



Statement of Accounts 2017/18

<p>AUDIT COMMITTEE MEETING DATE 2018/19</p> <p>25 July 2018</p>	<p>CLASSIFICATION:</p> <p>OPEN</p> <p>If exempt, the reason will be listed in the main body of this report.</p>
<p>WARD(S) AFFECTED</p> <p>ALL</p>	
<p>GROUP DIRECTOR</p> <p>Ian Williams, Finance & Corporate Resources</p>	

1. CORPORATE DIRECTOR'S INTRODUCTION

- 1.1. This report presents the Accounts for 2017/18 for approval by the Audit Committee prior to the issue of the audit opinion by the external auditor.
- 1.2. The main financial statements show that we continue to manage our finances in line with the resources available.

2. RECOMMENDATION

The Audit Committee is recommended to:

- 2.1 **Approve the Council's 2017/18 Statement of Accounts prior to the audit opinion being issued.**
- 2.2 **Consider and approve, in its own right, the Annual Governance Statement contained within the Statement of Accounts.**

3. REASONS FOR DECISION

- 3.1. The Audit Committee is responsible for the approval of the financial statements under the Council's Constitution as "those charged with governance". The Regulations state that the accounts must be approved by a Committee of the Council, but not the Executive, prior to the audit opinion being issued.

4. BACKGROUND

4.1 Policy Context

The production of the Statement of Accounts and its subsequent review and adoption by Members is integral to the good financial management of the Council. It sets out the final outturn position of the authority for the preceding financial year both in terms of revenue and capital expenditure and provides a position statement regarding its wider overall financial position, thus providing the required confirmation of assumptions used in setting budgets and strategy for the future financial plans.

4.2 Equality Impact Assessment

There are no equality impact issues arising from this report.

4.3 Risk Assessment

There are no risks arising directly from this report, although clearly the timely and accurate finalisation of the accounts closure process and production of the statement of accounts is vital to ensure that the overall financial position of the Council is fully understood in order to ensure that future plans in respect of service delivery options are deliverable within the financial constraints of the Council.

5 ACCOUNTS AND AUDIT REGULATIONS

- 5.1. The Accounts and Audit Regulations require that the unaudited accounts are produced on or before 31st May. Prior to their submission to the auditors the Council's responsible financial officer (the Group Director of Finance & Corporate Resources) must, no later than 31st May immediately following the end of a year, sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year.
- 5.2. Subsequent to the above, the accounts are audited by the Council's external auditors, KPMG, and then by no later than 31st July in the year immediately following the end of the year to which the statement relates:
- (a) either by way of a committee or by the members meeting as a whole, the statement of accounts must be considered;
 - (b) following that consideration, the committee must approve the statement of accounts;
 - (c) following approval, the statement of accounts must be signed and dated by the person presiding at the committee at which that approval was given;
 - (d) publish (which must include publication on the body's website), the statement of accounts together with any certificate, opinion, or report issued, given or made by the auditor under section 9 (general report) of the 1998 Act; and
 - (e) The Group Director of Finance & Corporate Resources must also re-certify the presentation of the statement of accounts before the relevant body approves it.
- 5.3. The draft Statement of Accounts was published on the Council's website, subject to audit, following its certification by the Group Director of Finance & Corporate Resources on 31st May 2018, this ensuring that it was available to any resident or other person entitled to formally inspect the accounts during the audit period.

6. **2017/18 STATEMENT OF ACCOUNTS**

- 6.1. At the time of writing this report, the audit of the 2017/18 Statement of Accounts is progressing towards its final stages and it is anticipated that an unqualified audit opinion will be issued by the auditor by the required date of 31st July in line with the statutory requirements.
- 6.2. The Statement of Accounts attached at **APPENDIX 1** is the final statement including adjustments agreed with the auditors. It is however, subject to the completion of final checks by the auditors that agreed amendments have been properly reflected. It should be noted that changes identified during the audit have had no impact on the Council's General Fund balance, HRA balance or other usable reserves.
- 6.3. The Statement of Accounts comprises the following accounting statements:
- Movement in Reserves Statement – this shows the movement in the year on the different reserves, both usable and unusable, held by the Authority.

- Expenditure and Funding Analysis – this shows how income and expenditure is allocated for decision making purposes.
- Comprehensive Income and Expenditure Statement – this 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.
- Balance Sheet – this shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority are matched by the reserves held by the Authority.
- Cash Flow Statement – this shows the changes in cash and cash equivalents of the Authority during the financial year.
- Housing Revenue Account Income and Expenditure Statement – this shows separately the net cost of delivering those services provided as a landlord for domestic properties. It should be noted that these costs are also included in the Comprehensive Income and Expenditure Statement detailed above.
- Statement of Movement on the Housing Revenue Account – this shows all income and expenditure related to the HRA and its impact on the overall balance held within the HRA.
- Collection Fund Revenue Account – this shows all income and expenditure related to local taxation, including Council Tax, Non-Domestic Rates and payments to the Council's General Fund, Central Government and the local preceptor, the Greater London Authority.
- Pension Fund Accounts – these show all receipts to the Pension Fund during the year together with benefits paid, other associated costs and movements in investments, including the financial position of the Fund at the end of the financial year.

In addition, the Statement of Accounts includes:

- Narrative Statement – a statement from the Group Director of Finance & Corporate Resources, providing some context to the statements and an overview of the main issues contained therein.
- Annual Governance Statement – this sets out how the Council has complied with its adopted Code of Governance and provides details of any significant governance issues that arose during the year. This statement is subject to approval of the Committee in its own right.
- Notes to the Accounts – these provide additional disclosures and detail regarding the figures included in the main accounting statements in order to provide a greater understanding of the financial affairs of the Authority during the year. They include the accounting policies adopted in the preparation of the accounts and are reviewed regularly to ensure that we remain in full compliance with the most recent and applicable accounting standards.

7. MOVEMENT IN RESERVES STATEMENT

- 7.1. The Movement in Reserves Statement shows that the general balances on both the General Fund and the HRA were maintained at £15 million and £10.20 million respectively. Locally managed funds held by schools increased by £1.767 million to £11.060 million. A net of £14.688 million was applied from earmarked General Fund reserves including those set aside to finance the delivery of the Capital Programme, including schemes to expand and refurbish primary schools, annual maintenance and upkeep of the Borough's infrastructure and of course maintenance and improvement of the Council's Housing stock. On completion of the audit the Group Director of Finance and Corporate Resources will undertake a further review of reserves and balances with the aim to release resources, where appropriate, to support the Capital Programme and other priority areas.
- 7.2. Full details of the movements in earmarked reserves are provided in note 8 to the accounts, along with brief descriptions of the purpose of each. As set out in the Group Director of Finance & Corporate Resources comments in this report, the reserves are set aside for known/potential liabilities that will arise in future financial years and have been taken into account in the Authority's Medium Term Financial Planning.
- 7.3. As set out above, many of the reserves are to be used in 2018/19 and future years to finance approved capital schemes. Others are specifically identified to help manage service pressures and costs arising from specific projects requiring one-off resource not covered by the Council's ongoing revenue budget.

8. EXPENDITURE AND FUNDING ANALYSIS

- 8.1. This statement shows how annual expenditure is used and funded by the authority. It shows how the expenditure is allocated for decision making purposes between the Council's directorates, services and departments.

9. COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

- 9.1. This statement shows the accounting cost of the provision of services by the authority. It needs to be read in conjunction with both the Movement in Reserves Statement and note 7 to the Accounts in order to derive the net cost of services borne by the local taxpayer in line with regulations and in order to gain a full understanding of the financial performance of the Council.
- 9.2. The account shows that the Authority spent a gross amount of £1.349 billion providing services to residents and visitors to Hackney. The Council earned total investment income of only £2.219 million attributable to the General Fund, Housing Revenue Account and schools balances, due mainly to the continued low interest rates available.
- 9.3. The General Fund underspend of in 2017/18 amounted to just £0.046 million (including unspent contingencies), a direct result of the overall continued successful delivery of savings agreed as part of the 2017/18 budget setting

process along with a very clear decision to implement and deliver the savings necessary for the 2018/19 financial year at the earliest opportunity, in order to assist with the ongoing challenge presented to the Council arising from the further significant reductions in government funding available to it alongside rising cost pressures in areas such as temporary accommodation, adult social care and special education needs. Sound financial management and the early delivery of efficiencies are enabling the Council to continue to direct its resources towards its priority areas whilst managing continued significant reductions in funding from Central Government.

10. THE BALANCE SHEET

- 10.1. The Balance Sheet sets out the overall financial position of the Council at 31 March 2018. It shows that at 31 March 2018 the Council had total net assets (worth) of £3.818 billion. It shows that the Council owns buildings, land and other property valued at £4.554 billion.
- 10.2. The Provisions item represents amounts set aside to cover known and measurable liabilities arising from past events and further details of these are shown in notes to the Balance Sheet.
- 10.3. Details of contingent assets and liabilities are set out in notes 45 and 46 to the main accounts. These represent instances where the Council may have to pay (or may receive) as a result of past events but which are dependent on some future event such as the outcome of a legal case. Contingent assets and liabilities are less likely to arise than provisions and may be impossible to quantify. Unlike actual assets and provisions, they are not provided for in the Accounts. If they become payable they have to be funded from the current or future years' budgets. They therefore represent an area of budgetary risk from 2018/19 onwards.
- 10.4. Finally, set out within the Balance Sheet are details in relation to the reserves and balances that finance the net assets. Explanations of each of these are provided in the relevant notes to the accounts. The Major Repairs Reserve is detailed in the notes to the Housing Revenue Account. The General Fund Balance consists of two key elements those being the General Fund balance and the Schools balances. Schools Balances cannot be used for any other purpose than funding schools.

11. HOUSING REVENUE ACCOUNT

- 11.1. The Housing Revenue Account (HRA) details Income and Expenditure relating to the provision and management of council dwellings. It shows that the balance on the Housing Revenue Account is £10.200 million as at 31 March 2018. In addition, the HRA has earmarked reserves of £20.227 million set aside for one-off items of expenditure largely within the housing capital programme, and all in line with the HRA Medium Term Planning Forecast and the approved HRA Business Plan.

12. THE COLLECTION FUND ACCOUNT

- 12.1. The Collection Fund Accounts flow from decisions taken in March 2017 in setting the Budget for 2017/18. Income to the Collection Fund includes Council Tax and National Non Domestic Rates (NNDR). Payments are made from the Fund to its major Preceptor (the Greater London Authority) and the Council for their respective shares of Council Tax and NNDR, and to the Government in respect of their share of NNDR. Distribution of previous years' surpluses or deficits are also paid from the Collection Fund to the Council and GLA in respect of Council Tax and NNDR and additionally to Government in respect of NNDR only. Provision is also made for Bad Debts for both Council Tax and NNDR.
- 12.2. The surplus on the Collection Fund relating to Council Tax carried attributable to the Council was £4.624 million. An estimated sum of £3.946 million was taken into account in arriving at the 2018/19 Council Tax, the balance to be accounted for in 2019/20 in accordance with the Collection Fund Regulations.
- 12.3. As set out above, the arrangements for accounting for NNDR changed with effect from 2013/14 with previously no balance being created within the Collection Fund. The surplus on the Collection Fund in respect of NNDR attributable to the Council as at 31 March 2018 was £0.754 million. £3.650 million was taken into account when estimating the Council's share of NNDR income in the 2018/19 budget exercise. The balance will be accounted for when estimating the NNDR income for future years in accordance with the Regulations. The variance between the estimate and actual surplus as set out was caused largely by lower actual rate yield being realised due to some major properties not being added to the rating list by the Valuation Office in expected timescales as well as a larger provision for bad debts being required than was included in the original estimate.

13. THE PENSION FUND ACCOUNTS

- 13.1. The Pension Fund Accounts, along with the Annual Report of the Pension Fund, are to be considered by the Pensions Committee at its meeting in September 2018, although they are approved by the Audit Committee as part of the Council's main Statement of Accounts.
- 13.2. The Pension Fund Accounts show the contributions to the Council's Pension Fund for employees during 2017/18, together with the pensions and other benefits paid from it, movements in investments during the year and the financial position of the Fund as at 31 March 2018.
- 13.3. The Accounts show that net value of the assets and liabilities of the Pension Fund have increased by £84.230 million (6.06%) to £1,475,309 million as at 31 March 2018. Of this increase, £68.266 million was due to the impact of the increase in the value of stock market investments held by the Fund and associated investment income. The remaining £15.964 million represents the net additional cash flow arising from contributions received into the fund less benefits and administrative costs paid.

14. GROUP ACCOUNTS

- 14.1. Until 2011/12, Group Accounts showing the consolidated position of the Council and Hackney Homes Ltd were produced although the net impact of these on

the Council's overall accounts had been insignificant. Given the immaterial impact, it was agreed with the auditors that the Council no longer need to produce Group Accounts.

- 14.2. As from 1st April 2016, the Housing Management service was brought back in house and as a result the former transactions of Hackney Homes are included in the Council's main accounts. The Council has no other active group companies and so group accounts are not required to be included in the 2017/18 Statement of Accounts.

15. **ANNUAL GOVERNANCE STATEMENT**

- 15.1. Hackney Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. It also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including the management of risk.
- 15.2. During 2016/17 "Delivering Good Governance in Local Government" (CIPFA SOLACE Framework) was revised and the Council's Local Code of Governance was reviewed and updated to reflect the revised principles of governance set out in the CIPFA/SOLACE guidance. The Local Code was considered and endorsed by the Statutory Officers' Group, Scrutiny Panel and the Member for Finance before approval by the Audit Committee in April 2018. The Local Code is available on the Council's website.
- 15.3. The Annual Governance Statement (AGS), included with the statement of accounts, explains how the Council has complied with the Local Code and meets the requirements of the Accounts and Audit Regulations 2015 in relation to the publication of a Statement on Internal Control.
- 15.4. The AGS has been presented in accordance with best practice as set out in "Delivering Good Governance in Local Government". The statement is signed by Hackney's Mayor, Chief Executive and Group Director of Finance and Corporate Resources.
- 15.5. The statement relates to the governance arrangements in place throughout the 2017/18 financial year and reports on any identified weaknesses or areas for improvement and the action already taken or proposed in the future in order to address these.
- 15.6. In order to demonstrate that the Council has in place an effective and robust governance framework which reflects the Council's Local Code, senior managers were required to complete a self-assessment matrix. These matrices were reviewed and assessed by Group Directors and then co-ordinated by Internal Audit who sample checked to supporting evidence and triangulated against other sources of assurance, such as inspection reports and audit

reports. The results of this exercise have formed the basis of the evidence which underpins the corporate AGS.

- 15.7. During 2017/18 four significant governance issues arose which were identified for inclusion within the corporate AGS. Actions to address these issues have been identified and included within the AGS. These issues relate to:
- Tenant Management Organisations – control and governance frameworks,
 - Housing Contract Management,
 - Ongoing cost pressures within Childrens, Adults & Community Health, and
 - Integrated Commissioning governance
- 15.8. The Audit Committee is required to approve the Annual Governance Statement in its own right, separate from the overall approval of the Statement of Accounts.

16 COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

- 16.1 There are no direct financial consequences arising from this report as it reflects what has already occurred in the last financial year.
- 16.2 The Council has again maintained the position of having a prudent General Fund Balance of £15 million in line with our policy on reserves and balances. In addition, specific reserves have been earmarked for use in 2018/19 and future years to fund known or expected liabilities going forward.
- 16.3 The financial position shown in the 2017/18 Statement of Accounts demonstrates that the Council has continued to achieve financial stability, i.e. in its Council Tax Collection and in the strength of its Balance Sheet, building on the good progress made in recent years. This has seen the Council not only continue to meet its expenditure commitments from within available resources but at the same time limit any increase in Hackney's element of the Council Tax to 4%, 2% of which was in respect of Social Care precept. In addition provision has been made in the budget for a revenue contribution to support capital expenditure and for contributions to be made to earmarked reserves to meet other identified future commitments and potential budgetary risks.
- 16.4 The position provides clear evidence of the Council's ability to be able to continue to deal with the financial pressures that arise from the reduction in resources available to the Council, particularly as a result of severe cuts to Government funding.
- 16.5 The Statement of Accounts for the 2017/18 financial year was the sixth audited by KPMG, following the outsourcing of the assignments previously carried out by the Audit Commission. In advance of the start of the audit officers worked closely with KPMG to build upon the significant progress that has been made in recent years with regard the efficient auditing of the accounts. Comprehensive planning and continued co-operation between the Council's officers and the auditors has resulted in the main audit for both the Pension

Fund and the Council's main statement being completed before the end of July with no significant audit adjustments to the main statements and no changes to the Council's overall financial position e.g. level of balances. The prompt and accurate production of the accounts reinforced by the audit demonstrates the continued improvement in the financial management arrangements that are embedded through the Council. This foundation provides the platform for which the financial challenges in future years can be tackled.

16.6 In addition to thanking our external auditors for the constructive way they have engaged positively with my team throughout the audit I would also like to put on record my thanks to all those officers involved with the preparation of the Statement of Accounts and the subsequent audit for the hard work that they have undertaken and the professionalism demonstrated to ensure that we can complete the audit both on time and without qualification.

17 COMMENTS OF THE DIRECTOR OF LEGAL SERVICES

17.1 The Accounts and Audit Regulations 2015 place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which includes arrangements for the production and approval of the Annual Statement of Accounts.

17.2 The Constitution gives the responsibility for adopting the annual Statement of Accounts of the Authority to the Audit Committee together with the duty 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.

17.3 The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice (SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

APPENDICES

Appendix 1 – 2017/18 Statement of Accounts

BACKGROUND PAPERS

In accordance with The Local Authorities (Executive Arrangements) (Meetings and Access to Information) England Regulations 2012 publication of Background Papers used in the preparation of reports is required

Description of document (or None)

None

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