

Report to	-	Audit Committee
Date	-	27 September 2017
Report of the	-	Executive Director of Resources
Subject	-	Statement of Accounts 2016/17

Recommendation: It be **RESOLVED:** That the Council's 2016/17 Statement of Accounts be approved.

Service Manager: Robin Vennard

Introduction

1. The Accounts and Audit Regulations 2003 require the Council's accounts to be approved by the Council or, as in Rother's case, its delegated Committee each year. This report discusses the main issues affecting the Statement of Accounts and provides a commentary on the core financial statements. (Appendix A shows the full Statement which will be circulated separately to Members, when available).
2. At the time of writing this report, the Council's external auditors BDO, had largely completed their work on the accounts for 2016/17. BDO's report is shown elsewhere on the agenda for this meeting and sets out their work and any issues that have arisen from it. Any further items identified will be verbally reported to the Committee at its meeting. The published accounts include a Narrative Report and the Annual Governance Statement approved by the Committee at its meeting in June (Minute AS17/15 refers).

Changes to the Format of the Statement of Accounts

3. The Code of Practice has required major changes in the presentation of the Comprehensive Income and Expenditure Statement, in which the lines within the Cost of Services now reflect the way in which services are managed within the Council. The revenue budget and outturn figures in the Narrative Statement show the figures required by law to be charged against the General Fund, while those in the Comprehensive Income and Expenditure Statement have to reflect proper accounting practice. The necessary adjustments are summarised in the Expenditure and Funding Analysis in note 5, and are shown in more detail in note 6. As a result of these changes the prior year figures in the Comprehensive Income and Expenditure Statement have been re-presented, in line with the new format.

Statement of Accounts

4. Detailed below is a brief description of the core financial statements and the issues relating to them.
5. **Movement in Reserves Statement** – this shows the movement in the year on the different reserves held by the authority, analysed into "useable

reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and un-useable reserves such as the revaluation reserve for land and property. The surplus of (£6.411m) on the provision of services line shows the true economic cost of providing the authority’s services, and these are shown in greater detail in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting. The net change of £3.538m before transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to earmarked reserves is made by the Council.

6. **Comprehensive Income and Expenditure Statement** – this shows the Council’s actual financial performance for the year, measured in terms of the resources consumed and generated over the last 12 months. It therefore does not show the “cash” position for the Council and is intended to reflect private sector accounting practice in presenting a profit and loss account.
7. **Balance Sheet** – this is fundamental to the understanding of the Council’s year-end financial position. It shows the balances and reserves at the Council’s disposal and its long-term indebtedness, the net current assets employed in its operations, and summarised information on the fixed assets held. The net worth of the Council has increased by £13.4m (as shown in the total reserves line). The main reasons for this change are due to a reduction in Pension Scheme liability of £3.1m reflecting current performance of the East Sussex Pension Fund. Other major changes to the Council’s net worth include the increase in cash and short term investments of £3.3m due to the surplus on the General Fund and movements in the values of properties of £5.8m.
8. The Balance Sheet also highlights that the useable cash resources of the Council have increased by £4.2m. A detailed analysis of the Council’s earmarked reserves is shown in the notes to the accounts.
9. **Cash Flow Statement** – this brings together in a single statement the inflows and outflows of cash arising from the Council’s transactions with third parties for revenue, investment and capital purposes. Under International Financial Reporting Standards the statement only reflects those flows of funds directly related to the Council. Where the Council acts as an agent, as in the case of collecting the Council Tax on behalf of precepting authorities, these inflows and outflows of cash are excluded.
10. **Collection Fund Income and Expenditure Account** – this reflects a statutory requirement for the Council, which collects the local taxes, to maintain a separate account in relation to Business Rates and the Council Tax, and their distribution. Overall the Collection Fund balance was in surplus for the year by (£0.583m). With the introduction of the Business Rate Retention Scheme in April 2013, this balance is now made up of both Council Tax and Business Rates. For Council Tax the Fund was in deficit by £0.202m as at 31 March 2017 with East Sussex County Council entitled to the majority of this amount. For business rates the Fund was in surplus by (£0.785m), with the Government meeting the highest amount followed by this Council.

Conclusion

11. The Balance Sheet shows that overall the financial position of the Authority remains sound with an adequate amount of reserves in place to meet short term needs. The Pension Fund liability of £22m is a long term financial assessment of a possible shortfall on the Fund, based on the current situation and performance. As such no immediate action is required to manage the deficit.
12. It is, however, essential that in the medium term, the Council continues to deliver the target savings set out in the Medium Term Financial Strategy in order for the Council to continue to balance its budget. Subject to the approval of this Committee, it is recommended that the Statement of Accounts be signed by the Chairman of the Committee.

Malcolm Johnston
Executive Director of Resources

Risk Assessment Statement

There are no risks arising from this report.

Background Documents

Local Government Accounting Code of Practice 2016/17 and associated guidance.