

**North Tyneside Council  
Report to Council  
Date: 28 September 2017**

**ITEM 5**  
**2016/17 Annual Financial Report**

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| <b>Portfolio(s):</b> Elected Mayor<br><br>Finance and Resources | <b>Cabinet Member(s):</b> Norma Redfearn<br><br>Councillor Ray Glendon |
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**Report from Service Area:** Finance

**Responsible Officer:** Janice Gillespie, Head of Finance      **Tel:** 643 5701

**Wards affected:** All

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**PART 1**

**1.1 Executive Summary:**

The purpose of this report is to seek full Council's approval of the 2016/17 Audited Annual Financial Report in accordance with Section 9 (2) of the Accounts and Audit Regulations 2015.

**1.2 Recommendation(s):**

Council is recommended to:

- (a) approve the Audit Completion Report, submitted by the Authority's external auditors Mazars, and agree the draft Letter of Management Representation; and,
- (b) approve the 2016/17 Audited Annual Financial Report.

**1.3 Forward Plan:**

This report was included on the Forward Plan first published on 5 June 2017.

## 1.4 Council Plan and Policy Framework:

This report covers the financial aspects of all service responsibilities as identified within the 2016/19 Our North Tyneside Plan and the Authority's policy frameworks.

## 1.5 Information:

### 1.5.1 Background

It is a requirement of Section 9 (2) of the Accounts and Audit Regulations 2015 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code that the Authority approves its audited Annual Financial Report for the financial year and, for 2016/17, it must then publish these accounts by 30 September.

1.5.2 The audit of the 2016/17 accounts has recently been concluded and an unqualified audit opinion is expected to be issued. The Audit Completion Report, produced by Mazars, in respect of the 2016/17 Annual Financial Report was presented to the Audit Committee on 27 September 2017. No material errors have been identified in the financial statements. A small number of non trivial errors were identified as part of the audit but have been deemed as not material. They would have had no impact on the Authority's underlying financial position and as such have not been amended. A number of disclosure errors identified during the audit have been corrected and are reflected in the Annual Financial Report. A number of Internal Control issues have been raised and discussed with Mazars. Actions have been agreed to respond to those issues raised. A copy of the Audit Completion Report is attached as Appendix B.

1.5.3 The audited 2016/17 Annual Financial Report is attached for consideration and approval as Appendix A to this report. The Statement follows a statutory format as set out in the CIPFA Code.

### Annual Financial Report

1.5.4 The main elements of the Annual Financial Report are:

- (a) Narrative Statement by the Chief Finance Officer;
- (b) The statutory accounts themselves, namely;
  - Statement of Responsibilities;
  - Comprehensive Income and Expenditure Statement;
  - Movement in Reserves Statement;
  - Balance Sheet;
  - Cash Flow Statement;
  - Housing Revenue Account;
  - Collection Fund Statement.
  - Statement of Accounting Policies adopted when compiling the accounts; and,
- (c) The Annual Governance Statement.

1.5.5 Each account above is supported by a comprehensive set of supporting and explanatory notes.

### Summary

1.5.6 The Authority's Annual Financial Report (the Accounts) is prepared in accordance with statute and accounting Codes of Practice. The Accounts record the Authority's financial position as at 31 March 2017 by way of a series of formal statements such as the Comprehensive Income and Expenditure Statement (CIES), the Movement in Reserves Statement (MiRS), the Balance Sheet and the Cash Flow Statement.

1.5.7 Within the 2016/17 Code changes were set out in relation to the CIES format and the MiRS together with the requirement for a new note, the Expenditure and Funding Analysis (EFA). The aim of these changes is to make the CIES more meaningful to the readers of the accounts in that the structure mirrors the management accounts of the Authority as presented to decision makers throughout the year. Previously the preparation of the service analysis within the Net Cost of Service was based on prescribed lines e.g. Adult Social Care, Planning, Transport & Highways etc, however Authorities must now prepare this analysis based on the structure of their management accounts. This means that for North Tyneside the information is presented in the same format as our budget monitoring reports. The EFA (page 60) reconciles the accounting adjustments that have been made to arrive at the figures within the CIES to the outturn position reported by the Authority.

1.5.8 As noted in the Outturn report, the Authority had to manage a number of financial pressures in the year over and above the approved budget including reductions in funding. The final position being overall the Authority recorded an overspend of £0.426m against the budget for the General Fund. A transfer from the Strategic Reserve was made to offset this overspend which results in the Authority's General Fund Balance remaining unchanged at £6.604m. The Housing Revenue Account (HRA) balance as at 31 March 2017 was £5.966m, and Schools Balances were £4.987m. The Council incurred expenditure of £122.504m in the year on its Investment Plan (£82.535m General Fund and £39.969m HRA). This includes £41.159m for schools donated assets under the Priority Schools Building Programme, £19.184m for Homes for Older People under PFI and £0.471m for street lighting and schools PFI schemes.

### The Statement of Accounts

1.5.9 A summary of the main features of the 2016/17 statutory accounts follows:

1.5.10 The **Comprehensive Income and Expenditure Statement** (page 22) records revenue transactions (for both the General Fund and the Housing Revenue Account) through the Authority's books for the financial year. As its name indicates this account includes the income and expenditure for each service, along with expenditure on precepts and levies, interest paid, investment income, gains and losses on disposal of fixed assets and the costs associated with pensions. It also includes general income from Government Grants, Council Tax and Business Rates.

1.5.11 For 2016/17, the result of these transactions is a net surplus on the Comprehensive Income and Expenditure Statement of £42.960m (£23.588m 2015/16). This surplus

(and the previous year's surplus) represents accounting convention and it does not impact on the Authority's balances at the year-end. For that reason, the Comprehensive Income and Expenditure Statement needs to be read in conjunction with the **Movement in Reserves Statement** (page 23), which makes a series of further accounting adjustments to arrive at the actual movement in balances in the year.

- 1.5.12 The Movement in Reserves Statement shows that after these adjustments the General Fund balances which include Earmarked Reserves have fallen by £5.287m. This reduction relates to a fall in school balances of £1.996m together with a reduction in the earmarked reserves of £3.291m arising from the budgeted use of these reserves. The General Fund balance remains at £6.604m whilst the school balances have reduced to £4.987m. The HRA balance increased by £1.578m (to £5.966m) reflecting the reported under spend.
- 1.5.13 The **Balance Sheet** is set out on page 25. As the revenue accounts are closed down for the year, the General Fund and HRA balances, along with the capital transactions from the Authority's Investment Plan are transferred to the Authority's Balance Sheet. This represents the final position of the Authority at the end of the financial year, showing the assets that the Authority owns (such as land and buildings), the amounts it is owed (debtors etc) and what it owes to outside bodies and individuals (loans outstanding, creditors etc).
- 1.5.14 The **Cash Flow Statement** (page 26) shows the movement in cash and cash equivalents during the year.
- 1.5.15 The **Housing Revenue Account** (page 128) sets out the transactions that are ring-fenced for Council Housing.
- 1.5.16 The **Collection Fund Statement** (page 137) accounts independently for income relating to Council Tax and Business Rates on behalf of those bodies (including the Authority's own General Fund) for whom the income has been raised. The costs of administering collection are accounted for in the General Fund. Collection Fund balances relating to North Tyneside Council are consolidated into the Authority's Balance Sheet with the surplus/deficit relating to the Authority shown in the Collection Fund Adjustment Account.

#### Annual Governance Statement

- 1.5.17 The Annual Governance Statement is a statutory document which is signed by the Elected Mayor, the Chair of the Council, the Chair of the Audit Committee, and the most senior officer of the Authority (the Chief Executive). The purpose of the document is to demonstrate to all stakeholders that the Authority has controls in place to ensure that its business is conducted in accordance with law and proper standards and that public money is safeguarded, correctly accounted for and is used economically, efficiently and effectively. Although the financial management of the Authority is an essential part of the internal control framework, the Statement is not purely concerned with financial issues but also covers the Authority's constitution, corporate governance arrangements, facilitation of policy and decision making.

1.5.18 In addition to full Council approving the Annual Governance Statement, a review of the Statement was undertaken by the Audit Committee on 24 May 2017 and an in-year update on the action taken during the year will be given to the Committee during 2017/18.

1.5.19 There have been no issues raised during the period of the external audit that require any change to the Annual Governance Statement for 2016/17.

## **1.6 Decision options:**

It is a statutory requirement that the audited Annual Financial Report is approved by 30 September 2017.

## **1.7 Reasons for recommended option:**

The Authority is required under the Accounts and Audit Regulations 2015 to approve its audited Annual Financial Report by 30 September 2017.

## **1.8 Appendices:**

Appendix A: Annual Financial Report for 2016/17

Appendix B: Audit Completion Report for 2016/17

## **1.9 Contact officers:**

Janice Gillespie, Head of Finance, Tel 643 5701

Cathy Davison, Principal Accountant, Tel 643 5727

## **1.10 Background information:**

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author:

(a) [Revenue Budget 2016-17 \(P\)](#)

(b) [Approved Investment Plan 2016-19 \(P\)](#)

(c) CIPFA Code of Practice 2016/17 (P)  
Can be inspected at the Authority's offices.

(d) [Outturn Report 2016-17 \(P\)](#)

## **PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING**

### **2.1 Finance and other resources**

As this is a financial report, implications are covered in the body of the report itself and the 2016/17 Annual Financial Report attached as Appendix A to this report. The Annual Financial report was also considered by the Audit Committee at its meeting on 27 September 2017.

### **2.2 Legal**

The Authority is required under the Accounts and Audit Regulations 2015 and the Chartered Institute of Public Finance and Accountancy's Code to prepare and approve its accounts for the financial year 2016/17 by 30 September 2017.

### **2.3 Consultation/community engagement**

In line with statutory requirements the draft Annual Financial report for the year ended 31 March 2017 was published by 30 June 2017 and was available on the Authority's website.

Internal consultation on this report and the Annual Financial Report has taken place with the Cabinet Member for Finance and Resources, the Chief Executive and his Senior Leadership Team. Members briefing sessions were provided on 4 and 5 July 2017.

Members of the public were able to inspect the accounts under the statutory public inspection of accounts period from 19 June to 28 July 2017.

The Annual Financial Report records the financial position of the Authority for the year ended 31 March 2017. This sets out the financial transactions that have been undertaken under the Authority's 2016/17 budgets (both revenue and capital). The 2016/17 budget was completed after widespread consultation in line with the Council's approved Budget Engagement Strategy. The report to Council on 18 February 2016 entitled "2016-2019 Financial Planning and Budget Process report" summarises the outcome of this engagement.

### **2.4 Human rights**

The proposals within this report do not have direct implications in respect of the Human Rights Act 1998.

### **2.5 Equalities and diversity**

There are no direct equalities and diversity implications arising from this report.

## 2.6 Risk management

Potential future financial pressures against the Authority are covered in this report and registered through the Authority's risk management process.

## 2.7 Crime and disorder

There are no direct crime and disorder implications arising from this report.

## 2.8 Environment and sustainability

There are no direct environmental and sustainability implications arising from this report.

### PART 3 - SIGN OFF

- Deputy Chief Executive
- Head of Service
- Mayor/Cabinet Member(s)
- Chief Finance Officer
- Monitoring Officer
- Head of Corporate Strategy