

Meeting: **Audit Committee/Statement of
Accounts Committee**

Agenda Item: 3

Portfolio Area: Resources

Date: **26 July 2018**

2017/18 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT

Author – Anita Thomas / Neil Harris Ext No. 2430

Contributors – Anita Thomas / Kay Storey

Lead Officer - Clare Fletcher Ext No. 2933

Contact Officer – Anita Thomas Ext No. 2430

1 PURPOSE

- 1.1 To present the External Auditor – Ernst & Young LLP's Annual Report for consideration and approval and the audited 2017/18 Financial Report including the Statement of Accounts (SOA).

2 RECOMMENDATIONS

- 2.1 That the Annual Report to those charged with Governance for 2017/18 be approved (appendix 1).
- 2.2 That the Council's Letter of Representation be approved (appendix 2 to follow).
- 2.3 That the Financial Report including the Statement of Accounts 2017/18 be approved (appendix 3).
- 2.4 That the Annual Governance Statement is approved (appendix 4)

3 BACKGROUND

- 3.1 This report is presented to the Audit Committee in its capacity as the body charged with Governance. The Auditor's report will be produced by the Council's External Auditors, Ernst & Young (appendix 1).
- 3.2 The 2017/18 fourth quarter outturn position for the General Fund and the Housing Revenue Account was presented to the Executive on 11 July 2018. That report showed that the General Fund had a net over spend of £11,789:
- of which £992,203 related to service underspend of which £338,100 was requested to be carried forward,
 - £353,992 related to NDR related budget pressures, and

- £650,000 was transferred to allocated reserves for Capital and Regeneration projects.

The HRA had an increase in surplus of £1,344,973 of which £1,241,000 related to a budgeted debt repayment which was physically paid on 3 April 2018 and £103,973 of service related underspends of which £82,270 was requested to be carried forward. Following the external audit the outturn positions for the General Fund and HRA remains unchanged.

3.3 **Changes affecting the 2017/18 Statement of Accounts**

- 3.3.1 The Statement of Accounts (SOA) has to be compiled in accordance with current International Financial Accounting Standards, statutory requirements, and CIPFA published guidance. The standards and guidance may change year on year.
- 3.3.2 In 2017/18, there were **no new disclosure requirements**, however to aid the reader and to reduce the size of the document a number of disclosure notes were incorporated into the core statements and/or other notes to remove duplication of information. The disclosure note regarding inventories (stock held by the council) was removed from the document with the agreement of the external auditors as the value of stock held is not considered material (£139,000).
- 3.3.3 The last triennial valuation of the **pension fund** was carried out as at 31 March 2016 and the results are incorporated into the SOA. The pension fund is subject to its own independent external audit and following the conclusion of their audit assets valuations were revised upwards. It should be noted that the pension figures for Stevenage (increase in asset valuation and hence net liability reduced) have been revised since the publication of the pre-audit accounts (31 May 2018).
- 3.3.4 The pension fund liability decreased this year to £50.0 Million. The value of assets held by the fund increased in year by £7.9 Million to £157.5 Million, while liabilities increased by £2.9 Million to £207.5 Million.
- 3.3.5 Movements in the pension fund liability are not taken to the General Fund/HRA balances as both funds are only charged with the actual pension contributions paid over to the fund in year in accordance with statutory provision. The pension fund liability reflects the outlook using assumptions which cover the very long term and are subject to wide fluctuations over that term. The Council continues to fund the scheme at the rate recommended by the actuary to ensure the scheme is able to meet its obligations.
- 3.4 The **Annual Governance Statement** is no longer included within the Financial Report. This is now shown as a separate document and is included at Appendix 1 to this report. This Committee is required to approve the SOA and the Annual Governance Statement.
- 3.5 Members were offered training prior to this committee to aid their understanding of the Statement of Accounts and issues raised by the external auditor.
- 3.6 The Council is required to send to the Council's External Auditors a Letter of Representation (Appendix 2 to follow on completion of the audit).

4 REASONS FOR RECOMMENDED COURSE OF ACTIONS AND OTHER OPTIONS

4.1 Statement of Accounts

- 4.1.1 At the time of writing this report the audit of the 2017/18 Statement of Accounts had yet to be completed. As such the latest “in audit” version of the accounts, the 2017/18 Financial Report including the Statement of Accounts is Appendix 3 to this report. Any subsequent audit changes will be notified at the meeting on 26 July 2018.
- 4.1.2 Officers have agreed that one misstatement relating to the revised pension asset valuation (para 3.3.3) be adjusted.
- 4.1.3 One misstatement regarding the valuation of the swimming pool has not been corrected. Ernst Young consider the valuation of the swimming pool should be in the region of £5.2M-£6.2M). The asset has been valued at £5.1M and discounted (down to £3.66M) to reflect that the swimming pool is managed by a third party and the Council does not have direct control of the asset. This is consistent with the valuation treatment in prior years and consistent with other assets of this type. As such, officers believe that the valuation should not be adjusted and that the approach taken by its external valuer is reasonable. The impact of this unadjusted misstatement is shown in the table below.

Un-adjusted Misstatement	Effect on Balance sheet	
Valuation	£'000's	£'000's
Swimming Pool	1,608	
Other land and building valuations		1,608
Total Impact on Net Assets		1,608
Unusable reserves		(1,608)
Total Impact on Reserves		(1,608)

4.2 Balance Sheet

- 4.2.1 The Council's Balance Sheet as at the 31 March 2018 showed total reserves of £562.7 Million, an increase of £37 Million over the Balance Sheet as at 31 March 2017. The increase in the Council's net worth can be assessed by reviewing the Useable and Non Useable Reserves.
- 4.2.2 **Useable Reserves**
- 4.2.3 Useable reserves are cash reserves that are available for the Council to spend on revenue and/or capital. As at the 31 March 2018 the Council's useable reserves decreased by £48,765 to £58.846Million. Of the £15.4M capital receipts reserve, £10.1million relates to Right To Buy "one for one receipts" which have a restricted use.

4.2.4 Table 1 below details the movement in useable reserves.

TABLE 1:	Balance at 31 March 2017	Increase/ (Decrease) in year	Balance at 31 March 2018
Revenue Reserves:			
General Fund Balance	6,426,983	(961,866)	5,465,117
Earmarked General Fund Reserves	2,549,819	299,763	2,849,582
Housing Revenue Account	19,749,571	4,365,093	24,114,664
Total Revenue Reserves	28,726,373	3,702,990	32,429,363
Capital Reserves:			
Major repairs reserve	4,507,777	4,756,603	9,264,380
Capital Receipts Reserve	25,517,495	(10,095,170)	15,422,325
Government Capital Grants Unapplied	143,670	1,586,812	1,730,482
Total Capital Reserves	30,168,942	(3,751,755)	26,417,187
TOTAL REVENUE AND CAPITAL RESERVES	58,895,315	(48,765)	58,846,550

4.2.5 Unusable Reserves

4.2.6 Non useable or unusable reserves are non-cash reserves and include (but not exhaustively) the value of:

- Gains and losses from changes to the value of the Council's assets shown in the **Revaluation Reserve**.
- Timing differences between the purchase and use/or consumption of non-current assets (formerly known as fixed assets) shown in the **Capital Adjustment Account**.
- The calculated liability owed by the council at the Balance Sheet date for staff pensions shown in the **Pension Reserve**.
- The amount of money that would have to be paid to staff if all holiday entitlement due, but not taken was paid at the Balance Sheet date shown in the **Accumulated Absences Account**.

- The **Collection Fund Adjustment Account** which holds the timing difference between the recognition of Council Tax and Non Domestic Rates (NDR) income in the Income and Expenditure Statement as it falls due from council tax payers and business rate payers, compared with the statutory arrangement for paying across amounts to the General Fund from the Collection Fund (Council Tax and NDR), to match those calculated and approved at budget setting for that financial year.

4.2.7 The Council's unusable reserves increased by £37.0Million to £503.9Million as at 31 March 2018. Included within unusable reserves is the Council's **pension reserve** (deficit). The pension deficit decreased by £4.9Million compared to 31 March 2017.

4.2.8 The **Revaluation Reserve** has increased by £22.8Million largely due to the in-year net revaluation gains on Council House stock.

4.2.9 A summary of the movement in unusable reserves is shown in Table 2 below:

Table 2:	Balance at 31 March 2017	Increase/ (Decrease) in Year	Balance at 31 March 2018
	£	£	£
Un-usable Reserves:			
Revaluation Reserve	95,781,582	22,812,114	118,593,696
Capital Adjustment Account	425,607,289	9,424,751	435,032,040
Deferred capital receipt reserve	191,100	(2,758)	188,342
Pensions Reserve	(55,008,000)	4,956,000	(50,052,000)
Collection Fund Adjustment Account	678,752	(156,555)	522,197
Accumulated Absences Account	(358,653)	(29,733)	(388,386)
Total Un-usable Reserves:	466,892,070	37,003,820	503,895,890

4.3 External Auditor's Conclusions

- 4.3.1 As the Council's appointed Auditor, Ernst & Young LLP is required to review and report on the Council's financial statements and provide a value for money conclusion. Their draft findings and ISA 260 report are included at Appendix 1.
- 4.3.2 At the time the time of writing the report, no objections were received by electors to the 2017/18 accounts.
- 4.3.3 No requests were received for any further details on the Council's financial records.

5 IMPLICATIONS

5.1 Financial Implications

The updated Accounts for 2017/18 are financial in nature. As this document is finance related, the financial implications are contained therein.

5.2 Legal Implications

- 5.2.1 The requirement under the Accounts and Audit Regulations England (2015) is for the Audit Committee and Council, (or a Committee delegated this function by Council), to consider and approve the accounts before 31st July after they have been audited. This report and subsequent recommendations by the Statement of Accounts committee meets this requirement.

BACKGROUND PAPERS

4th Quarter General Fund and HRA report 11 July 2018 Executive

4th Quarter Capital monitoring report 11 July 2018 Executive

APPENDICES

Appendix 1 – Annual Report to those charged with Governance (draft)

Appendix 2 - Letter of Representation (TO FOLLOW)

Appendix 3 – In- Audit Statement of Accounts 2017/18 (Final Post audit to follow)

Appendix 4 – Annual Governance Statement

Appendix 5 – Glossary of Audit Phrases