TO: GOVERNANCE AND AUDIT COMMITTEE
25 JULY 2018

FINANCIAL STATEMENTS 2017/18
Borough Treasurer

1 Purpose of Report

1.1 In accordance with the Accounts and Audit Regulations 2015, the Borough Treasurer signed the draft 2017/18 Statement of Accounts on 24 May 2018. Copies of the accounts were made available on the Council's website. The accounts were then subjected to audit by Ernst and Young LLP.

1.2 This report summarises for Committee Members the key elements within the accounts and the findings of the audit. No significant changes were required to the draft Financial Statements.

2 Recommendations

That the Committee:

2.1 Approves the Financial Statements for 2017/18 attached at Annexe A;

2.2 Authorises the Chairman of the meeting to sign and date the Statement of Accounts on behalf of the Committee;

2.3 Authorises the Chairman of the meeting to sign and date the Letter of Representation set out in Annexe B.

3 Reasons for Recommendations

3.1 The Accounts and Audit Regulations 2015 require the accounts to be approved by Council (or Committee of the Council) and the Chairman of the meeting to formally sign the accounts to certify that this has been undertaken.

4 Alternative Options Considered

4.1 None.

5 Supporting Information

5.1 Context and Audit Approach

5.1.1 Following the conclusion of the Council Wide Support Services Transformation review, the Finance team saw a period of significant change during the 2017/18 year. A new structure, with five fewer posts, was introduced on 1 September. Inevitably, it took some time for staff to adapt to new roles and responsibilities with a consequence that some normally monthly reconciliations and day to day invoice processing were delayed for a period of several months. The Head of Internal Audit reported these matters to the last meeting of the Committee in her Annual Report.

5.1.2 During the final quarter of the year significant efforts were made to address those issues in order to ensure that the accounts closedown process began on a firm footing. This was particularly critical since the tighter timescale for the audit of the accounts (by 31 July) became mandatory in 2017/18 and, for the first time, the Council had to produce Group Accounts in addition to the normal Annual Statement. These efforts, plus the addition of short-term additional staff to assist in specific areas, contributed to the tight timescale being adhered to.

5.1.3 Further complications were faced by Ernst and Young reviewing their approach to collecting working papers and gathering audit evidence and introducing an online portal to streamline these processes from their perspective. As it was the first year of the portal being used, there was no prior experience to draw from either for the Auditors or the Council. Given the tight timetable, the audit commenced at the end of May, immediately after the draft accounts were completed, and had to be undertaken in record time.

5.1.4 The combination of these factors made 2017/18 a particularly challenging, although ultimately very successful year.

5.2 Outturn Expenditure 2017/18

5.2.1 The Council, at its meeting on 1 March 2017, set a revenue budget for the 2017/18 financial year of £88.341m.The actual outturn for the General Fund is within budget with an under spend of -£0.544m. This is the twentieth consecutive year the Council has managed to spend within its budget. As a result of the under spend the Council has only withdrawn £2.024m from General Reserves rather than the budgeted £2.568m.

5.2.2 The most significant variances were:

- Within Children's Social Care there were over spends on care and accommodation costs (£2.418m), employee costs (£0.136m), the Childcare Solicitor service (£0.400m) and Special Guardianship Orders (£0.073m). All of which (£3.027m in total) were a consequence of an increase in the number of children being looked after, where 125 high cost care packages were required compared to 89 provided for in the budget. Recognising this additional demand pressure, the remaining sum of £1.888m in the Contingency Fund was transferred to the Department's budget which reduced the overall overspend to £1.139m. Under spends from holding vacancies and additional income in a number of areas reduced the overall departmental over spend to £0.152m.
- Within Adult Social Care there was a net overspend on residential and nursing placements and community services (1.473m).This was offset by under spends within Housing (-£0.531m), Joint Commissioning (-£0.310m), primarily within the budget for grants and donations, and from additional Better Care and Health Care funding.
- Within Environment, Culture and Communities under spends on Waste Disposal (-£0.638m) and Concessionary Fares (-£0.232m) were partly offset by over spends on Development Control legal and consultancy costs (£0.166m) and Highways Maintenance (£0.400m), due to delays in the LED street lighting project. The loss of income at Coral Reef was largely offset by additional income elsewhere avoiding the need for a transfer from the Contingency Fund.

- Within Resources a net over spend on Industrial and Commercial Properties (£0.132m) and an under spend in the Operations Unit primarily from reduced Home to School Transport costs (-£0.295m).
- Higher cash balances have been sustained throughout the year resulting in lower borrowing, and therefore interest payable and additional interest from paying pension fund contributions, in full, in advance (-£1.850m).
- Internally funded capital expenditure was financed from borrowing to spread the cost impact on revenue. The capital expenditure charged to the General Fund budget was therefore not required (-£0.277m). Higher than forecast capital receipts in 2016/17 and significant capital carry forwards into 2017/18 helped to create an under spend against the Minimum Revenue Provision (-£0.686m).
- An under spend on Council Wide budgets primarily relating to the purchase of commercial properties which has progressed more rapidly than originally anticipated, allowing additional net savings to be generated in year (-£0.364m).
- Transfers into the Transformation (£2.000m), Town Centre (£0.590m) and Structural Changes Reserves (£1.500m), primarily to fund the Council's transformation programme and any resulting staffing implications. These were partly funded by withdrawals from other reserves, in particular the Revenue Grants Unapplied Reserve (-£0.900m)

A detailed comparison of the outturn and estimated expenditure is provided in the Narrative Report on pages 3 to 5 of the Financial Statements.

5.3 Changes to Accounting Policies and Disclosure Requirements

5.3.1 No changes were required to accounting policies. However, due to continued investment in the Downshire Homes Ltd (DHL), a wholly owned subsidiary of the Council, Group Accounts were required for the first time on the grounds of materiality. Details are included on pages 100 to 108 of the Financial Statements.

5.4 Comprehensive Income and Expenditure Statement

5.4.1 The Statement shows a deficit on the Provision of Services of £43.9m. This is because the statement shows the cost of providing services in accordance with accounting practices, rather than the amount to be funded from taxation. The taxation position which shows the real impact on the General Fund is shown in the Movement in Reserves Statement. The CI&ES also includes gains and losses arising from the revaluation of assets and changes in pension liabilities. The total figure of £11.8m explains the change in the net assets of the Council presented in the Balance Sheet. Individual Balance Sheet items are discussed in more detail below.

5.4.2 The loss on the disposal of Property, Plant and Equipment in 2017/18 does not impact on taxation and primarily relates to a number of schools becoming academies (£50.0m) and the loss arising from the replacement of parts of assets, for example road resurfacing.

5.5 Provisions

5.5.1 The Council's balances contain specific provisions for known liabilities where the timing or amount of the liability is uncertain. These are considered each

year as part of the budget cycle to ensure adequacy and need, and are again reviewed at the year end, in considering the annual accounts. Provisions have increased by £2.0m to £8.5m (page 81 of the Financial Statements).

5.5.2 Most of the increase relates to movements on the provision for Business Rates appeals. This is required to cover the liabilities arising from the refunding of ratepayers who successfully appeal against the rateable value of their properties on the rating list. The Council's share of the provision has increased by £1.6m to £7.6m which reflects the latest information on appeals, with the position increasingly difficult to predict following the 2017 valuation and the Valuation Office Agency's new Check, Challenge, Appeal process.

5.6 Revenue Reserves

5.6.1 These are the reserves of the authority at 31 March 2018, consisting of Earmarked Reserves, the General Reserve and other Revenue Reserves (e.g. the Pension Reserve).

5.6.2 Earmarked Reserves are sums of money which have been set aside for specific purposes. These are excluded from general balances available to support revenue or capital expenditure.

5.6.3 The Borough Treasurer has taken the opportunity to review earmarked reserves and adjusted them to reflect the changing risks the organisation faces and these changes were presented to the Executive in the Revenue Expenditure Outturn 2017/18 Report on 17 July 2018. The Council's Reserves and Balances Policy Statement which sets out the purpose of each reserve was included at Annexe D to that report. Earmarked Reserves totalling £30.7m, an increase of £11.6m on last year's figure, are summarised on page 83 of the Financial Statements. The largest movement in the year related to the creation of the Future Funding Reserve (£8.608m) which replaces the Business Rates Equalisation Reserve and has a wider remit than just Business Rates. It will help to balance the revenue budget over the medium term by smoothing the impact of changes in Business Rates income and central government funding decisions. The year end balance primarily relates to the budgeted transfer of the 2016/17 surplus on the Business Rates element of the Collection Fund to reserves

5.6.4 There are also a number of unusable revenue reserves, such as the Pension Reserve, so called because the Council is not able to utilise them to provide services. They are adjustment accounts which deal with situations where income and expenditure are recognised statutorily against the General Fund balance on a different basis from that expected by the Accounting Code of Practice.

<u>General Reserves</u>

5.6.5 The General Reserves balance at 31st March 2018 was £9.0m. Of this, £2.5m will be used to finance the 2018/19 budget, leaving £6.5m available (of which £4m is the minimum prudent level).

5.7 Other Balance Sheet Items

5.7.1 The Balance Sheet shows that the Council holds Long Term Assets valued at £646.5m (excluding pension assets), with Other Land and Buildings (OLB) at

£395.4m representing the most significant category. The overall value has increased by £54.8m compared to 2016/17. The most significant movements include:

- a net reduction in OLB, to a large extent due to the academisation of schools;
- an increase in assets under construction reflecting the significant construction elements within the capital programme such as King's Academy Binfield partly offset by the completion of a number of infrastructure projects;
- increases in Investment Property primarily due to the purchase of three properties during the year;
- an increase in Long Term Debtors resulting from a further loan to Downshire Homes Ltd.

5.7.2 The Short Term Debtors balance increased by £13.2m to £37.2m. Approximately half of this relates to the Community Infrastructure Levy where income due has increased significantly and payments are made in several instalments. A significant debtor (£2.7m) was also raised towards year end with a neighbouring authority for a capital contribution from the Thames Valley LEP.

5.7.3 Due to its significant capital programme the Council began borrowing externally in 2016/17. A further £50.0m was borrowed from the Public Works Loans Board on a long term basis in 2017/18 and short term borrowing also increased by £25.0m to £30.0m.

5.8 Capital Financing Requirement

5.8.1 Due to the significant capital spend during the year, the Council's Capital Financing Requirement (CFR) increased by £74.4m to £186.1m as at 31 March 2018. This is a measure of the capital expenditure incurred historically by the Council that has yet to be financed and represents the underlying need to borrow. A charge is made each year to revenue known as the Minimum Revenue Provision which writes down the balance of the CFR over time. Further details can be found in Note 20 of the Financial Statements.

5.9 Audit of Accounts

5.9.1 The draft accounts have been subject to scrutiny by the Council's external auditor. Following the audit of the accounts no significant amendments were required to the Statement of Accounts.

5.10 Letter of Representation

5.10.1 The Letter of Representation (Annexe B) is a significant part of the audit process that enables the external auditor to form an opinion as to whether the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended. The Committee is asked to review and confirm its approval of the letter.

6 Borough Solicitor's Comments

6.1 The Accounts and Audit Regulations 2015 require the 2017/18 Statement of Accounts to be formally approved by Members (a Committee or Council) and signed by the Chairman / Mayor and the appointed auditor by 31 July 2018.

7 Borough Treasurer's Comments

7.1 The Financial Statements 2017/18 is the published document which includes the 2017/18 Statement of Accounts. The Statement of Accounts includes the Movement in Reserves Statement, Comprehensive Income & Expenditure Statement, Balance Sheet, Cash Flow Statement, Collection Fund and Group Accounts together with notes which expand and explain the information in these statements.

8 Equalities Impact Assessment

8.1 None required.

9 Strategic Risk Management Issues

9.1 There are none arising directly from this report.

10 Principal Groups Consulted

10.1 Not applicable.

11 Contacts for further information

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