



To: Audit and Governance Committee

Date: 24 July 2019

Report of: Head of Financial Services

Title of Report: Statement of Accounts for the Year Ending 31st March 2019

Summary and Recommendations

Purpose of report: To submit the Council’s Statement of Accounts and Letter of Representation for approval and authorisation.

Key Decision No

Executive lead member Councillor Ed Turner

Policy Framework: Efficient and Effective Council

Recommendation(s): That the Committee:

- a) Approve the audited 2018/19 Statement of Accounts as certified by the Head of Financial Services and authorise the Chair of the Committee to sign the Accounts
- b) Approve the Letter of Representation to enable the opinion to be issued (paragraph 32)

Appendices

Appendix A –Statement of Accounts 2018/19

Appendix B – Letter of Representation

Background

1. The Statement of Accounts for 2018/19 (the Statements) are attached at Appendix A. The Accounts and Audit Regulations 2015 which revoke and replace the 2011 Regulations invoke earlier dates for the preparation, approval and publication of the Statements. Accounts now have to be completed and published in draft form by 31st May and audited, approved and published by 31st July.
2. On the 31st May 2019 the draft Statements were certified by the ‘Responsible Officer’, the Head of Financial Services as a true and fair view of the financial position of the authority at the 31st March 2019. The accounts were duly authorised to be released for audit.

3. Following audit by Ernst and Young the Statements have been re-certified by the Head of Financial Services and re-presented to this Audit and Governance Committee for final approval, prior to the 31st July deadline in accordance with the regulations.
4. The 2018/19 audit is complete with some specific matters outstanding as reported in the Audit Results Report elsewhere on this agenda but it is anticipated that all matters will be complete by the date of the Audit Committee so that the accounts can be signed off.
5. The auditors made some recommended changes, in line with the Code of Practice, which have been incorporated into the final version of the Statements and have also issued a draft report on the outcome of the audit. This report appears elsewhere on the meeting agenda.
6. The auditors are expected to issue an unqualified opinion on the financial statements.

Uncorrected Misstatements

7. There are no uncorrected misstatements in the accounts.

Changes to the Statements

8. During the audit the external auditors identified a number of changes to the accounts which the Council have made. These changes do not have any material impact on the Council's overall financial position as they relate to disclosure notes, Balance Sheet items or items which are reversed out of the Comprehensive Income and Expenditure Statement (CIES) under normal accounting practice.
9. There was a significant change during the audit period due to a court case relating to the Local Government Pension Scheme which has a potential impact on the pension funds of all local authorities. This is covered in more detail in a separate section below.
10. The Statements attached at Appendix 1 include the adjustments that have been agreed and made as a consequence of the audit. The changes included are:
 - A transposition error occurred in applying the Balance Sheet date adjustment applied to the Property Plant and Equipment valuation. The valuation report recommends a downward movement of 1.89% against the 01.04.2018 valuations. However an error meant that the valuation applied was 1.98%. The resulting variance is £646,421 which increases the value of assets and increase the revaluation reserve by this amount. There is no impact on the Council's out-turn or the level of resources in the Council's General Fund.
 - Revised pension figures resulting from a revised report received from the pension fund actuary – see section below for details.
11. A verbal update will be given at Audit and Governance Committee if there are any subsequent changes that need to be made.

Pension Fund Reporting Changes

12. In December 2018, the Court of Appeal ruled against the Government, holding that changes made to pension schemes discriminated against a group of firefighters and a group of judges on the grounds of age.
13. The Court of Appeal heard the two cases, *Sergeant and others v London Fire and Emergency Planning Authority and others (Sergeant)* and *McCloud and others v Ministry of Justice (McCloud)* together, due to similarities in the issues under consideration. In summary, the court looked at whether transitional protections offered to older judges and firefighters in their respective pension schemes, which were intended to cushion them from changes being made to future pension benefits, were directly age discriminatory, on the basis that younger members of the schemes were offered no such protection.
14. A ruling was made that found that the transitional protection was discriminatory on the basis of age discrimination. The rulings have implications for the LGPS, Police and Fire schemes since similar reforms were implemented.
15. On 27 June 2019, the Government was denied leave to appeal the Court of Appeal decision, which means the required changes to adhere to the Court's findings will be determined by an Employment Tribunal for which a date has not yet been set. It is the denial of leave to appeal that has given rise to changes being necessary to pension fund calculations.
16. The final situation in terms of employer pension liabilities and financial impact is not clear since the employment tribunal has not heard the case and any remediation process, including cost cap considerations, may affect the resolution and financial impact for entities.
17. The changes will have different effects at individual pension fund level due to the different demographic make-up of the members of each fund. Due to this, the Council obtained a revised report from the pension fund actuary which estimates the possible impact on the Council's pension fund liabilities based on the best information available. The results of this report have then been used to amend the Council's Statement of Accounts. There is no impact on the level of balances held within the Council's General Fund or Housing Revenue Account resulting from these changes since any movements are reversed in the Movement in Reserves statement. The estimated effect of the changes on the City Council pension fund is an increase in pension liabilities by £3.7 million. This adjustment is shown separately as an exceptional item on the face of the Comprehensive Income and Expenditure Statement which is then explained in Note 4 to the accounts.
18. In calculating the revised pension figures, the actuary took the opportunity to amend the value of assets to the actual level of assets at the year-end instead of the estimation used for the original actuary report. This has resulted in reduction in pension liabilities by £1.2 million.
19. Neither of these changes have an effect on General Fund balances since all effects are reversed out through the Movement in Reserves Statement.

The Statements

20. The Statement of Accounts consists of the following:

- The Statement of Responsibilities, setting out the general responsibilities of both the City Council, and the Section 151 Officer (The Head of Financial Services). The Head of Financial Services has to sign a statement that the Accounts present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for that year then ended (page 6 and page 26).
- The Core Financial Statements (pages 21 to 27) and supplementary statements (pages 87 to 96) and group accounts (pages 97 to 124) incorporating:
 - a. A Movement in Reserves Statement (MIRS) - a statement used to adjust International Financial Reporting Standard accounting practice to Local Government proper practice to ensure the accounting changes do not impact on Council Tax and create any additional burden to the tax payer.
 - b. The Comprehensive Income and Expenditure Statement - a statement which incorporates all revenue income and expenditure relating to the year.
 - c. Expenditure and Funding Analysis - a statement that supports and provides more information on the Comprehensive Income and Expenditure Statement.
 - d. A Balance Sheet – a statement which records all the assets and liabilities at the Balance Sheet date of 31 March.
 - e. A Cashflow Statement - a statement that shows the inflows and outflows of cash during the year reconciled to the year end cash position.
 - f. The Housing Revenue Account - a statement which brings together all transactions during the year in relation to the management and maintenance of the Council's 7,696 dwelling stock.
 - g. Collection Fund - a statement which brings together all transactions during the year relating to the collection of Business Rates and Council Tax income together with payments and receipts from Government and payments made to the preceptors; the County Council, Police and Crime Commissioner (Thames Valley) and Parish Councils.
 - h. Group Accounts - statements which reflect the Council's 50% interest with Grosvenor Developments Limited in a joint venture for the construction of dwellings at Barton, a 50% interest with Nuffield College in a joint venture for the regeneration of the West End area of Oxford, (OxWED) and the Council's wholly owned Housing Company Group, Oxford City Housing Ltd (OCHL). The Council's share of the assets and liabilities of these entities are required to be incorporated into the Council's accounts.
- The Statement of Accounting Policies, setting out the detailed rules under which we account for assets, liabilities, income and expenditure (pages 127 to 144).

Summary of Information Found Within the Statements

21. Some Key information can be gained from the Statements:

Comprehensive Income and Expenditure Statement (CI&E) (page 23)

22. There is a loss of £59.3m compared to a surplus of £73.5m in the previous year. However surplus is based on standard accounting practice and doesn't reflect the statutory basis under which the Council has to manage its finances. The actual position after applying the statutory adjustments is summarised on the Movement in Reserves Statement (page 25).

Movement in Reserves Statement (MiRS) (page 25)

23. The MiRS shows the movement between the accounting position shown in the CI&E and the overall balances available to the Council to meet future capital and revenue expenditure. The adjustments are shown in more detail in note 8 (pages 39 to 43) which are made that result in the allocation of the surplus between usable and unusable reserves.

24. The overall balances available to the Council to meet future capital and revenue expenditure are shown below:

	2018/19	2017/18	Variation
	£'000	£'000	£'000
General Fund Balance	3,623	3,622	1
Earmarked General Fund Reserves	35,056	36,424	(1,368)
Housing Revenue Account Balance	4,000	4,000	-
Earmarked Housing Revenue Account Reserves	26,119	18,361	7,758
Major Repairs Reserve	-	-	-
Capital Receipts Reserve	7,626	7,917	(291)
Capital Grants Unapplied Reserve	14,297	14,356	(59)
Total Usable Reserves	90,721	84,680	6,041

25. More detail regarding the earmarked reserves can be seen in note 9 on pages 44 to 46.

The Balance Sheet (page 26)

26. The Balance Sheet shows an increase in the net worth of the Council which can be summarised as below:

	2018/19	2017/18	Variation
	£'000	£'000	£'000
Value of Land and Property Owned	997,524	1,033,424	(35,900)
Cash Investments, Assets Held For Sale and Stock	101,986	89,873	12,113
Money the Council Owes	(471,873)	(411,303)	(60,570)
Money the Council is Owed	129,319	103,642	25,677
Net Worth of Council at 31st March	756,956	815,636	(58,680)

27. The main increase is relating to the value of non-current assets that the Council owns, predominantly land and buildings. This increase is an unrealised gain and will only become available to the Council if and when properties are sold. Further details of the non-current assets held can be found in notes 13 to 16 on pages 49 to 54.

28. The net worth is held in usable and unusable reserves:

	2018/19 £'000	2017/18 £'000	Variation £'000
Usable Reserves	(90,721)	(84,680)	(6,041)
Unusable Reserves	(666,235)	(730,956)	64,721
Total Reserves	(756,956)	(815,636)	58,680

29. Useable reserves are detailed above at paragraph 24 and more detail of unusable reserves can be found in note 27 on pages 67 to 71.

Group accounts

30. The Council owned or had interests in 5 operational entities as at 31st March 2019:

- Oxford City Housing Limited (OCHL)
- Oxford Direct Services Limited (ODSL)
- Oxford Direct Services Trading Limited (ODSTL)
- Oxford West End Development Limited (OxWED)
- Barton Oxford LLP

Two wholly owned companies became operational on 1st April 2018, Oxford Direct Services Limited and Oxford Direct Services Trading Limited. These two companies are incorporated into the Council's Group accounts from 2018/19 and there are no comparative figures for these for 2017/18 due to the date they became operational.

The Council's share in these entities is shown below:

Wholly Owned

	ODSL 2018/19 £'000	ODSTL 2018/19 £'000	OCHL 2018/19 £'000	Sub-Total 2018/19 £'000
Council's share of Net Assets	6,041	363	4,180	10,584
Capital classified as a liability	(4,538) -		(4,305)	(8,843)
Council's Share shown in the Group Accounts	1,503	363	(125)	1,741

	OCHL 2017/18 £'000	Total 2017/18 £'000
Council's share of Net Assets	450	450
Capital classified as a liability	(1,054)	(1,054)
Council's Share shown in the Group Accounts	(604)	(604)

Joint Ventures and Total

	OxWED 2018/19 £'000	Barton LLP 2018/19 £'000	Sub-Total 2018/19 £'000	Total 2018/19 £'000
Council's share of Net Assets	9,310	-	9,310	19,894
Capital classified as a liability	(10,760)	-	(10,760)	(19,603)
Council's Share shown in the Group Accounts	(1,450)	-	(1,450)	291
	OxWED 2017/18 £'000	Barton LLP 2017/18 £'000	Sub-Total 2017/18 £'000	Total 2017/18 £'000
Council's share of Net Assets	5,658	1,378	7,036	7,486
Capital classified as a liability	(6,600)	(1,171)	(7,771)	(8,825)
Council's Share shown in the Group Accounts	(942)	207	(735)	(1,339)

31. The Council's share as at 31st March 2019 was a net asset of £0.291 million compared to a net liability of £1.339 million on 31st March 2018. Key elements of this net position relates to interest owing to the Council on loans that the Council has made to the entities and the dividends from the Oxford Direct Services Companies which had not been paid at 31st March 2019. More detail can be found on pages 97 to 124 of the Statement of Accounts.

Letter of Representation

32. Attached at Appendix 2 is a draft Letter of Representation which the Committee is asked to approve. This is a letter from the Council's Section 151 Officer setting out the processes and procedures the Council adopts to ensure that it is in compliance with its statutory requirements and that it has a sufficiently robust control framework to prevent and detect fraud and irregularities. Ernst and Young require this letter before they issue their opinion.

Financial Implications

33. These are covered within the main body of the report.

Legal Implications

34. In accordance with the Accounts and Audit Regulations 2015 the accounts must be audited, approved and published by 31st July 2019.

Risk Implications

35. There are no risks associated with the recommendations in this report.

Communication

36. The Council's accounts were subject to external audit by Ernst & Young LLP and within the period of audit, from Monday 3rd June 2019 to Friday 12th July 2019 between 9.30am and 4.30pm any person may inspect the accounts of the Council for the year ended 31st March 2019 and certain related documents (comprising

books, deeds, contracts, bills, vouchers and receipts). They may also make copies of the accounts and documents.

37. During the same period a local government elector for the area of the Council or their representative may make an appointment to ask the auditor questions about the accounts. In addition they may object to the Council's accounts, asking that the auditor issue a report in the public interest or which is contrary to law (under section 28 of the Local Audit and Accountability Act 2014). Written notice of a proposed objection and the grounds on which it is made must be sent to the auditor at the address provided on the Council's website.

38. There were no objections lodged.

39. The Audited Statement of Accounts for 2018/19 will be published on the Council's website after approval along with a notice confirming the conclusion of the audit and alongside the Annual Governance Statement for the year.

Name and contact details of author:-

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Background papers: None