

REPORT TO: AUDIT AND GOVERNANCE COMMITTEE
DATE OF MEETING: 28 JANUARY 2020
REPORT OF: Chief Finance Officer
TITLE: Statement of Accounts 2018-19

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

To seek Members' approval of the Council's Statement of Accounts for 2018-19.

2. Recommendations:

It is recommended that the Audit and Governance Committee approve the audited Statement of Accounts for 2018-19.

3. Reasons for the recommendation:

The publication of audited Statement of Accounts is a statutory requirement, in accordance with the Local Audit and Accountability Act 2014, supported by the Accounts and Audit Regulations 2015.

4. What are the resource implications including non financial resources

The Statement of Accounts is intended to give a 'true and fair' view of the financial position and transactions of the Council, including group financial statements, as at 31 March 2019.

5. Section 151 Officer Comments:

The Statement of Accounts have been updated following the audit. The issues raised in the ISA260 have already been discussed with members and no material additions have been made to the report. I would like to highlight the effort of the team, particularly the Deputy Chief Finance Officer, for their professionalism and level of work in providing support to the Auditors whilst producing the draft budget for 2020-21.

6. What are the legal aspects?

The Statement of Accounts has been prepared in accordance with the statutory framework established for England by the Accounts and Audit (England) Regulations 2015.

The audit of the accounts has been undertaken in accordance with the statutory framework established by section 20 of the Audit and Accountability Act 2014, by the Council's external auditors, Grant Thornton.

7. Monitoring Officer Comments:

This report raises no issues for the Monitoring Officer

8. Report Details:

8.1 EXTERNAL AUDIT OF THE 2018-19 STATEMENT OF ACCOUNTS

8.1.1 Appointment of Auditor

Public Sector Audit Appointments Ltd (PSAA) is responsible for appointing an auditor to principal local government and police bodies that have chosen to opt into its national auditor appointment arrangements. Exeter City Council opted into this arrangement.

On 14 December 2017, the PSAA board approved the appointment of Grant Thornton (UK) LLP to audit the accounts of Exeter City Council for a period of five years, covering the accounts from 1 April 2018 to 31 March 2023. This appointment is made under regulation 13 of the Local Audit (Appointing Person) Regulations 2015.

8.1.2 Audit Not Concluded Before 31 July

Due to a peak period of work during June and July, when all local government accounts are audited, our auditor, Grant Thornton, was unable to conclude the audit by 31 July.

In accordance with Regulation 10 (2) of the Accounts and Audit Regulations 2015, where an audit of accounts has not been concluded before 31 July, an authority must publish a notice (which must include publication on the authority's website) stating that it has not been able to publish the audited statement of accounts and its reasons for this. A notice was placed on the Council's website, which confirms that Grant Thornton take full responsibility for the delay in the audit of the Council's accounts.

8.2 STATEMENT OF ACCOUNTS 2018-19

The purpose of a local authority's published Statement of Accounts is to give electors, those subject to locally levied taxes and charges, members of the authority, employees and other interested parties clear information about the authority's finances.

Information contained in the Statement of Accounts will be consolidated into the Whole of Government Accounts.

8.2.1 Presentation of the Statement of Accounts

The Code of Practice on Local Authority Accounting (the Code) provides guidance on the format and content of the Statement of Accounts and means that they have to conform to a national standard.

8.2.2 Main Changes to the Accounts

As reported to the Audit & Governance Committee on 24 July 2019, the key accounting changes affecting the Statement of Accounts for 2018-19 are:

- **Group Accounts**

During 2018/19 the Council established Exeter City Group Ltd (holding company) and Exeter City Living Ltd (housing development company), which are subsidiary companies due to the Council's 100% shareholding in the group. The main

purposes of the group are to build more and better homes to tackle housing need in Exeter, help reduce the substantial pressures on the Council's housing waiting list and to improve the lives of those residents currently living in poor quality homes.

The Code sets out a requirement to prepare Group Accounts where the authority has interests in subsidiaries, associates and/or joint ventures, subject to consideration of materiality. The Council's interest in Exeter City Group Ltd has been judged to be material (i.e. the inclusion of Group Accounts makes a material difference to the usefulness of the Statement of Accounts for readers). Group accounts have therefore been prepared for 2018/19.

- **New Accounting Standard – IFRS 9 Financial Instruments**

The 2018-19 Code of Practice on Local Authority Accounting adopted the new accounting standard in respect of financial instruments. The definition of a financial instrument is broad and covers the instruments used in the day-to-day treasury management activity of the authority, including the borrowing and lending of money and the making of investments. It also extends to trade receivables and payables.

The accounting approach for financial liabilities is largely unchanged, but there is a new approach to the classification of financial assets and a new model for calculating bad debt provisions, which are now classified as loss allowances.

Reclassification of Financial Assets

For Exeter, the key impact of the reclassification of financial assets is that assets previously held as Available for Sale Assets are now classified as Fair Value Through Profit and Loss (FVTPL), such as the Council's investment in pooled investment funds (money market funds and the CCLA Property Fund). Under FVTPL any movements in fair value are debited or credited against the General Fund Balance.

Fortunately, the Government recognised that this could have a negative impact on the General Fund Balance and introduced a statutory override requiring local authorities to reverse out any fair value movements. The statutory override will apply for a period of 5 years from 1 April 2018.

Loss Allowances

The IFRS 9 approach is that very little investments or debtor balances are 100% secure and it requires a more prudent approach to recognising credit risk. Loss allowances are now forward-looking, with the provision for losses based upon forecasts of how much of amounts owed will be collected, rather than based on historical payment default data.

- **Retrospective Restatement - Debtors**

During the process of closing the 2018-19 accounts it was identified that funding provided to Wessex Resolutions CIC, between 2009/10 and 2012/13, to help support a home improvement loans programme, was incorrectly held in the Council's Balance Sheet as debtors (totalling £915k). However, due to the status of the company as a community interest company, the balances should have been treated as revenue expenditure funded from capital under statute (REFCUS), in accordance with proper accounting practice.

In order to correct retrospectively, the prior period figures have been corrected by amending the opening balances and comparative amounts for 2017-18. A Prior

Period Restatement note is included in the Statement of Accounts (Note 7), which sets out the impact on the accounts.

- **McCloud Judgement**

Since issuing the draft accounts it has been necessary to add a disclosure note to Note 42. Defined Benefit Pension Scheme in respect of the McCloud judgement (legal ruling that age discrimination has taken place). The Council has not adjusted for the potential impact on its pension liabilities, due to the significant uncertainties relating to how this judgement may affect LGPS members' past or future service benefits. However, the actuaries have provided an indicative impact, which are disclosed on page. 84.

8.2.3 Audit Findings

At the time of writing, our external auditors anticipate issuing an unqualified audit opinion on the Authority's financial statements and their findings are as follows:

- **Material Misstatements**

No material misstatements were identified during the course of the audit.

- **Audit Adjustments**

A number of audit adjustments were identified and corrected as follows:

- Investments of £16.070m that had less than 3 months until maturity at the 31 March 2018, have been reclassified from cash and cash equivalents to short term investments, as the assessment of short maturity should be made when the investment is acquired, rather than assessed at the reporting date. This correction also triggered a restatement of £17.020m for the 2017/18 comparatives, in order to reclassify investments from cash and cash equivalents to short term investments.
- Note 4. Major Sources of Estimation Uncertainty; added the valuation of property, plant and equipment as a major source of estimation uncertainty, in order to recognise that a minor change in value would have a material impact on the Balance Sheet.
- Note 16. Revaluations has been updated to reflect the valuation of Property, Plant and Equipment outside of the rolling programme of revaluations (e.g. when evidence to support a revised valuation in the intervening 5 years). The disclosure note had previously provided the outcomes of the rolling programme of revaluations only.
- Note 40. Operating Leases has been updated in respect of rental income receivable under non-cancellable leases to remove the rental income of leases out under finance leases.

- **Presentational**

A number of presentational issues were identified, which included:

- Note 6. Non-adjusting Events after the Balance Sheet Date; removed reference to leaving the EU, the Government's fair funding review and business rate retention, as they are not subsequent events under the Code, but are ongoing matters.
- Note 40. Leases; comparatives figures for 2017/18 added.
- Naming convention for other company interests (e.g. Exeter Science Park Ltd) amended to be consistent throughout the document.

Overall, the amendments to date have had no impact on either the General Fund balance or the Housing Revenue Account balance, which remain as reported to Council. The overall financial performance of the Council for 2018-19 was reported to Executive on 9 July 2019 and to Council on 23 July 2019.

9. How does the decision contribute to the Council's Corporate Plan?

The Statement of Accounts set out the financial position at the end of the 2018-19 and the transactions of the Council during 2018-19, both of which help underpin delivery of the Corporate Plan.

10. What risks are there and how can they be reduced?

The risks relate to overspending the Council budget and are mitigated by regular reporting to the Strategic Management Board and Members. There is also a risk of failing to implement key accounting changes in accordance with approved accounting standards, but this is mitigated by the external audit of the Statement of Accounts.

11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

No impact

12. Are there any other options?

No

Chief Finance Officer

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:

None

Contact for enquiries:
Democratic Services (Committees)
Room 2.3
(01392) 265275