

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 22 July 2019

Report of: Deputy Chief Executive Officer

Subject: STATEMENT OF ACCOUNTS

SUMMARY

Local Authorities have a duty to prepare and publish an annual Statement of Accounts in accordance with regulations issued by the Secretary of State. Members are requested to formally approve the annual Statement of Accounts for 2018/19 that is attached to this report.

The Audit and Governance Committee's areas of responsibility for the Council's Financial Reporting are:-

- a) to review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council;*
- b) to consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.*

RECOMMENDATION

It is recommended that the Committee approves the audited Statement of Accounts for 2018/19, attached as Appendix A, for publication by 31 July 2019, subject to the external auditors completing their outstanding procedures and any further amendments being agreed by the Deputy Chief Executive Officer in consultation with the Chairman of the Audit and Governance Committee.

INTRODUCTION

1. The Accounts and Audit Regulations 2015 require every local authority to produce and publish an annual Statement of Accounts in accordance with “proper practice” and prescribes the procedures to be followed preceding the publication of the accounts and sets out the dates by which the accounts must be approved and published.
2. The Local Government Act 2003 (Section 21) defines proper accounting practices for this purpose to be the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting (the Code) for the relevant year.
3. The audited Statement of Accounts 2018/19 set out in Appendix A has been prepared in accordance with the Code.

THE PURPOSE OF THE STATEMENT OF ACCOUNTS

4. The Code is based on approved accounting standards so that an authority’s accounts present a “true and fair view” of the financial position and transactions of the authority. It has been prepared on the basis that the purpose of a local authority’s published Statement of Accounts is to give electors, Members and other interested parties clear information about the authority’s finances.

THE AUDIT PROCESS

5. The Council’s external auditors, Ernst & Young LLP are responsible for forming an opinion on the Statement of Accounts and certifying that it is a “true and fair” view of the financial position of Fareham Borough Council as at 31 March 2019.
6. The auditors carried out a detailed audit during July 2019 in accordance with the Code of Audit Practice. All audit differences identified during the audit, and listed in the external auditor’s Audit Results Report, have been adjusted for.

FASTER CLOSING – ACCOUNTS AND AUDIT REGULATIONS 2015

7. The Accounts and Audit Regulations 2015, which came into force with effect from 1 April 2015, required the Council to produce, audit and publish the accounts earlier in future years.
8. 2018/19 is the second year the unaudited accounts were produced and published by the end of May, instead of the end of June and the audited accounts have to be approved and published by the end of July, instead of the end of September.

KEY ISSUES AND MATTERS OF INTEREST

9. The Statement of Accounts includes a new look Narrative Report which highlights the Council’s performance and achievements during 2018/19. Key issues and matters of interest are:
 - **Solent Airport at Daedalus** – There was capital investment of £1.1 million at Solent Airport including the fitting out costs of the new Fareham Innovation Centre extension and the final costs for the new general aviation, business hangars and the refurbishment of the air traffic control tower. The Council used low cost borrowing of £0.7 million to fund the majority of the capital works along with the original grant monies received from Homes England.

- **Welborne** – The development of the new community of Welborne has been given ‘Garden Village’ status by the Government. As part of this initiative £300,000 garden village capacity funding has been received in 2018/19.
- **Community Infrastructure Levy (CIL)** – The Council raised £1.5 million from CIL during 2018/19 (£1.5 million in 2017/18). This has been transferred to the Council’s capital reserves. £83,000 of CIL reserves were used to fund the Hill Head coastal protection scheme, bus shelter improvements and the Holly Hill cemetery extension.
- **Housing Stock** – During the year, 13 homes were sold under the right to buy scheme (16 in 2017/18) and 8 homes were bought back using 1:4:1 housing capital receipts (2 in 2017/18).
- **Assets** – The overall value of the Council’s long-term assets decreased by £10 million (increase by £18 million in 2017/18) mainly due to revaluations at Daedalus (£10 million) and retail commercial property (£2.4 million), offset by increases in Council dwellings (£3.9 million).
- **Capital Receipts** – The Council generated capital receipts of £3.7 million (£1.5 million in 2017/18) from the sale of Council dwellings (£2.9 million) and land at Daedalus (£0.8 million).
- **Borrowing and Investments** – The Council’s investments increased from £11.5 million to £12.6 million at the year end and short-term borrowing reduced from £12 million to £5.5 million.
- **Reserves** – The General Fund reserve increased by £187,000 partly due to the increase in grants and income in respect of business rates which has offset the increase in revenue expenditure. Council reserves now total £162.6 million, £42 million of which are in ‘usable’ reserves which can be used to fund Council services; subject to certain limitations and the need to maintain prudent reserves for financial stability.
- **Housing Revenue Account** – The Housing Revenue Account decreased in year by £293,000 (decrease of £546,000 in 2017/18) but overall Housing Reserves increased by £1.84 million to £12.4 million.
- **Pension Fund** – The Council’s pension fund liability decreased by £3.6 million to £57.6 million (£2.9 million increase in 2017/18). The main reasons for the change are due to increases in the return on assets and actuarial gains as a result of changes to the financial assumptions used.

THE CONTENT OF THE STATEMENT OF ACCOUNTS

10. The following paragraphs give a brief outline of the various sections included within the Statement of Accounts.

Narrative Report

11. The Narrative Report provides information about the Council’s main objectives and strategies and the principal challenges that it faces. It also provides a commentary on how the Council has used its resources to achieve its desired outcomes.

12. The Narrative Report is not formally part of the Statement of Accounts and is not covered directly by the statutory requirements for an audit opinion.

Statement of Responsibilities for the Statement of Accounts

13. The statement sets out the responsibilities of the Council, the Audit and Governance Committee and the Deputy Chief Executive Officer for the production and approval of the accounts and is signed by the Deputy Chief Executive Officer. It also carries the signature of the Chairman of the Audit and Governance Committee to confirm the approval of the Statement of Accounts by the Audit and Governance Committee.

Core Statements

14. The following core accounting statements are included:

Comprehensive Income and Expenditure Statement - This statement brings together all of the Council's day to day (revenue) income and expenditure, including the Housing Revenue Account (HRA), as well as transactions relating to the value of long term assets and pension costs.

Balance Sheet - The Balance Sheet shows the assets that the Council owns, how much the Council owes or is owed, and the Council's net assets (sometimes referred to as net worth).

Movement in Reserves Statement - This statement shows the movement between the Council's reserves (which are split between usable and unusable) and the total adjustments needed (in respect of revaluations, capital items and notional pension costs) to the reported surplus and deficit on the Comprehensive Income and Expenditure Account, to arrive at the actual movement in the General Fund Balance.

Cash Flow Statement - This statement shows the amount of cash received and paid out during the year and the net inflow and outflow of cash and cash equivalents.

Notes to the Core Financial Statements - This section includes the accounting policies and explanatory information relating to the core statements.

15. The following supplementary statements are also included:
- HRA Income and Expenditure Account
 - Statement of Movement on the HRA Balance
 - Collection Fund (Council Tax and Business Rates)

Glossary

16. This section of the Statement of Accounts sets out a detailed explanation of the various accounting terms that are used in the document.

Independent Auditor's Report

17. The external auditor's opinion on the accounts and their view as to whether the accounts are a true and fair view of the Council's financial position and performance for the year. This will be included within the final published document and published by 31 July 2019.

RISK ASSESSMENT

18. There are no significant risk considerations in relation to this report.

CONCLUSION

It is recommended that the Committee approves the audited Statement of Accounts for 2018/19, attached as Appendix A, for publication by 31 July 2019, subject to the external auditors completing their outstanding procedures and any further amendments being agreed by the Deputy Chief Executive Officer in consultation with the Chairman of the Audit and Governance Committee.

Background Papers: None

Reference Papers: Code of Practice on Local Authority Accounting 2018/19

Appendices: Appendix A - Statement of Accounts 2018/19 (currently the unaudited version)

Enquiries: For further information on this report please contact Caroline Hancock. (Ext 4589)