

REPORT OF:	HEAD OF FINANCE & ASSETS
AUTHOR:	PAT MAIN
TELEPHONE:	01737 276063
E-MAIL:	Pat.Main@reigate-banstead.gov.uk
TO:	EXECUTIVE
DATE:	18 JULY 2019
EXECUTIVE MEMBER:	COUNCILLOR T. SCHOFIELD

KEY DECISION REQUIRED:	NO
WARD(S) AFFECTED:	All

SUBJECT:	STATEMENT OF ACCOUNTS 2018/19
RECOMMENDATION:	
That the Annual Financial Report, including the Statement of Accounts and Annual Governance Statement, for the year ended 31 March 2019 be approved.	
REASONS FOR RECOMMENDATION:	
The Code of Practice of Local Government Accounting requires that the Statement of Accounts should be endorsed by the body within the Council that is responsible for overall corporate governance. Under the Council's Constitution this function has been delegated to the Executive.	
EXECUTIVE SUMMARY	
The draft Annual Financial Report, including the Statement of Accounts and Annual Governance Statement for the financial year 2018/19, was prepared and published by the statutory 31 May deadline.	
At the time of preparing this report, the Statement of Accounts is being audited by Deloitte LLP, the Council's external auditors. The deadline for completion of the audit and receipt of the auditor's opinion is 31 July 2019.	
The current draft of the Annual Financial Report is attached at Annex 1. The information presented in this report is based on that version.	
The final version of the Annual Financial Report will be issued pending completion of the audit with an addendum to the agenda.	
The report of the external auditors, the ISA 260 Report, is reported separately on this agenda.	

Executive has authority to determine the above recommendation.

STATUTORY POWERS

1. The Council is required to produce the Statement of Accounts by the *Local Government and Housing Act 1989* and the *Accounts and Audit Regulations 2015*.
2. In accordance with the *Local Authorities (Functions and Responsibilities) (England) Regulations 2000* and the Council's Constitution approval of the Statement of Accounts is an Executive function.

ISSUES

3. The 2018/19 Statement of Accounts has been prepared in accordance with the relevant *Code of Practice on Local Authority Accounting in the United Kingdom* and the *Service Reporting Code of Practice*, supported by International Financial Reporting Standards (IFRS) that apply to all organisations required to produce accounts.
4. The Council must comply with the provisions of the Accounts and Audit Regulations 2015 which concern the signing, approval and publication of the Statement of Accounts:

- i) The responsible financial officer must, no later than 31 May 2019, sign and date the Statement of Accounts and certify that it presents a true and fair view of the financial position of the Council at the end of the financial year and of the Council's income and expenditure for that year.

The Interim Head of Finance & Assets and the Finance Manager (Financial & Corporate Accounting) signed and published the draft Statement of Accounts for 2018/19 by this deadline.

- ii) The Council must, no later than 31 July 2019, consider and approve the Statement of Accounts by way of resolution.

The Annual Financial report is submitted to this meeting of the Executive for consideration and approval.

- iii) Following approval by Executive, the Leader must sign and date the Statement of Accounts.

- iv) No later than 31 July 2019, the Council must publish its Statement of Accounts, including the Annual Governance Statement together with any certificate or opinion entered by the auditor.

Statement of Accounts 2018/19 – Financial Position and Performance

5. The key financial statements within the Annual Financial Report attached at Annex 1 are:

Report (pages 3 to 5)

- The Report seeks to provide information on the authority, its main objectives and strategies, the principal risks faced and commentary on how it has used its resources to achieve the desired outcomes.
- The structure of the Report can be determined by the authority but consideration in its preparation should be given to the following elements: Organisational review and external environment; governance;

organisational model; risks and opportunities; strategy and resource allocation; performance, outlook and the basis of preparation.

Statement of Responsibilities (page 11)

- This sets out the responsibilities of the Council and the Chief Finance Officer in relation to the production of the Statement of Accounts.
- Following approval of the Statement of Accounts by the Executive, the Leader and Chief Finance Officer are required to sign and date this section.

Movement in Reserves Statement (page 16)

- This Statement shows the movement in the year on the reserves held by the Council, analysed into 'usable' reserves (ie. those that can be used to fund expenditure or reduce local taxation) and other reserves.
- Overall, reserves increased by £3m to £173m. Of this, usable reserves reduced by £9m and other (unusable) reserves increased by £12m.

Comprehensive Income and Expenditure Statement (page 17)

- This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
- Total Comprehensive Income and Expenditure for 2018/19 showed a surplus of £3m (£13m surplus in 2017/18). This is equal to the increase in overall reserves explained in the Movement on Reserves Statement. This comprises a Surplus on Provision of Services of £7m, with other asset and pension liability movements generating a deficit of £4m.

Balance Sheet (page 18)

- The Balance Sheet sets out the financial position of the Council at 31 March 2019. It includes the balances and reserves at the Council's disposal, its long term indebtedness and assets employed.
- Overall, the Council's net worth rose by £3m to £173m as already explained in the sections on the Movement in Reserves and the Comprehensive Income and Expenditure Statement above.
- Long term assets increased by £42m compared to the previous year. The main reasons are due to Investment Property increases of £32m; Long term investments increasing by £8m;
- Current assets have decreased by £17m represented by reductions in the sum of cash & cash equivalent held (£3m) and short term investments (£17m), offset by an increase in short term debtors (£3m).
- Current liabilities have increased by £15m, mainly from the increase in short term creditors and short term borrowing.
- Long term liabilities have increased by £6m with the biggest reason being due to the increase in pension liability of £7m.

Cash Flow Statement (page 19)

- This Statement summarises the cash inflows and outflows arising from transactions with third parties, arising from revenue and capital

transactions. It confirms that there has been a net cash outflow of £3m in 2018/19.

Notes to the Financial Statements (including accounting policies) (pages 20 to 74)

- The notes set out in more detail how the figures have been arrived at and give further supporting information. The policies show the principles, bases, conventions, rules and practices applied by the Council when preparing and presenting these statements.

Collection Fund and notes (pages 75 to 77)

- The Council is required to maintain a separate fund for the collection of the Council Tax and Business Rates income and payment of precepts. Overall there was an in year surplus of £4.6m, resulting in a net year-end surplus balance carried forward on the Fund of £1.7m.

Group Accounts (pages 78 to 93)

- The Group Accounts show the financial position and performance of the Council and its wholly-owned subsidiaries (Greensand Holdings Limited and RBBC Limited), its joint venture (Horley Business Park Development LLP) and its associate (Pathway for Care Limited).

Annual Governance Statement (pages 6 to 10)

- The Accounts and Audit Regulations require the Annual Governance Statement to be published at the same time as the Statement of Accounts. This was considered and approved by Executive on 20 June 2019.

Glossary of Terms (pages 91 to 93)

- Provides a definition of some of the terms used within the accounts.

5. Key points to note include:

Resolution of Historic Bank Reconciliation Balances

The Council's previous external auditor, KPMG, recommended a number of improvements to the timeliness and completeness of the Council's bank reconciliations in their ISA260 audit report for 2016/17. Significant work was carried out on these issues during 2017/18 with full reconciliation being achieved during 2018/19.

Overall, the final reconciliation of the historic balances confirmed that there were expenditure items totalling £612k that had been processed through the Council's bank accounts but had not been posted to the ledger. Of this £612k the largest two transactions were:

- Payment to the Department for Communities & Local Government (now Ministry of Housing, Communities and Local Government) of £205,806.00 in 2016; and
- Payment to Surrey Pension fund of £394,680.41 in 2014.

They total £600,486.41 out of the £612,235 expenditure items identified in the reconciliation.

In addition the final reconciliation confirmed that miscellaneous income receipts amounting to £124,688.87 that had been received prior to April 2018 had not yet been credited to the general fund.

The ledger entries relating to these transactions have now been posted in the Council's accounts by 31 March 2019 and are therefore reflected in the 2018/19 Statement of Accounts. They are summarised in Table 1 below.

Table 1: Historic Bank Reconciliation Entries.

Primary Statement	Area in primary Statement	Debit/Credit	Transaction type	Amount £	Balance
Balance Sheet	Cash book	CR	Expenditure	205,806	
Balance Sheet	Cash book	CR	Expenditure	394,680	
Balance Sheet	Cash Book	DR	Income	(124,688)	
Total Cash Book		CR	Net Cash Book Reduction		475,798
General Fund – Charge to Headroom Contingency		DR	Charged to Useable Reserves		475,798

Action is now being taken to ensure that all bank reconciliations are completed on a regular basis to pre-determined deadlines. Staff are also being trained in the related processes and management checks are being implemented to ensure that reconciliation delays do not arise again.

Local Government Pension Scheme – McCloud Judgement

In late June 2019 the Supreme Court ruled that the 2015 changes to public sector pensions had discriminated against younger employees. Judges ruled in favour of the Fire Brigades Union and a group of judges who had challenged the rule changes, which had protected the pension benefits of older workers. The recent ruling means that council pension funds are likely to have to make provision for additional costs to ensure that consequent revisions to future benefit forecasts are

funded. This potentially has implications for some of the pensions information presented in the Statement of Accounts at Annex 1.

At the time of preparing this report the Council, along with the other Surrey districts, was waiting for confirmation of revised cost forecasts at 31 March 2019 from Surrey Pension Fund and the scheme actuaries. It will then be necessary to consider the materiality of these costs for this Council's Statement of Accounts in consultation with Deloitte LLP in order to confirm whether any amendments will be necessary before the audit is concluded and the accounts are ready for approval.

External Audit Review

6. Deloitte LLP's audit team have spent time on site since 10 June and their audit of the accounts was still progressing at the time of preparing this report. Their Audit Findings Report is presented for consideration at this meeting [to follow pending completion of the audit by Deloitte LLP. The information will be published with an addendum to the agenda].
7. For reasons of meeting timing, the copy of the accounts at Appendix 1 is the most current version and may yet need to be updated to reflect any further changes arising from the audit. An updated version of Appendix 1 will be circulated to Executive either before the meeting on 18 July if available or at the meeting, highlighting any changes made. This is the version that Executive will be asked to approve.

OPTIONS

8. The Executive can accept or reject the Annual Financial report, including the Statement of Accounts 2018/19. Failure to approve the Annual Financial report by 31 July means that the statutory deadline for publication will not be met

LEGAL IMPLICATIONS

9. There are no additional legal implications arising from this report.

FINANCIAL IMPLICATIONS

10. There are no additional financial implications arising from this report.

EQUALITIES IMPLICATIONS

11. There are no equalities implications arising from this report.

COMMUNICATION IMPLICATIONS

12. There are no communications implications arising from this report. The auditor's report and Annual Financial report, including the Statement of Accounts 2018/19, will be published on the Council's website.

RISK MANAGEMENT CONSIDERATIONS

11. There are no risk management implications arising from this report.

CONSULTATION

14. The Executive Member for Finance established, and chaired, a Member Advisory Panel during the preparation of the Annual Financial Report. The Panel considered the attached draft at a meeting on 8 July 2019.

POLICY FRAMEWORK

15. There are no policy implications arising from this report

Background Papers:

Executive, 18 July 2019, *ISA 260 External Auditor's Report*