

Audit and Governance Committee

2 July 2019

Is the final decision on the recommendations in this report to be made at this meeting?

YES

Draft Annual Financial Report for 2018/19

Final Decision-Maker	Audit and Governance Committee
Portfolio Holder(s)	Councillor Tom Dawlings – Portfolio Holder for Finance and Governance
Lead Director	Lee Colyer – Director of Finance, Policy & Development (Section 151 Officer)
Head of Service	Jane Fineman– Head of Finance and Procurement
Lead Officer/Report Author	Jane Fineman– Head of Finance and Procurement
Key Decision?	No
Classification	Non-Exempt
Wards affected	Not Applicable

This report makes the following recommendations to the final decision-maker:

1. The Committee note Grant Thornton's Audit Findings Report – Appendix B
2. The Committee approve the draft Statement of Accounts and the Annual Governance Statement – Appendix A
3. The Committee authorise the Chairman and the Director of Finance, Policy & Development to sign a Letter of Representation based on Appendix A and the Audit Findings Report.

This report relates to the following corporate priorities:

- A Prosperous Borough
- A Green Borough
- A Confident Borough

Timetable

Meeting	Date
Management Team	Verbal update
Discussion with Portfolio Holder	Verbal Update
Audit & Governance Committee	2 July 2019

Draft Annual Financial Report for 2018/19

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

The draft Annual Financial Report for 2018/19 (which contains the Statement of Accounts) was uploaded to the Council website on the 29th May 2019. There have been no material changes since then and the audit is almost complete, as outlined in Grant Thornton's Audit Findings Report (Appendix B). This Committee now needs to give its formal approval in order that the Annual Financial Report can be published before the statutory deadline of 31 July 2019.

2. INTRODUCTION AND BACKGROUND

The Annual Financial Report

2.1 The complete document published at the end of the audit process is termed the "Annual Financial Report" (Appendix A), while the term "Statement of Accounts" comprises the formal accounting statements, including the Collection Fund statement, together with the notes to these accounts. The Annual Financial Report consists of:

- Narrative Report
- The Annual Governance Statement
- The Statement of Responsibilities
- The Independent Auditor's Report
- The Statement of Accounts

Changes to Accounting Standards and other Major Impacts

2.2 The major change to the CIPFA Code of Practice for 2018/19 was the implementation of International Financial Reporting Standards (IFRS) 9 Financial Instruments which changes the way in which investments are categorised. The standard sets out that pooled investments should be recognised at fair value through profit and loss which would mean that any changes in valuation flow through the profit and loss and affect the Surplus or Deficit on Provision of Services. The Council holds a pooled investment with the Churches, Charities and Local Authorities Property Fund. The Ministry for Housing, Communities and Local Government (MHCLG) has agreed a temporary override for English Local Authorities for a 5 year period starting 1 April 2018. The Council used the statutory override to reverse the impact of the fair value of its pooled investment through the Movement in Reserves statement.

Headline figures in the Statement of Accounts

2.3 The revenue accounts, as summarised in paragraph 4 of the Narrative Report, show that the Council achieved a cost of services surplus of £216,000 compared to budget, with a further £5.029m surplus to budget achieved from Business Rates and Government Grants received as recompense for Business Rate Reliefs. This, along with £48,000 from additional interest and £35,000 from additional Council Tax, enabled £4.328m to be transferred to earmarked reserves to fund capital projects that have already been approved, but are as yet unfunded. The remaining £1m was transferred to the General Fund. Meeting the revenue budget is a considerable achievement in view of the continual decline in government grants, and emphasises the Council's commitment to balancing its budget. The £5m surplus from Business Rates was achieved because in 2018/19 Tunbridge Wells Borough Council was part of a 1 year 100% Business Rates Retention pilot. All of the Kent authorities were able to form a pool for the purposes of business

rates and allowed to retain 100% of any business rates growth surplus, providing they agreed to forego some existing grants. Whilst the council applied again for the pilot in 2019/20, other councils were given the opportunity to benefit. Detailed information can be found in the Quarter 4 Monitoring Reports presented to Cabinet on 27 June 2019.

- 2.4 The Usable Reserves have increased by £2.5m during the year, from £21.9m to £24.4m (see page 23 of the Annual Financial Report). This is partially due to the revenue successes in para. 2.3, but also due to the receipt of £1.388m from the sale of Holly Farm (see note 13 of the Annual Financial Report).
- 2.5 The value of Property, Plant and Equipment rose by £6.77m in the year. This was mainly due to the capitalisation of £4.9m for the Calverley Square project, £1.8m for the purchase of four flats and £1m for five new properties brought into the Royal Victoria Place lease. There were also other smaller valuations changes and depreciation accounted for.
- 2.6 There has been a further reduction in the Council's net liability for future pension costs, of £5.56m (£3.6m in 2017/18). This is mainly as a result of a gain in the actual return on scheme assets over the year. This gain is dependent upon asset returns, corporate bond yields and market expectations of inflation which when taken together has resulted in a decrease in the pension fund deficit. The deficit is measured correctly in line with accounting standards but does fluctuate quite considerably from year to year as actuarial assumptions change. Actual pension contributions made by the council are reviewed by the actuaries on a triennial basis, with the next review being the 31 March 2019.

Accounting Issues

- 2.7 The new 2017 Rating list, applicable from 1 April 2017, is subject to a new, and significantly more complex appeal process. This has meant that far fewer appeals have been made than would normally have been expected. It is also considered that consultancy companies, which assist businesses to appeal, will not make their appeals in the early years of a new rating list, in order to maximise their earnings from retrospective years' commission. The low number of appeals experienced this year is not anticipated to be the case indefinitely and the amounts appealed could be significant and retrospective. The Ministry of Housing, Communities and Local Government has provided an estimate that 2.1p in every £1 of the annual Rateable Value would be appealed and in order to reflect this material sum, a provision has been made in the Collection Fund. This year the calculation has been further refined to specifically recognise those businesses that are in receipt of the various business rate reliefs, which means they are less likely to appeal their rateable value. This, and the settlement of some of the older 2010 appeals, has meant an overall reduction in the level of appeals provision. The Council's 40% share of the total provision has been decreased to £2,551,016.
- 2.8 A court ruling has been made regarding age discrimination arising from public sector pension scheme transition arrangements. Court of Appeal judgements were made in cases affecting judges pensions (McCloud) and firefighter pensions (Sergeant) which had previously been considered by employment tribunals. The rulings have implications for the Local Government Pension Schemes, Police and Fire schemes since similar reforms were implemented. The final situation in terms of employer pension liabilities and financial impact is not clear, since the government may appeal and any remediation process, including cost cap considerations, may affect the resolution and financial impact for entities. Timescales for resolution are not clear either. The National Audit Office (NAO) is still trying to determine how they would like this case presented in all Local Authority accounts and although an actuarial report commissioned shows the amount is likely to be immaterial for this Council, there has been a paragraph included in the

Pension Note 19 explaining the contingent liability. This Note may need to change following to the disclosure requirement decision of the NAO.

The Audit Findings Report

2.9 The Audit Director from Grant Thornton has issued a draft Audit Findings Report (Appendix B attached) which she will introduce at the meeting. The report states that she expects to issue an unqualified audit opinion. On the first day of the audit, it was established that a valuation impairment for Dowding House had been incorrectly entered as a devaluation in the accounts. Whilst the amount was immaterial (£465,000) and the auditors did not require an amendment to the accounts, it was decided to correct it in order to ensure the valuations carried forward were accurate. No other adjustments were identified. She reports that the draft financial statements were of high quality and 5 days earlier than agreed. Also that the Finance Team was responsive, helpful and fully engaged with the audit process.

2.10 The Value for Money Review, aimed at assessing the Council's Arrangements for delivering economy, efficiency and effectiveness in its use of resources, is now part of the Audit Findings Report. The Audit Director has concluded that the Council had proper arrangements in place, to ensure it delivered value for money in its use of resources.

2.11 In the draft Annual Financial Report, Notes on Intangible Assets, Agency income and Expenditure, and Leases were included, as historically they had been material. Local Authorities are encouraged to "de-clutter" their accounts and remove anything that is not required by the Code, which includes Notes containing immaterial items. The council likes to work with the auditors and obtain agreement before removing any Notes and as the delivery timescales are now so short, this process took place during the audit, not during the preparation of the Draft Annual Financial Report. Hence these Notes have been subsequently removed.

2.12 Page 3 indicates that there are a few outstanding tasks to be completed, but all is anticipated to be complete by 31st July. The representation letter will be signed after the Committee meeting.

2.13 Last year there was a recommendation from the auditor to enhance the evidence we provided to ensure the carrying value of our assets in the accounts are not materially different from the current value in the balance sheet at year end. This year, a desktop exercise has been completed to show that, based upon in year revaluations, the remainder of the assets not valued in year, will not have moved materially from their current values on the balance sheet.

2.14 As part of the agreement with the auditors for completing the exercise explained in 2.13 we were able to agree that major Property, Plant and Equipment assets would be revalued every 3 years on a rolling basis and smaller assets would be valued in a rolling programme every 5 years. We have tendered for this work and now only use one valuer rather than two and have reduced the annual cost of the valuations from £18,000 to £9,950 per year.

Role of Committee and timetable to publication of the Annual Financial Report

2.15 As noted in the Audit Findings Report, the audit is almost complete. This Committee has a duty to approve the Statement of Accounts, which will then be published as part of the Annual Financial Report before the statutory deadline of 31 July.

It is anticipated that this Committee will also give their statutory approval to the Annual Governance Statement at this meeting.

3. AVAILABLE OPTIONS

3.1 The Committee could decide not to approve the accounts.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 That the Committee approve the accounts in order that the statutory obligations and deadlines are met.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 In line with the Accounts and Audit Regulations a formal advertisement was placed on the internet drawing the attention of the public to the availability of the draft accounts, and the legal right of interested parties to inspect the accounts and the supporting documentation. There was one approach made but they did not attend their appointment.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 Once the Independent Auditor's Report is signed the Statement of Accounts will be published on the Council's website.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off (name of officer and date)
Legal including Human Rights Act	The Audit Committee has a legal duty of oversight for the Council's corporate governance arrangements. Under section 151 of the local government act (LGA 1972), the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including advising on the corporate financial position and providing financial information. There are no consequences arising from the recommendation that adversely affect or interfere with individuals' rights and freedoms as set out in the Human Rights Act 1998.	Senior Lawyer (Corporate Governance)
Finance and other resources	The Annual Financial Report details the overall unaudited financial position of the authority and is for information only.	Head of Finance and Procurement
Staffing establishment	There are no specific implications.	Head of HR or deputy
Risk management	The reporting of the draft Report at this stage is designed to improve scrutiny of the Council's draft	Head of Audit

	accounts and therefore to reduce the risk of material error.	Partnership, Deputy Head of Audit Partnership or Audit Manager
Environment and sustainability	There are no specific implications.	Sustainability Manager
Community safety	There are no specific implications.	Community Safety Manager
Health and Safety	There are no specific implications.	Health and Safety Advisor
Health and wellbeing	There are no specific implications.	Healthy Lifestyles Co-ordinator
Equalities	There are no specific implications.	West Kent Equalities Officer

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

Appendix A Draft Annual Financial Report for 2018/19

Appendix B Draft Audit Findings Report for 2018/19 (to follow)

9. BACKGROUND PAPERS

Budget 2018/19 (Full Council 20 February 2018)