

## **Report to Audit Committee**

**Subject:** Annual Governance Statement 2017/18 and Statement of Accounts 2017/18

**Date:** 24 July 2018

**Author:** Deputy Chief Executive and Director of Finance

### **1. Purpose of the Report**

To seek approval of the Council's Annual Governance Statement 2017/18 and the Statement of Accounts 2017/18.

### **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 2017/18 is attached at Appendix 1, and also accompanies the Statement of Accounts at pages 90 to 97 of Appendix 2. The Regulations require that the Annual Governance Statement must be approved in advance of the approval of the Statement of Accounts. The AGS was signed by the Leader of the Council and the Chief Executive on 31 May 2018.

The Regulations also require the responsible financial officer to sign and date the Council's Statement of Accounts by 31 May 2018, 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 31 May 2018.

The Regulations further require that by 31 July 2018 the Statement of Accounts must have been considered and approved by Members 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 2017/18 has now been audited by KPMG 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.

Please note that at the time of writing this report, the final External Audit Report has not been received from KPMG, therefore the attached Statement of Accounts remains subject to audit adjustment. If any final changes are made, these will be highlighted for Members at the meeting.

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 original expectation for 2017/18 was that Bank Rate would be unlikely to rise during the Brexit negotiation period, with a first rise in early 2019 unless strong domestically generated inflation was to emerge. During 2017 there was a major shift in expectation, with a sharp increase in inflation caused by the devaluation of sterling after the EU referendum leading to growth in the first half of the year being the slowest since 2012. Growth picked up modestly in the second half of the year and market expectations of an imminent rise grew. A reversal of the emergency rate cut following the referendum duly followed in November. Investment returns remained low throughout the year.

The Council's treasury advisers, Link Asset Services (LAS), predict that the next rate rise will be in November 2018, but it is considered unlikely that rates will rise further in February 2019 as this would be just ahead of the March deadline for leaving the EU. LAS predict the next rise will come in September 2019, with two further rises in and June and November of 2020.

The Council will continue to monitor the external environment and to develop and refine its strategies to counter any threats from the wider economy. Ongoing pressures on costs, income streams and funding necessitated critical reviews of services during the 2018/19 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 2017/18 Code of Practice on Local Authority Accounting introduced the requirement to close the accounts by 31 May, and for them to be audited and approved by 31 July. 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 2017/18, attached at Appendix 1, is approved.

#### 3.2 General Fund Revenue Outturn 2017/18

The General Fund outturn figures for 2017/18 were reported to Cabinet on 24 May 2018. Net expenditure totalled £12,328,655, an underspending of £42,645, or 0.3%, when compared with the current approved estimate for 2017/18, as detailed below. Given the financial constraints faced by the Council, no revenue carry forward requests were considered.

General Fund Revenue Outturn 2017/18	Current Estimate 2017/18 £	Actual 2017/18 £	Variance £
Community Development	1,627,600	1,436,293	(191,307)
Housing, Health & Wellbeing	2,448,100	1,834,108	(613,992)
Public Protection	1,653,500	1,653,673	173
Environment	4,742,400	4,400,523	(341,877)
Growth & Regeneration	1,028,700	904,603	(124,097)
Resources & Reputation	2,012,400	881,528	(1,130,872)
<b>Net Portfolio Budget</b>	<b>13,512,700</b>	<b>11,110,728</b>	<b>(2,401,972)</b>
Transfers to/(from) Earmarked Reserves	(1,141,400)	1,217,927	2,359,327
<b>Net Council Budget</b>	<b>12,371,300</b>	<b>12,328,655</b>	<b>(42,645)</b>

The General Fund Balance at 31 March 2018 was £5.928m and this level of balances remains above the minimum required in the medium term financial plan.

#### 3.3 Major Variations 2017/18

Full details of net portfolio budget variances were reported to Members on 24 May 2018, however some of the more significant items are repeated below for information.

Additional expenditure:

- £97k on increased contributions to bad debt provisions.

Reductions in expenditure:

- £58k on waste disposal charges.
- £57.6k on printing, stationery and postage.

Reductions in income:

- £21.2k on fleet scrappage income.
- £19k on fees for planning pre-application advice.

Additional income:

- £38.6k from property rentals.
- £36.5k from trade waste.
- £23.8k from Community Infrastructure Levy (CIL) administration
- £21.6k from investment income.

### 3.4 Capital Outturn 2017/18

Total capital investment during 2017/18 totalled £3.514m 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 2018 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 2017/18 was £4.241m, compared to an estimate of £4.075m.

### 3.6 Balance Sheet Variances

The balance sheet shows an increase in net worth of £5.21m, from negative £17.355m at 31 March 2017 to negative £12.145m at 31 March 2018. Significant movements include:

- A reduction of £3.8m in the pension deficit, due both to the single up-front payment of three years employer pension contributions to take advantage of a cash saving, and 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.

- An increase of £1.3m in property, plant and equipment, due both to capital expenditure, and to increases in the value of existing property.

The balance on earmarked reserves at 31 March 2018 was £5.7m. The net increase in reserves in 2017/18 was £1.2m, which was higher than expected in the budget, mainly due to additional grants and contributions received, and to projects being deferred to 2018/19.

### **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 the draft 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 for 2017/18 (Appendix 1);
2. Following approval of the Annual Governance Statement, consider the Statement of Accounts for 2017/18 (Appendix 2);
3. Approve the Statement of Accounts for 2017/18 (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 2017/18
2. Statement of Accounts 2017/18
3. Draft Letter of Representation