

AUDIT COMMITTEE

Subject Heading:

Draft Annual Statement of Accounts
2019/20

SLT Lead:

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Policy context:

Audit Committee responsible for
approving accounts.

Financial summary:

There are no direct financial implications to
the report

The subject matter of this report deals with the following Council Objectives

| | |
|-------------------------------|-----|
| Communities making Havering | [x] |
| Places making Havering | [x] |
| Opportunities making Havering | [x] |
| Connections making Havering | [x] |

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| SUMMARY |
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The Council's Statement of Accounts is required to be published after the conclusion of the external audit of accounts. However, the accounts timetable for 2019/20 has

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been extended until 30 November due to COVID19, therefore officers are taking this opportunity to table the draft accounts for 2019/20 at this Audit Committee to give Members a chance to review and comment on the Accounts. The draft accounts were published on the Council website on the 6th July 2020

Members are invited to ask questions on the accounts. It would be appreciated if any questions are emailed in advance of the meeting to provide an opportunity to provide a response at the committee meeting.

RECOMMENDATIONS

The Committee is asked to:

- a) Note the draft Statement of Accounts for 2019/20 – these will be presented to a later committee in 2020 alongside the audit opinion for formal approval.
- b) Note that the Pension Draft accounts for 2019/20 are being tabled at Pensions Committee in July.

REPORT DETAIL

1. Statement of Accounts 2019/20

The Accounts and Audit Regulations 2015 require that the authority must prepare and publish its approved draft and audited accounts by 31st May and 31st July respectively. However due to disruption caused by the COVID 19 virus, legislation was passed to delay the statutory publication date until 31st August and the audit opinion until the 30th November 2020.

The Council published the draft accounts on the website on 6th July 2020. These were approved for issue by the Chief Operating Officer. The Council auditors, Ernst and Young, will commence their main audit programme in August. Some interim audit work was conducted in February and March. The final audit opinion will be presented to this committee later in 2020 in line with the audit plan timetable. This will also include a Value for Money opinion.

The final draft Statement of Accounts and Annual Audit report are attached to this report to the Audit Committee. The longer publication and audit timetable has provided scope to present the draft accounts to this virtual Audit Committee.

The purpose of the Statement of Accounts is to provide clear information about the authority's finances and should answer such questions as:

- What did the authority's services cost in the year?
- Where did the money come from?

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- What were the authority's assets and liabilities at the year end
- Is the Council financially stable?

The Statement of Accounts reflects a common pattern of presentation to facilitate comparison with the accounts of other organisations.

The Council's 2019/20 outturn report, detailing net expenditure against individual service budgets, was reported to Cabinet on 24 June 2020.

The Statement of Accounts is a long, complex document. For 2019/20, there are no significant format or contents changes from the 2018/19 document.

Matters to draw to the attention of this committee are:

- 1.1 The contents of the accounts are largely determined by statutory requirements and mandatory professional standards as set out within the 'Code of Practice on Local Authority Accounting' and 'Standard of Professional Practice on Financial Reporting' published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The CIPFA Code of Practice is based on International Financial Reporting Standards (IFRS).
- 1.2 The Auditors opinion just applies to the Statement of Accounts section of the document. Although the Auditor will consider the Narrative Report and Annual Governance Statement as part of auditing the Accounts for consistency, strictly speaking these are outside the scope of the opinion.
- 1.3 Set out below are the main elements of Statement of Accounts with a brief explanation of the information contained in each element:
- 1.4 **Comprehensive Income and Expenditure Account** - This summarises the revenue activities of the Council during 2019/20 and shows the day-to-day costs of services provided by the Council together with charges made to the revenue accounts in respect of the use of assets, costs of borrowing and income from investments. This includes the activities of the General Fund and the Housing Revenue Account.
- 1.5 The draft accounts show gross revenue service spend in 2019/20 of £535 million (£537 m in 2018/19). After taking in accounts service income of £358m and grant, Council Tax and NNDR income of £216m, the surplus on the provision of service was £9.6 million.
- 1.6 Technical accounting adjustments including a gain of £127.8m due to changes in the pension fund actuarial assumptions are shown as **Other Comprehensive Income and Expenditure**. Inclusion of the data from the tri-ennial valuation reflecting lower expected increases in pensions and salary due to lower inflation has led to an actuarial gain to the pension fund and CI&E of £127.8m. This is marginally offset by a £8.5m revaluation loss fixed assets.
- 1.7 This leaves an overall total comprehensive income & expenditure gain for the year of £128.9m, but after the accounting adjustment gains are removed in the Movement in Reserves Statement (MiRS), **the General Fund reserve has increased by £0.4m to £12.687m** (this increase is in line with the

- planned increase during 2019/20) and the **HRA reserve increased by £4.9m to £9.8m.**
- 1.8 Note that £11.6m of earmarked reserves were applied during 2019/20 – mainly £5.3m of school reserves and £6.1m of the risk reserve. Other reserves have increased by £7.2m due to COVID19 funding from the Government – it is likely that this will be used during 2020/21.
- 1.9 The Council is reviewing its financial stability as part of the increased pressures COVID is putting on Council services. Earmarked Reserves are those that have been set aside to cover a particular risk, or are ring fenced for particular purposes.
- 1.10 **The Movement in Reserves Statement (MiRS)** combines the total Comprehensive Income and Expenditure for the year along with adjustments between the accounting basis funding basis to arrive at movements in reserves as they appear on the balance sheet.
- 1.11 **The Balance Sheet** shows the assets and liabilities of the Council as at 31st March 2020. The value of the assets of the Council must equal the value of its liabilities plus reserves.
- 1.12 Assets include property, plant and equipment, cash and investments and any debts owing to the Council. Property, plant and equipment have increased to £1.245 billion in value, an increase of £80m due to expenditure on capital schemes (per note 37 of the accounts).
- 1.13 **The net assets of the Council (assets less liabilities) was £782 million,** which was an increase from the £653 million at 31st March 2019. The main reason for the increase is the reduction in the IAS19 pension deficit. The notes to the accounts labelled in the balance sheet provide more detail.
- 1.14 **The Housing Revenue Account** is a separate ring-fenced account showing the expenditure and income relating to the management and maintenance of the Council's social housing stock of some 9,128 dwellings. The HRA balance as at 31st March 2020 is £9.8 million, up £4.9 million – this is mainly due to lower expenditure in the year.
- 1.15 **The Collection Fund** is a separate account detailing Council Tax collections (including those collected on behalf of the Greater London Authority) and National Non-Domestic Rates (NNDR) part of which is retained by the Council with the remainder being paid to the GLA and the Government. The statement includes the effect of supplementary business rates raised on larger organisations which is payable to the GLA to fund the Crossrail project.
- 1.16 Any surplus or deficit on the Fund for Council Tax is distributed between the Council and the GLA in proportion to their share of tax income drawn from the fund. The Fund showed a net zero surplus at 31st March 2020 for Council Tax which was in line with the January 2020 forecast. However the NNDR element of the collection fund shows a £2.9m deficit – this is due to lower NNDR being collectable, usually as a result of appeals. The Council's share of the £2.9m deficit is £1.5m and has been factored into the medium term financial strategy. Membership of the London wide NNDR pool has provided income that will offset this deficit.
- 1.17 **The Cash Flow Statement** details the overall cash movements (inflows and outflows) over the year.

- 1.18 **Group Accounts** – the Council has historically published Group Accounts to include Mercury Land Holdings. From 2019/20, the Council has included its 50% share of its property joint ventures; Bridge Close Regeneration LLP, Havering and Wates Regeneration LLP and Rainham & Beam Park LLP Joint Venture. These joint ventures are still in the early stages of development and once inter-group balances are offset, the difference in the group balance sheet compared to the single entity Council balance sheet is minimal.
- 1.19 **The Pension Fund** accounts are separate from the rest of the Councils accounts and show the income (pension contributions and investment returns) and expenditure (pension payments) for the year together with the assets and liabilities of the Pension Fund as at 31st March 2020. The Fund is audited at the same time as the Council's main accounts but are subject to a separate audit opinion. The Pensions Fund Annual Reports will be considered by the Pensions Committee later in the year.
- 1.20 The market value of the assets of the pension fund at the end of the year was £728.9 million, a slight decrease from the £733m at the start of the year. The results of the triennial revaluation completed during 2019 estimated a funding deficit of £320 million (an increase from £284m in 2016) and a funding level of 70% (up from 67% in 2016). The next triennial valuation will be in 2022.
- 1.21 **Inspection of the Accounts by the public** - As part of the six week process for the inspection of the Council's Accounts, the public is able to ask questions on the Accounts and request information. Local electors also have the right to raise objections to the Statement of Accounts with the external auditors. The inspection period commenced in July and will continue until August.
- 1.22 **2018/19 Audit recommendations** - The Accounts closing team have taken full consideration of the issues raised in the 2018/19 audit and made arrangements to ensure every issue raised is reviewed in detail and steps are in place to improve the process to reduce such errors.

2. Accounting Policies

The Audit Committee meeting of 28th January 2020 noted the accounting policies to be applied to the financial year 2019/20, and these are reflected in the draft Statement of Accounts. The accounting arrangement around the group has been applied to consolidate Mercury Land Holdings within Havering's accounts as per last year along with the joint venture arrangements for the first time.

IMPLICATIONS AND RISKS

Financial implications and risks:

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There are no direct financial implications arising from the publication or approval of accounting policies. There are no material changes to policy impacting upon the Council's financial position.

Legal implications and risks:

The Audit Committee is the decision making body in relation to the approval of the Annual Statement of Accounts which is one of the miscellaneous functions not to be the responsibility of the Executive.

As stated above the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020/404 amended the timetable for Local Authority accounts.

The accompanying guidance letter from MHCLG dated 22 April stated the effect of the amendments as follows:

“This means that draft accounts must be approved by 31 August 2020 at the latest. However, they may be approved earlier, and we would encourage councils to do so wherever possible, to help manage overall pressure on audit firms towards the end of the year.”

There are no apparent legal implications in adopting the recommendations set out in this Report.

Human Resources implications and risks:

There are no direct Human Resources implications in this report.

Equalities implications and risks:

There are no direct equalities implications in this report.