

Report to Audit Committee

Subject: Annual Governance Statement 2016/17 and Statement of Accounts 2016/17

Date: 12 September 2017

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1. Purpose of the Report

To seek approval of the Council's Annual Governance Statement 2016/17 and the Statement of Accounts 2016/17.

2. Background

2.1 Overview

The Accounts and Audit Regulations 2015 require the Council to conduct a review of the effectiveness of the system of internal control and to prepare an Annual Governance Statement (AGS). The Council's AGS for 2016/17 is attached at Appendix 1, and also accompanies the Statement of Accounts at pages 88 to 94 of Appendix 2. The Regulations make it clear that the Annual Governance Statement must be approved in advance of the approval of the Statement of Accounts.

The Regulations also require the responsible financial officer to sign and date the Council's Statement of Accounts by 30 June 2017, and to certify that the Statement presents a true and fair view of the financial position of the authority and the authority's income and expenditure for that year. Accordingly, the Deputy Chief Executive and Director of Finance (the Chief Financial Officer) signed and certified the Council's Statement of Accounts on 21 June 2017.

The Regulations further require that by 30 September 2017 the Statement of Accounts must have been considered and approved, and at Gedling this is within the remit of the Audit Committee. Following approval, the Statement of Accounts must be re-signed by the Chief Financial Officer, prior to being signed and dated by the Chair of the Audit Committee.

The Statement of Accounts for 2016/17 has now been audited and is attached at Appendix 2. The accounts should be considered giving due regard to any comments made by the auditor in the KPMG External Audit Report, which is an item elsewhere on this agenda.

In addition to the Annual Governance Statement and Statement of Accounts, the Council is required to prepare a Narrative Statement which includes comment on the Council's financial performance and the economy, efficiency and effectiveness of its use of resources over the financial year. This forms part of the Statement of Accounts and can be found at pages 3 to 13 of Appendix 2.

Once approved, the Council is required to publish the Annual Governance Statement, Statement of Accounts and Narrative Statement on its website.

2.2 The Economy

The financial environment remained challenging throughout 2016/17, with investment returns low and risk levels heightened. Two landmark events had a significant effect on the financial markets, the EU referendum on 23 June and the election of President Trump in the USA on 9 November.

The original expectation was that Bank Rate would start to rise around Q4 of 2016 however, following the UK's vote to leave the EU in the referendum in June, the Monetary Policy Committee cut Bank Rate to 0.25% at its August meeting, and indicated that it may cut the rate again should the expected shock to economic activity following the vote for Brexit materialise. The economy confounded the Bank's forecast and annual growth in 2016 was 1.8%, among the fastest of any of the G7 countries. No further cut was made and Bank Rate remained at 0.25% for the remainder of the year, with the expected timing of a first increase moved back to Q4 of 2019.

The Council will continue to monitor the external environment and to develop and refine its strategies to counter threats from the wider economy. Ongoing pressures on costs, income streams and funding necessitated critical reviews of services during the 2017/18 budget process, and further significant expenditure reductions are planned over the next few years.

The Council's continuing robust financial position, combined with the medium term financial plan and projections for reserves and balances, means that it remains relatively well placed to deal with ongoing challenges, and with worldwide uncertainty.

2.3 Accounting Practice Changes

The 2016/17 Code of Practice on Local Authority Accounting introduced the Expenditure and Funding Analysis, which shows the movement between how the Council reports and manages its budgets for taxation purposes, and the statutory basis in accordance with Generally Accepted Accounting Practices that is shown in the Comprehensive Income and Expenditure Statement. There were no other major changes to the Code.

3. **Proposal**

3.1 Annual Governance Statement

The 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 that it is used economically, efficiently and effectively. In accordance with the Accounts and Audit Regulations the Council conducts an annual review of the effectiveness of the system of internal controls and prepares an Annual Governance Statement (AGS).

Following the review of the system of internal control it is proposed that the AGS for 2016/17 attached at Appendix 1 is approved.

3.2 General Fund Revenue Outturn 2016/17

The General Fund outturn figures for 2016/17 were reported to Cabinet on 1 June 2017. Net expenditure totalled £12,665,966, an underspending of £40,734, or 0.3%, when compared with the current approved estimate for 2016/17, as detailed below. Given the financial constraints faced by the Council, no revenue carry forward requests were considered.

General Fund Revenue Outturn 2016/17	Current Estimate 2016/17 £	Actual 2016/17 £	Variance £
Community Development	1,578,500	1,533,753	(44,747)
Housing, Health & Wellbeing	2,542,400	2,776,868	234,468
Public Protection	1,578,500	1,230,723	(347,777)
Environment	4,935,400	4,829,071	(106,329)
Growth & Regeneration	1,088,500	1,387,767	299,267
Resources & Reputation	1,862,500	1,314,343	(548,157)
Net Portfolio Budget	13,585,800	13,072,525	(513,275)
Transfers to/(from) Earmarked Reserves	(879,100)	(406,559)	472,541
Net Council Budget	12,706,700	12,665,966	(40,734)

The General Fund Balance at 31 March 2017 was £5.977m and this level of balances remains above the minimum required in the medium term financial plan.

3.3 Major Variations 2016/17

Full details of net portfolio budget variances were reported to Members on 1 June 2017, however some of the more significant items are repeated below for information.

Additional expenditure:

- £133.5k on economic development projects.
- £42k on Rent Allowance due to bad debt write-offs.

Reductions in expenditure:

- £184k in respect of employee expenses.
- £59k on IT software.
- £39k on Fleet Management in respect of fuel, parts and licences.

Reductions in income:

- £96k on planning fees (major application now due 2017/18).
- £49k Council Tax summons costs due to improvements in recovery.

Additional income:

- £81.4k from revenue S106 contributions.
- £101.3k from Business Rates Pool surplus.
- £86k from leisure centres, including extra swimming lessons and DNA memberships.

3.4 Capital Outturn 2016/17

Total capital investment during 2016/17 totalled £3.582m and this was financed by the use of capital receipts, grants and contributions, General Fund revenue contributions, and borrowing. The Council's total external debt at 31 March 2017 was £6.812m, all held with the Public Works Loans Board.

3.5 Collection Fund

Under the Business Rates Retention Scheme the portion of a local authority's income that comes from business rates will change according to movements in its local business rates income, providing an incentive for supporting local business growth. The Council's share of its business rates income in 2016/17 was £3.035m, compared to an estimate of £2.700m.

3.6 Balance Sheet Variances

The balance sheet shows a reduction in net worth of £10.513m, from negative £6.842m at 31 March 2016 to negative £17.355m at 31 March 2017. Significant movements include:

- An increase of £11.7m in the pension deficit, due to the technical actuarial valuation requirements under IAS 19 (retirement benefits), which measure the net present value of future assets and liabilities, and does not impact on the cash position on the fund. Due to the requirements of local authority accounting, changes in the pension fund valuation do not have an immediate impact at taxpayer level. It should be noted that all Nottinghamshire District Councils have experienced similar increases this year.

- A reduction in borrowing of £1m, due to a loan maturity that was not replaced.
- An increase of £2.1m in property, plant and equipment, due both to capital expenditure, including Gedling Country Park, and to increases in the value of existing property.

There were no significant revaluation losses due to falls in market value during 2016/17.

The balance on earmarked reserves at 31 March 2017 was £4.5m. The net usage of reserves in 2016/17 was £407k, which was lower than expected in the budget. The most significant use of reserves was £358k in the financing of the Gedling Country Park Visitors Centre. Additions to reserves in the year included £101k from the Nottinghamshire Business Rates Pool for use on economic development projects, and £105k from various services' underspends for use on emerging maintenance pressures.

3.7 Audit of Accounts Process

The Accounts are scrutinised by the Council's external auditors, KPMG, with whom the Chief Financial Officer discusses progress regularly.

KPMG requires each authority to provide a letter of representation, providing certain assurances about the completeness and accuracy of its Statement of Accounts. A copy of this letter is attached at Appendix 3.

The procedures that KPMG expects authorities to follow in providing a representation letter are that it should be dated on or near the date the auditors sign the audit opinion, and that it is signed by the person with responsibility for the financial statements after consultation with the Monitoring Officer on legal matters, and other matters as appropriate. It must be agreed by an appropriate committee of the Council, and in Gedling's case this is the Audit Committee.

4. Resource Implications

There are no specific resource implications arising from this report.

5. Recommendation

Members are recommended to:

1. Approve the Annual Governance Statement (Appendix 1);
2. Following approval of the Annual Governance Statement, consider the Statement of Accounts for 2016/17 (Appendix 2);
3. Approve the Statement of Accounts for 2016/17 (Appendix 2);

4. Note the Narrative Statement on pages 3 to 13 of the Statement of Accounts (Appendix 2)
5. Agree the Letter of Representation (Appendix 3).

6. Appendices

1. Annual Governance Statement 2016/17
2. Statement of Accounts 2016/17
3. Letter of Representation