


Non-Executive Report of the: Audit Committee 28 June 2017	 TOWER HAMLETS
Report of: Zena Cooke, Corporate Director Resources	Classification: [Unrestricted]
Draft Annual Financial Report 2016-17	

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

Summary

This report presents the Annual Financial Report for 2016-17 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 by KPMG.

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 27th September 2017.

Recommendations:

The Audit Committee is recommended to:

1. Note the Annual Financial Report for the financial year ending 31st March 2017 comprising the Explanatory Foreword and the draft Statement of Accounts which is subject to audit.

1. REASONS FOR THE DECISIONS

- 1.1 The Accounts and Audit Regulations require that each Local Authority publish its draft financial statements by 30th June each year. The external auditors are required to audit this information by 30th September and to provide an audit opinion.

2. ALTERNATIVE OPTIONS

- 2.1 It is not a legal requirement to have the draft financial statements formally approved until they have been audited, therefore an alternative option would be to provide the audited statements at the September committee. However, it is considered best practice to continue to involve the appropriate committee in having oversight of this area and the Chief Financial officer has therefore concluded that the draft statements will be shared with the committee at this stage as has been the case previously.

3. DETAILS OF REPORT

- 3.1 The draft Annual Financial Report 2016-17 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.
- 3.2 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.
- 3.3 For 2016-17 the audit is being conducted by KPMG. The main audit is due to commence in July 2017. The audited accounts, together with the audit opinion and report, will then be submitted to the Audit Committee on 27th September for consideration and formal approval.
- 3.4 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.

4. **STATEMENT OF ACCOUNTS 2016-17**

4.1 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 (IFRS). A summarised version of the accounts will also be published once the audit has been completed and the accounts have been formally approved.

4.2 The title of the document tabled is the Annual Financial Report rather than the Statement of Accounts. However, the Auditor’s opinion just applies to the Statement of Accounts section of the document. Although the Auditor 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.

4.3 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.

4.4 The Council’s 2016-17 outturn report, detailing net expenditure against individual service budgets, will be reported to Cabinet and Overview and Scrutiny Committee in June.

4.5 Set out below are the main elements of the Statement of Accounts with a brief explanation of the information contained in each element.

Comprehensive Income and Expenditure Account	This summarises the revenue activities of the Council during 2016-17 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
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	<p>Fund and the Housing Revenue Account.</p> <p>It should be noted that the analysis of 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 2016-17 of £1.23 billion with a net surplus of £55.7 million. The surplus was lower than 2015/16 mainly due to an adverse IAS19 pension deficit valuation compared to the previous year. This surplus includes a number of technical 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. The change in actual usable reserves is explained within the Movement of Reserves statement below.</p> <p>The new Expenditure and Funding Analysis (note 7) explains and reconciles the figures in the CI&E to the Directorate expenditure figures reported in the outturn report.</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>After transferring part of the General Fund balance to earmarked reserves, the General Fund balance at 31st March 2017 is £31.7m. This includes the impact of a net surplus of £0.7m on the general fund revenue account during the year as reported to Cabinet. The general</p>

	<p>fund reserve has been reduced from £72.1m at 31st March 2016 partly due to transfers to earmarked reserves, including £20m for the Civic Centre reserve, £8m for welfare reform, £6m for free school meals and £7.5m for a risk reserve to manage unforeseen matters arising.</p> <p>Earmarked Reserves are those that have been set aside to cover a particular risk, or are ring fenced for particular purposes. A review has been conducted of reserves to ensure funds are available to fund Members' priorities such as social care, Transformation and IT investment, A table of reserves is included as note 8 in the Accounts.</p>
Balance Sheet	<p>The Balance Sheet shows the assets and liabilities of the Council as at 31st March 2017. The value of the assets of the Council must equal the value of its 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 £2.28 billion in value, an increase of around £120 million due to general increase in value of housing stocks and capital expenditure.</p> <p>Liabilities include loans taken out by the Council to finance capital expenditure and any debts owed by the Council. There was no new external borrowing in 2016/17.</p> <p>The net assets of the Council (assets less liabilities) were £1.85 billion, which was an increase from 31st March 2016 when the figure was £1.79 billion. The main reason for the increase is the increase in property values.</p>
Housing Revenue Account	The Housing Revenue Account is a

	<p>separate ring-fenced account showing the expenditure and income relating to the management and maintenance of the Council's social housing stock of some 11,692 dwellings.</p> <p>The HRA balance as at 31st March 2017 is £39.1 million, up £7 million. Most of the increase was due to the government failing to implement its levy on the sale of higher value void properties. It is yet to be confirmed if the levy will be payable in the future.</p>
Group Accounts	<p>For a number of years it has been agreed in principle with the auditors that Group Accounts are not required as the asset and liabilities of Tower Hamlets Homes (THH) are not considered material enough to warrant the production of group accounts. 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 the Greater London Authority) and National Non-Domestic Rates (NNDR) part of which is retained by the Council with the remainder being paid to the GLA and the Government. The statement includes the effect of supplementary business rates raised on organisations with a rateable value in excess of £50,000 which 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 £5.4 million for 2016-17. The overall balance carried forward on the Fund is a deficit of £11.3 million. The 2016-17 deficit was due primarily to appeals on business rates bills.</p>

	<p>The Council is awaiting the Government's announcements on how the business rates system will change in future as it moves towards a '100%' retained business rates model for authorities.</p>
Cash Flow Statement	<p>The Cash Flow Statement details the overall cash movements (inflows and outflows) over the year.</p>
Pension Fund Accounts	<p>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 the assets and liabilities of the Pension Fund as at 31st March 2017.</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 £1.377 billion (an increase of 22% from the £1.126 billion March 2016 valuation).</p> <p>The results of the triennial revaluation completed during 2016-17 estimated a funding deficit of £235 million (an improvement from £365m in 2013) and a funding level of 82.7% (up from 71.8% in 2013). The next triennial valuation will be in 2020.</p> <p>The Pensions Fund accounts will be considered by the September Pensions Committee.</p>

5. **COMMENTS OF THE CHIEF FINANCE OFFICER (CFO)**

- 5.1 The draft Annual Financial Statement and in particular the Statement of Accounts have been prepared by the CFO's staff in accordance with the relevant regulatory requirements. These are now subject to the external audit

review process with any required issues being brought to the Committee's attention in September. .

6. LEGAL COMMENTS

- 6.1 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.
- 6.2 The Local Government, England and Wales, the Accounts and Audit Regulations 2015 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. For 2017/18 onwards, the draft accounts are to be published by 31st May and the audit opinion received by 31st July.
- 6.3 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.
- 6.4 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 2016-17 will go towards demonstrating that the Council is meeting this duty.
- 6.5 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.

7. ONE TOWER HAMLETS CONSIDERATIONS

- 7.1 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.
- 7.2 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 on the Council website.

8. BEST VALUE (BV) IMPLICATIONS

- 8.1 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 have reported 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.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

10. RISK MANAGEMENT IMPLICATIONS

- 10.1 There are no specific risk management implications.

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 11.1 There are no crime and disorder reduction implications.

Linked Reports, Appendices and Background Documents

Linked Report

- [List any linked reports, for example those that went to other Committees on the same issue]
- State NONE if none.

Appendices

- Draft Annual Financial Report 2016-17.

Local Government Act, 1972 Section 100D (As amended)

List of "Background Papers" used in the preparation of this report

List any background documents not already in the public domain including officer contact information.

- These must be sent to Democratic Services with the report
- State NONE if none.

Officer contact details for documents:

- 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