Audit Committee
15 July 2019

REVIEW OF AVDC DRAFT STATEMENT OF ACCOUNTS 2018-19

1 Purpose

1.1 This report set out the current position in terms of the Statement of Accounts preparation. The report also sets out the provisional financial outturn for 2018/19.

2 Recommendations/ for decision

2.1 Members of the Committee are requested to consider the draft Statement of Accounts for 2018-19 (Appendix A)

2.2 Members of the Committee are requested to note the current position in relation to the Statutory Accounts preparation

2.3 Members of the Committee are requested to note the provisional financial outturn position for 2018-19.

3 The Accounts Approval Process

3.1 The Council must make available for audit its draft Annual Accounts by 31 May 2019 and the aim is to produce the Final (Audited) Annual Accounts for approval by 31 July 2019.

3.2 The Accounts and Audit Recommendations require that the Statement of Accounts is formally signed off by the Chairman of the Audit Committee and the Director responsible for Finance.

3.3 Whilst there is no requirement to do so, the guidance to the Accounts and Audit Regulations suggests it is good practice to give members an early notification of the financial outcome of the previous year and to this end, the draft Statement of Accounts is presented as part of this report.

3.4 The timetable for the preparation of the accounts was completed to a draft accounts deadline of 31 May 2019. The approval deadline is 31 July 2019. This "faster close" has been earlier than previous years and the change required have presented challenges for both the preparers and the auditors of the financial statements.

3.5 The draft accounts were published on 31st May 2019.

3.6 From 1 June 2019 to 15 July 2019 inclusive, members of the public and local government electors may inspect the accounts of the Council for the year ended 31 March 2019 and certain related documents.

3.7 A copy of the Council unaudited statement of accounts is currently available on the Councils website.

3.8 The Council's accounts are subject to external audit by Andrew Brittain of Ernst & Young LLP.

3.9 In May 2019, the external audit team informed the Council that they would be unable to carry out the audit to meet the target date of 31st July 2019. The July deadline represents a target date for the publication of the accounts, and is not a statutory deadline.

3.10 Ernst and Young LLP have cited exceptional levels of staff vacancies leading to staff shortages as the primary reason for the delay for the Audit. AVDC is one of 19 authorities who are also subject to audit delay.

3.11 The Public Sector Audit Appointments (PSAA) who contract with EY have supported the decision to delay, on the understanding that the delay will ensure the required high quality of audit, the main consideration for them over timeliness. The NAO, MHCLG and the LGA have also been informed of the decision.

3.12 AVDC were not consulted on the delay and were presented with a “fait accompli”.

3.13 The Chair of the Audit Committee has met with EY and PSAA. The meeting was convened on 20th June 2019, and representatives from the other affected Authorities in Bucks were also in attendance.

3.14 The meeting was an opportunity for the Audit Chairperson to feedback on the impact of the changes, on staffing and also on the potential reputational impact of the Council.

3.15 The formal audit is now scheduled to commence on 2nd September 2019, and to continue for 4 weeks. This represents a delayed start.

3.16 It is intended that the Final Accounts be presented to the re-scheduled Audit Committee on 7th November 2019. Audit Committee members will, following the audit, consider and approve the statement of accounts.

3.17 Audit Committee will also be requested to consider the findings of the annual review of the effectiveness of the system of internal control, approve the Annual Governance Statement and consider the Annual Audit letter

3.18 The Accounts presented detail the Accounts for the Authority but also extends to the group financial statements where the Council has material interests in subsidiaries and joint ventures. The accounts include results for Aylesbury Vale Broadband, Vale Commerce and reflect material interest in Aylesbury Vale Estates.

4 The Accounts

4.1 Local authority financial statements are known to be complex and can be difficult to understand: they must comply with CIPFA’s Local Authority Code of Practice, which is based on International Financial Reporting Standards (IFRS), and also the requirements of accounting and financing regulations of central government.

4.2 The year end position within the Statutory Accounts contains transactions which are required by the Accounting Regulations. These transactions are intended to provide the reader with a complete picture of the Councils financial affairs during the course of the year.

4.3 The paper explains the key features of the primary statements and notes that make up the set of financial statements.

4.4 Narrative Report/Explanatory foreword: The purpose of the narrative report and the explanatory foreword is to provide a commentary on the financial statements. It includes an explanation of key events and their effect on the financial statements. The information included in the explanatory foreword will be familiar to Members from financial information provided during the year. The explanatory foreword reconciles the year end financial position reported to members (the outturn) to the statutory financial accounts.

4.5 Annual governance statement: The annual governance statement (AGS) sets out the arrangements the Council has put in place to manage and mitigate the risks it faces when meeting its responsibilities. The AGS gives the reader a clear sense of the risks facing the authority and the controls in place to manage them. While the AGS is prepared by the authority at the end of the year, it is built up from processes designed, run and tested throughout the year. The AGS will be presented to the November Audit Committee meeting.

4.6 Movement in reserves statement (MIRS): Reserves represent the authority's net worth and show its spending power. Reserves are analysed into two categories: usable and unusable. The movement in reserves statement (MIRS) analyses the changes in each of the authority's reserves from year to year. The statement provides detail on what has caused the movement in each reserve.

- Usable reserves: These result from the authority's activities and include the general fund, earmarked reserves and capital receipts reserve
- Unusable reserves: These are derived from accounting adjustments and cannot be spent. They include pensions reserve, revaluation reserve and the capital adjustment account

4.7 Comprehensive income and expenditure statement: The comprehensive income and expenditure statement (CIES) reports on how the authority performed during the year and whether its operations resulted in a surplus or deficit. The CIES includes cash payments made to employees and for services, as well as non-cash expenditure such as depreciation and accruals. It also shows all sources of income received and accrued in the year. The CIES shows the accounting position of the authority before statutory overrides are applied. It analyses income and expenditure based on services.

4.8 It includes:

- Cost of services: Presented in a standardised format as set out by the 'Service reporting code of practice for local authorities'. Includes service specific income and expenditure.
- Other operating income and expenditure: Includes the surplus or deficit from the sale of property, plant and equipment.
- Financing and investment income and expenditure: Includes interest payable and receivable.
- Taxation and general grant income: Includes revenue from council tax and the revenue support grant.
- Other comprehensive income and expenditure: Items which are not allowed to be accounted for elsewhere in the CIES, such as increases in the value of land and buildings and changes in the actuarial assessment of pension liabilities.

4.9 Balance sheet: The balance sheet is a 'snapshot' of the authority's financial position at a specific point in time, showing what it owns and owes at 31 March 2019. The balance sheet is always divided into two parts including a) assets less liabilities and b) reserves.

4.10 The main elements of the balance sheet are:

- Non current assets: including property, plant and equipment, heritage assets, intangible assets, investment property. Non-current assets have a life of more than one year. For AVDC, the biggest balance by far is property, plant and equipment. These are tangible assets that are used to deliver the authority's objectives.

- Current assets: includes cash and other assets that, in the normal course of business, will be turned into cash within a year from the balance sheet date. Other assets include investments, non-current assets held for sale, inventories and debtors.
- Current liabilities: Comprises short-term borrowing, trade creditors, amounts owed to other government bodies and receipts in advance.
- Long-term liabilities: Includes borrowings, any amounts owed for leases and private finance initiative (PFI) deals. There will also be an estimate for the cost of meeting the authority's pension obligations earned by past and current members of the pension scheme.
- Reserves: These are usable and unusable reserves.

4.11 The Accounts also include a number of other statements.

- Cash flow statement: Sets out the authority's cash receipts and payments during the year, analysing them into operating, investing and financing activities. Cash flows are related to income and expenditure, but are not equivalent to them.
- Collection fund: Shows the transactions in respect of council tax and
- Group accounts: Prepared if the authority has a significant subsidiary, such as a local authority trading company. Shows the combined income and expenditure and balances of all the constituent bodies

4.12 The Accounts also include Additional disclosures, contained within the notes to the financial statements. These include:

- Accounting policies: Set out the accounting rules the authority has followed in compiling its financial statements. They are largely specified by International Financial Reporting Standards and the Local Authority Code of Practice.
- Estimates: The authority may need to use estimates to value assets, liabilities and transactions. The major sources of estimation uncertainty should be disclosed if there is a significant risk the estimate will need to be materially adjusted next year.
- Property, plant and equipment: Details about assets acquired and disposed of during the year, whether they have been revalued, the impact of any changes in value and the amount of depreciation charged.
- Leases and PFI schemes: Set out how much will be paid annually to leasing companies and how much will be paid in total over the lifetime of the agreement.
- Employee remuneration Details of the pay of the most senior officers, all officers' remuneration, disclosed in bands, and the cost of any redundancies. Other notes show the annual cost and cumulative liabilities of pensions.
- Contingent liabilities: Details of possible costs that the authority may need to meet, but has not charged to the CIES because it thinks that it will probably be able to avoid them.

5 The Quarterly Financial Digest: 2018/19 Year End Position

5.1 The Statutory Accounts only present actual expenditure and income, without reference to budgeted levels. Therefore, whilst the accounts present the definitive position on the Authority by way of its financial resources, it does not inform the reader as to whether this was planned or expected position.

5.2 The Quarterly Financial Digest is the primary reporting tool for in-year financial management. The Digest provides Management information and is designed to explain significant financial events which occurred during the year by comparing them with the expected or budgeted equivalent figures.

5.3 The Quarterly Financial Digest for the financial year 2018-19 was presented to the Finance and Services Scrutiny meeting in early July 2019.

5.4 Based on the provisional financial results for 2018-19, Audit Committee Members are asked to note the provisional financial outturn. These, as stated, as still subject to audit.

5.5 The financial information is based on the actual income and expenditure for the 12 months of the financial year, April to March 2019.

5.6 The Council reported a surplus of £432,000 for the financial year 2018-2019 (before the transfer from general fund balances).

5.7 The outturn is better than planned by £192,000 and better than forecast by £353,000. A planned surplus of £240,000 had been assumed in budget plans for 2018-2019.

5.8 As a consequence of the outturn, General fund balances will be marginally higher than predicted as at the end of March 2019. The level of general balances for the financial year is now £2.353m. This is above the minimum assessed level of balances of £2.0m.

5.9 The Councils 2018/19 revenue outturn position is shown in the table below.

	2018/19	2018/19
General fund revenue	**Budget £000**	**Actual £000**
Expenditure	88,131	98,072
Income	(71,197)	(68,346)
Net cost of services	16,934	29,726
Cost of borrowing	2,694	742
Other income	(274)	(5,021)
Investment interest	(2,184)	(2,266)
Retained business rates	(5,424)	(6,492)
Income from grants	(1,178)	(6,313)
Net expenditure	10,568	10,376
Local taxpayers	(10,808)	(10,808)
Net balance	(240)	(432)

	2018/19	2018/19
General fund balances	**Budget £000**	**Actual £000**
Balance 1 April	(1,924)	(1,977)
Net balance to fund	(240)	(432)
Special application of balances	50	56
Balance 31 March	(2,114)	(2,353)

5.10 The view, as presented above, reflects the general fund revenue account and balances. This presents the organisational structure and view used for the management reporting of the accounts during the financial year.

5.11 The financial position for the year is largely being driven by above budgeted levels of staff costs.

5.12 Agency is employed in a number of key operational areas to support project work and service delivery. Agency spend is incurred for a number of reasons including

- To support funded project work e.g. Connected Knowledge programme and GDPR.
- To support service delivery where there are vacancies or activity related pressures.
- To provide flexibility of service provision

5.13 The use of agency to support vacancies and activity pressures incurs a premium cost and adverse variance to agreed budgets. The spend was largely as forecast.

5.14 Despite these known pressures on staff costs (adverse variance of £1.8m to budget), it has been possible to largely offset agency costs with additional efficiencies and income. These include:

- savings against budget in relation to transitional relief for business rates;
- increased income from commercial rents particularly at Pembroke Road, and for garden waste and commercial waste services;
- savings on vehicle costs at the depot due to previous capital investment; and
- general efficiencies in the running costs of departments including savings on GDPR implementation provisions.
- savings on interest charges due to lower than planned level of borrowing;
- Revision downwards of minimum revenue position required as a result of prudent borrowing position
- Higher than planned income on Business rates and collection fund

5.15 The draft outturn position is better than forecast at December 2018

5.16 The outturn is better than planned by £192,000 and better than forecast by £353,000. A planned surplus of £240,000 had been assumed in budget plans for 2018-2019.

5.17 In preparing forecasts, best estimates of income and expenditure are made in line with known expectations and intelligence on emerging issues in liaison with budget managers. Inevitably, organisational changes can lead to variation in spending patterns from the forecast set. Where this happens, action is required and taken to address variations across both portfolios and also within corporate budgets.

5.18 The changes to the forecast include:

- an increase of £96k on portfolio spend. A number of factors contribute to this change across all portfolios including increased levels of staff costs and also revision to income targets and other spend levels. The impact of staff changes across the organisation have been difficult to assess with precise accuracy. For operational issues, some changes didn’t happen as quickly as forecast.
- Lower than anticipated collection fund levy
- Realisation of dividend payments not previously forecast
- Above planned levels of business rates income particularly retained enterprise zone relief
- lower than forecast spend against contingency budget. It had been previously assumed that budget will be fully utilised.

- Higher than planned interest payments and lower borrowing costs.

6 Capital Outturn 2018-19

6.1 The Council reported a total spend on its capital plans of £9.166m. Of this, £3.024m was incurred in the creation of new assets including the Public Realm Waterside North and the Pembroke Road depot scheme. A further £6.142m was incurred to support capital development in relation to financing for the Public Realm Waterside North scheme and also the Enterprise Zone at Silverstone.

6.2 Capital expenditure was financed by revenue contributions and capital receipts (which includes planned use of New Homes Bonus). It was anticipated during the year that a significant element of the programme would be funded from prudential borrowing.

6.3 The Council has taken a prudent approach to financing the capital programme by deploying revenue reserves and cash balances instead of using external borrowing where possible as this produces a lower net cost. The change in funding has therefore reduced the on-going financing cost of the capital programme.

7 Reserves and Balances

7.1 General fund balances will be marginally higher than predicted as at the end of March 2019. The level of general balances for the financial year is now £2.353m. This is above the minimum assessed level of balances of £2.0m.

7.2 The detail of the general fund is outlined below:

GENERAL FUND STATEMENT OF BALANCES	Actual Outturn 2017/18 £000s	Original Budget 2018/19 £000s	Actual Outturn 2018/19 £000s
Brought Forward 1st April	**-2,873**	**-1,924**	**-1,977**
Planned Contribution to Balances	0	-240	-240
Less General Over/(Under)spend Assumption	453	0	-192
Contribution to the HS2 Fund	3	0	6
Commercial AVDC Change Project	440	0	0
Commercial Activities	0	50	50
Net Use of/(Contribution to) Balances	896	-190	-376
Working Balance Carried Forward	**-1,977**	**-2,114**	**-2,353**

7.3 A full list of reserves and provisions is included in the Statement of the Accounts.

7.4 As at 31st March 2019, the Council holds £30.608m as reserves.

8 Reasons for Recommendation

8.1 The Accounts and Audit Recommendations require that the Statement of Accounts are formally signed off by the Chairman of the Audit Committee and the Director responsible for Finance by 31ST July 19

8.2 As outlined, for reasons outside the influence of the Council, the Accounts will be completed in October/November 2019.

8.3 Members of the Committee are requested to consider the draft Statement of Accounts for 2018-19

9 Resource implications

9.1 None.

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Background Documents	2018-19 Accounts