

<b>SUBJECT:</b>	<b>STATEMENT OF ACCOUNTS 2018/19</b>
<b>DIRECTORATE:</b>	<b>CHIEF EXECUTIVE AND TOWN CLERK</b>
<b>LEAD OFFICER:</b>	<b>COLLEEN WARREN, FINANCIAL SERVICES MANAGER</b>

## **1. Purpose of Report**

- 1.1 To present the Statement of Accounts for the financial year ended 31<sup>st</sup> March 2019, together with a short summary of the key issues reflected in the statutory financial statements, for scrutiny.

## **2. Executive Summary**

- 2.1 The Statement of Accounts (SOA) for 2018/19 provide a comprehensive picture of the Council's financial circumstances and are compiled to demonstrate probity and stewardship of public funds.
- 2.2 The Council is statutorily required to publish its Statement of Accounts for 2018/19 with an audit opinion and certificate by no later than 31<sup>st</sup> July 2019. Due to a delay in the completion of the Audit the final Statement of Accounts will be presented for approval to Council on the 24<sup>th</sup> September 2019 and will be published by 30<sup>th</sup> September 2019.
- 2.3 The Audit Committee should note that the Statement of Accounts for 2018/19 have been subject to external audit by the Councils external auditors Mazars, who are due to report on the audit conclusion, elsewhere on this agenda.
- 2.4 Following updated information on Pension judgements (McCloud/GMP Equalisation) changes have been made to the Statement of Accounts to adjust for the impact of the amended Actuary report. The impact of these judgements to the Council is £621,000 for the McCloud judgement and £294,000 for the GMP equalisation changes.
- 2.5 The Council must make the Statement of Accounts available for public inspection for 30 working days. Following notification from Mazars, this ran from 3<sup>rd</sup> June until 11<sup>th</sup> July 2019 and the External Auditor was available to answer questions during this period, at the time of this report no questions have been received.
- 2.6 The Council is also required to provide a documented annual review of the effectiveness of its governance arrangements (Annual Governance Statement), which sits alongside the Statement of Accounts. The overall level of assurance provided in 2018/19 was substantial (green) and is in line with our Code of Corporate Governance. However there is one defined significant issue, in respect of IT Disaster Recovery, this will be a focus for 2019/20 and will be regularly reported by management to the Audit Committee.

### 3. Background

3.1 The Accounts and Audit Regulations 2015 require the Statement of Accounts to be certified by the Council's Chief Finance Officer by the 31<sup>st</sup> May 2019. The Accounts are then released to be audited by the Council's external auditor, Mazars. After completion of the audit the accounts must be published with the audit opinion and certificate, and before that must have been approved by Full Council, by no later than 31<sup>st</sup> July. Due to a delay in the completion of the Audit the final Statement of Accounts will be presented for approval to Council on the 24<sup>th</sup> September 2019. The timescales involved with the approval of the Statement of Accounts for 2018/19 are:

a) Report draft accounts to Audit Committee	13 <sup>th</sup> June 2019
b) Report to Audit Committee	17 <sup>th</sup> September 2019
c) Report to the Executive	23 <sup>rd</sup> September 2019
d) Approval by Council	24 <sup>th</sup> September 2019

3.2 There is a great deal of technical detail contained in the statutory rigid format of the Accounts that is not always easily understood by the reader unless they are familiar with accounting and audit standards. To assist members in their understanding of the accounts:

- Training has been provided to members
- A short summary of the accounts has been produced at Appendix A
- The remainder of this report sets out a short summary highlighting the key figures in the financial statements.

### 4. Summary of Key Issues in the Financial Statements

#### 4.1 The Comprehensive Income and Expenditure Statement

4.1.1 **The Comprehensive Income and Expenditure Statement (CIES)** (SOA page 23) – in line with statutory accounting practice the Comprehensive Income and Expenditure Statement (CIES) shows the Council's actual performance for the year measured in terms of the resources consumed and generated over the last 12 months. It should not be misinterpreted as the financial outturn position of the Council as this statement contains a number of accounting entries required under International Financial Reporting Standards (IFRS). Regulation allows local authorities to reverse these amounts out of the accounts before determining their outturn position. There is a note to the accounts (Expenditure & Funding Analysis (SOA page 20)) that adjusts the expenditure that is chargeable to general fund and the HRA balances (as per the actual outturn position) to the accounting entries in the CIES under IFRS. To further assist members interpretation of the CIES the table below summarises the reconciliation between the net surplus on the Provision of Services of £5.830m in the CIES to the outturn position of an decrease in General Fund Balances of £0.046m as reported in the Financial outturn report (Executive 28<sup>th</sup> May 2019).

	£m	£m
<b>Net (surplus)/deficit on the Provision of Services</b>		<b>(4.739)</b>
<i>Adjust for:</i>		
Depreciation, revaluation losses and gains & impairment of non-current assets	5.144	
Revenue expenditure funded from capital under Statute	(0.897)	
Direct Revenue financing of capital expenditure	4.744	
Gain/loss on the sale of non-current assets	0.559	
Contribution to/from the pensions reserve	(4.787)	
Debt repayment and premiums & discounts on debt	0.625	
Short-term compensated absences	0.01	
Contribution to Government's Housing Capital Receipts Pool	(0.76)	
Capital grants & contributions unapplied credited to CI&ES	1.183	
Adjustment for Collection Fund	0.746	
Transfer to/from the HRA	(0.002)	
Transfer to/from Earmarked reserves	(1.78)	
<b>Total Adjustments</b>		<b>4.785</b>
<b>(Increase)/decrease in General Fund Balances</b>		<b>0.46</b>

4.1.2 Clearly the most significant issue for Members to be aware of from the Comprehensive Income and Expenditure Statement is how the Council performed financially in 2018/19, in comparison to the revised budget for the year. As previously reported there was a projected overspend against the General Fund budget of £206k at quarter 3, this overspend has decreased and provisional outturn is now an overall budget shortfall of £46k.

4.1.3 The Housing Revenue Account has seen a minor underspend against the revised budget of £2k. Allowing for this adjustment HRA balances were £1.025m and the HRA Repairs Accounts balance was £579k as at 31<sup>st</sup> March 2019.

4.1.4 Further details on these are provided in the Narrative Report in the Statement of Accounts (*SOA page 1*) and were subject to a separate report to Executive and Performance Scrutiny Committee 28<sup>th</sup> May and 5<sup>th</sup> June 2019 respectively.

## **4.2 The Balance Sheet (*SOA page 24*)**

4.2.1 **The Balance Sheet** is fundamental to understanding the Council's financial position at the year-end. It shows the Council's balances and reserves, long-term indebtedness, and the non-current and current assets employed in the Council's operations. The key information for members to be aware of in the Balance Sheet as at 31<sup>st</sup> March 2019 are:

4.2.2 **General Balances** – General balances have increased by £0.241m during the year, as analysed below:

Description	Opening Balance £m	Closing Balance £m	Increase/ (Decrease) £m
General Fund balances	1.610	1.849	0.239
HRA balances	1.023	1.025	0.002
HRS	0.089	0.089	0
<b>Total</b>	<b>2.722</b>	<b>2.963</b>	<b>0.241</b>

4.2.3 **Earmarked Reserves** - in total monies carried forward to pay for specific future commitments (including the insurance fund) have increased by £1.776m, as analysed below:

Description	Opening Balance £m	Closing Balance £m	Increase/ (Decrease) £m
Other Specific Reserves	10.081	11.857	1.776

This is due to a number of contributions to and from earmarked reserves as reported as part of the 2018/19 Provisional outturn to the Executive 28<sup>th</sup> May 2019 and as detailed in Note 10 (Transfers to/ from Earmarked Reserves) in the Statement of Accounts (SOA page 62).

4.2.4 **Liquidity** – a reliable indication of liquidity is the ratio of current assets (excluding inventories) to current liabilities. The Council's current assets (excluding inventories) of £41.08m exceed current liabilities of £34.4m by a ratio of 1.2:1, which represents a decrease from the previous year's ratio of 1.62:1. This is due to an increase in short term borrowing (as per the Council's borrowing strategy) and disposal of non-current assets held for sale.

4.2.5 **Debtors** – debtors have decreased by £0.462m to £9.779m. This is a minor change in debtors balances.

4.2.6 **Creditors** – have decreased slightly by £2.1m to £13.260m. This is mainly due to a Business Rates adjustment account, which absorbs the timing differences between statutory accounting requirements and full accruals accounting.

### 4.3 Cross Cutting Key Issues

4.3.1 There are a number of areas that have significant impacts or are of particular interest that sit both within the Comprehensive Income and Expenditure Statement and the Balance Sheet. To aid members understanding of the Accounts these are summarised below:

4.3.2 **Non-Current Assets** are shown in the Balance Sheet and represent the Council's land, building, heritage, community and intangible assets.

- **The value of non-current assets and assets held for sale in the Balance Sheet has increased by £39.3m (11%) to £399.8m between 31<sup>st</sup> March 2018 and 31<sup>st</sup> March 2019 (see the Balance Sheet and Notes**

14, 15 and 16 for further detail). This net increase is the result of a number of factors:

- **Revaluations** - The Council's Assets are valued on a rolling programme, which ensures each asset is re-valued every 5 years as at the 1<sup>st</sup> April. In addition to this, all assets are reviewed for any material change in their value at the end of each financial year. The results for 2018/19 have seen an **overall increase in value of £13m**, which is the net result of valuation gains and losses across a range of assets.

Accounting rules require that where a balance has not built up on the Revaluation Reserve for an individual asset (a reserve which holds accumulated gains following previous revaluations upwards) then any revaluation losses (downwards revaluation in asset values) must be recognised in the Comprehensive Income and Expenditure Statement (CI&ES) and then reversed out in the Movement in Reserves Statement before it impacts on Council Tax payers. Accounting rules also require that where a revaluation loss previously recognised in the CI&ES on an individual asset is subsequently reversed by an upwards revaluation, then the revaluation gain should be recognised in the Comprehensive Income and Expenditure Statement up to the value of the original revaluation loss. Within the £13m net upwards movements due to revaluation gains and losses in 2018/19, there were:

- **£3m of net revaluation gains** required to be charged to Cost of Services in the CIES. This is mainly due to reflecting the social housing value of housing stock (£1.45m).
- **£10m of net upwards revaluations** were reflected in the Revaluation Reserve (shown in Other Comprehensive Income and Expenditure in the CIES). This was mainly due to the upward revaluation (£9m) an increase in the council's land and buildings.
- **Additions - New capital investment in assets belonging to the Council totalled £38.95m.** The main areas of expenditure include £24.985m spent improving Council dwellings including re-roofing, kitchens and landscaping, and the purchase of a number of new council houses. The other main areas of spend were £11.2m on purchasing investment properties. To pay for this investment, the Council has used £1m of capital grants and contributions, £8.2m of capital receipts, £13.1m of the Major Repairs Reserve, £11.6m of unsupported borrowing, and £5m of direct revenue financing.
- **Depreciation** – a charge is made to the Comprehensive Income and Expenditure account for depreciation to reflect the use of assets in the provision of services during the year. The value of non-current assets in the Balance Sheet is reduced by an equivalent amount. For General Fund services this charge is reversed out in the Movement in Reserves Statement (MiRS) and replaced with a statutory charge for the repayment of debt. In the

HRA under self financing, depreciation is a real charge to the service however, it is set aside in the Major Repairs Reserve for future investment in the housing stock. **In 2018/19 total depreciation was £8.06m** (of which £1.86m was charged for non-HRA dwellings and was replaced in the MiRS with £0.625m for the repayment of debt and £6.2m depreciation was charged to the HRA which is available in the Major Repairs Reserve for future investment).

- **Disposals – assets valued at £3.872m in the Balance Sheet were disposed** of in 2018/19. This included the former allotment site on Riseholme Road and general fund land plus 48 Right to Buy sales of council dwellings.

4.3.3 **Pensions (see Para 2.5 for additional information)** – the payments made by the Council to the Lincolnshire County Council Pension Fund each year as employer contributions to the scheme and any addition costs relating to pension strain etc are reflected in the financial outturn position of the Council. However, accounting practice requires that in the Statement of Accounts pension costs are shown when the Council is committed to give them, even if the actual giving may be years into the future. This means that:

- The costs of providing retirement benefits to employees are recognised in the accounting period in which the benefits are earned by employees, and the related finance costs and any other changes in value of assets and liabilities are recognised in the accounting periods in which they arise.
- The financial statements reflect the liabilities arising from the Council's retirement obligations.
- The financial statements disclose the cost of providing retirement benefits and related gains, losses, assets and liabilities

Full details are provided in Note 44 to the accounts – Defined Benefit Pension Schemes (*SOA page 99*). The impact of these accounting requirements in the core financial statements are:

- **Comprehensive Income & Expenditure Statement (CIES)** - The cost of retirement benefits in the CIES is shown as an actuarial estimate of £8.8m cost reflecting the retirement benefits earned during 2018/19 and to be funded in the future. This includes £5.5m current service costs, £1m past service costs and a net interest cost on the defined benefit obligations of £2.3m. This net cost is reversed out in the Movement in Reserves Statement (MiRS) and is replaced by the actual amount charged for pension contributions in the year of £4.787m.
- **Balance Sheet** – The Pension Reserve shows the underlying commitments that the Council has in the long term to pay retirement benefits based on an assessment by the pension schemes actuary. The balance on the Pensions Reserve is the net position of the schemes liabilities and assets. During 2018/19 the net liability has increased by £14.832m to £100.690m.

The actuarial assumptions are detailed in note 44 to the accounts 'Defined benefit pension scheme'.

It is important for members to be aware that the statutory arrangements for funding the remaining liability of £100.690m means that this deficit will be made good by the increased level of annual employer contributions payable to the Pension Fund over the remaining estimated average working life of our employees in the Pension Scheme. The financial position of the Council remains healthy.

4.3.4 **Officer Remuneration** – note 35 to the accounts (SOA page 88) details senior staff salaries and the number of employees receiving more than £50k remuneration during the year (this includes receipt of any redundancy payments). Also detailed within the note is the redundancy/pension/payment in lieu costs paid in year, in line with Executive approvals of service review business cases and the Council's redundancy policy.

4.3.5 **Borrowing** – the Council takes borrowing to fund capital expenditure. It also occasionally takes short term borrowing for cash flow purposes.

- Between 31<sup>st</sup> March 2018 and 31<sup>st</sup> March 2019 the Council's total borrowing increased to £115.4m (excluding accrued interest which is shown in the Balance Sheet under short-term borrowing as at 31<sup>st</sup> March 2019).
- The total borrowing can be split between short term borrowing (payable within 12 months) of £20m and long term borrowing of £95.4m.
- The average rate of interest payable on borrowing was 3.24% which is a slight decrease on 2017/18 (4.09%) and due to the new loans taken being at low levels of interest.
- The Comprehensive Income and Expenditure Statement for 2018/19 includes £3.3m interest payable on borrowing (excluding leases) of which £0.9m relates to the General Fund and £2.4m to the HRA.

The maturity profile of the outstanding borrowing as at 31<sup>st</sup> March 2019 is as follows:

Within	£m	% of Total Debt
1 year	20.200	17.51%
1 – 2 years	9.705	8.41%
2 – 5 years	5.645	4.89%
5 -10 years	7.076	6.13%
10 years and over	72.728	63.05%
<b>Total</b>	<b>115.354</b>	<b>100.00%</b>

4.3.6 **Investments** – in line with its Treasury Management Strategy, the Council invests surplus cash on the money markets, typically for periods less than one year to approved organisations, although core cash balances may be invested for periods over 1 year if interest rates and market conditions are favourable.

- As at 31<sup>st</sup> March 2019, total investments had increased by £13.6m

from £15.6m to £29.2m compared to the previous year end.

- Average investment balances during 2018/19 were £22.3m, compared to £25.3m in 2017/18.
- The average interest rate received on investments in 2018/19 was 0.77% (a small increase of 0.1% on the average rate achieved in 2017/18), which was 0.26% above the target 7 day LIBID rate.

## **5. Strategic Priorities**

5.1 The Council's Statement of Accounts are a financial summary of the Council's activities in support of its Vision 2020 and Strategic Priorities during the financial year 2018/19.

5.2 Communication - The draft Statement of Accounts is available on the Council's website and the period of public inspection has been advertised. The completion of the audit of the Council's Statement of Accounts will be published on the Council website on 30<sup>th</sup> September 2019. The Statement of Accounts will also be made available on the website with a summary version of the accounts published in the Council's Annual Report.

## **6. Organisational Impacts**

6.1 Finance - The financial implications are contained throughout this report.

6.2 Legal - In accordance with the Accounts and Audit Regulations 2015 the Statement of Accounts must be approved and published by the Council, together with the audit opinion and certificate, by the 31<sup>st</sup> July 2019, however due to a delay in the audit of the accounts the final version of the Statement of Accounts will be published on the website by the 30<sup>th</sup> September 2019.

## **7. Risk Implications**

7.1 There are no direct risk implications arising as a result of this report.

## **8. Recommendation**

8.1 Executive are invited to scrutinise the Statement of Accounts and make any comments to Full Council at the meeting on the 24<sup>th</sup> September 2019.



**Key Decision** No

**Key Decision Reference No.** N/A

**Do the Exempt Information Categories Apply** No

**Call in and Urgency:** Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply? No

**Does the report contain Appendices?** Yes

**List of Background Papers:** Medium Term Financial Strategy 2018-2023  
Financial Performance - Outturn 2018/19

**Lead Officer:** Colleen Warren, Financial Services Manager  
Telephone 01522 873361