

AUDIT COMMITTEE – 24TH July 2019

Report of the Head of Finance & Property Services

ITEM STATEMENT OF ACCOUNTS 2018/19

Purpose of Report

To consider the Council's Statement of Accounts for 2018/19 and approve them for publication.

Recommendations

1. That the Statement of Accounts for the year ended 31st March 2019 (attached at Appendix A) be approved and that the Chairman (as Presiding person) be authorised to sign the accounts on behalf of the Audit Committee.
2. That the Letter of Representation, as per Appendix B, be approved for signature by the Chief Financial Officer.

Reasons

1 and 2 - To comply with the Accounts and Audit (England) Regulations 2015.

Background and Explanation of the Main Features of the Accounts

The accounts of local authorities in the United Kingdom are covered by the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the 'Code'). This must be followed to meet the requirements of the Accounts and Audit (England) Regulations 2015 to 'present a true and fair view' of the financial position of the authority.

The Code is based on International Financial Reporting Standards ('IFRS') amended as necessary in respect of legislation governing local authorities, and as a result of these rules and guidance the layout of the accounts is effectively prescribed and contains:

Narrative Statement – this sets the scene for the Statement of Accounts, giving the overall economic context, more detailed context relevant to the Council and picking out the main points of note on Revenue and Capital. It also references non-financial performance and risk.

Statement of Responsibilities – shows the responsibilities of the Council and Chief Financial Officer for these accounts.

Comprehensive Income & Expenditure Account – shows the cost of services and how they were financed.

Balance Sheet – shows a snapshot of all the Council's assets and liabilities at the year end, both long and short term.

Movement in Reserves Statement – shows the movement in reserves during the year between usable and unusable reserves (the latter being held to store revaluation gains or as adjustments per

legislation and/or accounting practice), and the actual change to the reserves after all adjustments.

Cash Flow Statement – sets out the flow of cash into and out of the Council.

Accounting Policies – technical explanation of main policies and assumptions used in preparing the accounts.

Notes to the Financial Statements – these explain in more detail the make-up of the various amounts included in the core statements.

HRA (Housing Revenue Account) Income & Expenditure Account this shows income and expenditure regarding Council dwellings.

Collection Fund – sets out the transactions relating to the collection and distribution of Council Tax and National Non-Domestic Rates (NNDR), or Business Rates as they are more commonly known.

Auditor's Report – this is the report of the external auditors, Mazars, on the accounts for the year.

Annual Governance Statement – this sets out the Council's Governance procedures and reviews their effectiveness.

Purpose of the Accounts

The published Statement of Accounts should provide electors, those subject to locally levied taxes and charges, members of the authority, employees, other stakeholders and interested parties clear information about the authority's finances.

In addition, in order to ensure that the Council is making the best use of its resources Councillors are encouraged to undertake a robust review of these accounts and make sure that any issues are fully debated and any queries answered.

Basic questions answered by the accounts could include:

- What did the authority's services cost in the year of account?
- Where did the money come from?
- What were the authority's assets and liabilities at the year-end?

The Statement must comply with the Code so that a common pattern can be established across different authorities and, for this reason, it is essential that authorities define individual costs in line with the Service Reporting Code of Practice. There should also be good notes and explanations to the accounts to aid understanding and, although by nature a technical document, the notes should be concise and understandable.

This paper is aimed at going a step further than the definitive notes to the accounts and explaining the wider context of the document and the contents. Each of the major sections of the accounts are explained below and a Glossary of Terms is shown on page 71 of the Accounts.

Main Changes for 2018/19

The accounts reflect the new reporting requirements to the Comprehensive Income and Expenditure Account, including a new Expenditure and Funding Analysis statement.

Major differences between the 2017/18 figures and those for 2018/19 are shown in Note 6 on pages 5 and 6 of the accounts.

Statement of Responsibilities for the Statement of Accounts, Corporate Governance and the External Audit Report (page 8)

The Statement of Responsibilities on page 8 underlines the responsibility, conferred by law, on the Section 151 officer for the proper administration of the financial affairs of the authority. The person presiding at the meeting approving the accounts must also sign this Statement. The S.151 Officer and also the auditors have to confirm that the accounts present a 'true and fair' view.

Comprehensive Income & Expenditure Account (pages 9)

This core statement shows the gross controllable income and expenditure across each service area with a net controllable cost chargeable against the General Fund and HRA for the year and then how these were financed.

The next section provides information on the income and expenditure relating to the council as a whole, i.e. these cannot be allocated to specific services. The following section shows how the Council's net expenditure was financed externally through Council Tax, NDR and General Government Grants with a Surplus on Provision of Services of £11.2m (£11.2m 2017/18). Any revaluation gains and losses on Asset and the Pension Fund are then adjusted underneath this to give a Total Comprehensive Income & Expenditure figure of £6m surplus (£21m surplus 2017/18). How this amount affects the Council's reserves is then explained in the Movement in Reserves Statement on page 12. There is decrease to the General Fund Balance of £186k (£598k 2017/18) and HRA £4K (£4k 2017/18).

Balance Sheet (pages 10 & 11, and corresponding notes on pages 22 to 57)

This statement is fundamental to the understanding of an authority's financial position at the year-end. It shows balances and reserves available and the authority's long-term indebtedness, together with the fixed and current assets employed in its operations.

Assets and Liabilities (page 10)

Property, Plant and Equipment (Note 10 page 27) – The major movement in the Fixed Assets between the two years was an increase £18m being: an increase in Council Dwellings of £13m; of which £6.m relates to capital expenditure on fixed assets, including the purchase of 11 new properties (2 new properties 2017/18), £6.5m are revaluation gains offset by de recognition/disposal of Council Dwellings £3m, the sale of 47 properties (36 sold properties 2017/18), on page 62.

Other Land and Buildings have increased by £4m which relate to revaluation gains and the balance in capital expenditure on Community Assets of £1m across five major schemes in the year.

Intangible Fixed Assets – this comprises computer software and ancillary costs.

Current Assets - are items that could be readily converted into cash and the order of these represents their convertibility.

Current Liabilities – are short term creditors, being amounts due to suppliers within 12 months, provisions are amounts set aside for NDR backdated appeals and bank overdraft.

Long-Term Borrowings, over 12 months – this is the £79.19m borrowed in respect of the HRA plus an existing loan of £2m.

Pensions Liability – the £77.6m (£62.3m 2017/18) is calculated each year based on parameters in accordance with Pension valuation IAS 19 and represents the difference in the scheme's assets compared to its liabilities. This is offset by the Pension Reserve in the final part of the balance sheet. The contributions to the scheme by both employees and the Council are targeted to reduce any deficit over a period of 20 years.

Financing of the Assets less Liabilities (page 11)

The above descriptions dealt with the net assets side of the Balance Sheet and these are all supported by various reserves and balances. This is more complicated in a local authority because there are no shareholder funds, or proprietor's funds, as one would have in a commercial enterprise.

The Capital Adjustment Account represents the financing costs of the fixed assets used less the in-year costs of utilising those assets, for example depreciation and impairment. This reserve is not a resource available to the Council and represents assets already acquired.

Movement in Reserves Statement (page 12)

This shows the movement on the different reserves held by the Council during the financial year. It is analysed between those reserves which are usable by the Council and those which are held for accounting/legislative purposes and are unusable.

Consolidated Cash Flow Statement (page 14, and corresponding notes on page 44)

This statement shows the significant elements of receipts and payments of cash by the authority in dealing with third parties.

Housing Revenue Account (pages 58 to 64)

This 'ring fenced' account, although included in the Income & Expenditure Account, is separate from the General Fund and the entries are prescribed in legislation. The surplus for the year was £1,075k, (£2,948k 2017/18) plus the opening balance of £617k, of which £1,079k of this was transferred to the HRA Financing Fund, leaving a HRA working balance of £613k on the HRA Account. The HRA Financing Fund is an earmarked reserve fund for future local government changes ring-fenced to the HRA; this balance is £8,060k. The HRA also has a Major Repair Reserve of £3,926k. Total overall HRA Reserves at 31st March 2019 £12,599k.

Collection Fund (pages 65 to 70)

This is another account prescribed by statute and deals with the transactions relating to the collection of Council Tax and the payment of precepts out to the County Council, Combined Fire Authority and the Police, as well as to Charnwood. The account represents a quasi 'trust' account as the balance on the account is shared out between the preceptors in proportion to the precepts levied in the year of the sharing decision. Each year a decision is made in January to estimate the balance on the account and a deemed surplus, or deficit, is allocated to each of the preceptors. The total preceptors Council Tax carry forward surplus at 31st March 2019 is £1,268k (£990k 2017/18) to be re-allocated in future years. Charnwood Borough Councils share of the surplus is £150K. (surplus £117k 2017/18)

The National Non-Domestic Rates (business rates) are collected on behalf of Leicestershire County Council, Combined Fire Authority, central Government and the Council itself. The government sets various proportions and amounts to be paid to the parties and the Collection Fund then reflects the actual position based on the amounts collected and paid out, provisions for bad and doubtful debts, provisions for potential rating appeals and amounts retained to cover the cost of collection and 'disregarded amounts'. The latter relate to certain discounts made locally. The total preceptors NNDR carry forward deficit as at 31st March 2019 is £2,199k (deficit £1,636k 2017/18) and will be re-allocated in future years. Charnwood Borough Councils Share of the deficit is £880K funded from a new NDR earmarked reserve. (deficit £655k 2017/18)

Mazars Independent Audit Report

This report will be explained by the external auditors.

Annual Governance Statement 2018/19

This Statement explains the assurance gathering process and considers the wider arrangements supporting a sound corporate governance framework. A separate report to this Committee will set out considerations in respect of this statement in more detail.

The Chief Executive and the Leader of the Council must sign this statement each year following the audit of the accounts.

Officer to Contact:
Services

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