reviewed by this Committee at its meeting in June. The report has been reviewed by officers and where required the financial impacts of such claims will have been reflected in the Council's Statement of Accounts. The details of these claims are disclosed in Note 33 to the Statement of Accounts.

4. Appendix

Appendix 1 – Audited Statement of Accounts 2015-16

5. Background Papers

None