

WEST OXFORDSHIRE DISTRICT COUNCIL
AUDIT & GENERAL PURPOSES COMMITTEE
THURSDAY 25 JULY 2019
FINANCIAL STATEMENTS 2018/2019
REPORT OF JENNY POOLE, CHIEF FINANCE OFFICER
(Contact: Jenny Poole, Tel: (01285) 623313)

(The recommendation is a resolution)

1. PURPOSE

This report presents the Council's unaudited Statement of Accounts for the period 1st April 2018 to 31st March 2019 to enable the Committee to consider and approve the Council's draft accounts.

2. RECOMMENDATIONS

- (a) That the Committee note the Accounting Policies that have been applied in producing the Statement of Accounts (pages 54 to 64 of Appendix A).
- (b) The draft Statement of Accounts 2018/19 be approved;
- (c) That the key balances and messages from the Statement of Accounts 2018/19 be noted.

3. THE STATEMENT OF ACCOUNTS

- 3.1. 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.
- 3.2. 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.
- 3.3. It is anticipated that the Accounts will be formally presented to this Committee in September for approval. 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.
- 3.4. 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.
- 3.5. The four core statements within the Accounts are:

- 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.
 - 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).
 - Balance Sheet:
The balance sheet depicts the assets and liabilities of the Authority, with the overall position representing the 'net worth' of the Council.
 - 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.
- 3.6. The 'notes to the accounts' provide additional breakdown and disclosure of balances to support the primary statements.

Accounting Policies

- 3.7. 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.
- 3.8. 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 audit process.
- 3.9. 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.

Revenue Outturn and Performance

- 3.10 The Council's approved revenue budget for 2018/19 was £11,387,500. During the year this was revised to £11,112,203 to reflect: inflation, pension provisions, savings, accounting adjustments (e.g. capital charges) and additional service costs funded via government grant or by funding from earmarked reserves within service areas. The Council planned to add

£199,159 of General Fund balances during 2018/19. The final outturn position saw the Council generate an under-spend of £572,051 against the revenue budget for the year.

- 3.11 The revenue outturn position was reported to Cabinet on 19th June 2019 (for a full breakdown of the outturn for the year, please refer to the Cabinet report, agenda item 11). At their meeting, Cabinet recommended to Council to transfer £571,859 of the revenue surplus to earmarked reserves and to increase the General Fund Balance by £462. Council subsequently approved the appropriations on 26th June 2019.

Reconciling the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement to the Revenue Outturn position reported to Cabinet

- 3.12 The Comprehensive Income and Expenditure Statement (CI&E) (page 7 of the Accounts) shows the accounting cost in the year of providing services. The statement is prepared based under International Financial Reporting Standards (IFRS) and therefore does not match the figure presented to Cabinet as part of the year-end outturn report, which is prepared on the basis of internal reporting practices. To reconcile the figures, the I&E and Movement in Reserves Statement (MiRS) need to be read together as the MiRS reverses out or adjusts some of the I&E figures to make them compatible with the Code of Practice on Local Authority Accounting, and UK statutory requirements.
- 3.13 Note BI “Expenditure and Funding Analysis” on page 11 of the Accounts reconciles the difference between statutory financial reporting and those figures reported internally to Cabinet. The CI&E declares a surplus on the provision of services of £7,941,000. This figure includes changes in asset values and pension fund accounting which are not reported to Members as they do not impact upon council tax payer financing of the Council. These are set out in the column headed “Adjs. Between accounting and funding basis” and amount to £7.1m. Once adjustments to earmarked reserves of £620k are taken into account, the net contribution to the Council’s General Fund Balance is £199,621 (£7,941k - £7,120k - £620k = £200k).

Key Balance Sheet Movements

- 3.14 The balance sheet represents the value or ‘net worth’ of the Council as at 31st March. The key movements in the balance sheet between 31st March 2018 and 31st March 2019, and the reasons for the largest changes are summarised below.
- 3.15 The value of the Council’s Property, Plant and Equipment assets has increased between years, by £7.3m. This is due to capital additions and asset valuations. During the year the Council purchased ‘Horsefair’ – a property in Chipping Norton to provide emergency accommodation (£480k), it also invested heavily in new waste and recycling receptacles to support the revised waste and recycling service (£555k) and spent £2.2m on redevelopment and expansion works at Carterton Leisure Centre. In addition, the Council’s leisure facilities were revalued and saw upward valuations particularly around the Council’s Carterton All-Terrain Pitch (ATP), Henry Box ATP and Carterton (Monohan Way) Pavilion. Valuations on these three leisure facilities increased the value of the Council’s assets on the balance sheet by £3.8m.

- 3.16 Investment property has increased in value by £6.9 million. This is simply a result of changes in asset valuations (as assessed by the Council's external valuers). The biggest changes were increases in the 'fair value' of Council assets at Woolgate Shopping Centre (+£960k), offices at Des Roche Square (£525k) and the Talisman Industrial Estate (+£4,465k).
- 3.17 Non-current [long-term] debtors have decreased by £534k year-on-year. This is primarily a result of Ubico paying-off a year of its leasing charges on the Waste and Recycling fleet which it 'leases' from the Council.
- 3.18 Current [short-term] debtors have also decreased, by £977k between years. Debtors (and creditors) balances do fluctuate between years. The movement in debtors is primarily a result of a movement in money owed to the Council by Government bodies in relation to Rent Allowances (Housing Benefit) grant. Income is paid to the Council based upon an estimated figure – any deviation in actual against estimate results in either a debtor or a creditor at year end. In addition, the Council was owed balances for small business rate relief by the Ministry for Housing, Communities and Local Government (MHCLG). In both cases, the money owed to the Council was less than in the previous year.
- 3.19 The Council's investment balances and 'cash and cash equivalent balance' were higher than in previous years. This is partly as a result of the decrease in debtors (as the Council has the money to invest instead of being owed the money) and partly due to an increase in the capital value of its pooled investments.
- 3.20 The valuation of the pension fund net assets and liabilities, which is shown in Note F1 to the accounts, has shown a negative movement of £5.0 million. The valuation of pension fund does fluctuate each year and is based upon a number of actuarial assumptions. At 31st March 2019 the Council's share of the Oxfordshire Pension Fund stands at a net liability of £39.5 million.
- 3.21 The triennial pension fund valuation was completed in March 2016 and establishes the authority's pension fund contributions for the next three years. The annual valuation for accounting purposes will not therefore impact upon the Councils physical pension fund contributions during 2019/20.
- 3.22 The Councils 'earmarked reserves' represent resources that have been set-aside by the Council for specific projects or money to provide particular schemes in the future. Overall contributions to earmarked reserves amounted to £1.553 million, whilst expenditure amounted to £1.847 million. Of the money spent, £913,000 was funding toward the Carterton Leisure Centre 'Phase 2' expansion and development works. The value of earmarked reserves has therefore decreased by a net £294,000 during the year and stands at just under £9.56m.
- 3.23 The 'general fund balance' has increased by £199,621 from 1st April to 31st March. The movement represents the budgeted contribution of £199,169 plus the remaining under-spend in the year (after transfers to earmarked reserves) of £462. The general fund balance represents the unallocated revenue reserves of the Council. At 31st March the General Fund balance stood at £12,659,896.

- 3.24 The 'Net Assets' or 'Net Worth' of the Council has increased by £10,024,765 during the year to £98,055,402. The Council remains financially secure and sustainable for the foreseeable future.

Summary of changes resulting from the Audit

- 3.25 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)

- 3.26 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.
- 3.27 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 Oxfordshire 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 West Oxfordshire share of the fund of approximately £500,000.
- 3.28 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

- 3.30 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.
- 3.31 Once the audit is complete, details of the adjustments to the draft accounts will be presented to the Committee.

4. THE LETTER OF REPRESENTATION

- 4.1 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.

- 4.2 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.
- 4.3 At the conclusion of the Audit, the Chairman of the Audit & General Purposes 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.

5. APPROVAL AND PUBLICATION OF THE STATEMENT OF ACCOUNTS

- 5.1. The Audit & General Purposes Committee is tasked with formally approving the Statement of Accounts on behalf of the Council.
- 5.2. 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.
- 5.3. 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).
- 5.4. 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.

6. ALTERNATIVES/OPTIONS

Not applicable

7. FINANCIAL IMPLICATIONS

The Council Audit and inspection fees for the 2018/19 year (excluding grant certification work and ad hoc work) are £43,527 as detailed in note B7 of the Statement of Accounts, at Appendix B.

8. REASONS

To comply with statutory requirements.

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Chief Finance Officer

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Background Papers:

None