



Northumberland County Council

AUDIT COMMITTEE

26 JULY 2017

Northumberland County Council – Draft Statement of Accounts 2016-17

Report of Alison Elsdon Director of Corporate Resources

Cabinet Member: Councillor Nicholas Oliver – Portfolio Holder for Corporate Services

Purpose of the Report

The purpose of this report is to provide the Audit Committee with an overview of the key issues related to the Council's Draft 2016-17 Statement of Accounts and to assist Members in carrying out their role in reviewing the Financial Statements.

Recommendation

It is recommended that the Members of the Audit Committee note the key issues within the draft 2016-17 Statement of Accounts.

Link to Corporate Plan

This report is relevant to all priorities included in the NCC Corporate Plan 2013-2017.

Key Issues

The overall movement on the General Fund for 2016-17 was an increase of £0.48 million. During the year the Council made a revenue contribution to capital of £15.70 million to fund the overall capital programme.

The overall net worth of the Council has increased by £68.91 million in the year. This is due to several factors including an increase in the value of property, plant and equipment (£88.77 million) and long and short term debtors (£199.62 million) offset by a decrease in investments (£62.33 million); an increase in borrowing (£123.72 million) and an increased Pension Fund liability (£25.64 million).

BACKGROUND

1. The published accounts are important in demonstrating the Council's stewardship of public money. They show the resources available to the Council and how they are used to deliver services to the people of Northumberland. The Statement of Accounts for 2016-17, which is at Appendix 1, has been compiled in accordance with the requirements of the Accounts and Audit Regulations 2015; the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting 2016-17; the Service Accounting Code of Practice (SeRCOP); and, other best practice guidance issued by CIPFA.
2. The Statement of Accounts has been certified as a true and fair representation of the financial performance and position of the Council as at 31 March 2017 by the Director of Corporate Resources. The Statement of Accounts will be certified by the External Auditors, Ernst & Young LLP. The audit is due to be completed by the end of September 2017. The results of the external audit will be reported to the Audit Committee on 27 September 2017. The Local Audit and Accountability Act 2014 (the Act) and the Accounts and Audit Regulations 2015 give the public a right to inspect the Accounts and ask questions and raise objections with the External Auditor. This year the Accounts may be inspected between 3 July and 11 August 2017, and questions and objections may be raised with the auditor, Ernst & Young LLP, from 3 July until the end of the audit process.
3. These draft accounts are presented to the Committee to assist members with their responsibility to review the Draft Statement of Accounts. The Audit Committee will have the opportunity to approve the accounts at the end of September, once the results of the audit are known. This report seeks to provide an interpretation of the Accounts and highlight the key issues for the benefit of the Committee.
4. The audited Accounts will be published on the Council's website, together with Ernst & Young's Audit Letter upon completion of the audit.

CONTENTS OF THE ACCOUNTS

1. The following table summarises the purpose of the key statements and other elements of the accounts:

Statement	Purpose
Comprehensive Income and Expenditure Statement	Provides a summary of the costs incurred and income generated by the Council during the year. Included within this figure are a number of notional charges and credits made to comply with recommended accounting practice. This net operating expenditure is then offset against income from local taxation; non-specific government grants; and, national non domestic rates, to give a surplus or deficit for the year. Surplus or deficits on revaluation of assets and liabilities are added to this to give the total comprehensive income and expenditure for the year.
Movement in Reserves Statement	Shows the movement in-year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. This statement takes the total comprehensive income and expenditure figure and reverses out notional charges and credits, such as depreciation and non-cash movements on the pension deficit, and shows the true amount of net expenditure that is required by statute to be financed from Council Tax.
Balance Sheet	Summarises the assets and liabilities held by the Council as at 31 March 2017.
Cash Flow Statement	Shows the inflows and outflows of cash associated with the Council's revenue and capital activities during the year.

Statement	Purpose
Housing Revenue Account	Records revenue expenditure and income relating to the Council's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants.
Collection Fund	Shows the income from Business Rates, Council Tax and Community Charge and how this income has been distributed.
Group Accounts	Consolidate the financial results of the Council with its subsidiaries: Homes for Northumberland, Generation and Innovation (which remained dormant throughout the year), and the Arch Group.
Pension Fund Accounts	Summarise the income and expenditure of the Northumberland County Council Pension Fund and the Fire Fighters' Pension Fund and the balances as at 31 March 2017.

REVIEW OF THE DRAFT STATEMENT OF ACCOUNTS

Income and Expenditure

2. In 2016-17 the Council set its budget with a planned contribution to the General Fund of £0.08 million. The final outturn for the Council is a net contribution to general reserves of £0.45 million comprising the planned contribution and a general underspend against services of £0.37 million. After the planned use of Adult Services reserves totalling £5.40 million services underspent by £5.77 million.

The underspend against services and the planned contribution to the General Fund is reflected within the General Fund balance shown below:

	£m
Balance as at 1 April 2016	36.85
Balance as at 31 March 2017	37.34
2016-17 Movement on the General Fund	0.48

The other element which makes up the total movement in the General Fund balance relates to the transfer of the remaining balance of £0.03 million from Homes for Northumberland following the transfer of the remaining reserves in March 2017.

3. The Comprehensive Income and Expenditure Statement (CIES) in the Accounts shows a surplus on the provision of services of £68.42 million (which represents the accounting surplus on Council operations); and, total comprehensive income and expenditure of £68.91 million (representing the surplus on the provision of services including accounting adjustments such as the revaluation of assets and movements on the pension liability).

The accounting position, presented in the CIES does not directly relate to the charge to Council Tax payers (the funding position). The key factors which adjust the accounting deficit on the provision of services back to the overall increase in the General Fund of £0.48 million are as follows:

	£m	£m
Surplus on the provision of services shown in the CIES		(68.42)
Less: HRA surplus		33.48
General Fund element of the surplus		(34.94)
Adjustments from accounting to funding basis (see Note 9, page 60):		
Capital Adjustment Account	(22.57)	
Insertion of items not included in the CIES that are funded from Council Tax*	35.80	
Capital Grants Unapplied Account	8.55	
Capital Receipts Reserve	20.34	
Deferred Capital Receipts Reserve	(0.03)	
Financial Instruments Adjustment Account	(0.43)	
Pensions Reserve	(10.30)	
Collection Fund Adjustment Account	1.17	
Accumulated Absences	(1.34)	31.19
Transfers to Earmarked Reserves		3.30
Homes for Northumberland Balances		(0.03)
Increase in the General Fund		(0.48)

* These items comprise the statutory provision for the repayment of debt (£18.58 million) and capital expenditure that is charged to the General Fund (£17.22 million).

- From 2016-17 local authorities are no longer required to report based on the service expenditure analysis in the Service Reporting Code of Practice (SeRCOP) but to report on the same basis as the Council's budget and performance monitoring reports. This new format means that the service section of the comprehensive income and expenditure statement supports accountability and transparency as it reflects the way in which services operate and how performance is managed. The accounts for 2015-16 have been restated to reflect this change and the following table analyses the key variances between income and expenditure reported in the CIES between 2015-16 (as restated) and 2016-17:

	2015-16 Net Expenditure (As restated)	2016-17 Net Expenditure	Change	
	£'000	£'000	£'000	
Adult Services	75,338	85,840	10,502	The increase in net expenditure is a result of: an increase in Social Care external purchasing of £8.60 million, offset by increased income of £8.59 million across the service; an increase in staff costs (including redundancy payments) of £1.45 million; a reduction in block contracts expenditure of £0.98 million; a reduction in grant income of £1.66 million; an increase in the charge for IAS19 of £0.30 million. There is also an increase in Revenue Expenditure Funded by Capital Under Statute of £7.99 million relating to non-NCC properties (£6.28 million relating to short term support service and £1.71 million relating to adaptations).
Children's Social Care	36,566	38,517	1,951	The increase in net expenditure is as a result of: £1.50 million increase in the cost of placing children in out of county residential homes or independent special schools and an increase of £0.70 million in the cost of in-house foster care.

	2015-16 Net Expenditure (As restated)	2016-17 Net Expenditure	Change	
	£'000	£'000	£'000	
Corporate Resources	35,896	31,991	(3,905)	The decrease in net expenditure is as a result of: £7.11 million reduction in Revenue Expenditure Funded by Capital Under Statute, £1.43 million net decrease in the transfer from the insurance reserve and £1.27 million reduction in IAS 19 costs offset by £3.52 million relating to an unused provision reversed in 2015-16 for land restoration, £1.93 million net increase in the transfer to the Equal Pay provision and £0.70 million increase in depreciation.
Education and Skills	40,259	20,250	(20,009)	The decrease in net expenditure is as a result of: £17.80 million reduction in Revaluation Losses, £4.00 million reduction in Revenue Expenditure Funded by Capital under Statute, offset by a decrease in the Dedicated Schools Grant of £2.30 million due to three academy conversions which took place in 2016-17.
Fire and Rescue	12,733	14,948	2,215	The increase in net expenditure is as a result of: £2.38 million increase in Revenue Expenditure Funded by Capital under Statute; offset by a reduction in Asset Depreciation charges of £0.20 million.

	2015-16 Net Expenditure (As restated)	2016-17 Net Expenditure	Change	
	£'000	£'000	£'000	
Human Resources	2,167	2,845	678	The increase in net expenditure is largely as a result of increased salary and one-off severance related costs arising from the recent service restructure.
Leisure Services	15,567	13,611	(1,956)	The decrease in net expenditure is as a result of a reduction to the Management Fee paid to Active Northumberland.
Local Services and Housing (HRA)	(11,529)	(37,043)	(25,514)	The decrease in net expenditure is due to: revaluation gains increased by £27.16 million following the amendment of the Existing Use Value – Social Housing valuation from 37% to 41% and additional income of £0.26 million, mainly relating to rechargeable repairs; offset by an increase in depreciation charges of £1.88 million.
Local Services and Housing	71,420	70,853	(567)	The decrease in net expenditure is due to: reduced expenditure on waste disposal and the waste PFI contract of £2.02 million; offset by an increase in asset revaluation charges of £0.22 million, an increase in IAS19 costs of £0.18 million and an increase in depreciation charges of £1.01 million.

	2015-16 Net Expenditure (As restated)	2016-17 Net Expenditure	Change	
	£'000	£'000	£'000	
Planning and Economy	3,425	(545)	(3,970)	The decrease in net expenditure is due to income of £3.23 million received from developers in relation to section 106 contributions and £1.05 million grant received in relation to the Mental Health Trailblazer project. The expenditure for both will be incurred in future financial years. This income has been transferred to earmarked reserves.
Public Health	(145)	(295)	(150)	The decrease in net expenditure is due to a reduction in staffing expenditure following a restructure (£75k) and additional income received, made up of a Government grant and a recovered salary (£75k).
Other Operating Expenditure	15,851	40,388	24,537	The increase in net expenditure is as a result of: a net loss on the Disposal of Fixed Assets of £23.89 million, of which £21.0 million relates to the impact of three schools becoming Academies during the year (Hexham Queen Elizabeth High School, Hexham Middle School and Prudhoe Adderlane First School); and an increase in Parish and Other Precepts of £0.59 million

	2015-16 Net Expenditure (As restated)	2016-17 Net Expenditure	Change	
	£'000	£'000	£'000	
Financing and Investment Income and Expenditure	37,187	28,923	(8,264)	The decrease in net expenditure is as a result of increased interest received largely in relation to increased lending to Arch.
Taxation and Non Specific Grant Income	(361,187)	(378,699)	(17,512)	Locally raised tax income increased by £10.04 million largely as a result of additional Council Tax income due to the 3.99% increase (including the 2% increase for Adult Social Care) agreed during the 2016-17 budget setting process and an increase in the tax base; and, capital grants and contributions increased by £19.75 million; the level of grants is dependent on the capital programme. Non ring fenced grants reduced by £12.28 million due largely to a reduction in Revenue Support Grant.
(Surplus) or Deficit on Revaluation of Non-Current Assets	(19,580)	(15,197)	4,383	During 2016-17, 303 assets were re-valued resulting in a net increase to the revaluation reserve of £15.197 million; a difference of £4.383 million compared to the net increase to the revaluation reserve in 2015-16 of £19.580 million (relating to 407 assets).

	2015-16 Net Expenditure (As restated)	2016-17 Net Expenditure	Change	
	£'000	£'000	£'000	
(Surplus) or Deficit on Revaluation of Available-for Sale-Financial Assets	(167)	154	321	This relates to the revaluation of the Royal Bank of Scotland (RBS) Certificates of Deposit. These are two £5 million, 2 year investments which were taken out in May 2015. The decrease in value during the year relates largely to a prior year adjustment for an incorrect valuation assessment.
Actuarial (Gains)/Losses on pension Assets/Liabilities	(43,610)	14,580	58,190	The actuarial gains/losses vary each year with changes in the assumptions used by the actuary to value pension liabilities. The increase in net expenditure is due to actuarial losses from measurement of pension liabilities (under IAS 19) net of returns on pension fund assets increasing by £58.19 million when compared to the previous year.
Movement due to Acquisitions/Disposals on Pension Fund	8,060	-	(8,060)	In 2015-16 there were transfers in Pension Fund assets and liabilities as a result of organisational changes to Homes for Northumberland and Active Northumberland as well as the subsumption of Northumberland County Blind Association who ceased to be an employer in the Pension Fund. There are no equivalent transactions in 2016-17.

	2015-16 Net Expenditure (As restated)	2016-17 Net Expenditure	Change	
	£'000	£'000	£'000	
Transfer of HfN Balances	(2,656)	(32)	2,624	The Council received £2.66 million from the transfer of balances from Homes for Northumberland being brought back in house on 1 September 2015. The remaining assets and liabilities of Homes for Northumberland were transferred to the Council on 30 March 2017 and the remaining balance relating to that transaction of £0.03 million was transferred to the Council.

Notes:

A revaluation gain or loss occurs where there has been an increase or decrease in asset values from one year to the next. Such movements have been volatile over the past two years because of the economic situation. The gains or losses are charged to relevant services in the CIES but statutory provisions allow them to be reversed so that they are not a charge to Council Tax payers.

Under certain circumstances capital expenditure can be financed through revenue. In these cases, a charge is still made to the CIES but this charge is reversed out of the General Fund Balance via a transfer from the Capital Adjustment Account in the Movement in Reserves Statement to neutralise the impact of the expense on the bottom line.

A gain or loss on disposal occurs when the consideration received on the sale of an asset is respectively greater than or less than the value that the asset has in the Council's books. The gains or losses fall to relevant services in the CIES but are not a charge to Council Tax.

Balance Sheet

5. The total net worth of the Council, the aggregate value of all of the assets and liabilities in the balance sheet, has increased by £68.91 million in the year from £270.51 million to £339.42 million.
6. The increase in net worth (summarised at the foot of the CIES) is represented by:

	£m
Surplus in the year on the provision of services	(68.416)
Actuarial Loss on Pension Fund Assets/Liabilities	14.580
Surplus on revaluation of non-current assets	(15.197)
Deficit on revaluation of Available-for-Sale Financial assets	0.154
Transfer of Homes for Northumberland Balances	(0.032)
Total Increase in Net Worth	(68.911)

7. The **increase in the pension reserve** is due to a decrease in the discount rate used by the actuary to value the liabilities. The effect of this is to increase the value placed on liabilities, which increases the pension reserve. (Note 44, page 117).
8. **Capital expenditure** for the year totalled £296.99 million. This relates to additions to Property, Plant and Equipment as well as loans to third parties. The main projects on which expenditure was incurred were: Schools' Planned Maintenance Programme; DECC Central Heating Programme; Highways' Local Transport Plan; Highways Flood Damage Capital Repair; Morpeth Northern Bypass; Street Lighting Replacement Programme; Alnwick Lionheart Depot; HRA Major Repairs Reserve; and, loans to Arch. Paragraph 3 in the Narrative Report details the areas in which the major capital schemes were undertaken during the year.
9. The value of **Assets Held for Disposal**, i.e. those assets no longer required by the Council that are being actively marketed for sale, has increased from £9.52 million to £16.15 million during the year (Note 21, page 87). This is due to assets in this category, with a value of £6.64 million being sold during the year and the transfer of assets with a value of £13.26 million into and out of this category, most notably the Loansdean site (valued at £4.03 million).
10. **Investments** have decreased from £183.16 million to £120.82 million (see Balance Sheet, page 24). The Council's strategy in 2016-17 was to utilise its investments and balances to reduce the need for external borrowing. This approach is financially advantageous when investments returns are lower than borrowing rates, as the foregone investment

income is less than the interest that would otherwise be incurred on external loans.

11. There have been a number of significant movements on **provisions** during the year (Note 23, page 88). These are liabilities where there is some uncertainty about the value and/or the timing of the payments to be made. The key movements in the year were:
 - Unequal Pay Back Pay – The provision has increased by £0.53 million mainly to cover the HMRC liability on equal pay claims that have been settled.
 - Estates Rationalisation - The provision has been created to cover future one-off costs that will arise as the Council implements its estates rationalisation programme. The provision has reduced by £0.54 million which reflects the expenditure incurred on the Council's estate during the year.
 - MMI Liability – In April 2016 Municipal Mutual Insurance issued the Council with a further levy payment of £0.52 million.
 - NNDR appeals – the overall provision has increased by £0.24 million from 2015-16; £1.49 million was used to settle claims in year and a further £1.72 million was set aside to fund claims that existed at 31 March 2017.
12. The Council can earmark funds from the General Fund and the HRA balances to finance future expenditure plans (Note 10, page 66). Overall, the Council's General Fund balance increased (£0.48 million – see above), and the earmarked general fund and HRA reserves increased by £4.17 million during 2016-17. The key movements in these reserves was as follows:

Reserve	Balance 31 March 2016 £m	Balance 31 March 2017 £m	Explanation
Balances held by schools under a scheme of delegation	8.92	6.59	During 2016-17 schools used £1.83 million of the reserve to support their running costs and a loan of £0.5 million was made to the Duchess High School for ICT equipment.
Community Led Housing	-	1.32	This reserve was created from the Council's allocation from the Government's Community Housing Fund. It is to be used to support community-led housing developments in areas where the impact of second homes is particularly acute. To enable community groups to deliver affordable housing units of mixed tenure on sites which are of little interest to mainstream housebuilders and to build collaboration, skills and supply chains at a local level. The reserve will enable capital investment, technical support and revenue to be provided to make schemes viable.
Estates Rationalisation	15.65	13.59	This reserve has been created to cover the future costs arising from the Council's estates rationalisation programme. The balance at 31 March 2017 has been aligned with future anticipated costs associated with the programme.

Reserve	Balance 31 March 2016 £m	Balance 31 March 2017 £m	Explanation
Section 106 Reserve	2.14	4.55	Planning obligations under Section 106 of the Town and Country Planning Act 1990 (as amended), commonly known as s106 agreements, are a mechanism which make a development proposal acceptable in planning terms, that would not otherwise be acceptable. They are focused on site specific mitigation of the impact of development and are often referred to as 'developer contributions'. Common uses include Affordable Housing Schemes, Highway contributions or contributions to Sport and Play Provision. The monies are held until the particular provision is undertaken. During 2016-17 £3.23 million was received from developers with £0.83 million used to fund schemes.
Strategic Management Reserve	48.12	52.16	This reserve was established following a review of all usable reserves during 2015-16 which enabled £48.12 million to be released to support the Medium Term Financial Plan. A further £4.04 million was added to the reserve from the Collection Fund surplus in 2016-17 to support the Medium Term Financial Plan in 2017-18. This funding was approved at the Council's budget meeting in February 2017.
HRA – Major Repairs Reserve	0.99	2.14	The Council is required to maintain a Major Repairs Reserve with the main transfer into the reserve being an amount equivalent to the total depreciation charges for all HRA assets. This reserve is used to fund HRA related capital expenditure.

Pension Fund

13. The overall pension liability now totals £678.12 million. This is an increase of £25.64 million compared with the position at the start of the year. Full details of the Pension Fund may be found in note 44, page 117.

GROUP ACCOUNTS

14. The Council has three subsidiary companies over which it exercises control, namely Arch, Homes for Northumberland (HfN), and, Generation and Innovation.
15. On 1 September 2015 the management of the Council's housing stock was brought back in house leaving HfN managing 22 properties which it owned. On 30 March 2017 the remaining assets, liabilities and reserves of HfN were transferred to the Council. The Council and the companies, effectively, form one economic entity and this is reflected in the group accounts which aggregate the results of all three organisations into one set of financial statements.
16. The consolidation of the Group entities has the following significant impact on the Council's Balance Sheet:

Balance	Council only £m	Group £m	Change £m	Notes
Property, plant and equipment	1,294	1,327	33	A number of additional assets have been purchased by Arch. In addition assets of £2.04 million were reclassified from investment property and added to Property plant and equipment. In total £2.90 million worth of assets were disposed of. £2.8 million of this was in respect of HfN assets transferred to the Council.
Investment property	2	286	284	One of the subsidiary companies; Arch, holds a number of social housing investment properties. The value of investment property at the start of the financial year within Arch was £119.59 million. Assets totalling £2.04 million have been reclassified and removed from investment property. There has been £161.93 million worth of additional assets purchased, £0.08 million worth of assets disposed of and asset revaluations have resulted in an

increase of £5.05 million.

Long Term Debtors	395	149	(246)	There is a reduction on consolidation as NCC has long term loans outstanding of £246.00 million with Arch.
Short Term Creditors	(108)	(118)	(10)	Increase due to Arch Creditors. £6.53 million relates to accruals and deferred income.

IMPLICATIONS ARISING OUT OF THE REPORT

Policy:	None.
Finance and value for money:	The Statement of Accounts summarises the financial performance of the Council for the 2016-17 financial year, and shows its net worth as at 31 March 2017.
Human Resources:	None.
Legal:	None.
Procurement:	None.
Property:	None.
Equalities:	None.
Risk Assessment:	The risks within the preparation of the Statement of Accounts are well managed through the embedded processes in place.
Crime & Disorder:	None.
Customer Considerations:	None.
Carbon Reduction:	None.
Consultation:	Portfolio Holder for Corporate Services.
Wards:	All.

Background Papers:

Northumberland County Council Draft Statement of Accounts 2016-17

Report sign off:

Finance	Alan Mason
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