Appendix B

STAFFORDSHIRE moorlands DISTRICT COUNCIL
ACHIEVING·EXCELLENCE

High Peak Borough Council
working for our community

STATEMENT OF ACCOUNTS TRAINING

Guidance for Audit & Regulatory Committee and Audit & Accounts Committee

OCTOBER 2021
Finance Service

Introduction

Local authority audit committee members are not expected to be financial experts, but they are responsible (amongst other things) for approving and issuing the authority's financial statements. They also play a key role in ensuring accountability and value for money are demonstrated to the public.

These notes provide an overview to assist Audit committee members to discharge their responsibilities. It tells you what you can expect to find in our accounts and what to look out for. It takes specific examples from past Statement of Accounts from both High Peak Borough Council and Staffordshire Moorlands District Council. The Statement of Accounts can run to 100+ pages and can be technical in parts and, thus, a challenging read. This guide aims to provide a simple introduction and point you to a few key areas where you may want to scrutinise Council officers (and the external auditors) in a bit more detail.

It is structured as follows:

- Overview of the financial accounts
- A guide to the main areas of the Statement of Accounts:
    - Narrative Report
    - Movement in Reserves
    - Income and Expenditure statement
    - Balance sheet
    - Cash flow statement
- Other things to look out for in the statements
- Key summary (what you absolutely need to look at)
- Glossary of terms and acronyms you may come across

Each section finishes with a series of potential issues / questions that you may wish to consider further and specific examples of previous years' statements are used to illustrate some key reporting principles.

Introduction

Local authorities are required to publish **accounts** every year that show how they spend their money. These cover a financial year: for example, 2020/21 accounts would cover the period from 1st April 2020 to 31st March 2021.

Councils publish **draft accounts** usually in the early summer. Over 30 days, the public then has the right to inspect the accounts and ask questions about them to the auditor.
The **audited accounts** are then published – the deadline for this (30 September for the 2020/21) is set by Government (and has recently been put back from 31 July due to the Covid-19 pandemic).

Accounts are prepared according to the Code of Practice on Local Authority Accounting in the United Kingdom, published by the Chartered Institute of Public Finance and Accountancy, CIPFA. This, in turn, is consistent with International Financial Reporting Standards.

Council accounts differ from company accounts because there are different legal and statutory requirements for them. For example, Council accounts contain statements separately for the General Fund, the Housing Revenue Account and the Collection Fund. The General Fund is where most of the Council's income and expenditure is recorded. Housing related spending and income (where applicable) is recorded in a separate Housing Revenue Account. The Collection Fund records Council Tax and Non-Domestic Rates (business rates) related statements.

The financial statements primarily follow accounting standards rather than local government legislation. Accounting standards measure the resources that have been generated and consumed in the year, including such things as the use of property (depreciation) and the value of pensions benefits earned by employees. However, local government legislation determines how much of the authority's expenditure needs to be met from council tax each year. It is this latter approach that the Council uses during the year to monitor, manage and report on. Therefore, there is a mismatch between the approach adopted throughout the year and the approach used to produce the Statement of Accounts. This is worth bearing in mind, as it is often the reason for confusion (for example, it is why the outturn position reported at year end isn't the same as the surplus or deficit on the Income and Expenditure statement in the accounts). The Expenditure Funding Analysis provides an explanation and reconciliation between the General Fund outturn and the surplus / deficit on the Comprehensive Income & Expenditure statement.

Accounting is both a science and an art. Some things in the accounts are our best estimate, rather than a definitive measurement. For example, the estimated value of assets can change, or the estimate of how much council tax or business rates will actually get collected may turn out to be wrong. So, it's worth considering how these estimates have been derived and whether they chime with your understanding of activity at the Council.

The Councils' accounts start with a narrative report. This provides some context (such as local geography and demographic and social indicators). It also summarises the financial performance of the council and the different statements that follow in the accounts. It's a useful introduction, as it doesn't tend to be too technical or number-heavy.

There then follows the audited financial statements, which must be approved by Elected Members. The core financial statements include statements on the following: movement in reserves, income and expenditure, balance sheet and cash flow. Further detail on each of these statements follows. These are numerical representations of a council's financial position and can be hard to understand without context. They are accompanied by notes, which are longer than the actual statements themselves, but which need to be read to understand the detail.

In brief:

- *Comprehensive Income and Expenditure Statement* shows the accounting cost in the year of providing services rather than the amount to be funded from taxation. The main factors in the move from surplus to deficit are capital depreciation, revaluation and pensions charges.

- The *Balance Sheet* shows the value of the assets and liabilities recognised by the Council.

- The *Cash Flow Statement* summarises the cash that has been paid to us and which we have paid to other organisations and individuals.

- The *Movement in Reserves Statement* shows the movement in year on the different reserves held by the Council, analysed into usable reserves (i.e. those that can be used to fund spending or reduce taxation) and other reserves

There are also other financial statements, because in addition to the General Fund where most of a council's income and expenditure is, housing related spending and income is recorded in a separate Housing Revenue Account. The other financial statements also include the Collection Fund, which records Council Tax and Non-Domestic Rates (business rates) related statements.

Narrative Statement

The purpose of the narrative statement is to provide a commentary on the financial statements. It includes an explanation of key events and their effect on the financial statements (for example, the impact of Covid-19). It should, therefore, explain things in plain English and avoid much of the technical terminology in the detailed financial statements. It provides a useful overview of the council's finances for the past year (and into the future by summarising the Medium Term Financial Plan) in a more accessible style than the detailed financial statements. To that extent it should be essential reading for Audit committee members and, more broadly, all Councillors.

The narrative report covers helpful contextual information, such as how the authority is structured and governed and some demographic and social indicators. It summarises the financial performance of the council and the different statements that follow, as well as gives an overview of where the council's funding comes from and how it is used. This varies from year to year, but there is often useful information relating to changes in funding, pilot schemes the council is involved in and so on.

The information included in the narrative statement should not be a surprise and should be familiar to Elected Members from budget monitoring reports provided during the course of the year. The narrative statement also reconciles the year end financial position that was reported to Elected Members (the outturn) to the statutory financial accounts. It does this in the "how the money was spent" section, where there is a summary table and a further reference to the Expenditure and Funding Analysis, which provides a more detailed analysis and reconciliation.

Key financial information should be clearly explained and presentation is in a number of formats (for example, pie charts and bar charts as well as tables). This should help present financial information in a graphical way that makes it easier to understand.

The narrative statement is also useful for providing an overview of Council priorities and if you are not familiar with reading accounts or aren't particularly financially literate, it is the best place to start without diving straight into the detail of the number-heavy detailed accounting statements.

Issues to consider:

Does the narrative statement provide a clear summary of the authority's financial performance and financial position at the year end? Is the summary in line with your expectations? Is the financial performance in line with budget reports? Are the key events described in the narrative statement those you expected to see? Is there a better way that this information could be presented or communicated?

Movement in Reserves Statement

Reserves represent the Authority's net worth and show its spending power. Reserves are analysed into two categories: usable and unusable.

Usable reserves result from the authority's activities and can be spent in the future and generally include the general fund, earmarked reserves and the capital receipts reserve. The level of usable reserves, the spending plans of the authority and other sources of funding will determine how much council tax needs to be raised.

Unusable reserves derive from accounting adjustments and cannot be spent (they are required to adjust between accounting practice and the funding basis). They include the pensions reserve, revaluation reserve and capital adjustment account. Unusable reserves (such as the pensions Reserve) with debit balances will need to be funded in the future, even if it is over a long period, so increases in these balances show an increasing burden on future taxpayers.

Statutory transfers are made in and out of these reserves For example, accounting standards require depreciation to be charged to the General Fund to represent the cost of assets used in the delivery of services. Statute requires that all capital transactions are removed from the General Fund. Depreciation is therefore taken out of the General Fund and replaced with the minimum revenue provision (MRP). The MRP represents the authority's estimate of how much it should contribute to capital expenditure each year and is approved by Members at the start of every year.

There's more detail on these reserves below.

The **Movement in Reserves Statement** shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into 'usable' and 'unusable' reserves. It shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax [or rents] for the year.

Total income or expenditure for the year should correspond to figures in the **Comprehensive Income and Expenditure Statement (CIES)**. The closing balances in turn should correspond to those on the **Balance Sheet**. The statement should also show any transfers between the different reserves, such as release of capital grants to income and expenditure or movements between usable and unusable reserves.

Usable Reserves usually consist of the following:

- *General Fund Balance*, which is a statutory fund to hold the balance that is not earmarked for other spend
- *Earmarked General Fund Reserves* (and HRA balances) for specific future spend, often detailed in the notes
- *Housing Revenue Account Balance*, which holds balances from the HRA for future expenditure relating to council properties
- *Major Repairs Reserve* for funding capital expenditure on the council's housing stock
- *Capital Grants Unapplied Reserve*, which holds capital grants with no outstanding grant conditions but are yet to be used on capital expenditure

- *Capital Receipts Reserve* for funds the Council has received from the sale of assets, as these can by statute only be used to fund capital expenditure.

Unusable Reserves consist of balances that are held to protect the council's financial situation against the revaluation of assets or financial instruments, losses of council tax or business rate income and the like. Unusable Reserves usually consist of:

- *Capital Adjustment Account*, which contains entries relating to the financing of capital expenditure
- *Revaluation Reserve*, which reflects movements in the value of assets
- *Financial Instruments Adjustment Account* or *Financial Instruments Revaluation Reserve*, which is held for re-measurement of the council's financial instruments
- *Pensions Reserve* is usually large; it complies with statutory accounting requirements to absorb the timing differences arising from accounting and funding for pensions
- *Collection Fund Adjustment Account*, which manages the differences arising from the recognition of council tax income in the CIES as it falls due from council taxpayers, compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund

The reserves are an often overlooked part of the Council's accounts. However, as councils are legally required to balance their books and cannot run a deficit, changes in reserves can indicate important things about the financial position.

Issues to consider:

Are the movements in the two types of reserves (usable and unusable) separately identifiable?

Do the notes (or narrative statement) adequately explain the major movements?

Are the purposes of the material earmarked reserves consistent with the authority's objectives and the authority's decisions?

Comprehensive Income and Expenditure Statement (CIES)

The **CIES** shows income and expenditure incurred in the year. In some Authorities the lines on the CIES will differ from those on the council's budget, as the latter are based on the Council's internal decisions on how to organise itself to deliver services. However, for both Staffordshire Moorlands DC and High Peak BC we have aligned the presentation of the Quarterly Monitoring financial reports with the CIES.

As the CIES analyses income and expenditure based on services, it also does not have the same headings you see in commercial financial statements.

The statement shows income received within the year from grants, taxation and investments and expenditure such as payments made to finance services, pay employees and interest payments. It also shows **accrued income** for something that has been used by the recipient but that has not yet been invoiced, and **accrued expenditure**, which is the value of something the council has received but that is not yet billed for.

The statement shows:

- The cost of services, which are laid out in a way to understand service specific income and expenditure
- Other operating income and expenditure such as surplus or deficit from the sale of assets (property, plant and equipment)
- Financing and investment income and expenditure, such as interest payable and receivable
- Income from taxation such as council tax and grants
- Other income and expenditure that do not appear elsewhere in the statement (such as increases in the value of land and buildings and changes in the actuarial assessment of pension liabilities)

The first part of the CIES reflects the full economic cost of providing the services of the authority with the results summarised at the *Surplus or Deficit on the Provision of Services* line. It represents the operating costs of providing the services of the authority in the year. In the private sector this would be equivalent to the profit or loss of a company.

The second part, other comprehensive income and expenditure, shows the gains or losses in the measurement of the assets and liabilities of the authority. These gains or losses arise as a result of changes in market valuations, interest rates or changes in measurement assumptions in relation to pensions assets and liabilities.

Issues to consider:

Does the CIES reflect the financial performance of your authority as you know it?

Have there been significant changes year on year and are these clearly explained?

The example overleaf takes the Comprehensive Income and Expenditure Statement for 2019/20 for Staffordshire Moorlands DC and separately identifies the various components of the statement.

This example uses the CIES from 2019/20 for Staffordshire Moorlands DC and separately identified the component parts of the statement.

2018/19 Restated					2019/20		
Gross Expenditure	Gross Income	Net Expenditure		Notes	Gross Expenditure	Gross Income	Net Expendture
£000	£000	£000			£000	£000	£000
660	0	660	Alliance Leadership Team		596	0	596
120	0	120	Audit		132	0	132
786	(12)	774	ICT		691	0	691
54	0	54	Human Resources		48	0	48
282	(10)	272	Member Services		282	0	282
2,266	(1,078)	1,188	Property Services		2,206	(1,040)	1,166
14,430	(14,506)	(76)	Benefits		12,484	(12,355)	129
654	(478)	176	Planning Applications		616	(530)	86
61	(49)	12	Building Contol		57	(50)	7
614	(22)	592	Customer Services		617	(22)	595
231	(56)	175	Legal Services		242	(9)	233
66	(21)	45	Electoral Services		173	(65)	108
55	(261)	(206)	Licensing and Land Charges		48	(252)	(204)
603	(113)	490	Regeneration		562	(129)	433
513	0	513	Communities and Cultural		529	0	529
48	(101)	(53)	Housing Strategy		92	(93)	(1)
216	0	216	Transformation		213	0	213
273	(76)	197	Community Safety and Enforcement		229	(49)	180
924	(354)	570	Finance and Procurement		913	(351)	562
829	(244)	585	Corporate Finance		350	(104)	246
4,902	(2,014)	2,888	Waste Collection		5,465	(2,071)	3,394
593	(197)	396	Street Scene		682	(195)	487
1,591	(3)	1,588	Leisure Services		1,126	(157)	969
880	(211)	669	Horticulture		624	(114)	510
1,393	(1,536)	(143)	Environmental Health		1,290	(1,659)	(369)
33,044	**(21,342)**	**11,702**	**Cost of Services**		**30,267**	**(19,245)**	**11,022**
1,586	(69)	1,517	Other Operating Expenditure	3a	1,843	(24)	1,819
1,201	(916)	285	Financing and Investment Income and Expenditure	3b	1,374	(1,035)	339
	(11,161)	(11,161)	Taxation and Non-Specific Grant Income and expenditure	3c		(12,607)	(12,607)
		2,343	**(Surplus) or Deficit on Provision of Services**				**573**
		(1,427)	(Surplus) or Deficit on Revaluation of Property, Plant and Equipment Assets	12a			2,337
		4,345	Remeasurement of the net defined pension benefit liability	4a			(11,147)
		2,918	**Other Comprehensive Income and Expenditure**				**(8,810)**
		5,261	**Total Comprehensive Income and Expenditure**				**(8,237)**

Expenditure of continuing operations,analysed by “service segment” (that is, serviced descriptions familiar to the Council. These lines are reconciled to the General Fund in the Expenditure and Funding Analysis note.

These are operational costs of providing the services of the authority.

This is the total income and expenditure of the authority for the year, this line is also reconciled to the General Fund in the Expenditure and Funding Analysis note.

Balance Sheet

The **Balance Sheet** represents the value of the council's assets and liabilities as at 31 March, (end of the financial year). So unlike the Comprehensive Income and Expenditure Statement which shows what has happened through the year, the Balance Sheet is a snapshot in time. This is why you tend to get the most out of comparing balance sheets over time.

An **asset** is anything the council owns or is owed, and a **liability** is anything a council owes. Assets less liabilities gives you the **net assets** of the council. These are balanced by reserves (hence, the balance sheet). In basic accounting, Assets = Liabilities + Equity. Companies hold equity, whilst councils hold reserves.

There are different types of assets and liabilities:

Non-current assets are things that the Council cannot turn into cash within a year and will therefore own in more than a year's time. Non-current assets include fixed assets, which are physical things the council uses such as property, plant and equipment. These assets tend to depreciate, which means that their value reduces over time, so the cost is spread over a period of time and the **depreciation** is recorded on the balance sheet. There are also other types of non-current assets: investment property, accounted for at market price value, and heritage assets, which might not in all cases be valued if that is not possible or practicable,

Current assets are things the Council owns that can be turned into cash within a year from the date on the balance sheet. They include cash, financial and investment assets that are held for sale within the financial year and debts owed to the council, recorded as debtors.

Current liabilities are amounts the Council owes that are expected to be paid within a year. They include debts the council owes, recorded as creditors. These are for example trade creditors but also short-term borrowing and the amount of any long-term borrowing that will fall due within the year, as well as money owed to other government bodies or income that has been received in advance for services the council will provide in the future.

Non-current liabilities are long-term obligations, such as borrowing, leases, and pension obligations.

Provisions – represent the future liabilities of the Council, but there is uncertainty about how much the Council owes or when it will have to pay.

The balance sheet also includes usable and unusable reserves (an explanation about reserves was given earlier in the section about the Movement in Reserves Statement).

Issues to consider:

Have any significant changes between years been sufficiently explained? Are the changes in property, plant and equipment what you would expect, based on any major disposals of assets and the authority's capital programme?

Are movements in investments and borrowing consistent with what you know about the Council’s Treasury Management strategy?

This example takes the balance sheet for High Peak Borough Council for 2019/20 and breaks it down into its consitutent parts

Long term assets ie those expected to provide benefits to the authority beyond 12 months

Current assets ie those anticipated to be consumed in 12 months – the normal operating cycle for the authority

Long-term liabilities ie those liabilities that are anticipated to be settled beyond 12 months

Reserves are an indication of the resources available to an authority to deliver services at the balance sheet date – presented as usable (such as General Fund) and unusable (such as the Revaluation Reserve and the Capital Adjustment Account).

31 March 2019 £000		Notes	31 March 2020 £000
233,927	Property, Plant & Equipment	6a	237,790
391	Heritage Assets		391
1,137	Investment Properties	6b	1,028
38	Intangible Assets		102
199	Long Term Debtors		292
235,692	**TOTAL LONG TERM ASSETS**		**239,603**
6,182	Short Term Investments	13a	10,681
59	Inventories		66
3,713	Short Term Debtors	8	2,472

Cash Flow Statement

This details the changes in cash and cash equivalents (things that can be converted into cash quickly) during the year. It shows how the council generates and uses cash and cash equivalents by classifying cash flow as operating, investing and financial activities. Cash flows are not the same as income and expenditure, because these are recognised when transactions occur rather than when cash changes hands. There are some differences in the cash flow statement and CIES, for example:

- Non-cash related expenses, such as depreciation, losses on investment assets and increases in pension liabilities
- Non-cash related income, such as gains on investment assets
- The difference in timing between capital grants received and them appearing in the CEIS

It shows net cash flows split into three activities: operating, investing and financing. The amount of net cash flows from operating activities shows to what extent the operations of the council are funded by way of taxation and grant income, or from the recipients of services provided by the council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the authority.

Issues to consider:

Do the cash balances in the cash flow statement agree with the relevant balances in the balance sheet?

Are the council's cash balances reflected adequately in the council's treasury management strategies?

Example: Staffordshire Moorlands DC Cash Flow Statement 2019/20

Surplus or deficit taken from the Comprehensive Income and Expenditure Statement

Three groups of transactions:

- Operating
- Investing
- Financing

Cash and cash equivalents figure in the balance sheet

2018/19		Notes	2019/20
£000			£000
(2,343)	Net Surplus/(Deficit) on the Provision of Services		(573)
8,641	Adjustment to Surplus or Deficit on the Provision of Services for Non-Cash Movements	16a	2,893
(1,631)	Adjust for Items Included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities	16a	(593)
4,667	**Net Cash Flows from Operating Activities**		**1,727**
398	Investing Activities	16c	(1,838)
(2,735)	Financing Activities	16d	625
2,330	**Net Increase or (Decrease) in Cash and Cash Equivalents**		**514**
4,861	Cash and Cash Equivalents at the Beginning of the Reporting Period	7	7,191
7,191	**Cash and Cash Equivalents at the End of the Reporting Period**		**7,705**

Other Financial Statements

After the core financial statements, Council accounts usually present the following other financial statements:

Collection Fund, a separate account that shows the transactions in respect of Council Tax and Non-Domestic Rates, also known as business rates, during the year. Both are collected by the Council, as the Billing Authority, with the majority distributed to the relevant Precepting Authorities (County, Fire, Police and Central Government).

Housing Revenue Account (HRA) that shows the transactions in respect of council housing during the year. The council is required to document housing costs and income in a separate account, which is ring-fenced, meaning it cannot subsidise other activities or be subsidised from other income. HRA shows the main elements of expenditure – maintenance, management and capital financing – as well as details of income from rents and other charges. The HRA Statement of Accounts has two parts: an Income and Expenditure Statement and a Movement of Housing Revenue Account.

Draft accounts are published before they are audited and do not contain a **statement from the auditor**. However, when the Council publishes its audited accounts, this contains a statement from the Council's external auditor. This will usually include a statement on whether they believe the Council is a going concern and they may make recommendations.

Key Summary (What You Absolutely Need To Look At)

As noted earlier, Local authority audit committee members are not expected to be financial experts. However, in playing a key role in ensuring accountability and value for money you should, as an absolute minimum, do the following:

- Read the narrative report at the start of the Statement of Accounts and see if the conclusions you draw from that chime with your broader understanding of the activities of the Council and the messages that have come through regular financial monitoring.

- Read through the Annual Governance Statement (which is published as part of the annual financial statements) and identify any governance issues that have been highlighted – do they reflect any broader concerns you may have?

- Review the Council's latest external audit letter (the opinion on the accounts that the external auditors present). What assurance does it give you that the Council's financial affairs are well governed?