


Non-Executive Report of the: Audit Committee 28 th June 2016	 TOWER HAMLETS
Report of: Zena Cooke, Corporate Director of Resources	Classification: [Unrestricted or Exempt]
Annual Financial Report 2015/16	

Originating Officer(s)	Kevin Miles, Chief Accountant
Wards affected	[All wards]

Special Circumstances and Reasons for Urgency

- The report was unavailable for public inspection within the standard timescales set out in the Authority's Constitution, because of continuing work to finalise and review the accounting statements.
- To comply with CIPFA best practice, the Corporate Director of Resources recommends that the Audit Committee note the Draft Statement of Accounts prior to submission to the auditors.

1. **SUMMARY**

- 1.1 This report presents the Annual Financial Report for 2015/16 which comprises a Narrative Report by the Corporate Director, Resources and the draft Statement of Accounts which is subject to audit. The full Annual Financial Report will also contain the Annual Governance Statement which is the subject of a separate report on this Committee's agenda. The draft is both for information and comment prior to the commencement of the external audit proper by KPMG.
- 1.2 Some minor changes may become necessary as a result of the audit process but these are not expected to have any material impact on the Council's overall financial position. The audit is planned to be concluded in late August and the results reported to the Committee on 20th September 2016.

2. **RECOMMENDATIONS**

Audit Committee is recommended to:-

- 2.1 Note the Annual Financial Report for the financial year ending 31st March 2016 comprising the Explanatory Foreword and the draft Statement of Accounts which is subject to audit.
- 2.2 Note that the 2014/15 Accounts are still to be signed off by KPMG as their consideration of the LOBO loans objection continues alongside other audit firms who are looking at the matter for their council clients.

3. REASONS FOR DECISIONS

- 3.1 The Accounts and Audit Regulations require that each Local Authority publish a draft financial report by 30th June each year. The external auditors are required to audit this report by 30th September and to provide an opinion.
- 3.2 Though it is not a legal requirement to table the draft financial report, it is considered good practice to table the report where possible.

4. ALTERNATIVE OPTIONS

- 4.1 It is not a legal requirement to table draft financial statements to Audit Committee until they have been audited, therefore an alternative option would be not to table this report until the September committee.

5. BACKGROUND

- 5.1 The Annual Financial Report 2015/16 comprises three elements:

- A Narrative Report
- The Statement of Accounts
- The Annual Governance Statement

The draft Statement of Accounts is attached as Appendix 1 and is subject to audit. The Annual Governance Statement is the subject of a separate report.

- 5.2 The preparation and audit of the annual statement of accounts is a statutory requirement of the Accounts and Audit (England) Regulations 2011. The accounts must be prepared and certified by 30th June by the Corporate Director, Resources (the 'responsible financial officer') that it presents a true and fair view of the financial position of the Council. By no later than 30th September the accounts must be audited, considered by Audit Committee (together with a report from the auditors) and published. Although the Audit Committee is not actually required to consider the accounts prior to audit, good practice recognises the value in giving Members early notification of the financial outcome of the previous financial year.
- 5.3 For 2015/16 the audit is being conducted by KPMG. The main audit is due to commence in late July, 2016. The audited accounts, together with the audit opinion and report, will then be submitted to the Audit Committee on 20th September for consideration and formal approval.
- 5.4 Under legislation, if there are any material amendments arising as a result of the audit, these will be reported to the September Audit Committee. The auditor is also required to make a report setting out any matters that are not material to the accounts but are more than merely trifling. If necessary, this report will be made to the Audit Committee at the end of September.
- 5.5 Note that KPMG's appointment continues until December 2017. The Council has the right to select its next auditor or it might choose to take part in a group tender exercise organised by the Local Government Association. This group

tender is intended to reduce procurement costs and will also demonstrate that the auditor appointment process was completely impartial.

6. STATEMENT OF ACCOUNTS 2015/16

- 6.1 The draft Statement of Accounts is attached to the report as Appendix 1. The contents of the accounts are largely determined by statutory requirements and mandatory professional standards as set out within the “Code of Practice on Local Authority Accounting” and “Standard of Professional Practice on Financial Reporting” published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The CIPFA Code of Practice is based on International Financial Reporting Standards (IFRSs). A summarised version of the accounts will also be published once the audit has been completed and the accounts have been formally approved.
- 6.2 The title of the document tabled is the Annual Financial Report rather than the Statement of Accounts. The title is to acknowledge that the Auditor’s opinion will just apply to the Statement of Accounts section of the document. Though the Auditor’s will consider the Narrative Report and Annual Governance Statement as part of auditing the Accounts for consistency, strictly speaking these are outside the scope of the opinion.
- 6.3 The purpose of the Statement of Accounts is to provide clear information about the authority’s finances and should answer such questions as:
- What did the authority’s services cost in the year?
 - Where did the money come from?
 - What were the authority’s assets and liabilities at the year end
 - Is the Council financially stable?

The Statement of Accounts reflects a common pattern of presentation to facilitate comparison with the accounts of other organisations. The accounts also form the basis of the Medium Term Financial Planning process.

- 6.4 The Council’s 2015/16 outturn report, detailing net expenditure against individual service budgets, will be reported to Cabinet and Overview and Scrutiny Committee in July.
- 6.5 Set out below are the main elements of the Statement of Accounts with a brief explanation of the information contained in each element.

<p>Comprehensive Income and Expenditure Account</p>	<p>This summarises the revenue activities of the Council during 2015/16 and shows the day-to-day costs of services provided by the Council together with charges made to the revenue accounts in respect of the use of assets, costs of borrowing and income from investments. This includes the activities of the General Fund and the Housing Revenue Account.</p> <p>It should be noted that the analysis of</p>
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	<p>service income and expenditure is one used by all local authorities for comparison purposes and differs from the Council's own budget and service organisational structure.</p> <p>The draft accounts show gross revenue spend in 2015/16 of £1.25 billion with a net surplus of £70 million. The surplus was mainly due to an increase in HRA stock values. This surplus includes a number of accounting entries which do not form part of the Council's actual General Fund and HRA balances. These accounting entries such as depreciation and pension fund adjustments are then 'reversed out' in the Movement in Reserves Statement.</p>
<p>Movement in Reserves Statement</p>	<p>The Movement in Reserves Statement combines the Statement of Movement on the General Fund Balance and the Statement of Total Recognised Gains and Losses. The statement analyses the movements in reserves as they appear on the balance sheet.</p> <p>The adjusted increase in the General Fund Balance was £0.6 million leaving a balance as at 31st March 2016 of £72.1 million.</p> <p>Earmarked Reserves are those that have been set aside to cover a particular risk, or are ring fenced for particular purposes. These total £186 million including school balances of £31.8 million, the HRA reserve, the insurance reserve of £22 million and various Directorate ear-marked reserves. The accounts assume certain transfers to Earmarked reserves requested by Directorates which have yet to be formally approved, and are reported to the July Cabinet. In the event that Cabinet does not agree to these transfers, the accounts will be adjusted as part of the audit process subject to the auditor's agreement. As earmarked reserves are considerable, a review of reserves will be conducted in 2016/17 to identify which ones can be used to assist the overall medium term financial plan.</p>

<p>Balance Sheet</p>	<p>The Balance Sheet shows the assets and liabilities of the Council as at 31st March 2016. The value of the assets of the Council must equal the value of liabilities plus reserves.</p> <p>Assets include property, plant and equipment, cash and investments and any debts owing to the Council.</p> <p>Property, plant and equipment have increased to £2.16 billion in value, an increase of around £114 million due to general increase in value of housing stocks and spend on the capital programme.</p> <p>Liabilities include loans taken out by the Council to finance capital expenditure and any debts owed by the Council.</p> <p>The net assets of the Council (assets less liabilities) were £1.8 billion, which was an increase from 31st March 2015 when the figure was £1.5 billion. The main reason for the increase in long term asset values and the decrease in the IAS19 pension liability.</p>
<p>Housing Revenue Account</p>	<p>The Housing Revenue Account is a separate ring-fenced account showing the expenditure and income relating to the management and maintenance of the Council's social housing stock of some 11,884 dwellings.</p> <p>The HRA balance as at 31st March 2016 is £32 million. The increase was due to recovery of previous stock transfer costs and lower energy costs. The required bad debt provision was lower than originally anticipated.</p>
<p>Group Accounts</p>	<p>For a number of years it has been agreed in principle with the auditors that the Group Accounts is not required as the asset and liabilities of Tower Hamlets Homes (THH) are not material enough to warrant the production of a group account. THH is 100% owned by the Council and does all of its business with the Council. Note 44 of the accounts shows a summary of THH's draft accounts.</p>

Collection Fund	<p>The Collection Fund is a separate account detailing Council Tax collections (including those collected on behalf of itself, the Greater London Authority) and National Non-Domestic Rates (NNDR) which is collected on behalf of the Government. The account shows the distribution of the amount of Council Tax collected between the Council and the GLA and the payment of non-domestic rates to the Government pool. The statement includes the effect of supplementary business rates raised on organisations with a rateable value in excess of £50,000. The supplementary business rates is payable to the GLA to fund the Crossrail project.</p> <p>Any surplus or deficit on the Fund for Council Tax is distributed between the Council and the GLA in proportion to their share of tax income drawn from the fund. The Fund showed a deficit of £8.1m million for 2015/16. The overall balance carried forward on the Fund is a deficit of £5.9 million. The 2015/16 deficit was due to new business premises not being on the Valuation Office's list in time for bills to be raised in 2015/16. Backdated NNDR invoices will be raised in 2016/17.</p> <p>This is the third year that new arrangements have been in place for collection of business rates (NNDR). Previously the Council used to collect NNDR on behalf of CLG. The new system requires NNDR receipts to be split between the Council (30%), GLA (20%) and the CLG (50%). This means the Council retained some of the business rates collected; however there has been a reduction in Revenue Support Grant (RSG).</p> <p>The Council is awaiting the Government's announcement on how the business rates system will change in future.</p>
Cash Flow Statement	The Cash Flow Statement details the overall cash movements (inflows and outflows) over the year.
Pension Fund Accounts	The Pension Fund accounts are separate from the rest of the Council's accounts and show the income (pension contributions and investment returns) and expenditure (pension payments) for the year together with

	<p>the assets and liabilities of the Pension Fund as at 31st March 2016.</p> <p>The Fund is audited at the same time as the Council's main accounts but are subject to a separate audit opinion. The market value of the assets of the fund at the end of the year was £1.126 billion (a decrease of 1% from the £1.138 billion March 2015 valuation). The pension fund cash balances stood at £149m, this increase is due to redeemed investments awaiting reinvestment with new bond managers (Goldman Sachs and Insight) at the balance sheet date.</p> <p>The results of the triennial revaluation completed during 2013/14 estimated a funding deficit of £365 million and a funding level of 71.8%. The next triennial valuation will be in 2017. Officers have started working with the actuary to prepare this valuation.</p> <p>The Pensions Fund accounts will be considered by the September Pensions Committee.</p>
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- 6.6 Members are now invited to note the Annual Financial Statement and the Statement of Accounts in particular and to contact Financial Services if there are any queries that arise after the Committee Meeting. The auditor is expected to issue his opinion in September. Any material issues arising from the audit will be reported back to the Committee. Any immaterial but more than merely trifling issues will be reported to the Audit Committee.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 7.1 The comments of the chief financial officer are incorporated within this report.

8. LEGAL COMMENTS

- 8.1 The Council is required to prepare a statement of accounts in accordance with the Accounts and Audit (England) Regulations 2011. The statement must include statements about the housing revenue account (setting out prescribed particulars) and each and every other fund in relation to which the Council has a statutory function to keep a separate account. The statement must include notes demonstrating that Dedicated Schools Grant has been deployed in accordance with regulations; of the number of employees in each £5,000 salary bracket starting at £50,000, not including senior employees; and of the remuneration and the Council's contribution to pension for each senior employee.

- 8.2 The Accounts and Audit (England) Regulations 2011 specify a procedure for signing, approval and publication of a statement of accounts. The chief finance officer is required to sign and date the statement of accounts by 30 June each year, certifying that it presents a true and fair view of the Council's financial position at the end of the relevant financial year and of the Council's income and expenditure for the year. The audit committee must approve the statement of accounts by 30 September each year and the statement must be signed by the chair of the meeting at which the accounts were approved. The statement of the accounts must be published by 30 September along with any certificate, opinion or report issued or given by the Auditor under section 9 of the Audit Commission Act 1998.
- 8.3 As indicated in section 3 of the report, it is consistent with good practice for the committee to see the statement of accounts at an early stage, given that it will be asked to approve the accounts upon completion of the audit.
- 8.4 The Council 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. This is referred to as the Council's best value duty. The Annual Financial Report for 2015/16 will go towards demonstrating that the Council is meeting this duty.
- 8.5 When making decisions, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the public sector equality duty). There are no direct equality implications arising from this report.

9. ONE TOWER HAMLETS CONSIDERATIONS

- 9.1 The Statement of Accounts is a single statement of the financial position of the whole Council which is potentially of interest to all individuals and organisations which have dealings with the Council.
- 9.2 The statements are published on the Council's website both in draft and in audited form. Interested parties have the right to inspect the accounts during the audit and local electors have the right to submit questions to the auditor. Details of these rights are published in local newspapers at appropriate stages.

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)

- 10.1 There are no SAGE implications arising out of this report.

11. RISK MANAGEMENT IMPLICATIONS

- 11.1 There are no specific risk management implications.

12. CRIME AND DISORDER REDUCTION IMPLICATIONS

12.1 There are no crime and disorder reduction implications.

13. BEST VALUE (BV) IMPLICATIONS

13.1 The Council's achievement of the principles of Best Value are assessed annually as part of the final audit of the Council's financial statements by the Council's external auditors KPMG. KPMG will report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as part of the Annual Audit Letter published alongside the committee decision to approve the accounts later this year.

14. APPENDICES

Appendix 1 – Explanatory Foreword and draft Statement of Accounts for the year ended 31st March 2016 (subject to audit)

Local Government Act, 2000 (SECTION 97)

LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"	Name and telephone number of holder and address where open to inspection
Closure of Accounts Working Papers	Kevin Miles, Ext. 6791
Capital Working Papers	Alison Gebbett, Ext. 3360
HRA Closure of Accounts Working Papers	Paul Leeson, Ext. 4995