

**To the Chair and Members of the
AUDIT COMMITTEE**

STATEMENT OF ACCOUNTS 2016/17

EXECUTIVE SUMMARY

1. This report presents the Council's unaudited Statement of Accounts for the 2016/17 financial year. The report highlights the overall financial position for the year, a summary accounts closure timetable and information on performance including improvements achieved in accuracy and quality.
2. The Accounts and Audit (England) Regulations 2015 apply to the preparation, approval and audit of the Statements of Accounts and other financial statements. These regulations are based on International Financial Reporting Standards ('IFRS') which attempt to standardise accounts in a consistent format across both the public and private sectors with the aim of achieving greater transparency.
3. Whilst there is no longer a requirement to present the unaudited accounts to Members before the external audit process commences, the Council has continued this practice as it gives Members early notification of the financial outcome of the previous financial year and is considered to be good practice.
4. There is a requirement to obtain certification of the accounts by the responsible financial officer, for the Council this is the Chief Financial Officer & Assistant Director – Finance, by the 30th June each year. The statutory deadline for the date of approval and publication of the final Statement of Accounts remains unaltered at 30th September. However, due to improved financial management processes, the Council is working to shorter deadlines for the 2016/17 accounts of the 31st May and 31st July respectively.

EXEMPT REPORT

5. Not applicable.

RECOMMENDATIONS

6. Members are requested to note the 2016/17 Statement of Accounts.

WHAT DOES THIS MEAN FOR THE CITIZENS OF DONCASTER?

7. An unqualified audit opinion on the Council's financial statements and a good VfM conclusion resulting from the annual audit process would indicate that there is excellent internal control in place safeguarding Council resources.

BACKGROUND

8. The Council's 2016/17 accounts have been prepared in accordance with IFRS and the appropriate accounting codes of practice and were approved by the Council's responsible financial officer on the 1st June. This is 1 day earlier than the accounts for 2015/16 and 21 days earlier than the accounts for 2014/15 and provides confidence that the earlier statutory dates can be achieved.
9. The statutory 6 week period in which the accounts are available for public scrutiny must include the 1st 10 working days in July. The accounts are available for public scrutiny from 5th June to 14th July. This was advertised on the Council's website on 2nd June. The unaudited accounts were placed on the Council's website on 2nd June in line with the Government's policy of increased transparency in the public sector with public scrutiny of the accounts being a key feature of the financial governance framework of local authorities.
10. The accounts will be subject to external audit during the period 5th June to 14th July and it is expected that the audit opinion will be finalised (subject to the continuing work on the Whole of Government Accounts) by 17th July, which is 31 days earlier than the 2015/16 accounts and 47 days earlier than the 2014/15 accounts. Legislative requirements significantly reduce the timeframe allowed for the accounts closure process and Members of the Audit Committee will now be aware that the Council is required to produce the audited Statement of Accounts for the 2017/18 financial year by 31st July 2018, with the unaudited 2017/18 accounts being produced by 31st May 2018.
11. The Council is planning to finalise its audited 2016/17 accounts by 27th July, 21 days earlier than 2015/16 and 51 days earlier than 2014/15. The accounts and a report will be presented by KPMG to this Committee on 27th July setting out the result of the external audit in the form of their 'Communication with those charged with governance' report (ISA 260 report), which formally sets out the findings of their audit of the financial statements.

The 2016/17 Financial Statements and Supporting Disclosure Notes

12. The style and format of the accounts used for 2016/17 is similar to that used last year. The 'removing the clutter' drive has continued, with a number of items excluded or revised as part of reducing the size of this year's accounts. The unaudited accounts are now 97 pages in length (compared to 103 pages in 2015/16 and 110 pages in 2014/15. The main changes in 2016/17 are: -
 - a. A new Expenditure Funding Analysis (EFA) is included before the Core Financial Statements along with three new associated notes to the accounts (notes 7, 8 and 9). The EFA shows how annual expenditure

is used and funded from resources by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's directorates/services/departments.

- b. A new note 5 Material Items of Income and Expense is included (see explanation below in paragraph 13c)
 - c. A new note 24i Available for Sale Financial Instruments Reserve is included due to having Certificates of Deposit at year end for the first time.
 - d. Removal of note 24 from 2015/16 Amounts Reported for Resource Allocation Decisions as this is effectively replaced by the EFA.
13. Members of this Committee have a key role in scrutinising the accounts in order to maintain strong governance over financial reporting. Early production of the accounts enables the Members of this Committee sufficient time to review the statements and ask challenging and pertinent questions. Whilst the Narrative Report provides the summary of the financial year and the associated statements, it is worthwhile highlighting some specific points for the year: -
- a. At the meeting on 21th June, Cabinet will be presented with the final outturn positions for both revenue and capital for the 2016/17 financial year. On the normal day to day operating budget the Council overspent by £2.3m. This includes Regeneration & Environment £2.8m overspend and funding of the Children's Trust £1.5m overspend. These overspends are offset by £1.3m one-off underspends in Finance & Corporate Services and £1.7m one-off underspends in Council-Wide. The position includes the delivery of £37.4m savings towards the £40.2m target, leaving a shortfall of circa £2.8m mainly from the Modern & Productive, Appropriate Assets and Digital Council programmes.
 - b. For Members, probably the most important issue will be whether the Council has a surplus or deficit compared to its budget for the year. The (increase)/decrease in 2016/17 on the Movement in Reserves Statement gives this information for both the General Fund and the Housing Revenue Account (HRA). The surplus of £131.3m (General Fund £-21.0m and the HRA £152.4) shown in the Comprehensive Income and Expenditure Statement (CIES) is an indication that the costs of providing the year's services have been exceeded by income. This represents the position that would have been reported under 'commercial accounting' rules. Statutory adjustments convert the Council's financial performance from the £131.3m to a £4.1m decrease in the general fund balance, which after adjusting for earmarked reserves reconciles with the £2.3m reported overspend and a £1.6m decrease in the HRA.
 - c. In respect of the HRA, the regional adjustment factor, applied to ascertain the value of social housing stock, has increased to 41% compared to 31% which was used last year. This has meant all social housing stock has had a revaluation gain in year causing a material value of previous impairment losses to be reversed (£153.9m).
 - d. The Council's net worth has increased by £24.7m to £604.7m since the

previous financial statements (see 'Balance Sheet' on page 12 of the accounts). This is principally due to an increase in Property, Plant & Equipment partially offset by an increase in the liability related to defined benefit pension scheme. This is mainly due to revisions in the actuary's future assumptions of key variables, as detailed in disclosure note 40, 'Defined Benefit Pension Scheme' (pages 74 to 78 of the accounts).

- e. Reserves are an indication of the temporary resources available to assist an authority to deliver services. Not all reserves can be used to deliver services and this is reflected by reporting reserves in two groups – 'usable' and 'unusable' reserves. Usable reserves have decreased by £4.1m or 4.0% from £101.4m to £97.3m (these are shown on page 11).

Usable Reserves (see Movement in Reserves Statement)	31st March 2016	31st March 2017	Movement in year
	£m	£m	£m
General Fund balance (including Earmarked reserves)	69.5	65.4	(4.1)
Housing Revenue Account	6.9	5.3	(1.6)
Capital Receipts Reserve	12.5	11.2	(1.3)
Major Repairs Reserve	3.6	3.7	0.1
Capital Grants Unapplied	8.9	11.7	2.8
Total Usable Reserves	101.4	97.3	(4.1)

Unusable reserves are determined by technical accounting rules and are not available for use by the Council. These have increased by £28.8m to £507.4m mainly reflecting the changes in the Revaluation Reserve, Pension Reserve (due to changes in assumptions from the Actuary) and the Capital Adjustment Account (due to the change in the regional adjustment factor as explained above in paragraph 13c).

Unusable Reserves (Note 24)	31st March 2016	31st March 2017	Movement in year
	£m	£m	£m
Revaluation Reserve	295.4	308.1	12.7
Capital Adjustment Account	548.4	694.5	146.1
Financial Instruments Adjustment Account	(1.4)	(1.2)	0.2
Pension Reserve	(372.4)	(499.5)	(127.1)
Deferred Capital Receipts Reserve	4.8	4.8	0.0
Collection Fund Adjustment	4.8	3.9	(0.9)
Accumulated Absences Account	(1.0)	(3.2)	(2.2)
Unequal Pay Back Pay Account	0.0	0.0	0.0
Available for Sale Financial Instruments Reserve	0.0	0.0	0.0
Total Unusable Reserves	478.6	507.4	28.8

Financial Ratios

14. The following financial ratios promote the accountability of councils for their spending decisions. These include: -
- The ratio of **current assets to current liabilities**, an indicator of how a council manages its short-term finances
 - The ratio of **usable reserves to gross revenue expenditure**, highlighting how much money a council is retaining for future plans

and to cover unpredictable spending

- The ratio of **long term borrowing to long term assets**, representing the percentage of a council's assets that are financed with borrowing. A low figure means a council is less dependent on debt and has lower risk associated with its operation.
- The ratio of **school balances to dedicated schools grant**, showing whether schools, maintained by the Council, are retaining a high or low proportion of the funding provided for spending on education

The ratios for the Council are provided below and reflect continued, sound financial management and governance arrangements:

DMBC Financial Ratios	2014/15	2015/16	2016/17
Current assets to current liabilities (working capital)	0.802	1.164	1.229
Usable reserves to gross revenue expenditure	11.79%	10.58%	13.74%
Long term borrowing to long term assets	0.288	0.290	0.270
School balances to Dedicated Schools Grant	11.60%	9.72%	7.14%

The proportion of current assets to current liabilities (ideal ratio of 1.0) is steadily improving indicating that the Council is managing its short term finances more effectively with a decrease in short term liabilities (the ratio has increased to 1.229 in 2016/17).

The comparison of usable reserves (which includes, for these purposes, General Fund balances, earmarked reserves (less school balances) and usable capital receipts) to gross revenue spend is now higher at 13.74% (up from 10.58% in 2015/16).

OPTIONS CONSIDERED

15. Not applicable.

REASONS FOR RECOMMENDED OPTION

16. The main content and format of the Statement of Accounts is set out in the Code of Practice on Local Authority Accounting for 2016/17. The Council has a statutory obligation to submit its unaudited 2016/17 Statement of Accounts to the External Auditor by 30th June. Failure to do so could result in an audit qualification and consequential reputational damage.

IMPACT ON THE COUNCIL'S KEY OUTCOMES

17. These are detailed in the table below: -

Outcomes	Implications
<p>All people in Doncaster benefit from a thriving and resilient economy.</p> <ul style="list-style-type: none"> • <i>Mayoral Priority: Creating Jobs and Housing</i> 	<p>The audited Statement of Accounts provides information on all Council priorities incorporating income and expenditure for</p>

	<ul style="list-style-type: none"> • <i>Mayoral Priority: Be a strong voice for our veterans</i> • <i>Mayoral Priority: Protecting Doncaster's vital services</i> 	<p>all Council services.</p> <p>An unqualified audit opinion from KPMG on the financial statements and supporting disclosure notes, together with an unqualified VfM conclusion assists with the positive reputation of the Council and ensures that strong governance is in place.</p>
People live safe, healthy, active and independent lives.	<ul style="list-style-type: none"> • <i>Mayoral Priority: Safeguarding our Communities</i> • <i>Mayoral Priority: Bringing down the cost of living</i> 	
People in Doncaster benefit from a high quality built and natural environment.	<ul style="list-style-type: none"> • <i>Mayoral Priority: Creating Jobs and Housing</i> • <i>Mayoral Priority: Safeguarding our Communities</i> • <i>Mayoral Priority: Bringing down the cost of living</i> 	
All families thrive.	<ul style="list-style-type: none"> • <i>Mayoral Priority: Protecting Doncaster's vital services</i> 	
Council services are modern and value for money.		
Working with our partners we will provide strong leadership and governance.		

RISKS AND ASSUMPTIONS

18. The table below highlights the most significant risks that could have a negative impact on the deliverability of the Council's financial position and the action taken to mitigate them.

Risks / Assumptions	Probability	Impact	Proposed Action
Robustness of correct outturn figure	Low	Medium	Work has been undertaken during monitoring and closedown process to process all transactions, and prepare for audit. This has included an increase in senior officer quality assurance review and control; and internal verification and checks by finance and technical officers.

The Audit identifies a material / significant finding or inaccuracy in the production of the accounts.	Low	High	Continuous dialogue with KPMG throughout the year. Specific discussions on key complex / technical areas are as part of the monthly audit liaison group meetings
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LEGAL IMPLICATIONS

19. Section 27 of the Audit Commission Act 1998 provides that the Secretary of State may, by regulations, make provision with respect to the accounts .
20. The Accounts and Audit (England) Regulations 2015 set out the detailed requirements in relation to the duties and rights concerning accounts and in particular, the detailed rules for the preparation, approval and publication of the statement of accounts.

FINANCIAL IMPLICATIONS

21. The Council's Statement of Accounts are prepared in line with the Accounts and Audit Regulations 2015 and International Financial Reporting Standards.

HUMAN RESOURCES IMPLICATIONS

22. There are no specific Human Resources implications related to the contents of this report.

TECHNOLOGY IMPLICATIONS

23. There are no specific Technology implications related to the contents of this report.

EQUALITY IMPLICATIONS

24. This report has no specific equality implications.

CONSULTATION

25. Not applicable.

BACKGROUND PAPERS

26. Following background papers:
 - Accounts and Audit Regulations 2015

- The Code of Practice on Local Authority Accounting 2016/17 ('The Code') - based on IFRS

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