



Doncaster Council

Report

Date: 19th June, 2019

**To the Chair and Members of the
AUDIT COMMITTEE**

UNAUDITED STATEMENT OF ACCOUNTS 2018/19

EXECUTIVE SUMMARY

1. This report presents the Council's unaudited Statement of Accounts for the 2018/19 financial year. The report highlights the overall financial position for the year, a summary accounts closure timetable and information on performance including improvements achieved in accuracy and quality.
2. The Accounts and Audit (England) Regulations 2015 apply to the preparation, approval and audit of the Statements of Accounts and other financial statements. These regulations are based on International Financial Reporting Standards (IFRS) which attempt to standardise accounts in a consistent format across both the public and private sectors with the aim of achieving greater transparency.
3. Whilst there is no longer a requirement to present the unaudited accounts to Members before the external audit process commences, the Council has continued this practice as it gives Members early notification of the financial outcome of the previous financial year and is considered to be good practice.
4. There is a requirement to obtain certification of the accounts by the responsible financial officer, for the Council this is the Chief Financial Officer & Assistant Director – Finance, by the 31st May each year. The statutory deadline for the date of approval and publication of the final Statement of Accounts is 31st July.

EXEMPT REPORT

5. Not applicable.

RECOMMENDATIONS

6. Members are requested to note the 2018/19 Statement of Accounts.

WHAT DOES THIS MEAN FOR THE CITIZENS OF DONCASTER?

7. An unqualified audit opinion on the Council's financial statements and a good VfM conclusion resulting from the annual audit process would indicate that there is excellent internal control in place safeguarding Council resources.

BACKGROUND

8. The Council's 2018/19 accounts have been prepared in accordance with IFRS and the appropriate accounting codes of practice and were approved by the Council's responsible financial officer on the 31st May in line with the statutory deadline.
9. The statutory 6 week period in which the accounts are available for public scrutiny must include the 1st 10 working days in June. The accounts are available for public scrutiny from 1st June to 12th July. This was advertised on the Council's website on 31st May. The unaudited accounts were placed on the Council's website on 31st May in line with the Government's policy of increased transparency in the public sector with public scrutiny of the accounts being a key feature of the financial governance framework of local authorities.
10. The accounts will be subject to external audit during the period 1st June to 28th June and it is expected that the audit opinion will be finalised (subject to the continuing work on the Whole of Government Accounts) by 12th July. Legislative requirements significantly reduce the timeframe allowed for the accounts closure process and Members of the Audit Committee will now be aware that the Council is required to produce the audited Statement of Accounts for the 2018/19 financial year by 31st July 2019, with the unaudited 2018/19 accounts being produced by 31st May 2019.
11. The Council is planning to finalise its audited 2018/19 accounts by 24th July. The accounts and a report will be presented by Grant Thornton to this Committee on 24th July setting out the result of the external audit in the form of their 'Communication with those charged with governance' report (ISA 260 report), which formally sets out the findings of their audit of the financial statements.

The 2018/19 Financial Statements and Supporting Disclosure Notes

12. The style and format of the accounts used for 2018/19 is similar to that used last year, the main changes are: -
 - a. Repositioning of the Expenditure and Funding Analysis (EFA) – the EFA is now included as note 1 of the supporting disclosure notes rather than before the core financial statements;
 - b. Removal of Note 5 Material Items of Income and Expenses as there were none in 2017/18 or 2018/19;
 - c. A change in accounting policy and additional disclosure requirements for Note 16 Financial Instruments and the Nature and Extent of Risks arising from Financial Instruments required by IFRS 9 Financial Instruments. The main effect was the classification and measurement of financial instruments into 3 new categories based on the business model for holding the instruments with an option to designate equity investments and a new 3-stage expected credit loss model for impairment replacing the incurred loss model in IAS 39;

- d. A new Note 19 Debtors for Local Taxation required by IFRS 9;
 - e. A new Note 25h Financial Instruments Revaluation Reserve showing the gains / losses arising from changes in the fair value of equity instruments designated as other comprehensive income;
 - f. Removal of Note 42 Contingent Assets as there are none in 2018/19;
 - g. Additional table provided in Note 43 Trust Funds to provide the split between Adult Trust Funds and Other Trust Funds; and
 - h. A full Note C Property, Plant and Equipment provided in Group Accounts rather than an extract.
13. Members of this Committee have a key role in scrutinising the accounts in order to maintain strong governance over financial reporting. Early production of the accounts enables the Members of this Committee sufficient time to review the statements and ask challenging and pertinent questions. Whilst the Narrative Report provides the summary of the financial year and the associated statements, it is worthwhile highlighting some specific points for the year: -
- a. At the meeting on 19th June, Cabinet will be presented with the final outturn positions for both revenue and capital for the 2018/19 financial year. On the normal day to day operating budget the Council underspent by £2.1m with underspends across the Council and one-off grant funding being utilised to manage the significant pressures and any shortfall in the delivery of savings. The social care pressures have been managed using circa. £10m one-off funding (£4m Minimum Revenue Provision (MRP) budget previously earmarked for capital purposes and £6m one-off grants for Adult Social Care);
 - b. For Members, probably the most important issue will be whether the Council has a surplus or deficit compared to its budget for the year. The (increase)/decrease in 2018/19 on the Movement in Reserves Statement (MiRS) gives this information for both the General Fund and the Housing Revenue Account (HRA). The General Fund balance increased by £6.2m due to a £2.1m underspend at outturn and a £4.1m increase in earmarked reserves (Note 11) and the HRA reserves increased by £1.8m;
 - c. Statutory adjustments (shown in Note 10 and mainly capital related) convert the Council's movement in reserves performance from the £7.9m increase to a deficit of £46.5m (General Fund £44.5m and the HRA £2.0m) shown in the Comprehensive Income and Expenditure Statement (CIES). This represents the position that would have been reported under 'commercial accounting' rules;
 - d. The Council's net worth has decreased by £51.7m to £570.1m since the previous financial statements (see 'Balance Sheet' on page 21 of the accounts). This is mainly due to an increase in the liability related to the defined benefit pension scheme (the pension liability is volatile from year to year as it is based on the Actuary's assumptions and performance of the fund), partially offset by an increase in Property, Plant & Equipment;
 - e. The reclassification of the element of the Insurance Fund provision (Note 23) relating to potential future claims / liability as an ear-marked reserve (Note 11). Provisions are recognised only when the Council has a present obligation as a result of a past event. As potential claims fail this test, £5.4m was released from the Insurance Fund provision and moved into a new Insurance Fund ear-marked reserve;

f. The change in accounting policy referred to in paragraph 12c, required by IFRS 9 Financial Instruments, had 3 main impacts mostly affecting financial liabilities: -

i. All financial instruments were classified into 3 different categories based on the business model for holding the instruments, each having different accounting implications: -

- Amortised Cost;
- Fair Value through Other Comprehensive Income (FVOCI);
- Fair Value through Profit and Loss (FVPL)

The main impact for the Council was on its' equity investments. These are now valued based on the net worth of the company rather than the cost of the shares and are treated as FVPL, meaning the increase in valuation of the equity investments would ordinarily result in a gain in the CIES. However, as the shares are held for strategic purposes rather than investment purposes, the Council took the option to designate them as FVOCI meaning any gain or loss in valuation is only recognised on disposal;

ii. A new 3-stage expected credit loss model for impairment replacing the incurred loss model in IAS 39 meaning impairment is based on expected future losses rather than actual incurred losses. This had a minimal effect for the Council as our loans do not represent a significant credit risk;

iii. Additional narrative and table disclosures in Note 16;

g. Reserves are an indication of the temporary resources available to assist an authority to deliver services. Not all reserves can be used to deliver services and this is reflected by reporting reserves in two groups – 'usable' and 'unusable' reserves. Usable reserves have decreased by £1.0m or 0.9% from £118.2m to £117.2m (these are shown on page 20), largely due to capital financing.

Usable Reserves (see Movement in Reserves Statement)	31st March 2018	31st March 2019	Movement in year
	£m	£m	£m
General Fund (including Earmarked reserves)	61.5	67.7	6.2
Housing Revenue Account	6.5	8.3	1.8
Capital Receipts Reserve	13.9	15.6	1.7
Major Repairs Reserve	7.9	3.9	(4.0)
Capital Grants Unapplied	28.4	21.7	(6.7)
Total Usable Reserves	118.2	117.2	(1.0)

Unusable reserves are determined by technical accounting rules and are not available for use by the Council. These have decreased by £50.6m to £401.2m mainly reflecting the changes in the Revaluation Reserve, Pension Reserve (due to changes in assumptions from the Actuary) and the Capital Adjustment Account (due to the disposal of academies and Doncaster Rail College).

Unusable Reserves (Note 25)	31st March 2018	31st March 2019	Movement in year
	£m	£m	£m

Revaluation Reserve	245.5	276.0	30.5
Capital Adjustment Account	616.0	597.0	(19.0)
Financial Instruments Adjustment Account	(1.0)	(0.8)	0.2
Pension Reserve	(415.5)	(476.5)	(61.0)
Deferred Capital Receipts Reserve	4.8	4.8	0.0
Collection Fund Adjustment	3.8	2.0	(1.8)
Accumulated Absences Account	(1.8)	(2.2)	(0.4)
Financial Instruments Revaluation Reserve	0.0	0.9	0.9
Total Unusable Reserves	451.8	401.2	(50.6)

Financial Ratios

14. The following financial ratios promote the accountability of councils for their spending decisions. These include: -

- The ratio of **current assets to current liabilities**, an indicator of how a council manages its short-term finances
- The ratio of **usable reserves to gross revenue expenditure**, highlighting how much money a council is retaining for future plans and to cover unpredictable spending
- The ratio of **long term borrowing to long term assets**, representing the percentage of a council's assets that are financed with borrowing. A low figure means a council is less dependent on debt and has lower risk associated with its operation.
- The ratio of **school balances to dedicated schools grant**, showing whether schools, maintained by the Council, are retaining a high or low proportion of the funding provided for spending on education

The ratios for the Council are provided below and reflect continued, sound financial management and governance arrangements: -

DMBC Financial Ratios	2016/17	2017/18	2018/19
Current assets to current liabilities (working capital)	1.229	1.020	0.959
General Fund balances to gross revenue expenditure	11.48%	8.65%	10.15%
Long term borrowing to long term assets	0.276	0.304	0.291
School balances to Dedicated Schools Grant	7.14%	5.49%	3.94%

The proportion of current assets to current liabilities (ideal ratio of 1.0) indicates that the Council is managing its short term finances effectively.

The comparison of General Fund balances (which includes, for these purposes, earmarked reserves but not school balances) to gross revenue spend is now higher at 10.15% (up from 8.65% in 2017/18).

OPTIONS CONSIDERED

15. Not applicable.

REASONS FOR RECOMMENDED OPTION

16. The main content and format of the Statement of Accounts is set out in the Code of Practice on Local Authority Accounting for 2018/19. The Council has a statutory obligation to submit its unaudited 2018/19 Statement of Accounts to the External Auditor by 31st May. Failure to do so could result in an audit qualification and consequential reputational damage.

IMPACT ON THE COUNCIL'S KEY OUTCOMES

17. These are detailed in the table below: -

	Outcomes	Implications
	<p>Doncaster Working: Our vision is for more people to be able to pursue their ambitions through work that gives them and Doncaster a brighter and prosperous future;</p> <ul style="list-style-type: none"> • Better access to good fulfilling work • Doncaster businesses are supported to flourish • Inward Investment 	
	<p>Doncaster Living: Our vision is for Doncaster's people to live in a borough that is vibrant and full of opportunity, where people enjoy spending time;</p> <ul style="list-style-type: none"> • The town centres are the beating heart of Doncaster • More people can live in a good quality, affordable home • Healthy and Vibrant Communities through Physical Activity and Sport • Everyone takes responsibility for keeping Doncaster Clean • Building on our cultural, artistic and sporting heritage 	<p>The audited Statement of Accounts provides information on all Council priorities incorporating income and expenditure for all Council services.</p> <p>An unqualified audit opinion from Grant Thornton on the financial statements and supporting disclosure notes, together with an unqualified VfM conclusion assists with the positive reputation of the Council and ensures that strong governance is in place.</p>
	<p>Doncaster Learning: Our vision is for learning that prepares all children, young people and adults for a life that is fulfilling;</p> <ul style="list-style-type: none"> • Every child has life-changing learning experiences within and beyond school • Many more great teachers work in Doncaster Schools that are good or better • Learning in Doncaster prepares young people for the world of work 	

	<p>Doncaster Caring: Our vision is for a borough that cares together for its most vulnerable residents;</p> <ul style="list-style-type: none"> • Children have the best start in life • Vulnerable families and individuals have support from someone they trust • Older people can live well and independently in their own homes 	
	<p>Connected Council:</p> <ul style="list-style-type: none"> • A modern, efficient and flexible workforce • Modern, accessible customer interactions • Operating within our resources and delivering value for money • A co-ordinated, whole person, whole life focus on the needs and aspirations of residents • Building community resilience and self-reliance by connecting community assets and strengths • Working with our partners and residents to provide effective leadership and governance 	

RISKS AND ASSUMPTIONS

18. The table below highlights the most significant risks that could have a negative impact on the deliverability of the Council's financial position and the action taken to mitigate them: -

Risks / Assumptions	Probability	Impact	Proposed Action
Robustness of correct outturn figure	Low	Medium	Work has been undertaken during monitoring and closedown process to process all transactions and prepare for audit. This has included an increase in senior officer quality assurance review and control; and internal verification and checks by finance and technical officers.
The Audit identifies a material / significant finding or inaccuracy in the production of the accounts.	Low	High	Continuous dialogue with Grant Thornton throughout the year. Specific discussions on key complex / technical areas are as part of the monthly audit liaison group meetings

LEGAL IMPLICATIONS [Officer Initials...SRF... Date...07/06/19]

19. The Statement of Accounts is prepared in accordance with the appropriate

Regulations and the Council is subject to statutory external audit and performance evaluation by Grant Thornton.

FINANCIAL IMPLICATIONS [Officer Initials...RI... Date...06/06/19]

20. The Council's Statement of Accounts are prepared in line with the Accounts and Audit Regulations 2015 and International Financial Reporting Standards.

HUMAN RESOURCES IMPLICATIONS [Officer Initials...KG... Date...07/06/19]

21. There are no specific HR implications relating to the content of this report.

TECHNOLOGY IMPLICATIONS [Officer Initials...PW...Date...07/06/19]

22. There are no direct technology implications in relation to this report.

HEALTH IMPLICATIONS [Officer Initials...RS...Date...07/06/19]

23. Good Governance is important for good health and wellbeing. However there are no obvious direct health impls.

EQUALITY IMPLICATIONS

24. This report has no specific equality implications.

CONSULTATION

25. Not applicable.

BACKGROUND PAPERS

26. Following background papers: -
- Unaudited Statement of Accounts 2018/19 published on the Council website: - <http://www.doncaster.gov.uk/services/the-council-democracy/statement-of-accounts>
 - Accounts and Audit Regulations 2015
 - The Code of Practice on Local Authority Accounting 2018/19 ('The Code') - based on IFRS

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