

Report of	Meeting	Date
Chief Executive	Governance Committee	22 March 2017

UNDERSTANDING LOCAL AUTHORITY FINANCIAL STATEMENTS

PURPOSE OF REPORT

- To present the CIPFA document “Understanding Local Authority Financial Statements”. This explains changes to local authority financial statements required by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

RECOMMENDATION(S)

- That the report be noted.

EXECUTIVE SUMMARY OF REPORT

- The report introduces the CIPFA document “Understanding Local Authority Financial Statements”, and explains the main changes to presentation of revenue account outturn figures required by the 2016/17 Code of Practice.

Confidential report Please bold as appropriate	Yes	No
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CORPORATE PRIORITIES

- This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	

BACKGROUND

- UK local authorities will prepare their 2016/17 accounts in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. The 2016/17 Code has introduced a number of changes to the presentation of financial information with the aim of making the accounts more understandable.
- The Chartered Institute of Public Finance and Accountancy (CIPFA) has explained the purpose of the document “Understanding Local Authority Financial Statements” as follows:

“CIPFA and CIPFA/LASAAC have published Understanding Local Authority Financial Statements (previously How to Tell the Story) as a part of its programme of changes under the Telling the Story Review.

This publication is intended to help chief finance officers and other senior staff to present the financial statements to members and other key stakeholders by explaining how the formats can be used to convey key information in these areas and covers the main financial statements.

It also features the changed formats of the financial statements from the 2016/17 Code and discusses the new Expenditure and Funding Analysis.

CIPFA and CIPFA/LASAAC are clear that the financial statements have a key part to play in accountability to taxpayers and other stakeholders as to how public money is used.

A key to achieving the aims of the changes brought about by the review will be to use the information not just in the narrative section of the financial statements to explain performance during the year, but more widely to all stakeholders, including elected members as citizens' representatives, in a range of formats and media to provide a definitive position on financial performance. Local authorities are also urged to look to their balance sheets as a part of this explanation and the key messages that can be drawn out."

7. The document is presented as Appendix A to this report.

LINK TO BUDGET MONITORING

8. Up to 2015/16 information about the Council's General Fund revenue account was presented in the statement of accounts as the Comprehensive Income and Expenditure Statement (CI&ES), which showed net expenditure for services in the format required by the CIPFA Service Reporting Code of Practice (SeRCOP). The following is an extract from the CI&ES for 2015/16:

	2015/16		
	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Central services to the public	2,131	(781)	1,350
Environment & regulatory services	7,659	(1,524)	6,135
Planning services	4,867	(4,385)	482
Cultural & related services	5,124	(423)	4,701
Highways and transport services	569	(915)	(346)
Other housing services	29,137	(28,493)	644
Corporate and democratic core	2,026	(332)	1,694
Non-distributed costs	1,755	(937)	818
Cost of Services	53,268	(37,790)	15,478

The Gross Expenditure figures included support service recharges, depreciation and other capital charges, accrued employee benefits, and IAS 19 pension adjustments, none of which were presented in budget monitoring report figures. This meant that no direct comparison could be made between figures in the CI&ES and those in budget monitoring reports.

9. To establish a link to the information reported to Executive Cabinet and Council for budget monitoring purposes, a reconciling note was required. The statement of accounts therefore included a lengthy note (number 27 in 2015/16) – Amounts Reported for Resource Allocation Decisions. This presented two tables to reconcile the net expenditure of service directorates to the Cost of Services as presented in the CI&ES.

The first table identified the net expenditure by financial year of each directorate.

Directorate Income and Expenditure 2015/16	Chief Executive £'000	Customer Advice Services £'000	Public Protection Streetscene & Community £'000	Total £'000
Fees, charges & other service income	(3,328)	(1,288)	(2,775)	(7,391)
Government grants	(31)	(587)	(76)	(693)
Total Income	(3,359)	(1,875)	(2,851)	(8,084)
Employee expenses	3,647	3,118	4,164	10,930
Other service expenses	3,424	1,081	6,218	10,724
Total Expenditure	7,072	4,199	10,382	21,653
Net Expenditure	3,713	2,325	7,531	13,569

The second table added further figures required to reconcile to the Cost of Services in the CI&ES.

	2014/15 £'000	2015/16 £'000
Net expenditure in the Directorate Analysis	12,926	13,569
Net expenditure of services and support services not included in the Analysis (Note a)	(682)	(784)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis (Note b)	1,502	2,692
	13,746	15,478
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	0	0
Cost of Services in Comprehensive Income and Expenditure Statement	13,746	15,478

A third table not presented here, reconciled total Directorate Net Expenditure to the (Surplus) or Deficit on Provision of Services.

10. From 2016/17 onwards, the emphasis is on presenting figures in the financial statements in the same way as they are presented during the year in budget monitoring reports. The service analysis required by SeRCOP will no longer be used in the statements.
11. Pages 3 and 4 of Appendix A explain the new Expenditure and Funding Analysis (EFA), which will present net expenditure in the statement of accounts by directorate. Figures for 2015/16 will be restated according to the current directorate structure rather than the

structure in place during that financial year. The EFA will show the increase or decrease in the General Fund Balance for the financial year, which will match the figure presented to Executive Cabinet and Council in the revenue budget outturn report for 2016/17.

12. The revised presentation of the Comprehensive Income and Expenditure Statement is explained in pages 5 and 6 of Appendix A. The revised CI&ES also presents figures by directorate, and includes figures required by accounting practices to produce the (Surplus) or Deficit on Provision of Services.
13. Budget monitoring information is presented by directorate, as shown in the extract below from the report to Executive Cabinet of February 2017. Figures in the statement of accounts will use the same presentation, thereby improving the link between budget monitoring and outturn figures.

	(1)
General Fund Revenue Budget Monitoring 2016/17 Forecast to end of December 2016	Original Cash Budget
	£
Customer & Digital	6,499,430
Policy & Governance	4,005,280
Early Intervention	2,605,910
Business Development & Growth	814,240
Directorate Total	13,924,860
Budgets Excluded from Directorate Monitoring:	
Pensions Account	240,270
Pensions Deficit Recovery (Fixed Rate)	955,600
Benefit Payments	(55,450)
Market Walk	(1,696,450)
Transition Fund	-
Corporate Savings Targets	-
Management of Establishment	-
Efficiency/Other Savings	-
Total Service Expenditure	13,368,830

As budget monitoring reports do not include support service recharges, depreciation and other capital charges, accrued employee benefits, and IAS 19 pension adjustments, these will not be included within Net Expenditure in the EFA. The costs other than support service recharges do need to be included in a separate column of Adjustments between the Funding and Accounting Basis, in order to identify Net Expenditure to report in the CI&ES.

It is still necessary to recharge support service costs in order to complete statutory returns, in particular the Revenue Outturn (RO) Form and the Whole of Government Accounts (WGA) return.

FUTURE CHANGES

14. We have been advised about changes in the 2017/18 Accounting Code of Practice and those due in subsequent years.
15. The 2017/18 Code will indicate that accounting policies should reflect an authority's individual circumstances, and that they need not be presented in the statement of accounts as one note as at present. It may be more appropriate to include the accounting policies with the notes and statements to which they relate, and this will be considered when preparing the 2017/18 statement of accounts.

16. IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers will be implemented from 2018/19. IFRS 16 Leases will apply from 2019/20. Of these the most significant is likely to be IFRS 16, because all assets acquired under leases will be brought on the council's balance sheet. Currently assets obtained through operating leases are not on the balance sheet.

IMPLICATIONS OF REPORT

17. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

18. The report explains the changes to presentation of revenue budget outturn figures in the statement of accounts as a result of preparing the 2016/17 statement as required by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

GARY HALL
CHIEF EXECUTIVE

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Michael Jackson	5490	8 March 2017	Understanding Local Authority Financial Statements