

**ITEM FOR AUDIT AND RISK COMMITTEE 30/07/18**

**Statement of Accounts 2017/18 and External Auditor's Audit Findings Report**

**Submitted by:** Head of Finance

**Portfolio** Finance and Efficiency

**Ward(s) affected** All indirectly

**Purpose of the Report**

To approve the statement of accounts, receive the external auditor's Audit Findings Report for 2017/18 and to agree the Letter of Representation to the Auditor.

**Recommendations**

- a) That the Statement of Accounts 2017/18 be approved and signed by the person presiding at the meeting.
- b) That the Audit Findings Report for 2017/18 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 31 July 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 25 June in relation to the draft Statement of Accounts and the Outturn position for 2017/18. The report explained that the 2017/18 Statement of Accounts does not have to be formally approved by a Council Committee until 31 July 2018. However, it was felt that members needed an earlier update on the position for 2017/18, 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 2017/18 accounts is attached at Appendix 1.
- 1.2 The Committee requested clarification of the nature of the impairment charge included in the accounts in respect of Castle House. This covers expenditure which does not add anything to the value of any asset recorded in the asset register and hence the balance sheet. With regards to Castle House this includes items such as improvements to Queens Gardens,

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works at the Knutton Lane Depot and Kidsgrove Public Offices to accommodate services not moving to Castle House and services and staff time relating to the project. Unlike minimum revenue provision charges which are an actual charge to the revenue account affecting the "bottom line" position, impairment charges are made to comply with accounting requirements to show the full cost of services but are reversed out of the revenue account at corporate level so as not to affect the bottom line charge to taxpayers.

- 1.3 The Committee now needs to formally receive the Statement of Accounts for 2017/18 for scrutiny and approval. Accordingly a copy of the Statement is appended at Appendix 2 for your consideration.
- 1.4 The external auditor 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.
- 1.5 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 2017/18, 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 2017/18**

- 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 are a number of technical amendments required to be made to the draft statement of accounts which was submitted for audit. In addition there were some presentational amendments and minor amendments below the materiality level which have been agreed with the auditor and which have been made to the Statement of Accounts. None of these amendments affects the bottom line, therefore, the amount of the positive variance on the General Fund Revenue Account (£4,868) reported to you in June is unchanged. 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 (£4,868) reported to you in June is unchanged.
- 2.3 The Council's Annual Governance Statement, which you approved in principle at your June meeting, is incorporated in the Statement of Accounts as in previous years
- 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 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 June.

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**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 25 June 2018  
Appendix 2: Statement of Accounts 2017/18  
Appendix 3: Audit Findings Report Year Ended 31 March 2018  
Appendix 4: Letter of Representation

**6. Background Papers**

Report to Audit and Risk Committee 25 June 2018 "Draft Statement of Accounts 2017/18"; Audit Findings Report Year Ended 31 March 2018 produced by the External Auditor; Letter of Representation 2017/18.

**3. The General Fund Outturn**

3.1 As mentioned above, the outturn in respect of the General Fund Revenue Account was £4,868 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:

<b>Type of Income</b>	<b>Budget</b>	<b>Outturn</b>	<b>Variance</b>
	£000s	£000s	£000s
Newcastle Open Market Stall Fees	200	134	66
Car Parking Income	1,127	985	142
Jubilee 2 Income	1,448	1,370	78
Council Tax Court Costs	670	473	197
Waste Service - Recycling Credits and Material Sales	2,025	1,627	398
<b>Total</b>	<b>5,470</b>	<b>4,589</b>	<b>881</b>

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

<b>Item</b>	<b>Additional expenditure</b>
	£000s
Elections	163
Kidsgrove Sports Centre Net Costs	39
<b>Total</b>	<b>202</b>

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.

<b>Item</b>	<b>Saving or additional income</b>
	£000s
<b>Additional Income:</b>	
Land Charges Search Fees	21
Planning Applications Fees	122
Bereavement services - Cemeteries	26
Bereavement Services - Crematorium	104
<b>Procurement Savings</b>	
ICT - Computer Hardware/Software	37
Cemeteries - Supplies and services	28
<b>Good Housekeeping Efficiencies:</b>	
Community Chest and Third Sector Commissioning Grants	42
<b>Staffing Efficiencies:</b>	
Overall employee costs savings	335

<b>Corporate:</b>	
Additional government grants	157
Capital financing Costs not required (re Castle House)	200
<b>Other Variances</b>	16
<b>Total</b>	<b>1,088</b>

3.2 An amount of £4,868 has been transferred into the Budget Support Fund in respect of the positive variance. As can be seen in Appendix I usable reserves, the balance on the Budget Support Fund now stands at £0.355m.

3.3 Some income streams continue to suffer adverse variances 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 2019/20.

#### **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 deficit of £0.217m for the year, leaving a balance of an accumulated surplus of £0.016m at the year-end. Separating this out into its individual components, the respective positions were as follows:

	<b>Council Tax</b>		<b>Business Rates</b>		<b>Total</b>
	£m	£m	£m	£m	£m
Balance Brought Forward – surplus/(deficit)		0.364		(0.131)	0.233
Contribution to previous years (surplus)/deficit (A)	(0.365)		(0.024)		
Surplus/(deficit) relating to 2017/18 (B)	2.000		(1.828)		
Overall surplus/(deficit) for year (A + B)		1.635		(1.852)	(0.217)
<b>Balance Carried Forward – surplus/(deficit)</b>		<b>1.999</b>		<b>(1.983)</b>	<b>0.016</b>

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 as at 31 March 2018 shows a surplus of £1.999m, which compares to a surplus of £0.364m at 31 March 2017. 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 2019/20. The main reason for the increased surplus is a revision to the method of calculating the amount that is required to be provided for bad debts.

4.4 The Business Rates element of the Fund as at 31 March 2018 shows a deficit of £1.983m. 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 deficit arose due to a significant increase in the required provision for appeals (see paragraph 4.5).

- 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 2017/18 were as follows:

	£m
Balance Brought Forward at 1 April 2017	1.812
Used in 2017/18	(1.140)
Contribution to Provision	4.023
<b>Balance at 31 March 2018</b>	<b>4.695</b>

The balance of £4.695m 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. £1.878m. The amount has increased during 2017/18 to reflect appeals that may be settled in years after the financial year 2018/19, in previous years only appeals that were likely to be settled during the following financial year had been provided for.

## 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 £62.931m (£65.246m at 31 March 2017) which consist of Plant, Property and Equipment, Surplus Assets, Investment Properties and Heritage Assets. The reduction of £2.315m largely arises from revaluations in relation to car parks (-£0.689m) and the civic offices (-£1.544m).
- Investments (all short term at 31 March 2018 - i.e. with less than 1 year to run from that date) were £0.081m at 31 March 2018 compared to £3.460m at 31 March 2017. The amount invested at any one time reflects the prevailing cash flow situation but as reserves and capital receipts balances are reducing the sums available for investment correspondingly reduce. This situation is reflected in an increase in short term borrowing which was £0.070m at 31 March 2017 and £2.555m at 31 March 2018.
- There is an increase in Cash and Cash Equivalents of £0.554m.
- 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 £10.399m, an increase of £2.040m compared with 31 March 2017. The main reason for this is an increase in amounts owed by central government to the Council of £1.293m, this primarily relates to an increase in the amount owed to the Council by the Department for Work and Pensions of £0.485m in respect of Housing Benefits, the balance relating to NNDR transactions with the Department of Housing, Communities and Local Government.
- The amount the Council owes to its creditors is £7.705m. Creditors have increased by £1.236m compared to 31 March 2017. Within this, amounts owed to central government bodies have increased by £2.162m, largely due to the apportionment to the Department of Housing, Communities and Local Government of the increased amount in the NNDR

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Appeals Provision, as referred to in paragraph 4.5. Amounts owed to other local authorities have decreased by £0.446m primarily due to sums owing to Staffordshire County Council in respect of the construction of Castle House included in the March 2017 balance. Amounts due to other entities have decreased by £0.455m largely due to a reduction in the sundry creditors balance at 31 March 2018.

- Provisions are £2.051m compared with £0.898m at 31 March 2017. This overall total comprises three provisions (31 March 2017 balance in brackets): NNDR Appeals £1.878m (£0.725m); Insurance Claims Provision £0.148m (£0.148m); Municipal Mutual Insurance (MMI) Provision £0.025m (£0.025m). See paragraph 4.5 for further details in relation to the NNDR Appeals provision.
- The Net Liability relating to Defined Benefit Pension Schemes (i.e. the difference between liabilities and assets of the pension scheme) decreased from £71.709m to £68.025m. Normally this decrease would be mirrored by a decrease 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 2018/19 and 2019/20 totalling £3.130m. These were paid in 2017/18 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 2018/19 and 2019/20 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 2018/19 the prepayment relating to that year will be transferred to the general fund revenue account via a transfer from the Pensions Reserve with a similar transaction in 2019/20. After these transactions have occurred, the two accounts will once more be mirror images of each other. Without the charge of £3.130m, the Pensions Liability would have shown a small decrease of £0.554m, reflecting other factors. 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 £7.339m. The note included in Appendix 1 shows a full analysis of all these reserves. The main items, with their balances at 31 March 2018, are:

- General Fund Balance (£1.200m)
- Capital Receipts Reserve (£2.162m)
- Capital Grants Unapplied (£1.158m)
- Budget Support Fund (£0.355m)
- Contingency Reserve Fund (£0.210m)
- ICT Development Fund (£0.067m)
- Equipment Replacement Fund (£0.552m)
- Business Rates Reserve (£1.353m)

The majority of these balances are committed to various projects and initiatives and are not available for other use.

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- 6.2 The General Fund Balance remains the same (£1.200m) as at 31 March 2018. 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 almost entirely committed to financing the currently approved capital programme plus slippage from 2017/18, the year-end balance reflecting the small underspending in relation to the 2017/18 capital programme, as discussed at paragraph 7.2 and increased receipts from right to buy sales, and will almost all need to be spent in 2017/18. 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 2019/20. Some may require “topping up”, either from the revenue budget or a transfer from another reserve. In particular, the Renewals and Repairs Fund was exhausted in 2017/18.

## **7. Capital Expenditure**

- 7.1 Capital expenditure totalled £6.296m in 2017/18.
- 7.2 The capital programme approved by Full Council on 22 February 2017 provided for an amount of £3.047m to be spent in 2017/18. However, the budget report to Full Council on 21 February 2018 revised the estimated spend for 2017/18 to £5.938m. This was due to the addition of £2.891m slippage from 2016/17. Since then £0.451m additional Disabled Facilities Grant funding has been received which would support further expenditure of this amount. These changes result in a revised capital programme of £6.389m for 2017/18.
- 7.3 As can be seen, the actual outturn for the year was in line with the revised programme.
- 7.4 Projects in progress or committed will be completed or commenced in 2018/19. 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 continuing 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 2018/19 programme will also need to be reviewed for the same reason.
- 7.5 The expenditure of £6.296m was financed as shown below:

	£m
Capital Receipts	0.871
BetterCare Funding (re Disabled Facilities Grants)	1.452
Contributions from Other Bodies	0.215
Section 106 payments	0.110
Reserves - ICT Development Fund	0.071
Internal Borrowing	3.577
Total Financing	<u>6.296</u>