

AUDIT

COMMITTEE

27 September 2017

The Statement of Accounts 2016-2017

Report of Alison Elsdon Director of Corporate Resources

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

Purpose of Report

The purpose of this report is to provide the members of the Audit Committee with an overview of the changes made to the Draft Statement of Accounts presented in July of this year.

Recommendations

It is recommended that the members of the Audit Committee should:

- **note the changes made to the draft document, and;**
- **approve the Statement of Accounts 2016-2017.**

Link to the Corporate Plan

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

Key Issues

There has been one significant change to the accounts which has had an impact on the overall financial position of the Council. During the year the Council made a revenue contribution to capital of £15.70 million to fund the overall capital programme. Following the County Council elections held in May 2017 the new administration of the Council has decided to review this decision and the revenue contribution to capital of £15.70 million has now been reversed. The impact of this is to increase the overall General Fund balance by £15.70 million to £53.04 million as at 31 March 2017.

BACKGROUND

1. The draft 2016-2017 Statement of Accounts were presented to the Audit Committee in July. Since then a number of amendments have been made to the document including changes recommended by the external auditors.
2. There have been two significant changes to the accounts, one of which has had an impact on the overall financial position of the Council.
 - During the year the Council made a revenue contribution to capital of £15.70 million to fund the overall capital programme. Following the County Council elections held in May 2017 the new administration of the Council has decided to review this decision and the revenue contribution to capital has now been reversed. The overall impact of this is to increase the overall General Fund balance by £15.70 million to £53.04 million as at 31 March 2017.
 - An error was identified by Management following publication of the draft accounts in relation to the amount owed to central government in relation to business rates. The net amount owed to central government was correct, however both short term creditors and short term debtors were overstated by £36.93 million. This adjustment does not have any impact on the overall financial position of the authority.
3. The key changes made to the figures are set out in Appendix A.
4. Changes made to the narrative within the accounts are set out in Appendix B.
5. There have been a number of amendments to the Pension Fund Financial Statements including disclosing administrative expenses and investment management expenses as one category of 'management expenses'. This has resulted in the removal of Note 12 Investment Management Expenses and consequently all subsequent notes have now been re-numbered. The statements have also been revised to include a disclosure on senior officers remuneration and the notes relating to financial instrument disclosures have been expanded.
6. Appendix C shows the revised Note 38 Related Parties to show the disclosure of previous years comparative amounts.
7. Although substantially completed, at the time of writing this report the External Auditors were still finalising some of their testing. If any additional changes are made from this work a revised list of changes will be tabled at the meeting.
8. Group Accounts; these have been amended to incorporate the changes shown at Appendix A. The External Audit of the subsidiary companies did not identify any material issues or differences above the reporting threshold for the consolidated financial statements.
9. The final version of the Statement of Accounts and the ISA 260 will be published on the Council's web-site once approved by this meeting.

IMPLICATIONS ARISING OUT OF THE REPORT

Policy:	None.
Finance and value for money:	The Statement of Accounts summarise the financial performance of the Council and its subsidiaries for the financial year 2016-2017 and shows its net worth as at 31 March 2017.
Human Resources:	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.
Customer Considerations:	None.
Carbon Reduction:	None.
Consultation:	Portfolio Holder for Corporate Services.
Wards:	All.

Background papers

Draft Statement of Accounts 2016-2017.

Report sign off:

Finance	Alan Mason
Interim Chief Executive	Daljit Lally
Portfolio Holder	Nick Oliver

Report Author: Alan Mason – Finance Manager
(01670) 622167:alan.mason@northumberland.gov.uk

Summary of Key Changes to the Figures within the Statement of Accounts
Appendix A

Page	Description	Changed from £'000	Changed to £'000
8	Outturn Against Budget for 2016-17 - Revenue		
	Corporate Resources – Net Expenditure	6,560	(9,140)
	Corporate Resources - Variance	(7,270)	(22,978)
	Total – Net Expenditure	261,240	245,540
	Total – Variance	(452)	(16,152)
	General Fund Balance		
	Balance as at 31 March 2017	37,336	53,036
	Change in year	484	16,184
9	Outturn Against Budget for 2016-17 – Capital		
	How the capital position was financed in year:		
	Borrowing	202,655	218,355
	Revenue Contributions to Capital Outlay	17,495	1,795
22	Movement in Reserves Statement		
	Adjustments between accounting basis & funding basis under regulations (Note 9)		
	General Fund Balance	31,185	15,485
	Total Usable Reserves	62,773	47,073
	Unusable Reserves	(62,773)	(47,073)
	Net (Increase) /Decrease before Transfers to Earmarked Reserves		
	General Fund Balance	(3,785)	(19,485)
	Total Usable Reserves	(5,675)	(21,375)
	Unusable Reserves	(63,236)	(47,536)
	(Increase) /Decrease in 2016-17		
	General Fund Balance	(484)	(16,184)
	Total Usable Reserves	(5,675)	(21,375)
	Unusable Reserves	(63,236)	(47,536)
	Balance at 31 March 2017 carried forward		
	General Fund Balance	(37,336)	(53,036)
	Total Usable Reserves	(184,263)	(199,963)
	Unusable Reserves	(155,161)	(139,461)
24	Balance Sheet		
	Short Term Debtors	122,515	85,586
	Total – Current Assets	241,746	204,817
	Short Term Creditors	(107,614)	(70,685)
	Total – Current Liabilities	(284,367)	(247,438)
	Usable Reserves	184,263	199,963
	Unusable Reserves	155,161	139,461

Summary of Key Changes to the Figures within the Statement of Accounts
Appendix A

25	Cash Flow Statement		
	Adjustments to net surplus or deficit on the provision of services for non-cash movements	26,539	63,468
		(16,268)	20,661
	Total – Net Cash Flows from Operating Activities	159,886	122,937
	Financing Activities		
52	Note 4 – Expenditure and Funding Analysis		
	Corporate Resources	42,756	27,056
	Net Expenditure Chargeable to the General Fund and HRA Balances	(10,765)	4,935
	Adjustments between Funding and Accounting Basis		
	Net Cost of Services	234,626	218,926
	Net Expenditure Chargeable to the General Fund and HRA Balances	6,346	22,046
	Adjustments between Funding and Accounting Basis		
	Surplus	6,195	(21,895)
	Net Expenditure Chargeable to the General Fund and HRA Balances	(62,221)	(46,521)
	Adjustments between Funding and Accounting Basis	(6,227)	(21,927)
	Total (Surplus) General Fund and HRA	(6,227)	(21,927)
	Add: (Surplus) on General Fund and HRA Balance in Year	(60,888)	(76,588)
	Closing General Fund and HRA Balance at 31 March 2017		
55	Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts		
	Corporate Resources	(8,679)	7,021
	Adjustments for capital purposes	(10,765)	4,935
	Total Adjustments		
	Net Cost of Services	15,474	31,174
	Adjustments for capital purposes	6,346	22,046
	Total Adjustments		
	(Surplus) or Deficit	(73,880)	(58,180)
	Adjustments for capital purposes	(62,221)	(46,521)
	Total Adjustments		
61	Note 9 - Adjustments between Accounting Basis and Funding Basis under Regulations		
	Capital expenditure charged against the General Fund and HRA balances		
	General Fund Balance	17,221	1,521
	Movement in Unusable Reserves	(17,495)	(1,795)
	Total Adjustments		
	General Fund Balance	31,185	15,485
	Movement in Unusable Reserves	(62,773)	(47,073)
80	Note 18 – Financial Instruments		
	Categories of Financial Instruments		
	Debtors		

Summary of Key Changes to the Figures within the Statement of Accounts
Appendix A

	Loans and receivables – current	117,737	81,593
	Total Debtors - current	117,737	81,593
	Creditors		
	Financial liabilities at amortised cost - current	(105,818)	(66,022)
	Total Creditors – current	(105,818)	(66,022)
86	Note 19 – Debtors		
	Short Term		
	Central government bodies	56,582	19,653
	Total Short Term	122,515	85,586
	Total Debtors	517,302	480,373
87	Note 22 – Creditors		
	Central government bodies	(48,725)	(11,796)
	Total	(107,614)	(70,685)
90	Note 24 - Usable Reserves		
	General Fund	37,336	53,036
	Total Usable Reserves	184,263	199,963
90	Note 25 – Unusable Reserves		
	Capital Adjustment Account	658,756	643,056
	Total Unusable Reserves	155,161	139,461
92	Capital Adjustment Account		
	Capital expenditure charged against the General Fund and HRA balance	17,495	1,795
	Balance at 31 March	658,756	643,056
95	Note 28 - Cash Flow Statement – Financing Activities		
	Other receipts from financing activities	37,563	634
	Net cash flows from financing activities	159,866	122,937
96	Note 29 – Cash Flow Statement - Non-Cash Movements		
	(Increase) in Debtors	(56,376)	(19,447)
	Net Deficit on the Provision of Services for Non-Cash Movements	26,539	63,468
111	Note 39 – Capital Expenditure and Capital Financing		
	Direct revenue contributions	(17,495)	(1,795)
	Closing Capital Financing Requirement	967,131	922,831
	Explanation of movements in year:		
	Increase in underlying need to borrow (unsupported by government financial assistance)	202,655	218,355
	Increase/ (Decrease) in Capital Financing Requirement	176,401	192,101

Summary of Key Changes to the Figures within the Statement of Accounts
Appendix A

206	PENSION FUND ACCOUNTS		
	Dealings with members employees and others directly involved with the Fund		
	Administrative expenses (Note 9) line removed	(54,421)	(53,277)
	Sub total	(6,882)	(5,738)
	Net (withdrawals) from dealings with members	-	(6,261)
	Management Expenses (New line added)	-	(11,999)
	Net (withdrawals) after Fund management expenses (New line added)		
	Returns on investments		
	Investment management expenses (Note 12) line removed	259,942	265,059
	Net return on investments		
212	Note 9 – Management Expenses (previously named Administration Expenses and revised to incorporate Note 12)	-	(5,117)
	Investment management expenses (new line)	(1,144)	(6,261)
	Total		
	New table:		
	Investment management expenses can be further analysed as follows:		
	Management fees	-	(5,082)
	Custody Fees	-	(35)
	Total	-	(5,117)
218	Note 17 – Related party transactions (Previously Note 18)		
	New table:		
	Short term benefits	-	(9,895)
	Post-employment benefits		(1,563)
	Total		(11,458)
235	FIREFIGHTERS' PENSION FUND		
	Fund Account		
	Net amount payable before top-up grant		
	Grant received for 1992 Contributions Holiday	103	(103)
	Top-up grant payable by central Government	(3,976)	(3,770)

Summary of Key Changes to the Figures within the Statement of Accounts
Appendix A

Page	Description	Council Only		Group	
		Changed from £'000	Changed to £'000	Changed from £'000	Changed to £'000
	GROUP ACCOUNTS				
171	Group Movement in Reserves Statement				
	Adjustments between accounting basis and funding basis under regulations				
	General Fund Balance	31,185	15,485		
	Total Usable Reserves	62,773	47,073		
	Unusable Reserves	(62,773)	(47,073)		
	Net (Increase)/Decrease before Transfers to Earmarked Reserves				
	General Fund Balance	(3,785)	(19,485)		
	Total Usable Reserves	(5,675)	(21,375)		
	Unusable Reserves	(63,236)	(47,536)		
	(Increase)/Decrease in 2016-17				
	General Fund Balance	(484)	(16,184)		
	Total Usable Reserves	(5,675)	(21,375)		
	Unusable Reserves	(63,236)	(47,536)		
	Balance at 31 March 2017				
	General Fund Balance	(37,336)	(53,036)		
	Total Usable Reserves	(184,263)	(199,963)		
	Unusable Reserves	(155,161)	(139,461)		
176	Group Balance Sheet				
	Short- Term Debtors	122,515	85,586	126,814	89,885
	Total – Current Assets	241,746	204,817	252,277	215,348
	Short Term Creditors	(107,614)	(70,685)	(118,173)	(81,244)
	Total – Current Liabilities	(284,367)	(247,438)	(295,525)	(258,596)
	Usable Reserves	184,263	199,963	180,006	195,706
	Unusable Reserves	155,161	139,461	219,671	203,971
177	Group Cash Flow Statement				
	Adjustments to net surplus or deficit on the provision of services for non-cash movements	26,539	63,468	27,720	64,649
	Total – Net cash flows from Operating Activities	(16,268)	20,661	(22,616)	14,313
	Financing Activities	159,866	122,937	159,866	122,937
186	Note 6 – Group Cash Flow Statement – Financing Activities				
	Other receipts from financing activities	37,563	634	37,563	634
	Total – Net cash flows from financing activities	159,866	122,937	159,866	122,937
186	Note 7 – Group Short Term Debtors				
	Central government bodies	56,582	19,653	56,582	19,653

Summary of Key Changes to the Figures within the Statement of Accounts
Appendix A

	Total Short Term Debtors	122,515	85,586	126,814	89,885
186	Note 8 – Group Short Term Creditors				
	Central government bodies	(48,725)	(11,796)	(48,725)	(11,796)
	Total Short Term Creditors	(107,614)	(70,685)	(118,173)	(81,244)
187	Note 9 – Group Unusable Reserves				
	Capital Adjustment Account	658,756	643,056	669,387	653,687
	Total	155,161	139,461	219,671	203,971
190	Group Capital Adjustment Account				
	Capital expenditure charged against the General Fund and HRA balance	17,495	1,795	17,495	1,795
	Total – Balance at 31 March	658,756	643,056	669,387	653,687

Page	Area	Change
8	Outturn Against Budget for 2016-17 – Revenue	<p>The sentence “The final outturn is a net contribution to general reserves of £0.45 million comprising a planned contribution of £0.08 million, the planned use of the Adult Services reserves of £5.40 million and a general underspend against services of £5.77 million.” Has been replaced with: “The final outturn is a net contribution to general reserves of £16.15 million comprising a planned contribution of £0.08 million, the planned use of the Adult Services reserves of £5.40 million and a general underspend against services of £21.47 million.”</p> <p>The sentence “During the year the Council made a revenue contribution to capital of £15.70 million to fund the overall capital programme.” Has been removed.</p>
18	Paragraph 9 - Significant charges in the accounts	<p>The sentence “There has been one new substantial item charged as an expense to the Comprehensive Income and Expenditure Statement in the year.” Has been replaced with: “There has been no significant item charged as an expense to the Comprehensive Income and Expenditure Statement in the year.”</p>
58	Note 7 – Material Items of Income and Expense - RCCO	<p>The sentence “During 2016-17 the Council made a revenue contribution to capital of £15.70 million to fund the overall capital programme.” Has been removed.</p>
90	Note 24 – Usable Reserves	<p>The reference in the narrative statement should refer to Note 10 on page 66 rather than page 65.</p>
108	Note 38 – Related Parties	<p>The note has been revised to disclose previous years comparative amounts and the revised Note 38 is shown in Appendix C.</p>
	PENSION FUND ACCOUNTS	
207	Net Assets Statement	<p>Current Assets - originally referred to Note 13, revised to refer to Note 12. Current Liabilities – originally referred to Note 14, revised to refer to Note 13. Net Assets of the Fund at 31 March – originally referred to Note 15, revised to refer to Note 14. The sentence “The accounts summarise the transactions of the Fund and the net assets. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the Statement of the Actuary and the Whole of the Pension Fund Disclosures under IAS 26 (also prepared by the actuary) shown on page 229 and at Appendix 2 and these accounts should be read in conjunction with that.” Has been replaced with:</p>

“The Fund Account and Net Assets Statement do not take account of obligations to pay pensions and benefits which fall due after 31 March 2017. The actuarial position of the Fund is shown in the Statement of the Actuary and the Whole of Pension Fund Disclosures under IAS 26 shown on page 230 and at Appendix 2 and these accounts should be read in conjunction with that”.

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|-----|---|--|
| 208 | Note 1 – Basis of preparation | <p>The sentence “The accounts have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and comply with the provisions of Chapter 2 of the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised May 2007), except if reference to the contrary is made”. Has been replaced with:</p> <p>“The accounts have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016-17, which is based on International Financial Reporting Standards as amended for the UK Public Sector, and incorporate the provisions of Financial Reports of Pension Schemes: A Statement of Recommended Practice (2015).</p> <p>The accounts summarise the Fund’s transactions for the year to 31 March 2017 and the net assets available to pay LGPS pension benefits as at 31 March 2017. They do not take account of obligations to pay pensions and benefits which fall due after 31 March 2017. However the actuarial present value of the promised retirement benefits as set out in “Option C” of IAS 26 (calculated on assumptions set in accordance with IAS 19) is disclosed in Appendix 2 to the Annual Report and these Financial Statements should be read in conjunction with that”.</p> |
| 212 | Note 9 – Management Expenses (previously named Administration expenses) | <p>The sentence “Administration expenses are analysed between administrative costs and oversight and governance costs in accordance with CIPFA guidance Accounting for Local Government Pension Scheme Management Costs”. Has been replaced with:</p> <p>“Indirect management fees charged within pooled investment vehicles and partnerships have been included in investment management expenses, and management expenses analysed in accordance with CIPFA guidance Accounting for Local Government Pension Scheme Management Costs”.</p> |
| | Note 12 – Investment management expenses | <p>This note has been removed and Investment Management Expenses are now included within Note 9.</p> <p>All subsequent Note numbering has been revised.</p> |

217	Note 16 – Significant Holdings	<p>This Note has been re-numbered to Note 15 with prior year information added to each of the 3 bullet points as follows:</p> <p>Bullet point 1: (Two separate holdings of £128.08 million and £128.03 million totalling £256.11 million or 24.2% as at 31 March 2016)</p> <p>Bullet point 2: (Two separate holdings of £80.78 million and £80.83 million totalling £161.61 million or 15.4% as at 31 March 2016)</p> <p>Bullet point 3: (£59.46 million or 5.6% as at 31 March 2016)</p>
220	Note 22 – Financial Instruments	<p>This Note has been re-numbered to Note 21. The sentence “Financial instruments as at 31 March 2016 have been restated, classifying the financial assets at fair value through profit and loss previously shown as level 1 as level 2 instead, to better reflect the valuation methods used for these assets”. Has been removed.</p> <p>The sentence “The majority of the Fund assets are classified as level 2. The Fund has no investment assets classified as level 1 and has private equity and infrastructure investments classified as level 3 which are based on the valuations provided by the general partners to the funds invested in. Private equity and infrastructure investments are categorised as “ventures and partnerships” in the Net Assets Statement”. Has been removed.</p> <p>An additional sentence has been added “Level 3 instruments include unquoted investments which are valued using various techniques requiring significant judgement in determining appropriate assumptions. The Fund’s level 3 investments comprise infrastructure and private equity partnerships which are valued in the Net Assets Statements based on unaudited valuations at either 31 December 2016 or 31 March 2017 provided by the managers controlling the partnerships”.</p> <p>New tables have been added (page 220) showing the basis of valuation of each class of investment asset and a reconciliation of fair value measurements within level 3.</p>

38. Related Parties

Information in respect of material transactions with related parties not disclosed elsewhere within the Statement of Accounts is presented below.

Related parties of a Local Authority include Central Government, Other Local Authorities and Precepting Bodies, Subsidiary and Associated Companies, Joint Ventures, Pension Funds, Members and Chief Officers.

Central Government

Central Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties.

Subsidiaries

The Council had three subsidiary companies in 2016-17 that are considered to be related parties:

- Arch Group
- Homes for Northumberland
- Generation and Innovation

Arch Group owed £246.10 million (£70.22 million 2015-16) to Northumberland County Council (the ultimate holding company) primarily in respect of principal and interest due on a commercial loan facility. Expenditure by Northumberland County Council to Arch Group was £0.27 million (£0.69 million 2015-16). Income to Northumberland County Council from Arch Group was £8.97 million (£3.39 million 2015-16).

In prior years Homes for Northumberland was paid a management fee by the Council to carry out the management of the Council's housing stock. These activities were brought back in-house from 1 September 2015 and the company only operated in 2016-17 to manage its 22 properties in Allendale.

These Allendale properties and the remaining assets and liabilities of Homes for Northumberland were transferred to the Council on 30 March 2017.

Homes for Northumberland is in the process of being wound up.

Generation and Innovation was created but remained dormant during 2016-17.

Associate

Active Northumberland is considered to be a related party. The Council is one of five organisations with equal representation on the Board. On 1 April 2015, Culture, Libraries and Tourism transferred from the Council under a management agreement to the company. On 1 January 2017, seven libraries and two Tourist Information Centres transferred to the Council. During 2016-17 the Council paid a management fee of £3.83 million (£6.80 million 2015-16) to Active Northumberland. Active Northumberland has used the Council's Enterprise Resource Planning system, Oracle e-Business for all expenditure transactions. At the end of 2016-17 NCC owed Active Northumberland £0.73 million (£8.64 million 2015-16) due to timing delays.

Northumberland County Council Pension Fund

Northumberland County Council administers the Pension Fund. During 2016-17 the Pension Fund had an average balance of £4.93 million borrowed from the Council for which it paid interest of £17,214 (and an average balance of £3.73 million borrowed from the Council during 2015-16 for which it paid interest of £19,169). The costs incurred by the Council in administering the Fund, excluding audit fees, are recharged to the Fund on an annual basis. In 2016-17 these costs amounted to £0.65 million (£0.64 million in 2015-16). £2.46 million was due to the Council at 31 March 2017 (£6.00 million at 31 March 2016).

Employer contributions for Pension Fund Panel members and senior management who are members of the Scheme are paid in accordance with the rates set by the actuary in the Rates and Adjustments Certificate, and active member contributions are paid in accordance with rates set in the Local Government Pension Scheme Regulations. The terms and conditions which apply to Panel members and senior managers are the same as those which apply to all other Scheme members. Four voting Panel members were members of the Scheme as at 31 March 2017 (four as at 31 March 2016).

Members

Members of the Council have direct control over the Council's financial and operating policies. During 2016-17 goods and services were commissioned from organisations in which Members had an interest. Also funding consists of other grants paid to organisations in which Members had an interest. All interests were declared by the appropriate Members. Members had interests in 106 organisations with transactions totalling £56.05 million in respect of goods or services provided to the Council (108 and £131.73 million in 2015-16).

During 2016-17 goods and services amounting £13.29 million were provided by the Council to 86 organisations in which Members had an interest (£4.24 million and 84 in 2015-16).

Included in the above sums are amounts due from the Council of £1.97 million and due to the Council of £7.93 million as at 31 March 2017 (£10.63 million and £1.20 million in 2015-16).

Officers

During 2016-17 goods and services were provided to or commissioned from organisations in which officers had an interest. All interests were declared by the appropriate officers. Officers had interests in 11 organisations with transactions totalling £32.53 million in respect of goods or services provided to the Council (9 and £38.79 million in 2015-16).

During 2016-17 goods and services amounting £9.12 million were provided by the Council to 8 organisations in which officers had an interest (£1.94 million and 4 in 2015-16).

Included in the above sums are amounts due from the Council of £1.16 million and due to the Council of £7.29 million as at 31 March 2017 (£0.79 million and £0.77 million in 2015-16).

Schedules of related party transactions are available to inspect upon request.