



**Governance and Audit**

**Tuesday, 23 July 2019**

**Subject: Audited Statement of Accounts**

Report by:

Executive Director of Resources

Contact Officer:

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Purpose / Summary:

The 2018/19 Statement of Accounts is presented for scrutiny and adoption.

**RECOMMENDATION(S):**

- 1) That Members review the attached Statement of Accounts and confirm that there are no concerns arising from the Financial Statements that need to be brought to the attention of the Council.**
- 2) That Members approve the Statement of Accounts for 2018/19.**
- 3) That Governance & Audit Committee permit the Section 151 Officer and the Chairman of this Committee to certify the letter of representation to our Auditor, Mazars, on completion of the audit.**

## IMPLICATIONS

### **Legal:**

None arising from this Report.

### **Financial : FIN/49/20**

The Statements of Accounts 2018/19 has been prepared in accordance with proper accounting practices and the requirements of International Financial Reporting Standards (IFRS). This is intended to provide for comparable accounts across all accounting boundaries, public and private, national and international.

The Actual overall Outturn has realised a surplus of £1.583m, of which £0.919m relates to one off budget provision for projects funded from reserves and which have approval for carry forward as they span financial years.

This leaves a £0.664m surplus (4.2% of the approved budget) of which £0.263m has been transferred to the Valuation Volatility Reserve and £0.401m to the General Fund Balance.

Capital Investment totalled £21.079m.

In respect of Usable Reserves, we remain in a healthy position with balances detailed below;

- General Fund working balance totals £3.849m, (£3.914m 2017/18)
- General Fund Earmarked reserves total £15.833m, (£12.635m 2017/18)
- Capital receipts total £3.362m, (£3.015m 2017/18)
- Capital Grants unapplied £0.587m, (£0.368m 2017/18)

A number of financial performance ratios are contained within the report which illustrate that the Council remains in a healthy financial position.

### **Staffing :**

None arising from this report.

### **Equality and Diversity including Human Rights :**

None arising from this report.

**Risk Assessment :**

None arising from this report.

**Data Protection Implications :**

None arising from this report.

**Climate Related Risks and Opportunities :**

None arising from this report.

**Title and Location of any Background Papers used in the preparation of this report:**

Code of Practice on local authority accounting in the United Kingdom 2018/19.

Code of Practice on Local Authority Accounting in the United Kingdom – Guidance notes for practitioners 2018/19 Accounts.

The Accounts and Audit (England) Regulations 2015.

Papers are located in the Financial Services section, Guildhall.

**Call in and Urgency:**

**Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?**

*i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)*

**Yes**

**No**

**Key Decision:**

*A matter which affects two or more wards, or has significant financial implications*

**Yes**

**No**

## **1 Introduction**

- 1.1 The Statement of Accounts for 2018/19 (Appendix A) has been prepared under the International Financial Reporting Standards based Code of Practice on Local Authority Accounting (the Code).
- 1.2 Following the Accounts and Audit Regulations 2015 the Council's Statement of Accounts, subject to audit, must be certified by the Chief Finance Officer and published before the 31 May. Following completion of the external audit the Council must formally approve the accounts before the 31 July.
- 1.3 The Committee is therefore presented with the Audited Statement of Accounts, which was approved for issue to the Auditor, Mazars, by the Executive Director of Resources (S151 Chief Finance Officer) on 29 May 2019.
- 1.4 This Committee is responsible for the approval of the Statement of Accounts and any material amendments recommended by the external auditors.
- 1.5 Members of the Governance and Audit Committee will be provided with specific training on the Statement of Accounts to enable them to meet the requirements set out in 1.4.
- 1.6 The Statement of Accounts has been combined with the Annual Governance Statement (AGS) as in previous years whereby the Council publishes one document, clearly identifying that these are separate statements.
- 1.7 The External Auditor (Mazars) commenced their audit 20 May 2019. The auditors have confirmed that there are no adjustments required to Statements issued to them in May. With no errors identified.
- 1.8 Whilst the Statement of Accounts, has been available for inspection by the electorate from 3 June 2019 to 14 July 2019 no such requests have been made.

## 2 Financial Performance Indicators 2018/19

- 2.1 Taking information from the main Statements within the Accounts i.e. the Income and Expenditure Account, the Movement in Reserves and the Balance Sheet, the following financial performance indicators have been derived and are provided in the table below, providing a view of the Council's financial stability and health.

RATIOS		
PERFORMANCE INDICATORS	2017/18	2018/19
<b>Liquidity Ratio</b>	<b>4.05%</b>	<b>2.92%</b>
A ratio of above 1 reflect the Council can meet its short term obligations		
<b>Working Capital (net current assets)</b>	<b>13,502</b>	<b>10,139</b>
The difference between Current Assets and Current Liabilities. Illustrating the Council has adequate current assets to meet its current liabilities		
<b>Working capital as a % of Actual Net Revenue Expenditure</b>	<b>97.17%</b>	<b>65.37%</b>
Working capital is at 65.37% of Net Revenue Expenditure showing we have adequate net current assets to enable continued operations should the need arise		
<b>General Fund Reserves as % of Actual Net Revenue Expenditure</b>	<b>119.10%</b>	<b>126.91%</b>
This indicator measures the period over which the Council could continue to operate without using grant and tax income by utilising its reserves. It should be noted that reserves are set aside to mitigate risks and to fund investments. If the use of reserves were to be used to support the revenue budget this would impact greatly on the achievement of the Council's Corporate Plan priorities.		
<b>Total Liabilities as % of Total Assets</b>	<b>83.99%</b>	<b>90.98%</b>
The indicator provides assurance that the Council can meet all its liabilities from its assets		
<b>% Movement In Pension Liability</b>	<b>0.82%</b>	<b>16.16%</b>
The ratio reflects the increase/ (decrease) in pension liability. The movement reflects changes in the actuarial assumptions of such factors as expected rate of return on investments, mortality, future inflation (including pay awards and pension increases), this can have a significant impact on the balance.		
<b>Pension Fund Liabilities as a % of Net Revenue Expenditure</b>	<b>-263.99%</b>	<b>-274.74%</b>
Whilst the Pension Liability may not be an immediate concern it does have an impact on the level of contributions the Council is required to make to repay the Pension deficit. The Council has profiled to repay the liability over a 20 year period through an annual contribution.		
<b>% Change in Council Tax Base</b>	<b>0.28%</b>	<b>0.92%</b>
1% growth on the Tax Base generates £60k p.a. of additional Council Tax revenue.		
<b>% Change in Rateable Value (Business Rates)</b>	<b>16%</b>	<b>-0.69%</b>
In 2017/18 the large increase is due to the revaluation exercise undertaken by the Valuation Office as at 01/04/2017 Changes in the taxbase reflect Growth ie new and expanding business premises less any impact of Revaluation appeals		

- 2.2 The Council remains in a healthy position with good levels of reserves and the ability to meet its liabilities. The pension fund is not an immediate concern, however it does have an impact on the

level of finances in the future, as shown by the movement over the last two years. The Council has profiled to repay the liability over a 20 year period through an annual contribution.

### **3 The Statement of Accounts**

The Audited Statement of Accounts 2018/19 is attached at Appendix A. The main elements of which are detailed below;

#### **3.1 Expenditure Funding and Analysis (Note 7 to the accounts)**

This is a statement which details the net expenditure utilised by our service Clusters which (Chargeable to the General Fund) are added to the statutory accounting adjustments i.e. capital charges, pensions. This then reconciles to the Comprehensive Income and Expenditure Account.

#### **3.2 Comprehensive Income and Expenditure Statement (CIES)**

This Statement records the day-to-day expenditure incurred in providing services and includes salaries and wages, other running costs and financing costs and income due from fees and charges and government grants. This statement also shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, but such "accounting costs" do not form part of the amount required to be raised through Council Tax. In 2018/19 there was a surplus on the Provision of Services totalling £1.858m (£1.588m deficit 2017/18).

#### **3.3 Movement in Reserves Statement (MIRS)**

This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the CIES. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting.

The Councils usable reserves total £23.631m (£19.933m 2017/18).

#### **3.4 Balance Sheet**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e.

those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). Usable Reserves total £23.631m (£19.933m 2017/18). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the MIRS Statement line 'Adjustments between accounting basis and funding basis under regulations'. Unusable Reserves total a deficit of £17.660m (£11.924m 2017/18) thus giving a net balance sheet position of £5.971m, (usable reserves exceed unusable reserves).

### 3.5 **Cash Flow Statement**

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council. There has been an overall increase in cash of £2.113m (increase of £2.158m 2017/18).

### 3.6 **Notes to the Accounts**

The Notes to the Accounts include additional information including the accounting policies, material items of income and expense and explanations of elements contained within the Comprehensive Income and Expenditure Account and the Balance Sheet.

### 3.7 **Other Financial Statements**

**The Collection Fund** is a statutory fund set up under the provisions of the Local Government Finance Act 1988. It includes the transactions of the charging Authority in relation to Non-Domestic Rates and Council Tax and illustrates the way in which

the fund balance is distributed to preceptors and the General Fund.

#### **4 Amendments to the Statement of Accounts since 29 May 2019.**

- 4.1 There has been no material misclassifications in 2018/19.
- 4.2 The Officers identified two small presentational changes to the Statement of Accounts due to the recent McCloud Judgement. The Council received an updated Actuarial Valuation 8 July 2019 which identified an increase in net liabilities (£0.332m), as this is below materiality no adjustments were made to the Statement of Accounts. However, as a figure was now known Note 34 Contingent Liabilities narrative in relation to the McCloud Judgement had to be removed. In Note 33 Pensions the narrative was extended to explain no adjustment had been made in relation to the McCloud Judgement. The Statement of Accounts that were originally certified by the Chief Finance Officer and published have now been updated accordingly and agreed with External Audit.
- 4.3 There have been no events after the reporting period to declare.

#### **5 Summary**

- 5.1 The Statement of Accounts 2018/19 is attached at Appendix A.
- 5.2 Following the certification of the accounts on 29 May 2019 by the Chief Financial Officer our auditors (Mazars) have carried out their final accounts audit. This has resulted in two minor representational amendments. The audit findings reflected in this report will be used to inform the finance team's review of the final accounts process and the identification of improvements.
- 5.3 It is recommended that Members having considered the Statement of Accounts and confirm that there are no concerns arising from the Financial Statements that need to be brought to the attention of the Council.
- 5.4 Members are requested to approve the Statement of Accounts for 2018/19 and permit the Chief Finance Officer in consultation with the Chairman of this Committee to certify the letter of representation to Mazars on completion of the audit. A copy of the letter can be found at Appendix B.
- 5.5 As part of the external audit process the Chairman of this Committee and the Chief Finance Officer have provided written assurance to the auditors on a number of matters relating to the processes in place to prevent, detect and report fraud.



5.6 The Finance Team, have succeeded in their aim of delivering an excellent set of Statements by the statutory deadlines and their working papers have been again, commended by the Auditor.