Gedling Borough Council

Report to Audit Committee

Subject: Annual Governance Statement and Statement of Accounts 2018/19

Date: 23 July 2019

Author: Deputy Chief Executive and Director of Finance

Purpose

To seek approval of the Council's Annual Governance Statement for 2018/19 and the Statement of Accounts for 2018/19.

Recommendations:

THAT:

1) Members approve the Annual Governance Statement for 2018/19 (Appendix 1);
2) Following approval of the Annual Governance Statement, Members consider the Statement of Accounts for 2018/19;
3) Members approve the Statement of Accounts for 2018/19 (Appendix 2) subject to the satisfactory conclusion of the audit with no material amendments;
4) Members note the Narrative Statement on pages 3 to 15 of the Statement of Accounts (Appendix 2);
5) Members agree the Letter of Representation (Appendix 3);
6) Members delegate authority to the Deputy Chief Executive and Director of Finance to make any minor changes necessary prior to publication of the Statement of Accounts and the Annual Governance Statement. Such changes will not alter the material content of Appendix 2.

1. Background

1.1 Overview

1.1.1 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 2018/19 is attached at Appendix 1, and also accompanies the Statement of Accounts at pages 100 to 107 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 Chief Executive on 31 May 2019.

1.1.2 The Regulations also require the responsible financial officer to sign and date the Council's Statement of Accounts by 31 May 2019, and to certify that the Statement presents a true and fair view of the position of the authority and the authority's income and expenditure for the 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 2019.

1.1.3 The Regulations further require that by 31 July 2019 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.

1.1.4 The Statement of Accounts for 2018/19 has now been audited by Mazars and is attached at Appendix 2. The accounts should be considered giving due regard to any comments made by the auditor in the Mazars External Audit Report, which is an item elsewhere on this agenda.

1.1.5 Please note that at the time of writing this report the final External Audit Report had not been received from Mazars, 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.

1.1.6 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 15 of Appendix 2.

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

1.2 The Economy

1.2.1 The expectation within the treasury strategy for 2018/19 (the TMSS) was that the Monetary Policy Committee (MPC) would increase Bank Rate to 0.75% in November 2018, and would then be unlikely to raise the rate further during the Brexit negotiation period, with the next rise coming in November 2019 - unless strong domestically generated inflation was to emerge.

1.2.2 In the event the MPC raised Bank Rate to 0.75% in August 2018 and it stayed at this level for the rest of the year. In the face of continuing uncertainty the Council's treasury advisers, Link Asset Services (LAS), currently predict that the next rate rise will not now be until around September 2020.

1.2.3 The Council will continue to monitor the external environment to develop and refine its strategies to counter any threats from the wider economy. Ongoing pressures on costs and income streams were experienced during 2018/19 and these are expected to continue.

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

1.3 Accounting Practice Changes

1.3.1 The only major change to the CIPFA Accounting Code of Practice in 2018/19 was the implementation of IFRS9 (Financial Instruments) which made changes to the classification of financial assets and liabilities and expanded the disclosures required.

1.3.2 The introduction of IFRS9 requires pooled investment funds to be classified at Fair Value through Profit and Loss, whereby all gains and losses are immediately charged to the revenue account, instead of being held in an Available for Sale Financial Instruments Reserve (which has been abolished). In the case of certain property funds, including the CCLA LAPF (in which the Council has an investment of £1m) a statutory override requires that these gains and losses are reversed from the revenue account, to ensure that there is no impact on the taxpayer.

2. Proposal

2.1 Annual Governance Statement

2.1.1 The Council is responsible for ensuring that its business is conducted in accordance with the law and with proper standards; 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).

2.1.2 Following the 2018/19 review of the system of internal control, the Audit Committee considered the draft AGS at its meeting on 28 May 2019. No further changes have been made since that date and it is proposed that the AGS for 2018/19, attached at Appendix 1, is approved.

2.2 Statement of Accounts 2018/19

2.2.1 Financial Performance

The General Fund outturn figures for 2018/19 were reported to Cabinet on 24 May 2019. Net expenditure totalled £11,750,435, an underspending of £151,565 or 1.3%, when compared with the current approved estimate for 2018/19 as detailed below. Together with additional income from business rates and grants of £117,734 this underspending resulted in the contribution required from the General Fund balance being £269,299 lower than estimated.

General Fund Revenue Outturn 2018/19	Current Estimate 2018/19 £	Actual 2018/19 £	Variance £
Community Development	1,526,400	1,462,792	(63,608)
Housing, Health & Well-being	2,321,800	1,924,462	(397,338)
Public Protection	1,527,600	1,338,579	(189,021)
Environment	4,618,300	4,628,780	10,480
Growth & Regeneration	892,600	814,062	(78,538)
Resources & Reputation	1,786,900	508,969	(1,277,931)
Net Portfolio Budget	**12,673,600**	**10,677,644**	**(1,995,956)**
Transfers to/(from) Earmarked Reserves	(771,600)	1,072,791	1,844,391
Net Council Budget	**11,902,000**	**11,750,435**	**(151,565)**
Financing:			
Revenue Support Grant	(385,000)	(431,335)	(46,335)
Business Rates	(3,650,000)	(3,721,220)	(71,220)
Council Tax	(5,974,000)	(5,974,500)	(500)
New Homes Bonus	(857,000)	(856,679)	321
Transfer (from)/to General Fund Balance	(1,036,000)	(766,701)	269,299
Total Financing	**(11,902,000)**	**(11,750,435)**	**151,565**

The General Fund Balance at 31 March was £5,160,900 and this level of balances remains above the minimum required in the medium term financial plan.

2.2.2 Major Variations 2018/19

Full details of net portfolio budget variances were reported to Members on 24 May 2019. Reductions in expenditure included a net saving on employee expenses of £183,300 mainly due to staff vacancies, and a decrease in the impairment loss allowance for bad debts. Additional income included additional overpayment recoveries on Rent Allowances and additional income of £116,500 at leisure centres. These savings and additional income were largely offset by transfers to earmarked reserves in order to provide financing for future service expenditure plans.

2.2.3 Capital Outturn 2018/19

Capital investment during 2018/19 totalled £3.912m 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 2019 was £8.812m, all held with the Public Works Loan Board.

2.2.4 Collection Fund

Council Tax - The Council collects its own council tax and, as billing authority, for Nottinghamshire County Council, the Nottinghamshire Police and Crime Commissioner, the Combined Fire Authority and twelve parish councils. This has a significant impact on cashflow with nearly £69m collected but only £6m retained for spending on services.

Business Rates - Under the Business Rates Retention Scheme the proportion of a local authority's income that arises 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 2018/19 was £3.721m compared to an estimate of £3.650m.

2.2.5 Balance Sheet

The Council's net worth increased during the year from a restated net liability of £13.726m to one of £9.304m on 31 March 2019.

- Pensions

The pension deficit reduced by £1.6m to £47m during 2018/19, mainly due to gains on plan assets and technical calculations based on actuarial assumptions. Whilst the deficit has a significant impact on the Council's net worth it will be made good by increases in future contributions, and the technical valuation bears no relation to the cash position on the Pension Fund. Due to the requirements of local authority accounting, changes in the pension fund valuation do not have an immediate impact at taxpayer level.

- Property, Plant and Equipment (PPE)

After restatement of prior period asset valuations (see 2.3.1), the value of Property, Plant and Equipment, Investment Property and Intangibles reduced by £1m to £33m in 2018/19.

2.2.6 Earmarked Reserves

The balance on earmarked reserves at 31 March 2019 was £6.795m, an increase of £1.073m. This is due in part to new contributions to reserves arising from new grants, additional income and portfolio underspends, but also to the deferral of schemes to 2019/20 and the associated drawdown from reserves.

2.3 Significant Technical Accounting Issues arising in 2018/19

2.3.1 Pre-Audit (included in the draft Statement of Accounts signed by the Chief Financial Officer and published on 31 May 2019):

Prior period adjustment – property valuation

During the 2018/19 asset valuation process an error in the recorded measurement of the Civic Centre was identified by the Council's Valuer. Following this discovery, a full review of asset measurements was undertaken and this identified the following incorrect measurements which have a material impact on the valuation of the individual asset:

Asset	Measurement (square metres)			Downward Revaluation (£000s)	
	Previous	Revised	Reduction	2016/17	2017/18
Civic Centre	4,878	3,689	(1,189)	(1,290)	(1,190)
Richard Herrod Leisure Centre	3,443	3,130	(313)	(285)	(276)
Newstead Pavilion	353	271	(82)	(113)	(115)
Total	**8,674**	**7,090**	**(1,584)**	**(1,688)**	**(1,581)**

In order to correct the error in valuation arising from the incorrect measurements, the Council restated the prior year information.

The review of asset measurements identified 9 further assets with an incorrectly recorded measurement, however the differences do not have a material impact on the asset valuations, either individually or in aggregate, with a net downward valuation of £151,200. A further 24 assets had very minor differences, with the majority less than 5 square metres, and these were judged to be within an acceptable tolerance. None of these assets were restated as part of the prior period adjustment, but have all been revalued during the current reporting period of 2018/19.

The CIPFA Code of Practice on Local Authority Accounting in the UK requires that an authority must present a balance sheet at the beginning of the preceding period when it makes a retrospective restatement. As the identified errors occurred prior to the 2017/18 comparative year, opening balances for assets, liabilities and net worth have been restated for the earliest period presented with the inclusion of a restated balance sheet for the financial years 2016/17 and 2017/18 on pages 36 to 37 of the Statement of Accounts (Appendix 2).

2.3.2 Arising during the Audit - Pensions:

All local authorities have been affected by an accounting issue that impacts the value of pension liabilities. During 2018 the Court of Appeal ruled that changes made to the pension schemes for judges and firefighters were unlawful on the grounds of age discrimination, a decision which has now been upheld by the Supreme Court (the McCloud case).

The actuary, Barnet Waddingham, did not initially make an allowance for the impact of McCloud due to significant uncertainty around the potential impact for the Local Government Pension Scheme (LGPS). However, following the Supreme Court ruling, and a report from the Government Actuary's Department, it has been concluded that it is very likely that there will be some impact, since similar reforms were made to the LGPS.

The Council has obtained a revised IAS19 report in which Barnet Waddingham have provided a "best estimate" of the potential impact for the Council, which is 0.8% of liabilities equating to £959,000 in past service costs, and the effect of this has been included in the Statement of Accounts (Appendix 2). The potential impact on projected service cost for the year to 31 March 2020 is 2.5%, which equates to £85,000.

The potential impact of the judgement is subject to sensitivity on the assumptions used. For example, if the rate of salary increase was lowered by 0.25%, the impact on liabilities would drop from 0.8% to 0.6% and on service cost from 2.5% to 1.8%.

The revised IAS19 report also included updated whole-fund asset information to 31 March 2019, instead of the 31 December information previously provided. This has resulted in a slightly lower estimated return on fund assets equating to £1,042,000 and the impact of this has also been reflected in the financial statements, together with a £3,000 increase in the Council's share of the administration cost.

The impact of these three changes on the Council's net worth has been to reduce it by £2.004m:

	£000s
Past service cost (McCloud case impact)	959
Reduced return on fund assets (updated asset information)	1,042
Increased Administration cost	3
Total balance sheet impact (reduced net worth)	**2,004**

2.4 Audit of Accounts Process

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

Mazars 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 for 2018/19 is attached at Appendix 3.

The procedures that Mazars expects authorities to follow in providing a letter of representation are that it should be dated on or near the date that 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.

3. Resource Implications

3.1 There are no specific resource implications arising from this report.

4. Appendices

1. Annual Governance Statement 2018/19;
2. Statement of Accounts 2018/19;
3. Draft Letter of Representation.