

Committee:	Date:
Audit and Risk Management Committee Finance Committee	07 February 2017 21 February 2017
Subject: City Fund and Pension Fund Final Accounts 2016/17 and 2017/18 - Update	Public
Report of: The Chamberlain	For Information
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Summary

This report highlights the steps being taken to achieve faster closure to meet the new statutory deadlines for the City Fund and Pension Fund accounts which will apply from 2017/18 onwards requiring the draft accounts to be published by 31 May (a month earlier than currently required) and the audited accounts to be published by 31 July (two months earlier than currently required).

The report also provides an overview of the main changes to the local authority accounting framework for 2016/17 and outlines the anticipated impact of a change to the accounting treatment of local authority highways networks due to be implemented in 2017/18.

Recommendation

Members are asked to note the report and give their support to achieving the new condensed timetable.

Main Report

Faster Closing

1. The City Fund and Pension Fund Financial Statements of Accounts are prepared in accordance with the statutory framework established by the Accounts and Audit Regulations (the Regulations) and the Code of Practice on Local Authority Accounting (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
2. The 2015 Regulations introduced a number of changes to the statutory framework. Several of the changes, mainly relating to the public's right to inspect the accounts, took effect from 1 April 2015. However, the most significant changes requiring the acceleration of the closing timetable take effect from 1 April 2017 and apply to any financial year beginning on or after that date. The unaudited accounts, certified by the Chief Financial Officer, must be published by the 31 May which is a month earlier than currently required and the audited accounts must be published by the 31 July, two months earlier than currently required.

Table 1 Old and Revised City Fund and Pension Fund Accounts Deadlines

Task	Current Deadline	Future Deadline
Unaudited financial statements signed by Chamberlain	30th June	31st May
Audited statement of accounts approved by Finance Committee and published	30th September	31st July

3. The change in the statutory deadlines for the 2017/18 City Fund and Pension Fund accounts will require significant changes in the way the accounts are prepared. It is therefore intended to have a “dry run” in 2016/17.
4. In preparation a number of tasks have been or are being undertaken including:-
 - A review of the 2015/16 closedown process and the 2016/17 closedown timetable;
 - Early engagement with external audit;
 - A faster closing workshop, facilitated by CIPFA, for key staff in the Financial Services Division and attended by representatives from both external audit firms to look at best practice and identify areas for improvement.
5. Several key themes have emerged; final accounts are not just an accounting task, faster closing will require the increased use of estimates and greater reliance on budget managers signing off year-end figures particularly on capital and revenue projects rather than finance staff. It will also require the earlier receipt and sign-off of third party information from valuers and actuaries. There are also some significant reconciliations, such as on the collection fund, that will need to be completed earlier.
6. To prepare the financial statements the finance team need information from a range of internal and external sources including Members and Chief Officers, individual budget and project managers, HR, other sections of the Chamberlain's Department, property valuers and actuaries. The finance team will continue to work with colleagues to obtain this information. However, a critical factor to achieving this in a more condensed timeframe will be the commitment of senior officers across the Corporation to ensure that the significance of year end processes are understood and prioritised.
7. Faster closing will inevitably involve a greater use of estimation and a review of materiality. Estimation is a valid way of closing down the accounts early, however, if we rely more on estimates we will need a clear assessment of the robustness of the methodologies used, the supporting evidence and the impact of any estimation uncertainty. Materiality will also need to be considered e.g. setting a revised upper limit for accruals, reviewing the statements to remove non-material disclosures – “cutting the clutter”. On this latter point the Chamberlain is convening a CIPFA/London Treasurers workshop on streamlining local authority financial statements.

8. Changes to our approach to estimation and materiality will need to be discussed and agreed with our auditors before the closedown process begins. Finally, Members will need to recognise that there may be more changes between the draft and final accounts, particularly if further, more certain information becomes available during the audit which impact on material estimates.

Changes to the City Fund and Pension Fund Financial Statements for 2016/17

9. The main changes for the City Fund financial statements under the 2016/17 Code are presentational including new formats and reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements and the introduction of a new Expenditure and Funding Analysis. Prior to 2016/17 local authorities were required to report the cost of individual services in accordance with a prescribed format. This format will still need to be used for government statistical reporting requirements. However, annual accounts will need to be presented in a format reflecting the organisational structure of a local authority.
10. For the Pension Fund there are minor changes to the format of the Fund Account and Net Asset Statement, new disclosure requirements for investments at fair value and recommendations for a new disclosure on investment management transaction costs.

Highways Network Asset

11. CIPFA's Code of Practice on the Highways Network Asset (Highways Code), first published in 2010 at the request of the Government, promotes the use of consistent financial information to support transport asset management, financial management and financial reporting. Since then it has been used to provide data to the Treasury as part of the annual Whole of Government Accounts exercise.
12. In 2017/18, in addition to meeting the accelerated timetable, local authorities will be required to adopt the method set out in the Highways Code of valuing the Highways Network Asset (HNA) at depreciated replacement cost (DRC) instead of at historical cost.
13. This change has been the subject of substantial consultation and debate for a number of years and its implementation in 2017/18 represents the largest change to local authority financial reporting since the introduction of IFRS. CIPFA has estimated that full implementation will result in a revaluation increase of approximately £1trillion to the UK public sector balance sheet. For the City Fund the increase is anticipated to be in the region of £370m.
14. Whilst the HNA will appear as a single asset on the Balance Sheet the valuation will be built up from more detailed inventory information. Officers in the Chamberlain's Department and the Department of the Built Environment are liaising to ensure that the City is able to comply with the Code requirements. As a next step and to provide assurance that the HNA supporting data is complete, accurate and evidenced Internal Audit have been asked to review the work to date and the systems and processes that have been put in place.

Implications

15. It is possible that additional resources will be required to bring the City Fund closure of accounts process forward but this is yet to be quantified. It is intended to use the closure of the 2016/17 accounts to identify where we will be attempting to bring key elements of the closure process forward, to inform this and then report back to Members in the Autumn if resources are required.

Conclusion

16. Early statutory deadlines for preparing and reporting the City Fund accounts will require significant effort. It does, however, offer the opportunity to review and streamline our processes and refresh the look of our published accounts.

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