

ITEM FOR AUDIT AND RISK COMMITTEE 26/09/16

Statement of Accounts 2015/16 and External Auditor's Audit Findings Report

Submitted by: Head of Finance

Portfolio Finance IT and Customer

Ward(s) affected All indirectly

Purpose of the Report

To approve the statement of accounts, receive the external auditor's Audit Findings Report for 2015/16 and to agree the Letter of Representation to the Auditor.

Recommendations

- a) **That the Statement of Accounts 2015/16 be approved and signed by the person presiding at the meeting.**
- b) **That the Audit Findings Report for 2015/16 be received.**
- c) **That the Letter of Representation be approved for signature by the Council's Section 151 Officer.**

Reasons

It is a statutory requirement, contained in the Accounts and Audit Regulations 2015, that the Council produces a Statement of Accounts detailing its financial transactions for the year and its position at the year end and that this is approved by a Committee no later than 30 September in the year following that to which the Statement relates.

The external auditor is required, according to the International Standard on Auditing (UK & Ireland) 260 (ISA 260), to report to you on matters affecting governance via an Audit Findings Report.

The Letter of Representation is a formal letter from the Council to the External Auditor stating various matters which the auditor needs to have confirmed in order to gain sufficient assurance to be able to certify the Council's accounts.

1. Background

- 1.1 The Committee received a report on 4 July in relation to the draft Statement of Accounts and the Outturn position for 2015/16. The report explained that the 2015/16 Statement of Accounts does not have to be formally approved by a Council Committee until 30 September 2016. However, it was felt that members needed an earlier update on the position for 2015/16, which was the reason for this earlier report. The report set out information in relation to the outturn position and the main features of the Statement of Accounts, such as the balance sheet position, reserves levels and income and expenditure for the year. A copy of Sections 3 to 7 of this report, which outline the main features of the 2015/16 accounts is attached at Appendix 1.
- 1.2 The Committee now needs to formally receive the Statement of Accounts for 2015/16 for scrutiny and approval. Accordingly a copy of the Statement is appended at Appendix 2 for your consideration.

- 1.3 The external auditor appointed by the Audit Commission (Grant Thornton) is required, according to the International Standard on Auditing 260 (UK & Ireland) (ISA 260), to report to you on matters affecting governance via an Audit Findings Report.
- 1.4 The purpose of the report is primarily to allow the auditor to bring to the attention of the Committee any material mis-statements in the accounts for 2015/16, which your officers have declined to amend and any significant material mis-statements in the accounts submitted for audit which have been amended, together with any material weaknesses in internal control or areas of uncertainty. The report also contains the auditor's opinion on the Council's arrangements for achieving Value for Money.

2. Statement of Accounts 2015/16

- 2.1 The Statement of Accounts now submitted to you has been audited by the Council's external auditor, Grant Thornton. As set out in the auditor's Audit Findings Report there were no amendments required to be made to the draft statement of accounts which was submitted for audit other than a few minor amendments to disclosures. There have been no alterations to entries in the underlying accounts.
- 2.2 The amount of the positive variance on the General Fund Revenue Account (£1,648) reported to you in July is unchanged.
- 2.3 The Council's Annual Governance Statement, which you approved at your July meeting, will be incorporated in the Statement of Accounts as in previous years. Please note that this has not been included in the Statement appended to this report, however, in order to save paper.
- 2.4 The Audit Certificate to be included in the Statement will be provided after this meeting, following receipt by the auditors of the agreed and signed Letter of Representation, subject to their final satisfaction with the accounts.

3. Audit Findings Report

- 3.1 The external auditor's Audit Findings Report is attached at Appendix 3. The external auditor will present the report and attend the meeting, together with officers, to answer any questions raised by the Committee.
- 3.2 As stated earlier, the agreed minor disclosure amendments to the Statement of Accounts referred to in the Audit Findings Report do not change the amount of the positive variance (budget compared to outturn), i.e. the bottom line, in relation to the General Fund Revenue Account from that previously reported to members in July.

4. Letter of Representation

- 4.1 The Letter of Representation is a formal letter from the Council to the External Auditor stating various matters which the auditor needs to have confirmed in order to gain sufficient assurance to be able to certify the Council's accounts. It has to be approved by your Committee and then signed by the Council's Section 151 Officer, i.e. the Executive Director - Resources and Support Services.
- 4.2 The proposed Letter of Representation is set out at Appendix 4.

5. Appendices

Appendix 1: Extract from Report to Audit and Risk Committee 4 July 2016
Appendix 2: Statement of Accounts 2015/16

Appendix 3: Audit Findings Report Year Ended 31 March 2016
Appendix 4: Letter of Representation

6. Background Papers

Report to Audit and Risk Committee 4 July 2016 “Draft Statement of Accounts 2015/16”;
Audit Findings Report Year Ended 31 March 2016 produced by the External Auditor
appointed by the Audit Commission; Letter of Representation 2015/16.

3. The General Fund Outturn

3.1 As mentioned above, the outturn in respect of the General Fund Revenue Account was £1,648 better than the original estimate. Whilst there were adverse variances against some budget heads, these have been offset by positive variances against others.

A number of areas of income, the majority being ones that are sensitive to the state of the local and national economy, were particularly adversely affected as shown in the following table:

| Type of Income | Budget | Outturn | Variance |
|----------------------------------|---------------|----------------|-----------------|
| | £000s | £000s | £000s |
| Land Charges Search Fees | 245 | 220 | 25 |
| Commercial Portfolio Rents | 1,188 | 1,111 | 77 |
| Newcastle Open Market Stall Fees | 198 | 160 | 38 |
| Car Parking Income | 1,076 | 948 | 128 |
| Commercial Refuse Fees | 513 | 455 | 58 |
| Jubilee 2 Income | 1,462 | 1,367 | 95 |
| Kidsgrove Sports Centre Income | 716 | 592 | 124 |
| Cemeteries Income | 350 | 322 | 28 |
| Total | 5,748 | 5,175 | 573 |

There was also additional expenditure on a number of headings, which is outlined in the following table:

| Item | Additional expenditure |
|---|-------------------------------|
| | £000s |
| Terms and Conditions Savings not achieved | 31 |
| Kidsgrove Sports Centre costs | 34 |
| Household Waste - short term vehicle hire | 27 |
| Total | 92 |

These adverse variances, shown in the two tables above, have however, been met by favourable variances on other budget heads, the more significant of which are highlighted in the table below.

| Item | Saving or additional income |
|---|------------------------------------|
| | £000s |
| Additional Income: | |
| Right to Buy Receipts less than £10k (not capital receipts) | 39 |
| Reimbursement by government of Search Fees refunds | 78 |

| | |
|---|------------|
| Crematorium Income | 14 |
| Procurement Savings: | |
| Vehicle Fuel and Tyres | 81 |
| Good Housekeeping Efficiencies: | |
| Housing Advice Contract | 45 |
| Pollution Control & Contaminated Land - Other Fees for Services/Equipment | 28 |
| Corporate Training expenditure | 10 |
| External Audit Fee | 18 |
| Water Courses expenditure | 11 |
| Staffing Efficiencies: | |
| Overall employee costs savings | 40 |
| Corporate: e.g. additional government grant, further Heritable Bank repayments, additional interest receipts | 266 |
| Other Variances | 37 |
| Total | 667 |

The outturn reflects the monitoring statements provided to members throughout the year.

3.2 An amount of £1,648 has been transferred into the Budget Support Fund in respect of the positive variance. As can be seen in Note 2.3.7 to the Accounts, the balance on the Budget Support Fund now stands at £0.341m, an increase of £0.044m from the 1 April 2015 balance, which apart from the above transfer is accounted for by payments into the reserve in respect of commitments carried forward.

3.3 Some income streams continue to be affected by the adverse economic climate in the current financial year. The ongoing situation will be monitored and any significant shortfalls will be reported in the quarterly monitoring reports to Cabinet. The likely levels of income will also be considered during the compilation of the Medium Term Financial Strategy which is part of the budget setting process for 2017/18.

3.4 Business Rates Retention

3.4.1 There was a positive benefit to the Council arising from the Business Rates Retention Scheme in 2015/16, which is the third year that these arrangements have applied. The Council collects business rates and is able to retain in the General Fund a share of the income after paying part to the government, Staffordshire County Council and the Staffordshire Fire Authority. The amount retained by the Borough Council exceeded the amount budgeted for by £0.043m. This was set aside via a transfer to the Business Rates Reserve (shown at Note 2.3.7 to the Statement of Accounts).

3.4.2 In the current year it is not expected that there will be a significant variance compared to the budgeted amount for retained business rates income, based on the initial NNDR1 return to the government, compiled in January 2016 which forecast the estimated business rates income for 2016/17 and was the basis for the budget calculation. It should be noted, however, that business rates income is subject to considerable volatility, particularly owing to successful appeals in relation to rateable values which may occur and businesses closing down etc leading to rates no longer being payable.

- 3.4.3 Various anomalies and grey areas exist within the business rates system which from time to time result in ratepayers making representations that they are entitled to reductions in the amounts payable by them, for example applications for downwards revaluation of their properties or for the granting of reliefs which they assert they are entitled to and, if successful, refunds of amounts already paid. In 2015/16 the basis for the valuation of some types of doctors' surgeries was questioned and resulted in the Valuation Office accepting that a much lower valuation was appropriate. This did not significantly affect the amount of tax collectable by the Borough Council, although for some authorities it amounted to a much larger loss of income. Looking forward, a more significant claim for a reduction in the amounts payable is being made by National Health Service Trusts, which contend that they are entitled to mandatory charitable relief in relation to their properties, which would reduce the amount payable by 80%. This contention is not accepted by the Council, in common with other authorities, and the Local Government Association has obtained a legal opinion which does not support the NHS Trusts' view, therefore, NHS properties will continue to be billed for the full amount. Fortunately there are no major NHS facilities within the Borough Council boundaries so the impact would be nowhere near as severe as it could be for some other authorities. It looks likely that this issue will take some time to resolve, probably through the courts. Instances such as these, unless they involve large amounts of income loss, are presently of limited significance to the Borough Council because the loss of income is shared with the government and the County Council and Fire Authority with this Council suffering only 40 per cent of the loss. However, from 2020 local authorities will be permitted to retain 100 per cent of business rates collected, so will suffer the whole of any losses, with 80 per cent of the amount lost being attributable to the Borough Council. As a result of the new arrangements Revenue Support Grant will no longer be paid to authorities by the government so business rates, along with council tax, will become one of the two largest sources of income for the Council. The exact details of the new arrangements have yet to be determined so the precise impact on the Council's finances cannot currently be determined.
- 3.4.4 The Business Rates Reserve will be available to meet any such shortfalls in business rates income and to meet the Council's share of business rates Collection Fund deficits, of which the Council's share in relation to 2015/16 was £0.292m. The regulations concerning the Collection Fund require this deficit share to be made good by a transfer from the General Fund into the Collection Fund in subsequent years, which will be the first call upon the Reserve. Because of the previously mentioned volatility in income and the time required to assess the longer term workings of the new rates retention system, it is considered prudent that the remaining balance on the Reserve should remain unused for the time being.
- 3.4.5 It is worth noting that by participating in the Stoke on Trent and Staffordshire Business Rates Pool, along with Staffordshire County Council, Stoke on Trent City Council, Stafford Borough Council, Staffs Moorlands DC, South Staffs DC and the Fire Authority, and thereby avoiding the payment of a levy to the government, the Borough Council has achieved a worthwhile increase in the amount of rates retained. The amount of levy that would otherwise have been paid in 2015/16 was £0.381m. Of this £0.152m (40%) has been retained by the Borough Council, with the balance of £0.229m being paid over to the Pool, £0.077m (20%) to be held as a reserve to meet any future business rates income shortfalls experienced by Pool members, and £0.152m (40%) in a reserve to fund economic development projects in Staffordshire.

4. The Collection Fund

- 4.1 The Collection Fund is a separate account which contains the financial details which refer to the collection of Council Tax and Business Rates. The purpose of the account is to illustrate how much of the above income has been collected and to see how this compares to the amounts of the levies and other pre-determined payments that have been made for the

Borough Council, the County Council, the Office of the Police and Crime Commissioner and the Fire Authority and to central government.

- 4.2 Overall the Fund experienced a surplus of £1.397m for the year, leaving a balance of an accumulated surplus of £0.412m at the year-end. Separating this out into its individual components, the respective positions were as follows:

| | Council Tax | | Business Rates | | Total |
|--|-------------|-------|----------------|---------|---------|
| | £m | £m | £m | £m | £m |
| Balance Brought Forward - Surplus/(Deficit) | | 1.137 | | (2.122) | (0.985) |
| Contribution towards previous year's surplus/deficit (A) | (1.143) | | 2.000 | | |
| Surplus/(Deficit) relating to 2015/16 (B) | 1.149 | | (0.609) | | |
| Overall Surplus/(Deficit) for Year (A + B) | | 0.006 | | 1.391 | 1.397 |
| Balance Carried Forward - Surplus/(Deficit) | | 1.143 | | (0.731) | 0.412 |

More details of the Collection Fund transactions are shown in the Collection Fund Account at Appendix 1.

- 4.3 As can be seen the Council Tax element of the Fund achieved a surplus of £1.149m for the year, which compares to an in-year surplus of £0.968m in 2014/15. This will be shared with the precepting authorities (Newcastle Borough Council, Staffordshire County Council, Office of the Police and Crime Commissioner, Fire Authority) and will be used in calculating how much Council Tax will be levied in 2017/18.

- 4.4 The Business Rates element of the Fund experienced an in-year deficit of £0.609m. The deficit must be made good in subsequent years by the four participants in the business rates retention scheme, the Borough Council (40%), Staffordshire County Council (9%), the Fire Authority (1%) and central government (50%). The amounts each body must contribute are shown in brackets and are prescribed by regulations. The Borough Council's 40% share of the deficit amounts to £0.244m and will be met from the Business Rates Reserve referred to in paragraph 3.4. The deficit arose because the Fund is required to pay a sum to each of the four bodies equating to their share of the estimated business rates which will be collected in the year. The estimate is made before the start of the year and if the actual rates collected are less than the estimated amount, there will be a deficit, which is what occurred in 2015/16. The reduced collectable amount occurred because of various factors, chiefly changes in reliefs, exemptions and appeals.

- 4.5 A provision has been created in relation to business rates property value appeals to the Valuation Agency which it is considered likely to represent the amount which may have to be refunded in respect of payments already made by ratepayers. This is intended to provide for appeals already lodged and appeals which may arise in the future relating to bills which have been paid. Movements on the Provision in 2015/16 were as follows:

| | £m |
|---|--------------|
| Balance Brought Forward at 1 April 2015 | 0.865 |
| Used in 2015/16 | (0.865) |
| Contribution to Provision | 1.932 |
| Balance at 31 March 2016 | <u>1.932</u> |

The balance of £1.932m was assessed, using data supplied by a specialist firm, as being a prudent amount to set aside to meet future appeals. The arrangements for business rates

retention mean that only 40% of the cost of contributions to the provision is borne by the Borough Council (because it affects the amount of rates retained), the rest falling to the other participants in the arrangements. The value included in the balance sheet is also 40%, i.e. £0.773m. The amount has increased due to the high level of appeals currently being experienced, reflecting the volatility referred to in paragraph 3.4.

5. The Balance Sheet

5.1 The main features of the Balance Sheet, which is shown in full at Appendix 1, are as follows

- There are Net Tangible Fixed Assets of £57.304m (£57.427m at 31 March 2015) which consist of Plant, Property and Equipment, Investment Properties and Heritage Assets.
- Investments (all short term at 31 March 2016 - i.e. with less than 1 year to run from that date) show a small decrease, amounting to £7.549m compared to £8.808m at 31 March 2015.
- The amount owed to the Council by its short term debtors (after a deduction for the estimated amount which might be at risk of non-payment) is £9.306m. Short Term Debtors have decreased by £1.382m compared with 31 March 2015. The main reasons for this are the debtor relating to the government's share of the business rates deficit was £1.061m at 31 March 2015 but only £0.365m at 31 March 2016. Also there was an outstanding debtor account, amounting to £0.227m in relation to Staffordshire County Council in respect of locality commissioning, which is not present at 31 March 2016 and the level of sundry debtors has decreased by £0.522m at 31 March 2016.
- The amount the Council owes to its creditors is £5.495m. Creditors have decreased by £3.705m compared to 31 March 2015. At 31 March 2015 an amount of £1.923m was included in creditors in respect of the Department for Work and Pensions (DWP) relating to housing benefits reimbursements for 2014/15, which the DWP had overpaid. At 31 March 2016, however, DWP owe the Council £0.042m in respect of 2015/16 reimbursements, which amount is included in debtors. There was also a creditor of £0.906m at 31 March 2015 relating to the DWP because a payment relating to 2015/16 had been received in 2014/15. Payments accrued for in relation to housing benefit payments paid in April but relating to March was £0.562m at 31 March 2015 but only £0.020m at 31 March 2016.
- Provisions have increased overall (£1.290m compared with £0.799m). The NNDR Appeals Provision has increased by £0.427m for reasons outlined in paragraph 4.5. The Employee Benefits Provision has increased from £0.188m to £0.366m owing to a re-definition of the data used to calculate the provision to be made. The Land Charges Provision has been extinguished because outstanding claims have been settled.
- The Net Liability relating to Defined Benefit Pension Schemes (i.e. the difference between liabilities and assets of the pension scheme) decreased from £74.019m to £68.428m. Normally this decrease would be mirrored by an increase in the Pensions Reserve balance of the same amount, the two accounts appearing in the balance sheet as equal and opposite amounts. However, this is not the case because of the prepayment of pension contributions in respect of 2016/17 totalling £1.200m. These, together with an amount for 2015/16, were paid in 2014/15 in return for a discount paid by the pension fund which significantly reduced the cost to the Borough Council and consequently the amounts to be charged in the 2015/16 and 2016/17 revenue account as pension contributions. In order to account for this transaction, the prepayment must be charged directly to the Pensions Liability, without any corresponding equal and

opposite transaction in the Pensions Reserve. In 2016/17 the prepayment relating to that year will be transferred to the general fund revenue account via a transfer from the Pensions Reserve. After these transactions have occurred, the two accounts will once more be mirror images of each other. Without the charge of £1.200m, the Pensions Liability would have shown a decrease of £4.391m, reflecting other factors. The change mainly arises as a result of an increase in the net discount rate applied to pension fund assets over this period, the positive impact of which has outweighed the lower than expected pension fund asset returns. These amounts are required to be included in the Council's accounts as a result of the application of International Accounting Standard 19 (IAS19) and the CIPFA Code of Accounting Practice. Neither directly relate to Borough Council transactions - they relate to those of the Staffordshire County Council Pension Fund of which the Council is a member and represent the Council's share of net scheme liabilities (after deduction of the value of scheme assets). Whilst the net liability indicates the Council's long term commitment to pay retirement benefits, statutory arrangements for funding the deficit mean that its financial position remains healthy.

6. Reserves

6.1 The Council has usable reserves totalling £10.982m. The note included in Appendix 1 shows a full analysis of all these reserves. The main items, with their balances at 31 March 2016, are:

- General Fund Balance (£1.200m)
- Capital Receipts Reserve (£6.586m)
- Capital Grants Unapplied (£0.889m)
- Budget Support Fund (£0.341m)
- Contingency Reserve Fund (£0.226m)
- ICT Development Fund (£0.225m)
- Renewal and Repairs Fund (£0.002m)
- Equipment Replacement Fund (£0.376m)
- Revenue Investment Fund (£0.071m)
- Business Rates Reserve (£0.718m)

6.2 The General Fund Balance remains the same (£1.200m) as at 31 March 2015. The amount required to be held in this reserve is assessed each year when the revenue budget is compiled, by identifying and quantifying the risks applicable to the revenue budget and using this information as the basis to calculate a prudent sum to keep in reserve to meet those risks should they arise.

6.3 The Capital Receipts Reserve is fully committed to financing the currently approved capital programme, the year-end balance reflecting underspending in relation to the 2015/16 capital programme, as discussed at paragraphs 7.2 and 7.3, and will all need to be spent in 2016/17. The majority of the balance on the Capital Grants Unapplied Reserve is either already committed to finance current schemes or is earmarked for future schemes. The ICT Development Fund is also committed to finance new or replacement ICT software and hardware.

6.4 The balance of the Contingency Reserve remains above its agreed minimum level of £0.100m.

6.5 The Budget Support Fund and Business Rates Reserve are discussed at paragraphs 3.2 above and 3.4, respectively.

6.6 The levels of reserves will be considered as part of the budget preparation process for 2017/18. Some may require “topping up”, either from the revenue budget or a transfer from another reserve. In particular, the Renewals and Repairs Fund balance is insufficient to meet likely commitments. An additional contribution of £0.050m was approved by Full Council in February 2016 and will be made in the 2016/17 accounts.

7. **Capital Expenditure**

7.1 Capital expenditure totalled £2.543m in 2015/16.

7.2 The capital programme approved by Full Council on 25 February 2015 provided for an amount of £5.564m to be spent in 2015/16. However, the budget report to Full Council on 24 February 2016 revised the estimated spend for 2015/16 to £3.731m owing to slippage on a number of projects, particularly arising from the requirement to include budget provision in 2015/16 for the ordering of the new vehicles required for the new waste service although actual expenditure will not be incurred until the vehicles are delivered in 2016/17 and replacement vehicles where purchase has been delayed until the current vehicle becomes unserviceable.

7.3 As can be seen, the actual outturn for the year was lower than the forecast reported to Full Council. The main reasons for the further slippage are: more vehicle replacements were deferred until 2016/17 (£0.750m), some of the work to enable the new waste service was not completed until 2016/17 (£0.174m) and some stock condition works were delayed or not completed by 31 March (£0.145m).

7.4 Projects in progress or committed which are included in the slippage will be completed or commenced in 2016/17. The remainder will be reviewed to confirm they are still required and considered in the context of available resources to finance the capital programme, particularly in view of the uncertainty regarding the timing of receipts from land sales, upon which much of the financing of the capital programme is dependent, owing to the delay in commencing the assets disposal programme. The new projects included in the 2016/17 programme will also need to be reviewed for the same reason.

7.5 The expenditure of £2.543m was financed as shown below:

| | £m |
|---|--------------|
| Capital Receipts | 1.047 |
| New Homes Bonus | 0.392 |
| BetterCare Funding (re Disabled Facilities Grant) | 0.654 |
| Contributions from Other Bodies | 0.062 |
| Section 106 payments | 0.086 |
| Reserves - ICT Development Fund | 0.090 |
| Sport England Grant (Clayton Sports Centre) | 0.212 |
| Total Financing | <u>2.543</u> |