

Statement of Accounts 2015/16**AUDIT COMMITTEE
MEETING DATE 2015/16****21 September 2016****CLASSIFICATION:****Open****If exempt, the reason will be listed in the
main body of this report.****WARD(S) AFFECTED****All Wards****GROUP DIRECTOR****Ian Williams Corporate Director of Finance and Resources**

1. CORPORATE DIRECTOR'S INTRODUCTION

- 1.1 This report presents the Accounts for 2015/16 for approval by the Audit Committee prior to the issue of the audit opinion by the external auditor.
- 1.2 The main financial statements show that we continue to manage our finances in line with the resources available.

2. RECOMMENDATION

The Audit Committee is recommended to:

- 2.1 **Approve the Council's 2015/16 Statement of Accounts prior to the audit opinion being issued.**
- 2.2 **Consider and approve, in its own right, the Annual Governance Statement contained within the Statement of Accounts.**

3. REASONS FOR DECISION

- 3.1 The Audit Committee is responsible for the approval of the financial statements under the Council's Constitution as "those charged with governance". The Regulations state that the accounts must be approved by a Committee of the Council, but not the Executive, prior to the audit opinion being issued.

4. BACKGROUND

4.1 Policy Context

The production of the Statement of Accounts and its subsequent review and adoption by Members is integral to the good financial management of the Council. It sets out the final outturn position of the authority for the preceding financial year both in terms of revenue and capital expenditure and provides a position statement regarding its wider overall financial position, thus providing the required confirmation of assumptions used in setting budgets and strategy for the future financial plans.

4.2 Equality Impact Assessment

There are no equality impact issues arising from this report.

4.3 Risk Assessment

There are no risks arising directly from this report, although clearly the timely and accurate finalisation of the accounts closure process and production of the statement of accounts is vital to ensure that the overall financial position of the Council is fully understood in order to ensure that future plans in respect of service delivery options are deliverable within the financial constraints of the Council.

5 ACCOUNTS AND AUDIT REGULATIONS

- 5.1 The Accounts and Audit Regulations require that the unaudited accounts are produced on or before 30th June. Prior to their submission to the auditors the Council's responsible financial officer (the Group Director of Finance & Corporate Resources) must, no later than 30th June immediately following the end of a year, sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year.
- 5.2 Subsequent to the above, the accounts are audited by the Council's external auditors, KPMG, and then by no later than 30th September in the year immediately following the end of the year to which the statement relates:
- (a) either by way of a committee or by the members meeting as a whole. the statement of accounts must be considered;
 - (b) following that consideration, the committee must approve the statement of accounts;
 - (c) following approval, the statement of accounts must be signed and dated by the person presiding at the committee at which that approval was given;
 - (d) publish (which must include publication on the body's website), the statement of accounts together with any certificate, opinion, or report issued, given or made by the auditor under section 9 (general report) of the 1998 Act; and
 - (e) The Group Director of Finance & Corporate Resources must also re-certify the presentation of the statement of accounts before the relevant body approves it.
- 5.3 The draft Statement of Accounts was published on the Council's website, subject to audit, following its certification by the Group Director of Finance & Corporate Resources on 02nd June 2016, this ensuring that it was available to any resident or other person entitled to formally inspect the accounts during the audit period.
- 5.4 The Accounts and Audit Regulations 2015, which came in force from April 2015, will also require all Local Authorities to publish the Statement of Accounts by 31st May of the year. This will relate to Statement of Accounts produced for the 2017/18 year and onwards. The Council's achievement to publish by 02nd June 2016 this year means the Council is almost there, two years early, and is confident that the new statutory deadline will be achieved.
- 5.5 As part of the Accounts and Audit Regulations 2015 the audit will be required to be completed by 31st July of the year.

6 2015/16 STATEMENT OF ACCOUNTS

- 6.1 At the time of writing this report, the audit of the 2015/16 Statement of Accounts is complete subject to the auditor's final review and completion procedures and it is anticipated that an unqualified audit opinion will be issued by the auditor by the required date of 30th September.
- 6.2 The Statement of Accounts attached at **APPENDIX 1** is the final statement including adjustments agreed with the auditors. It is however, subject to the completion of final checks by the auditors that agreed amendments have been properly reflected. It should be noted that changes identified during the audit have had no affect on main statements within the accounts and have no impact on the Council's General Fund balance, HRA balance or other earmarked reserves.
- 6.3 The Statement of Accounts comprises the following accounting statements:
- Movement in Reserves Statement – this shows the movement in the year on the different reserves, both usable and unusable, held by the Authority.
 - Comprehensive Income and Expenditure Statement – this shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.
 - Balance Sheet – this shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority are matched by the reserves held by the Authority.
 - Cash Flow Statement – this shows the changes in cash and cash equivalents of the Authority during the financial year.
 - Housing Revenue Account Income and Expenditure Statement – this shows separately the net cost of delivering those services provided as a landlord for domestic properties. It should be noted that these costs are also included in the Comprehensive Income and Expenditure Statement detailed above.
 - Statement of Movement on the Housing Revenue Account – this shows all income and expenditure related to the HRA and its impact on the overall balance held within the HRA.
 - Collection Fund Revenue Account – this shows all income and expenditure related to local taxation, including Council Tax, Non-Domestic Rates and payments to the Council's General Fund, Central Government and the local preceptor, the Greater London Authority.
 - Pension Fund Accounts – these show all receipts to the Pension Fund during the year together with benefits paid, other associated costs and movements in

investments, including the financial position of the Fund at the end of the financial year.

In addition, the Statement of Accounts includes:

- Narrative Statement – a statement from the Group Director of Finance & Corporate Resources, providing some context to the statements and an overview of the main issues contained therein.
- Annual Governance Statement – this sets out how the Council has complied with its adopted Code of Governance and provides details of any significant governance issues that arose during the year. This statement is subject to approval of the Committee in its own right.
- Notes to the Accounts – these provide additional disclosures and detail regarding the figures included in the main accounting statements in order to provide a greater understanding of the financial affairs of the Authority during the year. They include the accounting policies adopted in the preparation of the accounts and are reviewed regularly to ensure that we remain in full compliance with the most recent and applicable accounting standards.

7 MOVEMENT IN RESERVES STATEMENT

- 7.1 The Movement in Reserves Statement shows that the general balances on both the General Fund and the HRA were maintained at £15.00 million and £10.20 million respectively. Locally managed funds held by schools reduced by £4.886 million to £12.888 million. A net of £25.754m was applied from earmarked General Fund reserves including those set aside to finance the delivery of the Capital Programme, including schemes to expand and refurbish primary schools, annual maintenance and upkeep of the Borough's infrastructure and of course maintenance and improvement of the Council's Housing stock. On completion of the audit the Group Director of Finance and Corporate Resources will undertake a further review of reserves and balances with the aim to release resources, where appropriate, to support the Capital Programme and other priority areas.
- 7.2 Full details of the movements in earmarked reserves are provided in note 8 to the accounts, along with brief descriptions of the purpose of each. As set out in the Group Director of Finance & Corporate Resources comments in this report, the reserves are set aside for known/potential liabilities that will arise in future financial years and have been taken into account in the Authority's Medium Term Financial Planning.
- 7.3 As set out above, many of the reserves are to be used in 2016/17 and future years to finance approved capital schemes. Others are specifically identified to help manage service pressures and costs arising from specific projects requiring one-off resource not covered by the Council's ongoing revenue budget.

8 COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

- 8.1 This statement shows the accounting cost of the provision of services by the authority. It needs to be read in conjunction with both the Movement in Reserves Statement and note 7 to the Accounts in order to derive the net cost of services borne by the local taxpayer in line with regulations and in order to gain a full understanding of the financial performance of the Council.
- 8.2 The account shows that the Authority spent a gross amount of £1.031 billion providing services to residents and visitors to Hackney. The Council earned total investment income of only £2.120 million attributable to the General Fund, Housing Revenue Account and schools balances, due mainly to the continued low interest rates available.
- 8.3 The General Fund underspend of £1.352 million (including unspent contingencies), equates to 0.14% of gross budgeted expenditure. This level of underspend was a direct result of the overall continued successful delivery of savings agreed as part of the 2015/16 budget setting process along with a very clear decision to implement and deliver the savings necessary for the 2016/17 financial year at the earliest opportunity, in order to assist with the ongoing challenge presented to the Council arising from the further significant reductions in government funding available to it. Sound financial management and the early delivery of efficiencies are enabling the Council to continue to direct its resources towards its priority areas whilst managing continued significant reductions in funding from Central Government.

9 THE BALANCE SHEET

- 9.1 The Balance Sheet sets out the overall financial position of the Council at 31 March 2016. It shows that at 31 March 2016 the Council had total net assets (worth) of £3.290 billion. It shows that the Council owns buildings, land and other property valued at £3.794 billion.
- 9.2 The Provisions item represents amounts set aside to cover known and measurable liabilities arising from past events and further details of these are shown in notes to the Balance Sheet.
- 9.3 Details of contingent assets and liabilities are set out in notes 45 and 46 to the main accounts. These represent instances where the Council may have to pay (or may receive) as a result of past events but which are dependent on some future event such as the outcome of a legal case. Contingent assets and liabilities are less likely to arise than provisions and may be impossible to quantify. Unlike actual assets and provisions, they are not provided for in the Accounts. If they become payable they have to be funded from the current or future years' budgets. They therefore represent an area of budgetary risk from 2016/17 onwards.
- 9.4 Finally, set out within the Balance Sheet are details in relation to the reserves and balances that finance the net assets. Explanations of each of these are

provided in the relevant notes to the accounts. The Major Repairs Reserve is detailed in the notes to the Housing Revenue Account. The General Fund Balance consists of two key elements those being the General Fund balance and the Schools balances. Schools Balances cannot be used for any other purpose than funding schools.

10 HOUSING REVENUE ACCOUNT

- 10.1 The Housing Revenue Account (HRA) details Income and Expenditure relating to the provision and management of council dwellings. It shows that the balance on the Housing Revenue Account is £10.200 million as at 31 March 2016. In addition, the HRA has earmarked reserves of £2.497 million set aside for one-off items of expenditure, all in line with the HRA Medium Term Planning Forecast and the approved HRA Business Plan.

11 THE COLLECTION FUND ACCOUNT

- 11.1 The Collection Fund Accounts flow from decisions taken in March 2015 in setting the Budget for 2015/16. Income to the Collection Fund includes Council Tax and National Non Domestic Rates (NNDR). Payments are made from the Fund to its major Preceptor (the Greater London Authority) and the Council for their respective shares of Council Tax and NNDR, and to the Government in respect of their share of NNDR. Distribution of previous years' surpluses or deficits are also paid from the Collection Fund to the Council and GLA in respect of Council Tax and NNDR and additionally to Government in respect of NNDR only. Provision is also made for Bad Debts for both Council Tax and NNDR.
- 11.2 The surplus on the Collection Fund relating to Council Tax carried forward from 2014/15 and attributable to the Council was £3.925 million. During the year an increase of £0.601 million arose resulting in a surplus attributable to the Council carried forward at 31 March 2016 of £4.526 million. An estimated sum of £3.567 million was taken into account in arriving at the 2016/17 Council Tax, the balance to be accounted for in 2017/18 in accordance with the Collection Fund Regulations. Given that the actual balance attributable to the Council was broadly in line with the estimate taken account of in the 2016/17 budget, the increase in the surplus brought forward is in line with expectations and financial planning assumptions.
- 11.3 As set out above, the arrangements for accounting for NNDR changed with effect from 2013/14 with previously no balance being created within the Collection Fund. The deficit on the Collection Fund in respect of NNDR attributable to the Council as at 31 March 2016 was £4.746 million, of which £2.0 million was taken into account when estimating the Council's share of NNDR income in the 2016/17 budget exercise. The balance will be accounted for when estimating the NNDR income for future years in accordance with the Regulations. The variance between the estimate and actual deficit as set out was caused largely by lower actual rate yield being realised due to some

major properties not being added to the rating list by the Valuation Office in expected timescales as well as a larger provision for bad debts being required than was included in the original estimate.

12 THE PENSION FUND ACCOUNTS

- 12.1 The Pension Fund Accounts, along with the Annual Report of the Pension Fund, are to be considered by the Pensions sub-Committee at its meeting on 19th September 2016.
- 12.2 The Pension Fund Accounts show the contributions to the Council's Pension Fund for employees during 2015/16, together with the pensions and other benefits paid from it, movements in investments during the year and the financial position of the Fund as at 31 March 2016.
- 12.3 The Accounts show that net value of the assets and liabilities of the Pension Fund have decreased by £2.518 million (0.214%) to £1,172.283 million as at 31 March 2016. Of this decrease, £19.942 million was due to the impact of the decrease in the value of stock market investments held by the Fund and associated investment income. The remaining £22.460 million represents the net additional cash flow arising from contributions received into the fund less benefits and administrative costs paid.

13 GROUP ACCOUNTS

- 13.1 Until 2011/12, Group Accounts showing the consolidated position of the Council and Hackney Homes Ltd were produced although the net impact of these on the Council's overall accounts had been insignificant. Given the immaterial impact, it was agreed with the auditors that the Council no longer need to produce Group Accounts.
- 13.2 As set out in note 44 to the accounts, as a result of this agreement, the Council's main accounts now includes a pensions liability in respect of Hackney Homes amounting to £17.165 million, reflecting the potential constructive obligation resting with the Council to meet any deficit recognised in the accounts of Hackney Homes Ltd.

14 ANNUAL GOVERNANCE STATEMENT

- 14.1 Hackney Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. It also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including the management of risk.

- 14.2 In 2008 the Council developed a Local Code of Governance consistent with the principles of governance set out in *Delivering Good Governance in Local Government* (2007) (CIPFA SOLACE Framework). The Code was developed in consultation with members of the Council's Governance Steering Committee, formed to strengthen governance arrangements and develop and update the Code. The code was approved by the Hackney Management Team and Cabinet on 23 June 2008 and reviewed during 2012 by the Governance & Resources Scrutiny Commission. The Code is available on the Council's website.
- 14.3 The Annual Governance Statement (AGS), included with the statement of accounts, explains how the Council has complied with the Local Code and meets the requirements of the Accounts and Audit Regulations 2015 in relation to the publication of a Statement on Internal Control.
- 14.4 The AGS has been presented in accordance with best practice as set out in "Delivering Good Governance in Local Government". The statement is signed by Hackney's Mayor, Chief Executive and Group Director of Finance and Corporate Resources.
- 14.5 The statement relates to the governance arrangements in place throughout the 2015/16 financial year and reports on any identified weaknesses or areas for improvement and the action already taken or proposed in the future in order to address these.
- 14.6 During 2008/09 procedures were put in place for the production of 'local' statements from all directorates within the Council and Hackney Homes. This practice was continued in 2015/16 and will be reviewed and updated in 2016/17. The local AGS's and supporting evidence was reviewed by Internal Audit and have formed the basis of the evidence for the corporate AGS.
- 14.7 No significant governance issues were identified during 2015/16 for inclusion within the corporate AGS.
- 14.8 The Committee is required to approve the Annual Governance Statement in its own right, separate from the overall approval of the Statement of Accounts.

15 2016/17 HIGHWAYS NETWORK ASSETS

- 15.1 CIPFA has proposed that as from 2016/17 all Highways Local Authorities are required to adopt the changes in relation to the values being held for Highways Network Assets. The proposal is to change the method of valuing these Assets from the current Historic Cost basis to Depreciated Replacement Costs Basis.
- 15.2 The CIPFA Code of Practice on Transport Infrastructure Assets -2013 edition (The Transport Code) has adopted the new requirements and CIPFA have

confirmed the use of these amendments as part of their 2016/17 Code of Practice.

- 15.3 The Transport Code was first published in 2010 and since that time has been used to provide information for the Whole of Government Accounts and increasingly to support asset management. The Transport Code is based on the principle that the same data should be used for asset management, financial management and financial reporting, with the more effective management of assets being the key driver.
- 15.4 The impact of having to change the valuation of the asset from Historic Costs basis to Depreciated Replacement basis will result in a change in Accounting Policy from 1st April 2016. It is expected that this change in valuation will substantially increase the value of the Council's Highways assets from a current net value base of £154.364m.

A separate note within the Statement of Accounts will be required and the Highways Network Assets will consist of the following categories; Carriageways, Footways, Street Lightning, Street Furniture, Structures, Traffic Management and Land.

16 COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

- 16.1 There are no direct financial consequences arising from this report as it reflects what has already occurred in the last financial year.
- 16.2 The Council has again maintained the position of having a prudent General Fund Balance of £15.000m in line with our policy on reserves and balances. In addition, specific reserves have been earmarked for use in 2016/17 and future years to fund known or expected liabilities going forward.
- 16.3 The financial position shown in the 2015/16 Statement of Accounts demonstrates that the Council has continued to achieve financial stability, i.e. in its Council Tax Collection and in the strength of its Balance Sheet, building on the good progress made in recent years. This has seen the Council not only continue to meet its expenditure commitments from within available resources but at the same time limit any increase in Hackney's element of the Council Tax to 2% in respect of Social Care precept. In addition provision has been made in the budget for a revenue contribution to support capital expenditure and for contributions to be made to earmarked reserves to meet other identified future commitments and potential budgetary risks.
- 16.4 The position provides clear evidence of the Council's ability to be able to continue to deal with the financial pressures that arise from the reduction in resources available to the Council, particularly as a result of severe cuts to Government funding.
- 16.5 The Statement of Accounts for the 2015/16 financial year was the fourth audited by KPMG, following the outsourcing of the assignments previously

carried out by the Audit Commission. In advance of the start of the audit officers worked closely with KPMG to build upon the significant progress that has been made in recent years with regard the efficient auditing of the accounts. Comprehensive planning and continued co-operation between the Council's officers and the auditors has resulted in the main audit for both the Pension Fund and the Council's main statement being completed before the end of August with no significant audit adjustments to the main statements and no changes to the Council's overall financial position e.g. level of balances. The prompt and accurate production of the accounts reinforced by the audit demonstrates the continued improvement in the financial management arrangements that are embedded through the Council. This foundation provides the platform for which the financial challenges in future years can be tackled.

- 16.6 In addition to thanking our external auditors for the constructive way they have engaged positively with my team throughout the audit I would also like to put on record my thanks to all those officers involved with the preparation of the Statement of Accounts and the subsequent audit for the hard work that they have undertaken and the professionalism demonstrated to ensure that we can complete the audit both on time and without qualification.

17 COMMENTS OF THE DIRECTOR OF LEGAL SERVICES

- 17.1 The Accounts and Audit Regulations 2015 place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which includes arrangements for the production and approval of the Annual Statement of Accounts.
- 17.2 The Constitution gives the responsibility for adopting the annual Statement of Accounts of the Authority to the Audit Committee together with the duty to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- 17.3 The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice (SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 17.4 There are no other legal implications arising from this Report.

APPENDICES

Appendix 1 – 2015/16 Statement of Accounts

BACKGROUND PAPERS

In accordance with The Local Authorities (Executive Arrangements) (Meetings and Access to Information) England Regulations 2012 publication of Background Papers used in the preparation of reports is required

Description of document (or None)

None

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