

Subject:	Annual Governance Statement and Statement of Accounts 2015/16	Status:	For Publication
Report to:	Audit & Accounts Committee	Date:	28 th June 2016
Report of:	Finance Manager	Portfolio Holder:	Finance and Resources
Key Decision:	<input type="checkbox"/> Forward Plan <input checked="" type="checkbox"/>	General Exception	<input type="checkbox"/> Special Urgency <input type="checkbox"/>
Community Impact Assessment:	Required: <input type="checkbox"/>	Yes /No	Attached: <input type="checkbox"/> Yes /No
Biodiversity Impact Assessment	Required: <input type="checkbox"/>	Yes /No	Attached: <input type="checkbox"/> Yes /No
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1.	RECOMMENDATION(S)
1.1	The Members note the contents of this report and
1.2	<ul style="list-style-type: none"> Approve the Annual Governance Report at Appendix 1- pages 11-15. Approve the DRAFT Statement of Accounts 2015/16 at Appendix 1 for submission to external audit and public inspection.

2. PURPOSE OF REPORT

- 2.1 The purpose of the report is to seek Member approval of the Annual Governance Statement: Year ended 31st March 2016 and the DRAFT Statement of Accounts for the year ended 31st March 2016 for submission to external audit and public inspection.

3. CORPORATE PRIORITIES

- 3.1 The matters discussed in this report impact directly on the following corporate priorities:
- Regenerating Rossendale:** This priority focuses on regeneration in its broadest sense, so it means supporting communities that get on well together, attracting investment, promoting Rossendale, as well as working as an enabler to promote the physical regeneration of Rossendale.
 - Responsive Value for Money Services:** This priority is about the Council working collaboratively, being a provider, procurer and a commissioner of services that are efficient and that meet the needs of local people.

Clean Green Rossendale: This priority focuses on clean streets and town centres and well managed open spaces, whilst recognising that the Council has to work with communities and as a partner to deliver this ambition

Strong financial control ensures the effective management of the Council's resources, which then enables the provision and delivery of value for money services.

4. RISK ASSESSMENT IMPLICATIONS

- 4.1 All the issues raised and the recommendation(s) in this report involve risk considerations as set out below:
- Operational Governance and Risks:* the Annual Governance Statement: Year ended 31st March 2016 details the significant risks faced by the Council and the measures in place to mitigate, manage and monitor those risks.
 - Level of General Fund Reserves:* The Council must set a level of General Fund

reserves based on an assessment of the potential risks to which the Council is exposed. Through its Medium Term Financial Strategy the Council has acknowledged the level of risks in the general economic environment through a suggested minimum level of General Fund balances of £1m. The Balance Sheet in the Statement of Accounts at Appendix 1 shows the General Fund Balance at the 31st March 2016 was £1m.

- *Contingent Assets and Liabilities*: An assurance will be submitted verbally to the Members at the Committee to confirm the current position with regards to Contingent Assets and Liabilities.

5. BACKGROUND AND OPTIONS

The DRAFT Statement of Accounts 2015/2016 is attached at Appendix 1.

The Annual Governance Statement: Year ended 31st March 2016 is within Appendix 1 on pages 11 to 15.

5.1 Annual Governance Statement: Year ended 31st March 2016

The Annual Governance Statement has been updated for the year ended 31st March 2015.

5.2 Core Statements – Comprehensive Income & Expenditure Statement (CIES) page 18

The CIES is a statutory format report which meets the International Financial Reporting Standards. This means that it includes all income and expenditure, both capital and revenue, cash and non-cash. This includes £181k non-cash gains on the revaluations of fixed assets and £4,630k non-cash gains on the interim revaluation of the pension fund. The total net surplus of £4,687k also includes costs of depreciation and gains on the sale of assets, which are not attributable to the Council Tax General Fund.

The Explanatory Foreword on pages 7 & 8 show the operational variances between the General Fund Budget approved in February 2015 and the actual performance. It is very difficult to relate the net CIES deficit to the General Fund favourable variance, but the table below reconciles the Net Cost of Services sub-total of £7,427 to the General Fund.

	£000s
CIES Net Cost of Services	8,591
LESS:-	
Depreciation and impairments - not a charge to tax-payers	-1,224
Losses on revaluation of of Property, Plant & Equipment	-73
Change in Unapplied Government Grants	321
Capital Expenditure Contribution	833
Minimum Revenue Provision	591
Interest payable	163
Interest Receivable	-86
Transfers to/(from) Earmarked Reserves (excluding those funded from direct grants)	-218
Net impact of pensions adjustments	0
	<u><u>8,898</u></u>
Explanatory Foreword	
Amounts to be met from grants and local tax payers	8,952
Less Whitworth Town Council Precept	-54
	<u><u>8,898</u></u>

5.2.1 Revenue Operations compared to the Cabinet Monitoring Reports

Cabinet has been receiving regular financial monitoring updates throughout the year. The Explanatory Foreword starting on page 7 shows the accounts in the format members will be familiar with from those reports, rather than the accounting standard format of the Comprehensive Income and Expenditure Statement on page 18.

The Explanatory Foreword shows a favourable variance of £519k across the General Fund operational services and the table on page 8 gives the significant elements of this variance. Members should note that previous monitoring reports have forecast a net saving on General Fund of £400k (Cabinet, February 2016) and officers were recommending that this be transferred to the Empty Homes Strategy Reserve.

By the year-end that operational surplus had risen £216k to £616k, the main variances in Q4 being:-

- £49k reduction in Minimum Revenue Provision following delays in vehicle replacement
- Empty Homes operating costs have reduced to £895k as £45k of building costs have been recharged to owners.
- Recovery of court costs and overpaid benefits have exceeded expectation by £91k.
- Provision for the value of staff leave carried forward has reduced by £25k.

The balance of the Empty Homes renovation tenders 1, 2 & 3 was £1,164k at the 31st of March. Officers had originally expected that the funds in the Earmarked Reserve would be used in 2016/17 to support this cost, however with the contracts signed before the year end, it is more correct to hold this as a Provision, rather than a Reserve. Hence, £548k from the Earmarked Reserve has been added to the £616k surplus on the General fund to create a new Provision of £1,164k.

5.3 Restatement of Prior Years

Members will note that in several areas, including the main Core Statements, the figures for 2013/14 and 2014/15 have been restated due to a change in treatment of the HCA grant for the East Lancs Empty Homes Scheme from revenue to capital.

Note 2 on page 33 attempts to explain the effects of this restatement as simply as possible. Following this restatement the balances on the HCA/Empty Homes accounts are as follows:-

- Note 23 - Long Term Debtors £2,465k outstanding from home owners, to be recouped from future rental incomes.
- Note 32 - Creditors includes £450k which officers expect to pay back to the HCA pertaining to properties returned to the owners.
- Note 33 - Provision of £1,164k for the balance of committed works on renovation tenders as at 31^s March, funded partly by General Fund surplus from 2015/16 and by use of the Earmarked Reserve at note 35a below.
- Note 34 - Short-term Grant Receipts in Advance where the balance of £956k relates to HCA grant on properties due to be brought back into use in 2016/17 with the conclusion of the works at Note 33 above.
- Note 35a - the Empty Homes Strategy Reserve holds a balance of £1,452k after £548k was used to support the provision at Note 33 above.
- Note 35b - Capital Receipts Reserve holds the income from rentals which is used to repay the Long Term Loans, therefore there is no balance held here at year-end.
- Note 35c - Government Grants Unapplied - now holds no funds in relation to the HCA capital grants.
- Note 36b - Capital Adjustment Account - is split now between HCA activity and non-

HCA activity. The HCA activity relates to the capital costs of both the lease/repair and purchase/repair element of the East Lancs Empty Homes Scheme, funded by the application of the HCA grant when properties have been brought back into use, and by the revenue contributions from the owners in terms of the loans being repaid. The balance of £1,371k at 31st March 2016 relates purely to the Council's lease/repair element and this will be repaid in part by the remaining grant at note 34 and by the ongoing owner contributions outstanding at note 36c below.

- Note 36c - Deferred Capital Receipts Account holds a balance identical to the Long Terms Loans outstanding. As these are paid off the owner contributions go through the Capital Receipts Reserve, to the Capital Adjustment Account at note 36b above.

5.4 Core Statements – Balance Sheet page 19

The Balance Sheet on page 19 shows total reserves of £5.6m.

Property, Plant & Equipment has been more or less static. At note 17a on page 44 members will note that the assets pertaining to the Spinning Point project have been transferred into 'Assets under Construction'. This includes £400k of assets from Surplus, like the Town Hall, and assets from Land & Buildings, like the former OSS, the old Police Station, the car parks and public conveniences etc.

Short-term debtors have increased because we owe £639k to Central Government pertaining to the business rates agency account and this will come from the Business Rates Retention Reserve in 2016/17 (see note 35a). Debts here are net of the £2,156k impairment provision for doubtful debts which is explained in detail at note 30.

Short-term Creditors have increased and now include £450k expected to be returned to the HCA and Sundry Creditors includes an increase of £343k in S106 agreement contributions received from developers ahead of the related works being completed. The total S106 agreements held at the 31st March was £1,139k. True trade creditors have risen from £411k to £419k during 2015/16, partly due to the value of Empty Homes revenue operations & repairs.

The interim review of the Pension Fund has seen the deficit decrease by £4.3m since last year. More details can be found in Note 37 starting on page 64.

The Revaluation Reserve and the Capital Adjustment Account are non-cash reserves which hold the opposite accounting entries for the fixed assets activities during the year.

The Deferred Capital Receipts holds the amounts due back from Empty Homes Strategy properties in future years as explained in Note 36c.

5.4.1 Useable Reserves

The most important aspect of the Balance Sheet is the useable reserves, ie. those backed by cash. At the 31st March 2015 these totalled £13.4m, an increase of £485k explained as follows:-

5.4.2 **General Fund Reserve**

In line with the Medium Term Financial Strategy the General Fund Reserve remains at £1m.

5.4.3 **Earmarked Reserves** (Note 35a - page 61)

The total amount transferred to reserves was £963k and the amount used from reserves was £1,370k, giving a net decrease of £407k during the year to a closing total of £9,440k. However, members should note that this balance includes the value of the shares in Rossendale Transport Ltd, therefore the true cash-backed Earmarked Reserves is £8,795k. Note 35a gives more information on purpose and movement in these reserves.

5.4.4 **Capital Receipts Reserve** (Note 34b - page 60)

For its main activities the Council received £143k from the sale of assets in 2015/16 and £81k in other capital income and it used £160k to fund capital projects during the year.

For the Empty Homes Scheme the capital income relates to the renovation contributions from owners as their initial loans are paid off. These funds are transferred to the Capital Adjustment Account to fund the capital expenditure on these properties.

5.4.5 **Government Grants Unapplied** (Note 34c - page 60 and Note 10 on page 36)

No longer holding any Empty Homes Scheme grant funds, this account still holds the balance of Better Care Funds for DFGs which were not used during the year. This year it also holds 2 separate grants which Rossendale is administering on behalf of neighbouring authorities - Homelessness grants and the Clean Bus Technology funds. These are anticipated to be spent in 2016/17.

5.5 **Collection Fund – Council Tax and Business Rates** page 72 onwards

Rossendale Borough Council is a billing authority and operates a separate Collection Fund for the amounts collected / paid on behalf of itself and other preceptors for both council tax and business rates on an agency basis.

Council tax showed a net surplus in the year of £374k, of which this Council can keep £60k. In-year collections were marginally below the target, the arrears have risen by £621k to £5,131k against which there is a £2,720k provision for bad debts. The net arrears attributable to Rossendale Borough Council are £382k and these are shown in the main Debtors Note 27 and the Impairment Losses note 30.

The second year under the new localised business rates scheme has returned a deficit of £2,172k, of which this council is responsible for £869k. This is after a further increase in the provision for rating appeals of £1,291k (see CF note 4). The total arrears of £1,337k are offset by a bad debt provision of £1,068k and the net arrears attributable to Rossendale Borough Council are £108k and these are also shown in the main Debtors Note 27 and the Impairment Losses note 30.

COMMENTS FROM STATUTORY OFFICERS:

6. SECTION 151 OFFICER

6.1 Financial matters are noted in the report attached.

7. MONITORING OFFICER

7.1 Unless specifically commented upon within the report, there are no specific implications for consideration.

8. POLICY IMPLICATIONS AND CONSULTATION CARRIED OUT

8.1 Unless specifically commented upon within the report, there are no implications for consideration.

9. CONCLUSION

9.1 Robust monitoring of the General Fund is essential to control risks expressed in section 4.

9.2 Despite a continued cost reduction programme, the challenge remains for the Council to continue its efficiency agenda in order to realise its medium term saving target. Members, collectively, continue to face difficult choices in order to balance expenditure with available resources over the medium term.

Background Papers	
Documents	Place of Inspection
Closure of Accounts working papers	Financial Services.