

<b>Meeting:</b>	<b>Audit and governance committee</b>
<b>Meeting date:</b>	<b>Tuesday 30 July 2019</b>
<b>Title of report:</b>	<b>Signing of the 2018/19 statement of accounts</b>
<b>Report by:</b>	<b>Chief finance officer</b>

## **Classification**

Open

## **Decision type**

This is not an executive decision

## **Wards affected**

(All Wards);

## **Purpose and summary**

To approve the 2018/19 statement of accounts and associated letter of representation to Grant Thornton, the external auditors.

The Local Audit and Accountability Act 2014 requires the Council to produce a statement of accounts in accordance with the Accounts and Audit Regulations 2015. The process requires the accounts to be certified by the S151 officer by 31 May and then approved by the audit and governance committee by 31 July.

Changes to the statement of accounts following the external audit are listed in the audit findings report. The letter of representation attached at appendix b confirms that the group and parent council financial statements are free of material misstatements, including omissions.

## **Recommendation(s)**

**That:**

- (a) the 2018/19 statement of accounts (at appendix a) be approved; and**
- (b) the letter of representation (at appendix b) be signed by the chairman of the committee and the chief finance officer.**

## **Alternative options**

1. There are no alternative options as it is a statutory requirement to approve the accounts and sign the letter of representation.

## **Key considerations**

2. The statement of accounts (appendix a) have been drawn up in accordance with the Accounts and Audit Regulations 2015, and the CIPFA code of practice on local authority accounting in the United Kingdom (the code). The code consolidates the statutory requirements and accounting standards that the council is legally required to follow.
3. The most significant matters in the 2018/19 accounts and a summary of the council's financial position are set out in the narrative report. Key points for 2018/19 include the following:
  - a) the council delivered an overall underspend in 2018/19 of £0.6m despite an overspend in the children and families directorate;
  - b) this underspend increased the council's general reserve balance to £8.5m;
  - c) during 2018/19 no new borrowing was required;
  - d) specific reserves have been set aside totalling £67.0m to mitigate financial risks in future years;
  - e) the council underwent a directorate restructure during 2018/19; and

### **2018/19 statement of accounts**

4. The main financial statements are prepared in accordance with international financial reporting standards. These comprise: the movement in reserves statement, a comprehensive income and expenditure account, a balance sheet and a cash flow statement. The s151 officer is satisfied that the statement of accounts presents a true and fair view.

### **Movement in reserves statement**

5. The movement in reserves statement shows the movements in reserves during the year, analysed into the different funds held by the Council and classified as either "usable" reserves, which can be used to fund future expenditure, or "unusable" reserves which are maintained to meet specific statutory responsibilities.

### **Usable reserves**

6. Total usable reserves as at 31 March 2019 were £121.4m, an overall increase of £10.4m from 31 March 2018. A summary is provided in the table below. The main reason for the overall increase is due to the increase in earmarked reserves as detailed in note 5 to the accounts. Earmarked reserves are reviewed annually by Cabinet with the next review falling due in September 2019.

	<b>General Fund £m</b>	<b>Earmarked reserves £m</b>	<b>Capital receipts reserve £m</b>	<b>Capital Grants Unapplied £m</b>	<b>Total Usable reserves £m</b>
Balance as at 31 March 2019	8.5	67.0	41.5	4.4	120.8
Balance as at 31 March 2018	7.9	57.8	42.6	2.7	111.0
Overall increase (decrease) in 2018/19	0.6	9.2	(1.1)	1.7	9.8

### **Unusable Reserves**

7. Unusable reserves are not available to be spent. They include unrealised gains and losses, such as the revaluation reserve and timing differences for funding of spend on assets (through the capital adjustment account).
8. The unusable reserves totalled £112.2m at 31 March 2019 compared to £139.6m at 31 March 2018 with the main movement being an increase in the pension reserve of £43.1m mainly due to a £28.0m movement in valuation of the pension deficit as at 31 March 2019. The valuation of the pension deficit is completed by external actuary Mercer with movements in the year being due to changes in the financial assumptions when completing the valuation.

### **Comprehensive income and expenditure statement (CIES)**

9. This statement shows the net cost of providing services when calculated in line with generally accepted accounting practice. The Expenditure Funding Analysis compares the CIES with levels of income and expenditure which are taken into account setting the annual budget and council tax requirement, since certain amounts are disregarded by statute. The adjustments to reconcile the CIES statement to the amount to be funded from council tax are included in the movement in reserves statement. The impact of property, plant and equipment asset valuations completed in 2018/19 is reflected in the CIES.

### **Balance Sheet**

10. The balance sheet summarises the council's assets, liabilities and reserves at the end of the financial year. Net assets are matched by reserves which may be "usable" or "unusable", see above.
11. At 31 March 2019 long term assets totalled £692.9m, compared to £674.1m at 31 March 2018. Long term assets include the current valuation of property, plant and equipment the council uses in the provision of its services and the inclusion of capital spend during the year.
12. Current assets totalled £63.4m at 31 March 2019, compared to £52.3m at 31 March 2018. The main increase representing an increase in cash balances held at the year-end.

13. Current liabilities totalled £55.0m at 31 March 2019, compared to £47.9m at 31 March 2018. The increase mainly being due to an increase in creditor balances at the year end with the increase in those mainly falling due to a substantial central government collection fund creditor balance.
14. Long term liabilities totalled £467.7m at 31 March 2019 compared to £427.9m at 31 March 2018. This is mainly due to an increase in the long term pension liability of £28.0m due to a change in financial assumptions applied by the actuary.

### **Cash flow statement**

15. The cashflow statement shows how the Council generates and uses cash and cash equivalents, and explains the reasons for changes in cash balances during the year. During 2018/19 there was a net increase in cash and cash equivalents of £4.2m.

### **Group accounts**

16. The group accounts consolidate the performance of the Council with its subsidiary Hoople Limited in 2018/19. The impact of the consolidation increases the council's reserves position by £1.9m which includes a minority interest reserve balance of £0.3m.

### **The collection fund**

17. The collection fund demonstrates how income raised from local taxpayers has been re-distributed to the Council and to other precepting authorities for the provision of services. Collection fund income from council taxpayers and business ratepayers totalled £170.5m in 2018/19 compared to £163.0m in 2017/18. Expenditure includes precept payments to West Mercia Police (£13.4m), Hereford and Worcester Fire Authority (£6.1m) and parishes (£4.3m). These are paid from income collected from taxpayers on their behalf. In 2018/19 business rates income of £23.0m were paid to central government representing 50% of business rate income collected.

### **Annual Governance Statement**

18. The draft Annual Governance Statement appears as a separate item elsewhere on the committee agenda; once approved the statement will be added to the statement of accounts at page 103 of appendix 1.

### **Letter of representation**

19. Attached at appendix b is the council's letter of representation confirming that, to the best of the council's knowledge and belief, the financial statements, at appendix a, give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

### **Community impact**

20. Publication of the statement of accounts in accordance with statutory requirements helps the council to achieve its code of corporate governance commitment to behave with integrity, demonstrate strong commitment to ethical values, and respect the rule of law. The council is accountable for how it uses the resources under its stewardship, including accountability for outputs and outcomes achieved. In addition the council has an

overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies.

## **Equality duty**

21. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
  - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
  - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
22. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a statement of factual information, we do not believe that it will have an impact on our equality duty.

## **Resource implications**

23. Contained in the report.

## **Legal implications**

24. Regulation 9 of the Accounts and Audit Regulations 2015 require the following;
- The s151 officer must sign and date the statement of accounts, and confirm that he is satisfied that it presents a true and fair view of the financial position of the council at the end of the financial year to which it relates together with the income and expenditure for that financial year. This was completed on 31 May.
  - The period of the exercise of public rights for the inspection of the accounts commenced on 3 June and was notified to the local auditor on 31 May.
  - Following the conclusion of the period for inspection, the committee must approve the statement of accounts by a resolution and ensure that the statement of accounts is signed and dated by the person presiding at the committee. In order for the committee to do so the s151 officer has re-confirmed that he is satisfied that the statement of accounts presents a true and fair view as detailed in paragraph 4 above.

## **Risk management**

25. The risk is that the external auditors will not issue an unqualified opinion on the statement of accounts by the 31 July. The deadline risk is mitigated by providing working papers and officer time to help external auditors form an appropriate judgement on the statement of accounts by 31 July. The unqualified opinion risk is mitigated by employing appropriately trained staff and ensuring an adequate system of control is in operation.
26. The council is required to make arrangements for the proper administration of its financial affairs and to secure that the chief financial officer has the responsibility for the administration of those affairs. The council is also required to secure economic, efficient and effective use of resources which Grant Thornton provide a value for money opinion, this is reported under the audit findings report being presented separately at the same meeting.

## **Consultees**

27. The statement of accounts were made available for public inspection between 3 June and 12 July 2019. No representations or objections were received.

## **Appendices**

Appendix 1 - Statement of accounts for 2018/19

Appendix 2 - Letter of representation for 2018/19

## **Background papers**

None identified