DRAFT STATEMENT OF ACCOUNTS 2016/17

1. Purpose

1.1 To present the Draft 2016/17 Statement of Accounts to the Audit Committee ahead of the external audit to be carried out by Ernst and Young.

1.2 To approve the Accounting Policies used by the Council for 2016/17.

2. Recommendations

2.1 It is recommended that the Audit Committee:

1. Review the Draft 2016/17 Statement of Accounts and indicate whether there are any issues arising that need to be brought to the attention of the Cabinet/Council; and

2. Approves the Accounting Policies for Milton Keynes Council contained within the accounts (refer to pages 18-39).

3. Background

3.1 The Accounts and Audit Regulations 2016/17 require the Chief Finance Officer to formally approve the Draft Statement of Accounts by 30 June, reflected by a signature and date in the Statement of Responsibilities within the Draft Statement of Accounts. The Audit Committee are not required to approve the Draft Statement of Accounts before they are released for external audit. However the regulations do require that the Audit Committee approve the final audited Statement of Accounts by way of a Committee resolution by the current statutory deadline of 30 September.

3.2 The Draft Statement of Accounts will be presented to the External Auditor on 1 July 2017 and will be available to the general public throughout the statutory period of 30 working days starting on Monday 26th June 2017 and ending on Friday 4th August 2017. During this time, members of the public may view the document and ask questions.

3.3 Any material changes arising from the audit of the 2016/17 accounts will be reported back to the September meeting of the Audit Committee, prior to approval.

3.4 It should be noted that from 2017/18 the Accounts and Audit Regulations are changing to bring about earlier closedown and audit reporting deadlines for Local Authorities. For 2017/18 the Draft Accounts will be required to be signed off by the Chief Finance Officer by 31 May (1 month earlier) and the Audited Statement of Accounts are to be completed by 31 July (2 months earlier). Work is being undertaken with LGSS and external audit colleagues to identify the opportunities to either change or enhance processes to meet these earlier deadlines.

4. **The Statement of Accounts**

4.1 The Statement of Accounts for Milton Keynes Council have been prepared in accordance with International Financial Reporting Standards and the CIPFA / LASAAC Code of Practice on Local Authority Accounting 2016/17 in the United Kingdom (the Code). The accounts are comprised of:

- The Narrative Statement;
- Statement of Accounting Policies;
- Statement of Responsibilities;
- Statement of Movement in Reserves;
- The Comprehensive Income & Expenditure Account;
- The Balance Sheet;
- The Cash-flow Statement;
- The Notes to the Core Financial Statements.

4.2 The Statement of Accounts also includes the Housing Revenue Income and Expenditure Account and the Collection Fund Account.

4.3 The Narrative Statement for the 2016/17 accounts builds on the Explanatory Foreword that the Audit Committee has seen in previous year's accounts. The Narrative Statement is required by the Code and provides a summary of the most significant matters reported within the accounts and of the Council's financial position. It is intended to outline the overall context within which the Council is operating by providing commentary on the Council's priorities, its performance in 2016/17 and the inclusion of a summary of the medium term outlook and approach to value for money.

4.4 The Annual Governance Statement for 2016/17, which will be published along with the Statement of Accounts by 30 September, is included as a separate report on this agenda.

4.5 There are no significant changes in accounting treatment in 2016/17 that the Committee need to be aware of. The planned changes in respect of the valuation of Highways Network Assets, are not being progressed at this time by CIPFA / LASAAC and so there are no changes to the treatment of such assets in the 2016/17 accounts.

4.6 There is however a significant change in the presentation of the Comprehensive Income and Expenditure Statement (CIES) being introduced in 2016/17. The CIES shows revenue expenditure and income for the year, in line with proper accounting practice. Previous editions of the Code had required the Net of Cost of Services within the CIES to be broken down in to particular service headings (referred to as SeRCOP headings). This was to ensure that all authorities presented their statements in the same way, and to allow comparability between authorities. Whilst this allowed comparability from one authority to another it meant that the link between the Council's monthly financial reporting (management accounts) and the statutory accounts was difficult to follow, because the management accounts are set out with the Council's internal Directorate structure and the accounts are set out based on SeRCOP headings.

4.7 The change to the Code for 2016/17 allows the Authority to display the Net Cost of Services within the CIES based upon its internal reporting structure rather than using SeRCOP headings. This means that the link between the management accounts and the statement of accounts position should be easier for the reader of the accounts to follow.

4.8 Another change in the 2016/17 Code is the introduction of a new disclosure in the accounts called the Expenditure and Funding Analysis (EFA – refer to page 47 of the draft accounts). This partly replaces the segmental analysis shown in previous accounts. This statement and the accompanying disclosure notes are intended to provide a reconciliation between the budget monitoring outturn position shown in the management accounts and the accounting position shown in the CIES.

5. **Group Accounts**

6. In addition to the Council's single entity accounts outlined above the Council is required to prepare Group Accounts alongside its own financial statements where it has material interests in subsidiaries, associates, and / or joint ventures. The Group Accounts reflect the activity of any such arrangements where appropriate to do so in addition to the Council's 'single entity' accounts.

6.1 The Council has an interest in three entities:

- Milton Keynes Development Partnership (MKDP) LLP – MKDP is wholly owned by the Council, and was set up to facilitate Milton Keynes' continued growth and economic success by promoting the development of land assets purchased from the Homes and Communities Agency by the Council in 2013. The Council will be preparing full Group Account disclosures including MKDP. Work is still ongoing to complete the MKDP accounts and an update will be issued to the Audit Committee as soon as these are completed and the consolidated version is available.
- Milton Keynes Business Excel (MKBE) Ltd – MKBE is wholly owned by the Council and was set up to provide business management solutions to customers in Milton Keynes and across the region. After receiving legal advice, many of the trading activities have transferred to the Council leaving very little in MKBE. Trading ceased in October 2016, with turnover totalling £0.007m. Due to materiality, the Council has taken the

view that the activity does not warrant full Group Accounts disclosures.

- YourMK LLP – YourMK LLP is a joint partnership between the Council and Mears group PLC incorporated on 25th February 2016. The entity is in its early stages of evolving and delivering its Business Plan and is yet to grow to its full potential. The turnover in 2016/17 was £0.201m; therefore the Council has determined that we do not consider YourMK LLP to be material to consolidate in Group Accounts for 2016/17. However, as YourMK grows, it's the Councils expectation that YourMK's position will be considered material and group consolidation would be required. YourMK LLP accounts are available on request.

6.2 The Group Accounts are prepared in accordance with the CIPFA Code of Practice and International Financial Reporting Standards, and comprise the following:

- The Group Movement in Reserves Statement;
- The Group Comprehensive Income & Expenditure Account;
- The Group Balance Sheet;
- The Group Cash-flow Statement;
- The Notes to the Group Accounts.

7. Key Areas for Consideration and Significant Items

7.1 In reviewing the Statement of Accounts, the Audit Committee should consider the key areas set out in the following table.

Area of Accounts	**Description**	**Draft Accounts Page Ref**
Service Expenditure	This provides details of the Council's outturn position and the General Fund Balance at 31 March	3
The Balance Sheet	This details the balances held by the Council at 31 March	42
Material Items of Income and Expenditure	This note details the most significant transactions that have taken place in the year that have not disclosed on the face of the Comprehensive Income and Expenditure Statement	46
Material Events after the Balance Sheet Date	Any events that have occurred after the 31 March but which could have a material impact on the Council's financial position are detailed here	16
Transfers to/from Earmarked Reserves	This table and associated notes provides detail of the reserves held by the Council, movements in year and	55

	the purpose for each	

7.2 The following sections set out some of the more significant items in the Draft Accounts providing additional commentary.

Long Term Debtor

7.3 The Milton Keynes Development Partnership (MKDP) is a Limited Liability Partnership created to manage and exploit the commercial assets purchased from the Homes and Communities Agency.

7.4 In 2012/13, the Council funded the purchase of the assets through prudential borrowing and this has been reflected in the Council's balance sheet as additional Long Term Borrowing. This debt was passed on to MKDP along with the assets. The Council therefore holds a Long Term Debtor on its Balance Sheet to reflect the amount owed by the MKDP. As the assets are developed and/or sold by the MKDP or as the economic benefit is used (in the case of operational assets), the debt will be settled with the Council and the long term debtor will be reduced.

IAS19 Pension Liability

7.5 The pension liability calculated by the actuary has increased by £84m in 2016/17. Liabilities have been assessed on an actuarial basis using the projected unit credit method which is an accrued benefits funding method in which the Actuarial Liability makes allowance for projected earnings providing an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liability is therefore outside of the control or influence of the Council and is reported in accordance with International Accounting Standard 19 – Employee benefits.

Borrowing and Investments

7.6 During 2016/17, there were no new loans to fund expenditure on capital projects.

7.7 The Council's medium-term financial strategy incorporates plans to fund two major capital investment schemes through prudential borrowing:

- To develop a new Residual Waste Treatment Facility (2016/17); and
- An investment programme for Highways Infrastructure (phased over the next five years).

The timing of external borrowing is a treasury management decision dependent on cash-flow analysis and market conditions, and loans are not directly associated with any particular items of expenditure (in line with legislation). In July 2014, the Council undertook additional long-term borrowing of £95m from the Public Works Loan Board (PWLB) to protect against the major risk of interest rate rises on such a significant impending borrowing requirement. The additional cash resources will be invested in line with the Council's approved Treasury Management Strategy until required to meet expenditure demands.

Major non-current asset disposals

7.7 Major non-current asset disposals during the year include the conversion of six schools to Academy status £66.4m, including:

- Brooklands School £26.290m
- Whitehouse Primary School £10.172m
- Fairfields Primary School £10.006m
- Oakgrove Primary School £9.050m
- Waterhall Primary School £6.707m
- Chestnuts Primary £4.153m

7.8 Other non-current asset disposals include the sale of Council Dwellings main stock of (£2.818m) and Council Dwellings Shared Ownership stock of (£0.744m).

8. Implications

8.1 Policy

None

8.2 Financial

None

8.3 Resources and Risk

None

8.4 Legal

None

8.5 Other Implications

None