



Doncaster Council

Report

Date: 21st June, 2018

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

UNAUDITED STATEMENT OF ACCOUNTS 2017/18

EXECUTIVE SUMMARY

1. This report presents the Council's unaudited Statement of Accounts for the 2017/18 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 31st May each year. The statutory deadline for the date of approval and publication of the final Statement of Accounts is 31st July. These dates are earlier than in previous years (30th June and 30th September respectively) however, due to improved financial management processes, the Council has worked to the shorter deadlines since the 2015/16 accounts.

EXEMPT REPORT

5. Not applicable.

RECOMMENDATIONS

6. Members are requested to note the 2017/18 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 2017/18 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 31st May. This is 1 day earlier than the accounts for 2016/17 and by the statutory deadline.
9. The statutory 6 week period in which the accounts are available for public scrutiny must include the 1st 10 working days in June. The accounts are available for public scrutiny from 1st June to 12th July. This was advertised on the Council's website on 31st May. The unaudited accounts were placed on the Council's website on 31st May 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 1st June to 12th July and it is expected that the audit opinion will be finalised (subject to the continuing work on the Whole of Government Accounts) by 16th July. 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 2017/18 accounts by 26th July. The accounts and a report will be presented by KPMG to this Committee on 26th 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 2017/18 Financial Statements and Supporting Disclosure Notes

12. The style and format of the accounts used for 2017/18 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, excluding the narrative report, are now 99 pages in length (compared to 100 pages in 2016/17). The main changes in 2017/18 are: -
 - a. A new Note A – Prior Period Adjustment is included at the beginning of the supporting disclosure notes (see explanation below in paragraph 13c);
 - b. Removal of Note 24h – Unequal Pay Back Pay Account as there is

no longer a balance on this account;

- c. Removal of Note 10 to the Housing Revenue Account - Revenue Expenditure Funded from Capital Under Statute as there was none in 2016/17 or 2017/18; and
 - d. The introduction of key principles for the Narrative Report (although the Narrative Report is not formally part of the Statement of Accounts).
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 19th June, Cabinet will be presented with the final outturn positions for both revenue and capital for the 2017/18 financial year. On the normal day to day operating budget the Council overspent by £2.5m. This includes funding of the Children's Trust £3.1m overspend, Regeneration & Environment £0.8m overspend, Adults Health & Wellbeing overspend £0.6m and Learning & Opportunities – Children & Young People overspend £0.4m. These overspends are offset by £1.3m one-off underspends in Corporate Resources and £1.1m one-off underspends in Council-Wide;
 - 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 2017/18 on the Movement in Reserves Statement gives this information for both the General Fund and the Housing Revenue Account (HRA). The deficit of £100.7m (General Fund £97.2m and the HRA £3.5m) shown in the Comprehensive Income and Expenditure Statement (CIES) is an indication that the costs of providing the year's services have exceeded income. This represents the position that would have been reported under 'commercial accounting' rules. Statutory adjustments convert the Council's financial performance from the £100.7m to a £4.0m decrease in the general fund balance, which after adjusting for earmarked reserves reconciles with the £2.5m reported overspend and a £1.3m increase in the HRA;
 - c. The value of componentised assets revalued in 2015/16 and 2016/17 were overstated by the existing component value. The Balance Sheet has been re-stated for changes to the property, plant and equipment, capital adjustment account and revaluation reserve totals. The relevant notes in the accounts supporting the values in the Balance Sheet have also been re-stated. The combined impact upon the CI&ES over the two years would have been £5.3m. The CI&ES notes have not been updated as this value has not been deemed to be material. Further details are shown in Note A to the Core Financial Statements.
 - d. In respect of the HRA in 2016/17, the regional adjustment factor, applied to ascertain the value of social housing stock, increased to 41% compared to 31% which was used in 2015/16. This meant all social housing stock had a revaluation gain in 2016/17 causing a

material value of previous impairment losses to be reversed (£153.9m).

- e. The Council's net worth has decreased by £2.0m to £569.2m since the previous financial statements (see 'Balance Sheet' on page 22 of the accounts). This is mainly due to a decrease in Property, Plant & Equipment partially offset by a decrease in the liability related to defined benefit pension scheme.
- f. 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 increased by £20.9m or 21.5% from £97.3m to £118.2m (these are shown on page 21).

Usable Reserves (see Movement in Reserves Statement)	31st March 2017	31st March 2018	Movement in year
	£m	£m	£m
General Fund (including Earmarked reserves)	65.4	61.5	(3.9)
Housing Revenue Account	5.3	6.5	1.2
Capital Receipts Reserve	11.2	13.9	2.7
Major Repairs Reserve	3.7	7.9	4.2
Capital Grants Unapplied	11.7	28.4	16.7
Total Usable Reserves	97.3	118.2	20.9

Unusable reserves are determined by technical accounting rules and are not available for use by the Council. These have decreased by £22.9m to £451.0m 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 disposal of academies and Doncaster Rail College).

Unusable Reserves (Note 24)	31st March 2017	31st March 2018	Movement in year
	£m	£m	£m
Revaluation Reserve	281.7	244.6	(37.1)
Capital Adjustment Account	687.3	616.0	(71.3)
Financial Instruments Adjustment Account	(1.1)	(1.0)	0.1
Pension Reserve	(499.5)	(415.5)	84.0
Deferred Capital Receipts Reserve	4.8	4.8	0.0
Collection Fund Adjustment	3.9	3.9	0.0
Accumulated Absences Account	(3.2)	(1.8)	1.4
Available for Sale Financial Instruments Reserve	0.0	0.0	0.0
Total Unusable Reserves	473.9	451.0	(22.9)

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	2015/16	2016/17	2017/18
Current assets to current liabilities (working capital)	1.164	1.229	1.020
Usable reserves to gross revenue expenditure	10.58%	13.74%	10.81%
Long term borrowing to long term assets	0.290	0.270	0.304
School balances to Dedicated Schools Grant	9.72%	7.14%	5.49%

The proportion of current assets to current liabilities (ideal ratio of 1.0) indicates that the Council is managing its short term finances effectively.

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 lower at 10.81% (down from 13.74% in 2016/17).

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 2017/18. The Council has a statutory obligation to submit its unaudited 2017/18 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
	Doncaster Working: Our vision is for more people to be able to pursue their ambitions through work that gives them and Doncaster a brighter and prosperous future;	The audited Statement of Accounts provides information on all Council priorities

	<ul style="list-style-type: none"> • Better access to good fulfilling work • Doncaster businesses are supported to flourish • Inward Investment 	<p>incorporating income and expenditure for all Council services.</p>
	<p>Doncaster Living: Our vision is for Doncaster's people to live in a borough that is vibrant and full of opportunity, where people enjoy spending time;</p> <ul style="list-style-type: none"> • The town centres are the beating heart of Doncaster • More people can live in a good quality, affordable home • Healthy and Vibrant Communities through Physical Activity and Sport • Everyone takes responsibility for keeping Doncaster Clean • Building on our cultural, artistic and sporting heritage 	<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>
	<p>Doncaster Learning: Our vision is for learning that prepares all children, young people and adults for a life that is fulfilling;</p> <ul style="list-style-type: none"> • Every child has life-changing learning experiences within and beyond school • Many more great teachers work in Doncaster Schools that are good or better • Learning in Doncaster prepares young people for the world of work 	
	<p>Doncaster Caring: Our vision is for a borough that cares together for its most vulnerable residents;</p> <ul style="list-style-type: none"> • Children have the best start in life • Vulnerable families and individuals have support from someone they trust • Older people can live well and independently in their own homes 	
	<p>Connected Council:</p> <ul style="list-style-type: none"> • A modern, efficient and flexible workforce • Modern, accessible customer interactions • Operating within our resources and delivering value for money • A co-ordinated, whole person, whole life focus on the needs and aspirations of residents • Building community resilience and self-reliance by connecting community assets and strengths • Working with our partners and residents to provide effective 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

LEGAL IMPLICATIONS [Officer Initials...SRF... Date...12/6/18]

19. The Statement of Accounts is prepared in accordance with the appropriate Regulations and the Council is subject to statutory external audit and performance evaluation by KPMG.

FINANCIAL IMPLICATIONS [Officer Initials...RI... Date...04.06.18]

20. 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 [Officer Initials...MLV... Date...07/06/18]

21. There are no specific HR implications relating to the content of this report.

TECHNOLOGY IMPLICATIONS [Officer Initials...PW...Date...05/06/18]

22. There are no direct technology implications in relation to this report.

HEALTH IMPLICATIONS [Officer Initials...RS...Date...05/06/2018]

23. Good Governance is important for good health and wellbeing. However there are no obvious direct health implications.

EQUALITY IMPLICATIONS

24. This report has no specific equality implications.

CONSULTATION

25. Not applicable.

BACKGROUND PAPERS

26. Following background papers: -

- Unaudited Statement of Accounts 2017/18 published on the Council website: - <http://www.doncaster.gov.uk/services/the-council-democracy/statement-of-accounts>
- Accounts and Audit Regulations 2015
- The Code of Practice on Local Authority Accounting 2017/18 ('The Code') - based on IFRS

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