

AUDIT AND GOVERNANCE COMMITTEE



Report subject	Statement of Accounts 2018/19
Meeting date	25 July 2019
Status	Public Report
Executive summary	<p>This report presents the 2018/19 Statement of Accounts for each of the three predecessor councils, Bournemouth, Christchurch and Poole.</p> <p>Each of the Statement of Accounts has been prepared in accordance with the CIPFA Local Authority Accounting Code of Practice, and presents a True and Fair view of the relevant authority's financial performance for 2018/19 and financial position as at 31 March 2019.</p> <p>This report explains any key changes, highlights any significant issues, and provides an opportunity for robust Member scrutiny prior to their formal approval.</p>
Recommendations	<p>It is RECOMMENDED that the Audit and Governance Committee:</p> <p>(a) Consider and accept the 2018/19 Statement of Accounts of;</p> <ul style="list-style-type: none"> ○ Bournemouth Borough Council ○ Christchurch Borough Council ○ Borough of Poole <p>(b) Agree the Chair of the Audit and Governance Committee signs the Statement of Responsibilities included in the Statement of Accounts and the Letter of Representation on behalf of the Committee</p>
Reason for recommendations	The Accounts and Audit Regulations 2015 require that Local Authorities approve their financial statements by 31 July. The External Auditor must complete the audit and issue their opinion to ensure the statutory deadline is met.

Portfolio Holder(s):	Councillor David Brown (Portfolio Holder for Finance)
Corporate Director	Julian Osgathorpe (Corporate Director Resources)
Contributors	Adam Richens (Chief Finance Officer and Director of Finance) Dan Povey (Acting Assistant Chief Finance Officer) Matthew Filmer (Finance Manager)
Wards	All Wards
Classification	For Decision

Background

1. The presentation of the annual accounts for each of the predecessor councils closes their financial management cycles for 2018/19 and initiates the start of the next financial cycle with the rolling forward and review of the BCP Medium Term Financial Plan (MTFP).
2. This report presents a summary position for each predecessor council. The appendices to this report contain the annual accounts for each of the relevant authorities.

Roles and Responsibilities

3. To comply with the Accounts and Audit (England) Regulations 2015;
 - a) the Chief Finance Officer (CFO) certified, as required under Regulation 9, that the 2018/19 Statement of Accounts presented a true and fair view of each of the predecessor Authority's financial position by 31 May 2019. The CFO is required under the same regulation to re-certify the presentation of the Statement of Accounts before the Audit & Governance Committee approves it.
 - b) Audit & Governance Committee are responsible for approving and issuing the Council's Statement of Accounts. The Committee also play a key role in ensuring accountability and that value for money is demonstrated to the public.
 - c) Consequently, the role of the Audit & Governance Committee is to consider and accept the audited Statement of Accounts for 2018/19, including the Annual Governance Statement, and agree that the Chair can sign and date the document by 31 July.
 - d) The Council is also required to publish its Statement of Accounts, with the accompanying Audit opinion, by the 31 July.
 - e) It is also a requirement that Grant Thornton is supplied with a 'Letter of Representation' from the Council and this is signed at this Committee by the Council's Chief Finance Officer and the Chair of the Audit & Governance Committee. This letter confirms that the Council has knowingly supplied all relevant information to Grant Thornton for them to complete their audit.

4. After certification by the Chief Finance Officer the Statement of Accounts and the supporting documentation was subjected to a detailed and comprehensive annual external audit, by Grant Thornton. This process is substantially complete and will be finished by the end of July 2019. The external auditor expects to give each of the predecessor Council's Statement of Accounts a clean, unqualified audit opinion.
5. The appendices to this report contain the audited Statement of Accounts for each legacy Council. The accounts have been amended from those originally approved by the Chief Finance Officer as a result of the audit findings.
6. A national issue has arisen since the Statement of Accounts were approved by the Chief Finance Officer in May. This relates to the Government's refusal of right to appeal against a landmark ruling by the Court of Appeal with regard to age discrimination against younger public sector workers by protecting the retirement benefits of older staff (referred to as the McCloud case). While the case was brought by members of the judicial and firefighters pension schemes, it will have implications for the Local Government Pension Scheme (LGPS). The remedy that will be imposed by the Court is not yet known but could increase the costs of the LGPS to employers. Officers have agreed with the external auditors the restatements required to account for the estimated additional pension liability that arises from this ruling and the adjustments are contained within the financial statements recommended for approval.
7. Due to the tight timetable for the external auditors to complete their review of the Statements of Account by the end of July, coupled with the earlier deadline for the production of the agenda for the Audit & Governance Committee, the figures quoted in the interpretation of the accounts section of this report are based on the Statements of Account as approved by the Chief Finance Officer at the end of May. They do not account for changes made as a result of the audit nor for the McCloud issue referred to above. The appendices to this report contain the final audited Statements of Account, and the Committee will be updated at the meeting as to what adjustments have been made.
8. The unqualified audit opinion is part of the Statement of Accounts, with further detail of the external auditor's audit findings provided in the Audit Findings Report to the Council as presented to this Committee and also on the agenda for this meeting.
9. The Annual Governance Statement that is appended to the Statement of Accounts is to be approved by the Leader of the Council and the Chief Executive at this Audit and Governance Committee.
10. In order to comply with the statutory approval date of the 31 July 2019, contained within the Accounts and Audit Regulations, it was requested that any detailed questions members may have regarding the Statement of Accounts of any of the predecessor authorities be submitted in writing/e-mail to the Chief Finance Officer by midday on the 22 July 2019 so that a full and comprehensive response could be given at the meeting and prior to the approval deadline.

Explanation of the Changes to the 2018/19 Statement of Accounts

11. There are some changes to the presentation of the Statement of Accounts for 2018/19. These can be summarised as follows;
 - a) Where possible taking the opportunity to create consistency in accounting policies which will be adopted by the new BCP Council.

- b) The implementation of IFRS (International Financial Reporting Standard) 15, Revenue Recognition, has required the Council to analyse the cash flows arising from contracts with service recipients. Revenue is recognised when goods or services are transferred to the service recipient in accordance with the performance obligations in the contract. The new disclosure relating to this accounting standard can be found in the notes to the Financial Statements. Other than the revised disclosure note, the implementation of this IFRS has not had an impact on the financial reporting of the Councils.
- c) The implementation of IFRS 9, Financial Instruments, specifies how Councils should classify and measure financial assets and how potential credit losses should be measured and accounted for. Due to the type of financial assets that each predecessor Council held at 31 March 2019, the implementation of this IFRS has not had a significant impact on the Financial Statements, other than some additional disclosure in the Financial Instruments note.
- d) The analysis for the disclosure of debtors and creditors has changed from 2017/18. While previously balances were disclosed in the notes to the Financial Statements by type of entity, they are now disclosed by trade receivables or payables and other receivables and payables.

Interpretation of the Accounts – General

12. The Statement of Accounts comprise:

- A Narrative Report
- a Statement of Responsibilities for the Statement of Accounts
- the financial statements including the Comprehensive Income & Expenditure Statement, Movement in Reserves Statement, Balance Sheet and the Cash Flow Statement.
- notes to the accounts (including accounting policies and pensions disclosures)

13. A **Narrative Report** is produced as a concise and easily understandable guide to the most significant matters reported in the accounts. It provides an explanation in overall terms of the Council's financial position. It also provides a commentary on the major influences affecting the Authority's income and expenditure and cash flow, and information on the financial needs and resources of the authority. Any significant change in accounting policies or major changes in statutory functions are also included.

14. **Movement on Reserves Statement** shows the movement in the year in the different reserves held by the authority analysed into "usable reserves" that can be applied to fund expenditure or reduce local taxation and "unusable reserves". The surplus or deficit on the provision of services line reflects the economic cost of providing services shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and Housing Revenue Account for Council Tax and dwelling rent setting purposes.

15. **Comprehensive Income and Expenditure Statement** brings together all of the Council's activities, showing the resources that it has generated, consumed or set aside in providing services for the year.

16. The **Balance Sheet** is fundamental to the understanding of an authority's financial position. It shows its balances and reserves and its long-term indebtedness, and the long term and net current assets employed in its operations, together with summarised information on the property, plant and equipment held.
17. The **Cash Flow statement** summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
18. The **Statement of Responsibilities** identifies the respective responsibilities of the Authority and the Head of Financial Services for the accounts.
19. The **notes to the financial statements** provide further explanation or disclosures in respect of certain items of income and expenditure, or reserves and balances, as defined by the Code. These include;
 - Expenditure and Funding Analysis – used to bring together local authority performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund and Housing Revenue Account.
 - Members Allowances
 - Employee Remuneration
 - Termination Benefits and Exit Packages
 - Retirement Benefits
 - Accounting Policies – used to explain the basis for recognition, measurement and disclosure of transactions and other events in the accounts.
 - Housing Revenue Account – A statutory account which independently records the costs of maintaining and managing the Council's own housing stock and how these costs are met by rent payers and other income.
 - Collection Fund – Shows the transactions of the Council as a charging authority in respect of the Council Tax and Business Rates income and its distribution to precepting authorities, the Government and the Council's General Fund.
 - Group Accounts –are produced in Bournemouth to include the many interests the Council has in other Companies and Charities. These Group Accounts therefore consolidate Bournemouth Borough Council's accounts with the entities where it has been determined that the Council has control and significant influence, these being the Lower Central Gardens Trust, Five Parks Charity, Russell Coates Art Gallery and Museum Charitable Trust, The Bournemouth Development Company, Bournemouth Building & Maintenance Limited, Seascope South Limited, Seascope Homes and Properties Limited and Bournemouth Group Limited.

In Poole the activities of Poole Housing Partnership are consolidated with those of the council as part of their Group Accounts.

The Group Accounts are made up of all four statements as per the Council's single entity accounts but shows the additional transactions, reserve movements and Balance Sheet items associated with the Council's share of the entities and as such the Group Account Statements show the financial position, total reserves, net worth and cash and cash equivalents of the

Council's group entity position after consolidation of the relevant share from each of the charities and subsidiary.

Interpretation of the Accounts – Bournemouth

20. Key features highlighted mentioned in the financial summary for Bournemouth are:

- **Revenue reserves increased by £5.6m.** This represents;
 - a) An increase of £449k in schools general balances to be utilised to finance their future activities.
 - b) £1.9m spent from the Capital Fund with an additional £2.5m of monies set aside within the earmarked reserves to further support capital spending.
 - c) £6.7m to support council services and specific projects.

21. The most noteworthy points to highlight within the Bournemouth net assets increase of £29.8m are;

- The pension liability for the Council has reduced by £2.7m. The actuaries' who calculate the pension liability, based on a number of assumptions, have calculated the overall liability has reduced from £359.3m to £356.6m.
- Increase in Investment Properties of £3.7m mainly due to the freehold purchase of Parkway House in Bournemouth Town Centre.
- Increase in Property, Plant & Equipment of £29.7m mainly due to upward revaluations and purchases / enhancements of assets throughout the year in the HRA and General Fund.

Interpretation of the Accounts - Christchurch

22. Key features highlighted mentioned in the financial summary for Christchurch are:

- **No net use of revenue reserves.** Included within this balanced position are;
 - a) £0.562m revenue surplus for 2018/19 contribution to revenue reserves;
 - b) £1.368m budgeted contribution to revenue reserves comprising mainly revenue headroom and contribution to risk based business rate reserves;
 - c) £1.331m spent from the Capital Fund;
 - d) £0.599m (net) to support council services and specific projects.
 - e) The Council maintained total revenue reserves of £9.878m as at 31 March 2019, of which £2.175m was unallocated and available to support transformation and other corporate priorities.

23. The most noteworthy points to highlight within Christchurch's £0.891m decrease in net assets shown in the Balance Sheet are;

- The pension liability for the Council has reduced by £0.658m. The actuaries' who calculate the pension liability, based on a number of assumptions, have calculated the overall liability has reduced from £27.486m to £26.828m.
- Decrease in cash & cash equivalents and short term investments of a net £1.429m, matched by the reduction in capital receipts that have been used in

year to fund the capital programme plus the net change in debtors and creditors.

- Reduction in investment properties of £1.152m mainly due to the transfer of land to the new Highcliffe & Walkford Parish Council.
- Increase in Property, Plant & Equipment of £0.625m being the net of additions, revaluations and transfers to the new parish councils in the Borough of Christchurch.

24. The accounting cost of providing services within the Christchurch area is disclosed in the Comprehensive Income & Expenditure Statement as a £2.531m deficit. However, once accounting adjustments such as depreciation, pensions and the transfer of £2.398m of assets to the new parish councils are reversed, the net effect on the General Fund, ie a balanced position, is shown in the Movement in Reserves Statement.

Interpretation of the Accounts - Poole

25. Key features highlighted mentioned in the financial summary for Poole are:

- **Increase revenue reserves totalled £8.6m.** This represents;
 - a) £121k increase in schools general balances being utilised to finance their future activities
 - b) £8.4m set aside to support council services and specific projects going forward in the new Council.

26. The most noteworthy points to highlight within the Poole net assets increase of £39.4m are;

- The pension liability for the Council has reduced by £1.7m. The actuaries' who calculate the pension liability, based on a number of assumptions, have calculated the overall liability has reduced from £270.9m to £269.2m.
- Increase in Property, Plant & Equipment of £31.7m mainly due to upward revaluations and purchase / enhancements of assets throughout the year in the HRA and General Fund.

Consultation

27. Consultation with the Council's external auditor, Grant Thornton, has taken place to ensure compliance with current Accounting Codes of Practice. The Statement of Accounts is subject to a full audit scrutiny by External Audit.

28. The accounts have been subject to the period of public inspection which took place from the 3 June 2019 to 12 July 2019.

Alternative Options

29. This report provides financial performance information, and as a result there are no alternative options to consider.

Summary of finance and resource implications

30. Statement of Accounts play a key role in demonstrating to taxpayers and other stakeholders how public money has been used and in providing assurance around the baseline upon which the 2019/20 BCP Budget was founded.

Summary of legal implications

31. This report has been produced in accordance with the Accounts and Audit Regulations which require all relevant Council's to have their Audited Statement of Accounts approved by a resolution of an authorised member meeting by 31 July. Under the Council's constitution this power has been delegated to the Audit & Governance Committee.

Summary of human resources implications

32. None specifically related to this report.

Summary of environmental impact

33. None specifically related to this report.

Summary of public health implications

34. None specifically related to this report.

Summary of equality implications

35. Senior Officers and Directors of Service are required to carry out Equality Impact Assessments (EQIA) across their services and in support of their budget proposals.

Summary of risk assessment

36. The financial health of the Authority as demonstrated within its Statement of Accounts will be used to inform the Council's overall financial risk assessment and the Council's consequential reserve strategy.

37. Failure to produce an unqualified Statement of Accounts would result in reputational risk with regards how the Council is viewed by the community it serves and by Central Government.

Background papers

38. The final outturn each of the predecessor councils to BCP Cabinet on the 12 June 2019 can be found at;

<https://democracy.bcpCouncil.gov.uk/ieListDocuments.aspx?CIId=285&MIId=3718&Ver=4>

Appendices

Appendix A Bournemouth 2018/19 Statement of Accounts (**SEE SUPPLEMENTARY PACK**)

Appendix B Christchurch 2018/19 Statement of Accounts (**SEE SUPPLEMENTARY PACK**)

Appendix C Poole 2018/19 Statement of Accounts (**SEE SUPPLEMENTARY PACK**)

Appendix D Bournemouth Letter of Representation

Appendix E Christchurch Letter of Representation

Appendix F Poole Letter of Representation