Report to the Audit and Governance Committee

Report reference: AGC-001-2018/19
Date of meeting: 30 July 2018

Epping Forest District Council

Portfolio: **Finance**

Subject: **Statutory Statement of Accounts 2017/18**

Responsible Officer: **Peter Maddock** **(01992 564602)**

Democratic Services: **Rebecca Perrin** **(01992 564532)**

Recommendations/Decisions Required:

(1) That a report be submitted to the Council recommending that the Statutory Statement of Accounts for 2017/18 be adopted.

Executive Summary:

One of the key roles of this Committee is scrutinising the annual Statutory Statement of Accounts. All Members of the Council will have the opportunity to debate the Accounts at Full Council and part of that debate will be to consider the recommendation of this Committee.

It is anticipated that the audit will be completed and that the Statutory Statement of Accounts will be presented to Council on 31 July. There is a separate report elsewhere on the agenda that sets out the key findings of the audit.

There has been no significant changes to presentation of the annual Statutory Statement of Accounts for 2017/18 but the completion timetable has changed such that this meeting rather than the September meeting will need to consider the accounts. The timetable is for the accounts to be completed by 31st May each year previously this was 30th June and for the audit to be complete by 31st July previously 30th September.

To assist Members with their consideration of the Accounts a report follows together with the Accounts themselves.

Reasons for Proposed Decision:

It is important that this Committee scrutinises the annual Statutory Statement of Accounts so that residents and other Members can have confidence in the Accounts.

Officers have exercised their professional judgement and liaised closely with external experts and the External Auditor to produce the Statutory Statement of Accounts. If Members are satisfied with the content of this report and the verbal responses to any questions raised, they are requested to recommend the Statutory Statement of Accounts for adoption by Full Council on 31st July.

Other Options for Action:

The Committee could decide that the accounts should be amended or expanded prior to them being presented to Full Council.

Report:

1. The Accounts and Audit Regulations require Full Council or an Executive Committee to adopt the Council's Statement of Accounts before the end of July. The Council's constitution reserves the adoption of the Accounts to Full Council only. However, prior to Council considering the accounts it is important that they have been subject to Member scrutiny. This Committee has scrutinised the Statement of Accounts for several years.

2. The consideration of the Statement of Accounts is contained in the Terms of Reference of this Committee, the relevant parts being:

> *"(p) 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."*

3. This review is performed through a consideration of key aspects of the accounts including:

(i) critical accounting policies and practices, and any changes to them;

(ii) decisions requiring a major element of judgement;

(iii) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;

(iv) significant adjustments resulting from the audit; and

(v) any material weakness in internal control reported by the Internal or External Auditor.

Critical Accounting Policies and Practices, and Any Changes to Them

4. There have been no significant changes in accounting policies and practices during the year. The accounting policies are set out on pages 23 to 30 of the Accounts.

Decisions Requiring a Major Element of Judgement

5. In preparing a set of accounts at a point in time it is inevitable that some of the information required will not yet be available. If an actual amount is uncertain an estimate is used. The estimate will be based on the assessment of information available at the time the accounts are closed. When the actual figures are determined any difference is usually accounted for in the following year. If the estimate was wrong by a material amount it would be necessary to consider re-stating the figures, this is extremely rare.

6. Two of the notes required by International Financial Reporting Standards are relevant here, Note 3 "Critical judgements in applying accounting policies" and Note 4 "Assumptions made about the future and other major sources of estimation uncertainty". The key critical judgement highlighted in Note 3 is that the Council does not currently need to close facilities or significantly reduce levels of service provision. If this were not the case it would be necessary to consider any assets that would be affected and any consequent impairment of their values.

7. The main area included under Note 4, relates to the Council's pension liability. The substantial annual fluctuations in the pension liability make clear the element of judgement exercised by the actuary in establishing the pension figures. The largest creditor on the Balance Sheet is the Council's liability to the pension fund. The Balance Sheet shows that the pension liability for the Council has decreased in the year from £81.121 million to £74.860 million. This is due to the £3.072 million increase in the value of the projected liabilities being

lower than the £9.333 million increase in scheme assets.

8. The key to calculating the value of the projected liabilities is the discount rate, and as this falls the size of the liability increases. The decrease in the discount rate from 2.7% to 2.55% reflects the decrease in yields in the corporate bond market, which actuaries are required to base discount rates on.

9. The figures shown in the table below illustrate how the overall deficit has changed over time. Further fluctuations are likely in subsequent years as it becomes clear how members of the pension scheme are responding to the change from a final salary scheme to a career average based scheme.

	2017/18 £'m	2016/17 £'m	2015/16 £'m	2014/15 £'m	2013/14 £'m
Liabilities	(223.1)	(220.0)	(183.6)	(185.0)	(159.5)
Assets	148.2	138.9	116.7	115.1	101.7
Deficit	(74.9)	(81.1)	(66.9)	(69.9)	(57.8)

10. The inclusion of this amount in the Balance Sheet shows the extent of the authority's liability if the pension fund was to close on 31 March 2018. It does not mean that this full liability will have to be paid over to the pension fund in the near future.

11. There are two other areas in the Statement of Accounts to bring to Member's attention as having required a major element of judgement. The first of these is asset valuations, Property, Plant and Equipment (PPE), dominates the Balance Sheet with a value of nearly £753 million and Investment Properties are the next largest asset with a value of £114 million. Assets are revalued periodically to ensure their valuations are correct and up to date.

12. This year has seen an increase on revaluation of more than £21 million on PPE, of which more than £18 million relates to Council Dwellings and Garages. As in previous years, the valuation of the Council's Dwellings and Garages was undertaken by the District Valuer. Investment Properties were revalued by external valuers and this resulted in an increase of £4 million in the value of industrial estates and £42m in the value of commercial properties. The latter now includes the shopping park which in the prior year was classified as an asset under construction and part of PPE. The auditors have carefully considered all of the revaluations and are satisfied that the asset values are not materially misstated.

13. The other area is the provision for business rate appeals. Historically the values for non-domestic property have been updated every five years. If an occupier is unhappy with the valuation set by the Valuation Office Agency (VOA) they can appeal. Throughout the recession the number of appeals increased and the VOA was unable to keep up with the workload and process the appeals on a timely basis. This meant that when local retention came in there were a very large number of appeals outstanding, most of which related to the 2010 list but some went back to the 2005 list. Even though the appeals arose before the start of the new system, and central government had received the income from the bills being challenged, the liability for settling the outstanding appeals was given to local authorities.

14. The Collection Fund includes a Provision for Appeals of £3.4 million, which is similar to 2016/17. This provision was calculated with the help of an external firm of rating experts who analysed each outstanding appeal up to the end of March 2017 and gave a projected value for settlement. The Valuation Office Agency has made some progress during the year in settling these appeals but we still have around a hundred outstanding. To date the appeals that have been settled are similar in total to the provisions that were held against them and it appears the provision is not materially misstated. Although it is important to include a note of caution here as there are still appeals outstanding on some of the largest non-domestic premises in the District, including one with a rateable value of £5.83 million. From April 2017 the new rating list came into force and a new system of dealing with appeals was also introduced. To date no appeals relating to this list have been settled so there is no real information to base the provision relating to 2017/18 on. A best estimate using past trends

and information from central government has been used to assess the amount for this portion of the appeals provision.

15. Where it has been necessary to exercise judgement in the interpretation of the Code of Practice advice has been sought from CIPFA and staff have liaised closely with both the External Audit Manager and other Essex authorities.

The Extent to which the Financial Statements are Affected by any Unusual Transactions in the Year and how they are Disclosed

16. The financial statements for 2017/18 show the St Johns Site as an asset held for sale valued at £6.139 million. It was originally classified under Current Assets as completion of the sale was expected in February 2019. However it now looks likely to occur during 2019/20 and has therefore been reclassified as a Non-Current Asset. There have been no extraordinary items and no prior year adjustments.

Significant Adjustments Resulting from the Audit

17. There have been two significant adjustments required since the draft accounts were issued:-

(a) The pensions information had to be restated as it was discovered that there was a significant difference in the overall estimated value of the fund (£6,630 million) compared to what actually transpired (£6,519 million). This meant the liability relating to this council recorded in the accounts increased from £72.001 million to £74.860 million.
(b) Before the Shopping Park was reclassified as an investment property there was an increase in valuation which was added to the Revaluation Reserve. On reclassification this revalued amount should have been moved to the Capital Adjustment Account but the asset management system did not flag this entry and unfortunately this was not spotted until after 31st May. This has no affect on the Council's Comprehensive Income and Expenditure or Balance Sheet totals.

There were a couple of other more minor adjustments and reclassifications which is usually the case.

Any Material Weakness in Internal Control Reported by the Internal or External Auditor

18. Neither the Internal nor External Auditor has reported any material weakness in internal controls. If any arise before the conclusion of the audit they will be reported to this Committee.

Resource Implications:

The Accounts set out the resource implications of the Authorities activities for 2017/18. The recommendation of the Accounts to Full Council does not in itself have any resource implications.

Legal and Governance Implications:

Full Council must approve the Accounts before the end of September and as part of the overall governance framework the Accounts should be subject to Member scrutiny prior to their approval.

Safer, Cleaner and Greener Implications:

There are no environmental implications.

Consultation Undertaken:

None.

Background Papers:

Reports on the revenue and capital outturns to the Finance & Performance Management Cabinet Committee on 21 June 2018.

Impact Assessments:

There are no equalities or risk management impacts.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

This is a factual report detailing the Council's income and expenditure for 2017/18 and the overall financial position at the end of 2017/18. It does not involve the discussion of any matters of policy or the allocation of any resources. Therefore no groups of people are affected by this report and no discrimination will arise as a result of the report.