

Subject:	Annual Governance Statement and DRAFT Statement of Accounts 2016/17	Status:	For Publication
Report to:	Audit & Accounts Committee	Date:	27 th June 2017
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 11-16. Approve the DRAFT Statement of Accounts 2016/17 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 2017 and the DRAFT Statement of Accounts for the year ended 31st March 2017 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 2017 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 2017 remains at £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 Annual Governance Statement: Year ended 31st March 2017 is within Appendix 1 on pages 11 to 16.

The DRAFT Statement of Accounts 2016/17 is attached at Appendix 1.

5.1 Annual Governance Statement: Year ended 31st March 2016

The Annual Governance Statement has been updated for the year ended 31st March 2017.

5.2 The Narrative Statement

The Narrative Statement on pages 6 to 10 includes a General Fund Summary which shows the budget approved back in February 2016 against the out-turn performance, with a net adverse variance of £934k. This has been funded by a net additional £418k taken from Reserves.

The main operational variances in the year are shown in the table below. More detailed information on these will be available in the Financial Out-turn Report going to Cabinet on the 5th July.

Favourable Variances	£000s	Adverse Variances	£000s
Staffing (above the £150k target)	89	Housing Benefit Subsidy	81
Court Costs awarded	24	Software & Disaster Recovery costs	45
		External IT support for Futures Pk	11
Operational Vehicles (net of MRP)	110	Operational Fuel costs	20
Cemeteries income	20	Recycling income	20
Taxi Licensing income	156	Markets income	25
Planning & Building Control Income	19	Empty Homes Scheme	1186
Bus Station departure charges	17	Whittaker Park Museum	13
Mount Pleasant settlement	60	Prof Fees re planning applications	29
Estates income	33	Building running costs	15
Children's Trust Contribution	15	Sundry Debts Provision	13
Management charge to Rosso for 15/16	91	External Review of Business Rates	34
Other minor net favourable variances	2	Refuse bins stock adjustment	16
		Corporate Management support	41
		Prof Fees re H.R. issues	11
		RTB loan	10
	636		1570
		Net Adverse Variance on Services (against £8,610k Budget)	934
		Less Budgeted Use of Reserves	-514
		Net Additional Use of Reserves	-420

The resources rose by £524k, of which £538k relates to Business Rates, as shown in Note 6 on page 25. This includes £242k from renewable energy installations and all this is fully

attributable to Rossendale as a member of the new Lancashire Business Rates Pool.

5.3 **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 £1,068k non-cash gains on the revaluations of fixed assets and £2,082k non-cash losses on the interim revaluation of the pension fund, though £1,555k of this relates to the combination of the Rossendale Transport Ltd pension fund in with the Council. The total net cost of £5,345k also includes costs of depreciation and gains on the sale of assets, which are not attributable to the Council Tax General Fund.

It is very difficult to relate the net CIES deficit to the General Fund adverse variance of £524k, but Notes 1 and 2 on pages 22 to 24 attempts to do just that, showing the adjustments for depreciation, capital charges, MRP, pensions etc. Note 13 also shows the adjustments which the Movement in Reserves requires to bring the CIES deficit of £3,345k back to a net nil effect on the General Fund Reserve of £1m.

5.4 **Core Statements – Balance Sheet** page 20

The Balance Sheet on page 20 shows negative total reserves of £1.5m, but the Useable Reserves element is £10.5m. The net negative position is due to the £33.6m deficit on the pension fund, which now includes the pension fund for the Transport company (see Note 34 on page 52).

There have been several notable changes in the Council's Balance sheet in 2016/17:-

- Property Note 14a - the Council invested just over £1,010k in buying out the Leisure Trust's lease of the Haslingden Sports Centre extension in November 2016. This has been classed as an addition to the Council's existing asset, but as it did not affect the overall value of the building, a similar impairment can be seen in Note 14a. Hence the overall net value of building assets has only increased by £500k, mostly due to revaluations. This will reduce future grant for the Trust to nil, as explained in Note 11 on page 28.
- Long Term Debtors Note 20 - the Council also invested £1,082k in repaying the mortgage for Rossendale Transport Ltd in October 2016. This can now be seen as a long-term loan in Note 20 and it is repayable in equal instalments of principal over the next 15 years with an interest rate of 2.8% (equivalent to the rate at which the Council could have borrowed the same funds from the PWLB at the time).
- Earmarked Reserves Note 32a - the Council has applied £750k of the Leisure Earmarked Reserve at the very end of the year to re-finance the Leisure Trust's Balance Sheet Deficit. This also eliminated the cash flow loan given to the Trust at Note 20 and it extinguishes the Contingent Liability reported in previous years, as explained in Note 35 on page 57. The Trust was also given a £38k one-off grant to support their management restructure in March 2017. Further information can be seen in Note 11 on page 28.
- Short Term Investments Note 25 - as a result of the above investments, the cash investments at Note 25 have reduced from £7m to £3m at the end of March 2017.
- Short-term debtors Note 24 - short-term debtors have remained static overall, but

Note 24 shows in more detail the shift from Central Government debt pertaining to the business rates agency account and the other debts owing to the Council. The increase in Council Tax debts is mainly relating to the separation of Court Cost debts which are solely attributable to this council and not shared by the other preceptors. Debts here are net of an impairment provision of £1,491k shown in Note 26.

- Short-term Creditors Note 28 - short-term Creditors have increased by £644k as shown in Note 28. Most notably this is the effect of the ongoing renovation programme for the Empty Homes Scheme, where purchase order contracts issued and in progress have been fully accrued for at the year-end.
- Pension Fund Note 34 - the year-end accounting review of the Pension Fund has seen the deficit decrease by £3,861k since last year. Of this £1,555k. relates to the consolidation of the Rossendale Transport company pension fund with that of the Council. This decision was made following the full actuarial review of the pension fund as at March 2016, which reported a net surplus for the Transport company element. The two valuations are based on very different assumptions as to future life expectancy, local knowledge and future asset performance expectations. However, it is the more pessimistic accounting valuation which is reported in the statutory Accounts.
- 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 for future years loan repayments from rental income, as explained in Note 33c.

5.5 Useable Reserves

The most important aspect of the Balance Sheet is the useable reserves, ie. those backed by cash. At the 31st March 2017 these totalled £13.4m, a decrease of £2,184k during the year which can be explained as follows:-

5.5.1 General Fund Reserve

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

5.5.2 Earmarked Reserves (Note 32a - page 48)

The total amount transferred to reserves was £984k and the amount used from reserves was £2,864k, giving a net decrease of £1,880k during the year to a closing total of £6,874k. 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 £6,229k Note 32a gives more information on purpose and movement in these reserves, the biggest movers being the Leisure Reserve, the Business Rates Reserve and the Empty Homes Strategy Reserve.

5.5.3 Capital Receipts Reserve (Note 32b - page 50)

For its main activities the Council received £178k from the sale of assets in 2016/17 and

£136k in other capital income and it used £352k to fund capital projects during the year.

For the Empty Homes Scheme the capital income relates to the renovation contributions of £482k from owners as their initial loans are paid off and the Deferred Capital Receipts are realised (see note 33c). These funds are transferred to the Capital Adjustment Account to fund the capital expenditure on these properties.

5.5.4 **Government Grants Unapplied** (Note 32c - page 50 and Note 7 on page 26)

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. The DFG grant received increased from £424k in 2015/16 to 792k in 2016/17 and the cumulative amount unspent at 31st March 2017 was £392k. The council has received assurances that this balance can be retained locally and spent in the following financial year.

The Clean Bus Technology funds received in 2015/16 have been used to adapt 38 buses in the Rossendale Transport Ltd fleet to run in a more environmentally friendly manner.

The Council is also acting as accountable body for two grants available for projects being operated by the Police in relation to Transforming Lives and Hoarding relief. The total received for the two grants was £100k, of which £9k had been used by the end of the year and the balance was being carried forward to fund activity in 2017/18.

5.6 **Collection Fund – Council Tax and Business Rates** pages 74 to 77

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 £239k, of which this Council can keep £37k. In-year collections were marginally below the target, the arrears have risen by £664k to £5,174k against which there is a £3,144k provision for bad debts. The net arrears attributable to Rossendale Borough Council are £875k and these are shown in the main Debtors Note 24 and the Impairment Losses Note 26.

The second year under the new localised business rates scheme has returned a small surplus of £39k, of which this council retains £15k. This is after a further increase in the provision for rating appeals of £198k (see CF note 4). The total arrears of £1,499k are offset by a bad debt provision of £1,141k and the net arrears attributable to Rossendale Borough Council are £139k and these are also shown in the main Debtors Note 24 and the Impairment Losses Note 26.

Members should note that there are two other impacts of Business Rates for this Council which fall outside of the Collection Fund. Note 6 explains that in 2016/17 the Council received £242k for renewable energy installations which are 100% attributable to Rossendale Council. This helped the overall increase in Business Rates to reach £538k. In the past 50% of this would have gone to central government, but as members of the new Lancashire Business Rates Pool, we retain all this gain. The risk is that in future years we may also have to cover the full amount of any losses.

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 maintain the emphasis on the 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.