



Statement of Accounts 2019/20

<p>AUDIT COMMITTEE MEETING DATE 2020/21</p> <p>14 September 2020</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 2019/20 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 2019/20 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. In recent years, the Accounts and Audit Regulations have required that the unaudited accounts are produced on or before 31st May. For the 2019/20 accounts, with the advent of Covid19, this deadline was pushed back to 31 August. Hackney's draft 2019/20 accounts were published in mid-June.
- 5.2. 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 August immediately following the end of 2019/20, 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.
- 5.3. Subsequent to the above, the accounts are audited by the Council's external auditors, Mazars. Normally this would need to be finalised by 31 July but, again because of Covid19, the audit deadline has been extended for the 2019/20 accounts to 30 November, by which time:
 - (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.
- 5.4. 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 19 June 2020, thus ensuring that it was available to any resident or other person entitled to formally inspect the accounts during the audit period.

6. **2019/20 STATEMENT OF ACCOUNTS**

- 6.1. At the time of writing this report, the audit of the 2019/20 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 end of September, which is well within the required statutory date of 30th November.
- 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.
- 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.

- Group Accounts section - 2019/20 is Hackney's first year of Group Accounts. Two of our five wholly owned subsidiaries have been consolidated with LB Hackney's main accounts. Of the three which were not consolidated, one was not active, and the accounts of the remaining two were not financially material, and hence there was not a requirement for grouping. This is explained fully in the Group Accounts section, which sits just before the Pension Fund accounts.

7. MOVEMENT IN RESERVES STATEMENT

- 7.1. The Movement in Reserves Statement shows that the general balance on the General Fund was maintained at £15 million whilst the HRA general balance was reduced from £15 million to £11.2 million. Locally managed funds held by schools reduced by £1.76 millions to £13.195 million. A net of £11.623 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.
- 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 2019/20 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. COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

- 8.1. 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.
- 8.2. The account shows that the Authority spent a gross amount of £1.499 billion providing services to residents and visitors to Hackney. The Council earned total investment income of only £1.808 million attributable to the General Fund, Housing Revenue Account and schools balances, due mainly to the continued low interest rates available.
- 8.3. The General Fund overspend 2019/20 amounted to £9.33 million (including unspent contingencies and income from a number of one-off grants streams), in what continues to be a challenging environment, after almost a decade of central government funding reductions. This position will be challenged further

by the impact of Covid19 in 2020/21 and beyond. We implemented and delivered the savings necessary for the 2019/20 financial year at the earliest opportunity, in order to assist with the ongoing challenge presented by funding reductions and rising cost pressures in areas such as temporary accommodation, adult social care and special education needs.

9. THE BALANCE SHEET

- 9.1. The Balance Sheet sets out the overall financial position of the Council at 31 March 2019. It shows that at 31 March 2019 the Council had total net assets (worth) of £3.542 billion. It shows that the Council owns buildings, land and other property valued at £4.244 billion.
- 9.2. 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.
- 9.3. 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 2019/20 onwards.
- 9.4. Whilst Covid19 has not been presented as a contingent liability, there is no doubt its impact on next year's accounts will be considerable and far reaching. The opening narrative report to the accounts provides further detail on this, outlining information provided initially to Cabinet.
- 9.5. 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.

10. HOUSING REVENUE ACCOUNT

- 10.1. 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 £11.200 million as at 31 March 2020. In addition, the HRA has earmarked reserves of £5.961 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.

11. THE COLLECTION FUND ACCOUNT

- 11.1. The Collection Fund Accounts flow from decisions taken in March 2019 in setting the Budget for 2019/20. Income to the Collection Fund includes Council Tax and National Non Domestic Rates (NNDR). Payments are made from the Fund to its major Preceptors (the Greater London Authority for Council tax, and the GLA and Central Government for 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.
- 11.2. The surplus on the Collection Fund relating to Council Tax carried attributable to the Council was £2.741 million. An estimated sum of £3.118 million was taken into account in arriving at the 2019/20 Council Tax, the balance to be accounted for in 2020/21 in accordance with the Collection Fund Regulations.
- 11.3. 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. An estimated deficit of £692k was factored into budget planning, with the actual being a deficit of £687k.

12. THE PENSION FUND ACCOUNTS

- 12.1. 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 2019, although they are approved by the Audit Committee as part of the Council's main Statement of Accounts.
- 12.2. The Pension Fund Accounts show the contributions to the Council's Pension Fund for employees during 2019/20, 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 2020.
- 12.3. The Accounts show that net value of the assets and liabilities of the Pension Fund have decreased by £81.884 million (5.19%) to £1,493,348 million as at 31 March 2020. Of this reduction, £67.700 million was due to the impact of the reductions in the value of stock market investments held by the Fund and associated investment income. The remaining £14.184 million represents the net additional cash flow arising from contributions received into the fund less benefits and administrative costs paid.

13. ANNUAL GOVERNANCE STATEMENT

- 13.1. 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.

- 13.2. 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 2019. The Local Code is available on the Council’s website.
- 13.3. 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.
- 13.4. 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.
- 13.5. The statement relates to the governance arrangements in place throughout the 2019/20 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.
- 13.6. 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
- 13.7. During 2018/19 four significant governance issues arose which were identified for inclusion within the corporate AGS. Actions to address these issues were identified and an update on the progress with each is included in the 2019/20 AGS.
- 13.8. During 2019/20 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:
 - Covid19 Pandemic
 - Cost pressures within Adult and Children’s Social Services
 - Ofsted inspection
 - Housing Contract Management
- 13.9. 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 2019/20 and future years to fund known or expected liabilities going forward. We received the first Govt grant towards Covid19 expenditure in the last few days of the 2019/20 financial year, and this has been accounted for in reserves for use in future years.
- 16.3 The financial position shown in the 2019/20 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. Provision continues to be 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 2019/20 financial year was the second audited by Mazars, following the reprocurement of auditors through the PSAA (Public Sector Audit Appointments Ltd) regime. In advance of the start of the audit officers worked closely with Mazars to build upon the significant progress that has been made in recent years with regard to the efficient auditing of the accounts.
- 16.6 It is anticipated that comprehensive planning and continued co-operation between the Council's officers and the auditors will result in the main audit for both the Pension Fund and the Council's main statement being completed by the end of September, with no significant audit adjustments to the main statements and no changes to the Council's overall financial position e.g. level of balances.
- 16.7 The 2019/20 accounts have been prepared in particularly challenging circumstances, given Covid19, but we have completed both the draft and final accounts well within the revised deadlines. This reflects positively on the organisation's ability to work under and adapt to challenging conditions.
- 16.7 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 – 2019/20 Statement of Accounts- (to follow)

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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