

# FAREHAM

## BOROUGH COUNCIL

### Report to Audit and Governance Committee

**Date:** 23 November 2020

**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 2019/20 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 Audit and Governance Committee approves the audited Statement of Accounts for 2019/20, attached as Appendix A, for publication, 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. The audited Statement of Accounts 2019/20 set out in Appendix A has been prepared in accordance with the Code.
3. Due to Covid-19, the Accounts and Audit Regulations 2015 have been amended to extend the publication date for audited accounts from 31 July to 30 November 2020.

## **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 2020.
6. The auditors carried out a detailed audit during July 2020 and October 2020 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.

## **KEY ISSUES AND MATTERS OF INTEREST**

7. The Statement of Accounts includes a Narrative Report which highlights the Council’s performance and achievements during 2019/20. Key issues and matters of interest are:
  - **New Community, Arts and Entertainment Venue** – A new operator was appointed in 2019/20 to work with the Council to develop a new vision for its community, arts and entertainment venue. Capital expenditure of £427,000 has been utilised in the year.
  - **Solent Airport at Daedalus** – Developments at the airport continued in 2019/20 with further investment in assets and infrastructure across the site of £361,000.

- **Welborne** – In 2019/20 the Council continued to resource activities to support the development of the new community of Welborne. As part of this initiative £1.2 million Capacity Funding and Garden Towns and Village funding has been received, including £150,000 in 2019/20.
- **Investment Property** – There was further investment of £13.8 million in two commercial property acquisitions in Fareham and Havant to provide an on-going source of income for the General Fund.
- **Community Infrastructure Levy (CIL)** – The Council raised £1.3 million from CIL during 2019/20 (£1.5 million in 2018/19). This has been transferred to the Council's capital reserves. £870,000 of CIL reserves were used to fund the new community, arts and entertainment venue, bus shelter improvements, the Holly Hill cemetery extension and play area upgrades.
- **Housing Stock** – During the year, 16 homes were sold under the right to buy scheme (13 in 2018/19) and 8 homes were bought back using housing capital receipts (8 in 2018/19). £1.8 million has been spent on new housing developments with the help from funding from Homes England.
- **Assets** – The overall value of the Council's long-term assets increased by £28.3 million (decrease by £10 million in 2018/19) mainly due to increases in long term investments (£8.7 million), investment properties (£7.4 million), other land and building (£7.3 million) and Council dwellings (£2.7 million).
- **Capital Receipts** – The Council generated capital receipts of £1.9 million (£3.7 million in 2018/19) from the sale of Council dwellings (£1.5 million) and land and buildings (£0.4 million).
- **Borrowing and Investments** – The Council's investments increased from £13 million to £15.9 million at the year end and short-term borrowing increased from £5.5 million to £17.7 million.
- **Reserves** – The General Fund reserve decreased due to an overall overspend on the revenue budget of £178,000 in the year. Council reserves now total £155.3 million, £45.1 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. This is an increase of £3.1 million compared to last year.
- **Housing Revenue Account** – The Housing Revenue Account decreased in year by £503,000 (decrease of £293,000 in 2018/19) but overall Housing Reserves increased by £0.7 million to £12.9 million.
- **Pension Fund** – The Council's pension fund liability increased by £3.1 million to £62.3 million (£3.6 million decrease in 2018/19). The main reasons for the change are due to decreases in the return on assets and increases in the current service cost.

8. The Statement includes sections (pages 21-24) on the financial outlook for the future and position of the Council as a Going Concern (page 33) as at the end of March 2020 and projecting forward to 2021 taking into consideration the impacts of the Covid-19 pandemic. Details are provided of the actions that have been taken and which are in progress to protect the Council's financial standing.

## **THE CONTENT OF THE STATEMENT OF ACCOUNTS**

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

### **Narrative Report**

10. 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.
11. 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**

12. 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**

13. 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.

14. 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**

15. 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**

16. 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.

### **RISK ASSESSMENT**

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

### **CONCLUSION**

18. It is recommended that the Committee approves the audited Statement of Accounts for 2019/20, attached as Appendix A, for publication, 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:** The Accounts and Audit (Coronavirus) Amendments  
Regulations 2020 (SI 2020/404)  
Code of Practice on Local Authority Accounting 2019/20

**Appendices:** Appendix A - Statement of Accounts 2019/20

**Enquiries:** For further information on this report please contact Caroline Hancock.  
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