



AUDIT COMMITTEE

25th JULY 2019

AGENDA ITEM (14)

STATEMENT OF ACCOUNTS

Accountable Member	Not Applicable
Accountable Officer	Mrs Jenny Poole Chief Finance Officer 01285 623313 Jenny.Poole@cotswold.gov.uk

Purpose of Report	This report presents to the Committee the draft Statement of Accounts for 2018/19 to consider and approve for publication.
Recommendation(s)	(a) That the Committee note the Accounting Policies that have been applied in producing the Statement of Accounts (pages 56 to 67 of Appendix A). (b) The draft unaudited Statement of Accounts 2018/19 be approved (as attached at Appendix A) (c) That the key balances and messages from the Statement of Accounts 2018/19 be noted.
Reason(s) for Recommendation(s)	The Council is statutorily obliged to have prepared its draft statement of accounts by 31 st May following the end of the financial year and to have published its audited accounts by 31 st July. Even though the 2018/19 audit is not yet complete, the Council is still required to approve and publish the accounts (in their current 'draft' form) by 31 st July.

Ward(s) Affected	None
Key Decision	No
Recommendation to Council	No

Financial Implications	The Council Audit and Inspection fees for the 2018/19 year (excluding grant certification work and ad hoc work) are £34,557 as detailed in note B7 (page 18) of the Statement of Accounts.
Legal and Human Rights Implications	None
Environmental and Sustainability Implications	None

Human Resource Implications	None
Key Risks	By not approving the Statement of Accounts the Council will fail to comply with the Accounts and Audit Regulations 2015.
Equalities Impact Assessment	Not Required
Related Decisions	Council 20 th February 2018 approved the 2018/19 budget. Cabinet 1 st July 2019 – Revenue Outturn 2018/19.
Background Documents	None
Appendices	Appendix 'A' – Statement of Accounts (unaudited)
Performance Management Follow Up	Following approval, the Statement of Accounts will be published on the Council's website.

1.0 Background Information

1.1. The Council's Chief Finance Officer is responsible for ensuring that the statement of accounts are prepared and published no later than 31st May immediately following the end of a year. At the same time, the statement of accounts is submitted to the Council's auditors, Grant Thornton, to undertake the formal audit of the accounts.

1.2. In previous years the audited Statement of Accounts, along with the Grant Thornton Audit Findings Report, has been presented to this Committee for formal approval. This will not be the case for the 2018/19 Statement of Accounts. The audit of the Statement of Accounts is underway, but it is not complete.

1.3. It is anticipate that the Accounts will be formally presented to this Committee in September for formal sign-off. The accounts will incorporate adjustments required as a consequence of the audit. At the time of preparing this report, the revenue outturn position reported in June is expected to remain the same.

1.4. The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ('the Code'). The Council is statutorily obliged under the Accounts and Audit Regulations 2015 to prepare its Statement of Accounts in accordance with the Code.

2.0 Composition of the Statement of accounts

2.1 The four core statements within the Accounts are:

2.2 Comprehensive Income & Expenditure Statement:

The statement shows the accounting cost of services in accordance with generally accepted accounting practices, rather than services funded purely from taxation. The 'below the line' funding & accounting entries that bring the statement back to the movement on the General Fund (reversing items such as depreciation and impairment and accounting for pension contributions) form part of the Movement in Reserves Statement below.

2.3 Movement in Reserves Statement:

The statement details the movement in the year between reserves, from the surplus/deficit on

provision of services in the Comprehensive Income & Expenditure Statement, to the position on the Balance Sheet at 31 March, splitting the reserves into the usable reserves (which are available to spend) and unusable reserves which represent reserve held for accounting purposes (and are not available for use).

2.4 Balance Sheet:

The balance sheet depicts the assets and liabilities of the Authority, with the overall position representing the 'net worth' of the Council.

2.5 Cash Flow Statement

The statement shows the year on year change in cash and cash equivalents (i.e. on demand deposits) available to the Council, rather than simply showing the movement in the bank balance.

The 'notes to the accounts' provide additional breakdown and disclosure of balances to support the primary statements.

3.0 **Accounting Policies**

3.1 The Council's Financial Rules state that the Chief Finance Officer is responsible for setting the Council's accounting policies. The Statement of Accounts is prepared based upon these policies.

3.2 Whilst it is the Chief Finance Officer's responsibility to set the policies, it is seen as best practice for this Committee to also agree the policies. The policies have a significant influence upon the Accounts which the Committee has responsibility for approving, following completion of the external audit process.

3.3 The accounting policies are set out on pages 56 to 67 of the attached Statement of Accounts. The only significant change to the policies is an update to note 'ix' on 'Financial Instruments' which has been revised to take account of the Council's treatment and classification of its Pooled Investments.

4.0 **Revenue Outturn And Performance**

4.1 The Council's approved revenue budget [cost of services] for 2018/19 was £13,104,721. This was revised to £14,642,972 during the year to reflect adjustments for capital charges and the inclusion of additional budgets to fund one-off expenditure, and the funding of items from earmarked reserves. The Council planned to make a contribution to the General Fund balance of £7,811. At the end of the year, with the inclusion of a retained Business Rates 'pool' surplus, the Council was £491,362 underspent.

4.2 The revenue outturn position was reported to Cabinet on 1st July 2019. At the meeting, it was agreed that £490,000 of the revenue surplus be transferred to the Council Priorities Fund. The remaining £1,362 would remain in General Fund.

4.3 For a full breakdown of the outturn for the year, please refer to the Cabinet report, agenda item 8, 1st July 2019.

5.0 **Reconciling the Comprehensive Income and Expenditure Statement to the Revenue Outturn Position Reported to Cabinet**

5.1 The Comprehensive Income & Expenditure Statement (page 9 of the Accounts) shows the accounting cost in the year of providing services. A net surplus on provision of services of £1,031k is reported. The figures differ from the revenue outturn report (a surplus of £1,362) as the statement is prepared based upon international accounting standards while the management accounts are prepared based upon internal reporting practices.

5.2 Note B1 "Expenditure and Funding Analysis" on page 11 of the Accounts reconciles this difference between statutory financial reporting and management reporting. The accounting transactions, which are not reported to Members as they do not impact upon council tax payer

financing of the Council, are set out in the column headed "Adjs. between accounting and funding basis" and amount to £210,413. Once adjustments for transfers to and from earmarked reserves (£811,658) are taken into account, the net contribution to the Council's General Fund Balance is £9,172 (£7,810 planned contribution + £1,362 in-year surplus).

6.0 Balance Sheet Movements

6.1 The Balance Sheet represents the value or 'net worth' of the Council at 31st March. At 31st March 2019 the Council's net worth was £54.1m compared to £50.4m the previous year. The key movements in the balance sheet between 31st March 2018 and 31st March 2019, and reasons for the largest changes, are summarised below:

6.2 The value of Property, Plant and Equipment has increased by £9.5 million. This is due primarily to changes in asset valuations undertaken by the Council's valuers. The most significant of which is an increase of over £7m in the book value of the Council's car parks and leisure facilities.

6.3 Long term debtors have decreased by £1.27m. The movement represents the repayment (back to the Council) of the Council's Local Authority Mortgage Scheme (LAMS) loan. The £1m scheme ended in January 2019, with the full £1m being received back.

6.4 Short term investments have reduced by £10 million from the start of the year with a corresponding movement in long-term investments. The change represents a shift in the Council's investment portfolio, with a move into Pooled Funds, and the Council seeking to make use of its available cash balances to support the revenue account with increased investment returns.

6.5 Short-term borrowing has reduced by £2 million. At the end of the financial year the Council had no requirement to borrow.

6.6 The Council's provisions have increased from £1m to £2m. The provision held relates solely to outstanding Business Rates appeals against the 2010 and 2017 valuation list. A new 'check, challenge and appeal' process has been slow to resolve appeals against the 2017 list, and the potential impact when these appeals are assessed/settled remains high.

6.7 Short term creditors have increased by £1.3 million. Fluctuations in such balances are expected, due to the size of transactions with central government departments and local authorities. These balances are heavily influenced by the accounting arrangements for the local business rate retention scheme.

6.8 The value of the pension fund net liability, which is shown under "Other Long Term Liabilities", has worsened by £7.6-million. This is primarily a result of changes in actuarial assumptions, and the worsening of the present value of defined benefit obligations exceeding the growth in the fair value of the scheme assets.

6.9 The triennial pension fund valuation was completed in March 2016 and established the authority's pension fund contributions for the subsequent three years (2017/18 to 2019/20). The 2019 valuation will not impact upon the Councils physical pension fund contributions during 2019/20.

6.10 The Councils 'earmarked reserves' represent resources that have been set-aside by the Council for specific projects or money to provide specific schemes in the future. Overall contributions to earmarked reserves amounted to £2.51 million whilst expenditure amounted to £1.75 million, the value of earmarked reserves therefore increased by a net £0.76m. The majority of the transfers to earmarked reserves comprised of transfers from the General Fund to increase the Council Priorities Fund earmarked reserve.

6.11 The 'general fund balance' has increased by £9,172 from 1st April to 31st March. The movement represents the budgeted transfer to the General Fund of £7,810k and the under-spend in the year (after transfers to reserves mentioned in 6.11 above) of £1,362k. The general fund balance represents the unallocated revenue reserves of the Council. At 31st March the balance stood at £4,910,148.

6.12 The 'Net Assets' or 'Net Worth' of the Council has increased by £3,635,675 during the year to £54,063,523. The Council remains financially secure and sustainable for the foreseeable future.

7.0 Summary of changes resulting from the Audit

7.1 The Audit is currently underway, but it is not complete. At the time of writing this report the following changes are expected to be required:

McCloud Judgement (Pensions)

7.2 In 2014 the Local Government Pension Scheme (LGPS) was reformed and transitional protections were applied to certain older members close to retirement age. In December 2018 the Court of Appeal upheld a ruling ("McCloud/Sargeant") that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well.

7.3 The draft Statement of Accounts presented to Grant Thornton at the end of May did not make any adjustments or allowances for the McCloud ruling, however a disclosure was included under the notes related to accounting for the defined benefit pension scheme (the Local Government Pension Scheme). Since then, revised figures have been sought from the Gloucestershire County Council Pension Fund's Actuary to take account of the potential impact that the McCloud ruling will have on the fund valuation. A revised IAS19 report was issued in July by the Pension Fund, resulting in an increased in the deficit on the Cotswold share of the fund of £750,000.

7.4 The change in the pension fund valuation has not (yet) been reflected in the draft Statement of Accounts attached to this report as the treatment of the changes has still to be agreed with Grant Thornton.

Misclassification and disclosure changes

7.5 A small number of other misclassification and disclosure changes will be made to the accounts. These changes represent less significant amendments, including changes to notes where expanded explanation has been necessary and other minor presentational adjustments (such as roundings within tables) to improve the quality of disclosures in the accounts.

7.6 Once the audit is complete, details of the adjustments to the draft accounts will be presented to the Committee.

8.0 The Letter of Representation

8.1 To complete the Audit process the Council is required to submit a letter of representation to Grant Thornton to complement the financial statements and to outline the areas considered in stating that the financial statements give a true and fair view on the accounts, in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

8.2 The letter of representation has not been presented to this Committee at this point in time as the letter can only accompany the audited financial statements. The letter will be circulated to the Committee, for approval, when the Audit is complete.

8.3 At the conclusion of the Audit, the Chairman of the Audit Committee and the Chief Finance Officer will be asked to sign the Letter of Representation prior to Grant Thornton approving the accounts. Grant Thornton is not able to issue an opinion on the accounts until the letter of representation has been received.

9.0 Early closure of the Accounts

9.1 In 2017/18 the deadline for issuing the draft Statement of Accounts for Audit was brought-forward from 30th June to 31st May. For 2018/19 the draft accounts were submitted to the Auditors by 31st May in line with the statutory timescales.

10.0. Approval and publication of the Statement of Accounts

10.1 The Audit Committee is tasked with formally approving the Statement of Accounts on behalf of the Council.

10.2 At this point in time, the Accounts have not been audited. The draft accounts will therefore be published on the Council's website by 31st July, with a note explaining the reason for the delay in signing-off the statement of accounts.

10.3 On completion of the audit, the Committee will be asked to approve the signing of the Statement of Accounts and Letter of Representation. At this point the Accounts can be formally approved by the Committee and the external auditor (Grant Thornton).

10.4 Once approved a copy of the Audited Statement of Accounts will be published on the Council's website along with the notice of Completion of Audit.

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