Leicestershire County Council

CONSTITUTION COMMITTEE – 29 JULY 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

STATEMENT OF ACCOUNTS & PENSION FUND ACCOUNTS 2018/19

Purpose of Report

1. The purpose of this report is to:

   a) present the 2018/19 financial statements, attached as Appendix A, for approval;
   b) inform the Committee of the main areas of the financial statements; and
   c) report the key findings from the external audit of the accounts.

Background

2. The Accounts and Audit Regulations 2015 require authorities to approve and publish their accounts, including the auditor's opinion, by the end of July following the end of the financial year.

3. A copy of the external auditor's, Grant Thornton UK LLP, report on the financial statements is attached as Appendix B. Letters of representation for the Statement of Accounts and Pension Fund are attached as Appendix C and Appendix D.

4. The Corporate Governance Committee will consider the auditor's report at its meeting on 26 July 2019. The auditor is required to communicate the results of the audit to those charged with governance prior to certifying the financial statements. The minutes from that meeting will be reported to the Constitution Committee. The auditor anticipates issuing an unqualified audit opinion.

5. The Statement of Accounts is prepared under the International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounts.

Statement of Accounts

6. The main areas of the financial statements are set out below.

Narrative Statement

7. The purpose of the Narrative Statement is to offer interested parties an effective guide to the most significant matters reported in the accounts. It includes a summary of the economy, efficiency and effectiveness, and the financial and non-financial performance of the Authority, and an explanation of the contents of the accounts.

<u>Movement in Reserves Statement (MIRS)</u>

8. This statement shows the movement in year on the different reserves held by the County Council, analysed into 'usable reserves', i.e. those that can be applied to fund expenditure and 'unusable reserves' which cannot be used to fund services. Unusable reserves include reserves that hold unrealised gains and losses as well as adjustments for the differences between amounts charged in accordance with accounting standards and amounts charged for statutory purposes. An example is the short term accumulating compensated absences adjustment account (STACAAA). This account holds the estimated value of untaken annual leave and time-off-in-lieu as at the balance sheet date. The charge is recognised by the accounting standards, but statutory mitigation allows it to be reversed out via the STACAAA to avoid it being a charge to the General Fund.

9. Overall, usable reserves which comprise the General Fund, Earmarked Funds and Capital Funds, have increased as at 31 March 2019 from £163m to £184m; this is explained below.

10. The General Fund, which includes delegated funding for schools, carry forwards and the uncommitted balance of the County Council, increased overall to £24.5m as at 31 March 2019, from £24m as at 31 March 2018. Details are shown in note 11 to the accounts and below:

    a) School balances - reduced by £0.2m to £8.7m, mostly due to academy conversions.
    b) Carry forwards – reduction of £0.3m compared with last year.
    c) Uncommitted balance - held for unforeseen risks to the Council, increased by £1m to £15.8m overall. The fund is held to allow the Council to manage unforeseen financial events without the need to make immediate offsetting savings, with the potential real impact on County Council services. The balance at 31 March 2019 represents 4.2% of the net budgeted expenditure for 2019/20.

11. Earmarked funds totalled £141m as at 31 March 2019 (£125m at 31 March 2018). The increase was due to an increase in the capital financing reserve as a result of slippage in expenditure on the capital programme at the end of 2018/19 and also resources being set aside from the revenue outturn position to fund the increasing demands for capital investment. These are primarily projects that reduce liabilities and ongoing costs, generate income or investment in County Council services. The investments approved at year end include highways maintenance (£2m) and the contributions to the future developments fund (£4m). Details of the earmarked funds can be found in note 12 to the accounts.

12. The significant earmarked funds held are:

    - Capital Financing - £75m. This fund is used to hold Medium Term Financial Strategy (MTFS) revenue contributions to fund capital expenditure in later years of the approved four year capital programme. It also holds funding set aside for the future developments programme to fund projects that achieve ongoing revenue savings and support necessary service investment. Holding this fund is an essential part of the Council's approach to avoiding incurring additional debt where possible. The amount shown in the accounts is net of £22.5m investment in Pooled Property Funds. The investment is shown against the capital financing reserve, but in effect is funded from the overall balance of earmarked funds and can be realised in the future when required.

- Insurance Funds - £13m. This is funds held to meet future claims, or parts of claims, that are not covered by insurance policies. This could be due to policy limits and deductibles or claims relating to periods when the insurer has failed, such as Municipal Mutual Insurance or The Independent Insurance Company.

- Transformation - £12m. This is funding set aside to invest in transformation projects to achieve efficiency savings and service improvements across the County Council and to fund potential restructuring costs of reconfiguring those services.

13. The required level of earmarked funds is kept under review during the year. Formal assessments are undertaken and reported during the autumn, in February as part of the MTFS, and also at year end.

Comprehensive Income and Expenditure Statement (CIES)

14. The CIES shows the accounting cost of providing services in accordance with accounting standards rather than the amount funded from taxation and income. The County Council raises taxation to cover expenditure in accordance with statutory regulations which can be different from the accounting cost.

15. The headings used in the CIES align with the main reporting areas of the County Council. However, the CIES cannot be directly compared to the outturn position reported to the Cabinet because the financial accounts comply with various reporting standards, whereas the management accounts are compiled on a slightly different basis. The key differences relate to the way depreciation, impairment and earmarked funds are reported.

16. The CIES shows a surplus on the Provision of Services for 2018/19 of £5m compared with a deficit of £6m in 2017/18. The main reason for the change is an increase in Council Tax income and capital grants – this is detailed in note 15 to the accounts.

Balance Sheet

17. The Balance Sheet shows the value of the assets and liabilities recognised by the County Council as at the balance sheet date. As at 31 March 2019 net assets of the County Council were £258m (£312m at 31 March 2018). The principal reason for the decrease is due to an increase in the net pension liability of £153m.

18. As at 31 March 2019, the net deficit on the pension fund had worsened to £742m from £589m at the same time last year. This was due to an increase in the value of the County Council's pension fund liabilities of £212m, partly offset by an increase in the value of investment assets of £59m over the same period. The discount rate used in the valuation decreased as at 31 March 2019 (in line with AA rated corporate bond yields) to 2.4%, which had the impact of increasing the present value of future liabilities. In addition, liabilities also increased by £13m for the estimated impact of the McCloud judicial judgement – court ruling relating to age discrimination concerning transitional pension protections - following the Supreme Court decision in

June 2019 to refuse the Government's request to appeal the decision. Details are shown in note 16 to the accounts.

19. The pension fund balance represents all pension entitlements that have been earned to date, but which are not yet in payment and has a substantial impact on the net position of the balance sheet. However, statutory arrangements will result in the deficit being made good through increased contributions by the employer over the remaining working life of employees as assessed by the pension fund scheme's Actuary. The next triennial fund valuation, as at 1 April 2019, will inform the levels of future contributions required. The County Council has agreed a strategy with the Actuary to achieve a funding level of 100% over the next 20 years.

20. The Balance Sheet also shows the valuation of Property, Plant and Equipment owned by the County Council. A total of £1,010m was held as at year end, an increase of £73m over the year. This reflects capital additions in year through the approved capital programme, revaluation gains and losses, less depreciation.

21. Provisions total £7.8m (£7.3m at 31 March 2018). Provisions are held to fund liabilities of uncertain timing or amount and are shown in greater detail in note 27 to the accounts. The main provision held is for Insurance at £4.2m, and represents the estimated value of outstanding unsettled claims at 31 March 2019. Provisions also include £2.9m for the County Council's 'notional' share of the seven Leicestershire District Councils Business Rates appeals and bad debt provisions, an increase of £0.4m compared with the previous year, due mainly to continuing delays with the Valuation Office Agency completing rating appeals. The element in the County Council's accounts is notional as it is required to be reversed out via the Collection Fund Adjustment Account (shown at the bottom of the Balance Sheet) in order that it is not a charge to the General Fund.

22. Investments include Cash and Cash Equivalents (highly liquid investments that mature within three months or less from the date of acquisition) and short and long term investments. These total £285m as at 31 March 2019 compared with a total of £242m at the same time last year. The increase is due to an increase in usable reserves, explained earlier in the report, and an increase in receipts in advance, mainly Section 106 housing developer contributions used to fund infrastructure requirements arising from developments.

23. During 2018/19 the County Council set aside £10.4m as minimum revenue provision (MRP) for the repayment of debt. This has the effect of reducing the capital financing requirement (CFR) and the ongoing MRP charge to the revenue budget. The financing costs of capital totals £23m each year. The CFR is shown in note 40 to the accounts and stands at £247m at the year end. The CFR is a measure of capital expenditure incurred historically that has yet to be financed. Actual debt as at the balance sheet was £264m. The difference between the CFR and actual debt is a temporary overborrowed position of £17m and is pending opportunities for the early repayment of debt where the savings outweigh the redemption penalties. This position is kept under regular review as part of the Council's Treasury Management Strategy.

Annual Governance Statement

24. The financial statements are accompanied by the Annual Governance Statement (AGS), signed by the Chief Executive and Leader of the County Council. The statement sets out the purpose of the system of internal control, how it operates in the County Council and how its effectiveness has been reviewed. The AGS has been approved by the Corporate Governance Committee.

Pension Fund Accounts

25. The financial statements also include the Pension Fund Accounts for the Local Government Pension Scheme administered by the County Council.

26. The last available triennial actuarial valuation of the pension fund showed that as at 31 March 2016 the fund's assets covered approximately 76% of the liabilities accrued up to that date. This funding level was an increase on the 72% position reported in the 2013 valuation. The deficit puts significant upward pressure onto the contribution rates of employing bodies, but these were contained somewhat for tax raising bodies by using a smoothing mechanism and by the use of a 20 year deficit-spreading period.

27. To ensure that the fund remains financially sound to meet benefit payments, the Actuary will recommend the rate of employer contributions on an individual employer basis for each employing body in the fund for a three year period. In 2018/19 the average employer rate was 23.8% of pay (22.7% at 2017/18). There were 263 employers within the fund and 98,991 members in the pension scheme.

28. The overall net assets of the fund increased during the year from £4.1bn at the start to £4.3bn as at 31 March 2019. This was due to an increase in the value of the investments, shown in note 12 to the Pension Fund Accounts.

Key Findings of the External Auditor

29. The external auditor has reviewed the financial statements and has concluded that there are no material accounting issues. The external auditor anticipates issuing an unqualified opinion for:

    a) the Statement of Accounts and Pension Fund Accounts – give a true and fair view of the financial position of the authority as at 31 March 2019 and have been prepared in accordance with proper accounting practice, the CIPFA Code of practice on Local Authority Accounting in the United Kingdom 2018/19.

    b) Value for Money arrangements – putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of those arrangements.

30. The key areas arising from the audit were:

    - The Council's accounts were amended to include the impact of the McCloud judicial judgement. The estimated impact of the ruling is £13.1m and this has been updated in the accounts.

- Property, Plant and Equipment note, amendments required between categories within the Note.
- Pension Fund Accounts, additional disclosure notes required to meet the CIPFA recommended code of practice.

31. The original planned audit fees totalled £80,532. As part of the audit the auditor has had to carry out additional procedures which were not included in the original fee; these have been discussed and agreed with the Director of Corporate Resources and total £10,500:

a. McCloud judgement, £3,000 - additional work required to review the impact.
b. Pension, IAS19 letters, £6,000 – assurance provided to other Employers auditors. The Fund will recover these fees from the Employers concerned.
c. Property, Plant and Equipment £1,500 – additional assurance required by the Financial Reporting Council.

Recommendation

32. The Committee is recommended to approve the financial statements for 2018/19.

Background Papers

Provisional revenue and capital outturn, Cabinet - 24 May 2019
http://politics.leics.gov.uk/documents/s145939/201819%20Provisional%20Revenue%20and%20Capital%20Outturn.pdf

Provisional revenue and capital outturn, Scrutiny Commission - 12 June 2019.
http://politics.leics.gov.uk/documents/s146289/2018-19%20MTFS%20prov%20outturn%20report%20Scrutiny%20Commission%2012-6-19.pdf

Circulation under the Local Issues Alert Procedure

None.

Equal Opportunities Implications

None.

Appendices

Appendix A – Financial Statements 2018/19
Appendix B – External Auditors Report
Appendix C – Letter of Representation – County Council
Appendix D – Letter of Representation – Pension Fund

Officers to Contact

Mr C Tambini, Director of Corporate Resources,
Corporate Resources Department,
☎0116 305 6199 E-mail Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director (Strategic Finance and Property),
Corporate Resources Department,
☎0116 305 7668 E-mail Declan.Keegan@leics.gov.uk

This page is intentionally left blank