

# **BRIDGEND COUNTY BOROUGH COUNCIL**

## **REPORT TO AUDIT COMMITTEE**

**28 JUNE 2018**

### **REPORT OF THE INTERIM HEAD OF FINANCE AND SECTION 151 OFFICER**

#### **STATEMENT OF ACCOUNTS 2017-18 (UNAUDITED)**

##### **1. Purpose of this report**

1.1 The purpose of this report is to present to Audit Committee:-

- the unaudited Statement of Accounts for 2017-18 for noting and;
- the Harbour Authority Annual Return for 2017-18 for approval.

##### **2. Connections to Corporate Improvement Objectives / Other Corporate Priorities**

2.1 This report assists in the achievement of the following corporate priority/priorities:

- Smarter use of resources – ensuring that all its resources (financial, physical, human and technological) are used as effectively and efficiently as possible and support the development of resources throughout the community that can help deliver the Council's priorities.

2.2 The Council's financial performance is an important element in determining the extent to which the Corporate Objectives can be delivered.

##### **3. Background**

3.1 The preparation of the Statement of Accounts is a requirement of the Accounts and Audit (Wales) Regulations 2014 (as amended 2018) and its content is defined by the 'Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

3.2 In accordance with these regulations, the Statement of Accounts for 2017-18 has to be signed and dated by the responsible financial officer before the 30 June 2018, certifying that it presents a true and fair view of the financial position of the Council. The audited Statement of Accounts then has to be approved by 30 September 2018 by Audit Committee in accordance with the Committee's Terms of Reference. The Code sets out the accounting principles and practices required to prepare a Statement of Accounts. However, it is the role of the responsible financial officer to make appropriate decisions in

accordance with her professional judgement about the best and proper practices to be followed.

#### **4. Current Situation / Proposal**

4.1 The Council's Statement of Accounts for the financial year ended 31 March 2018 has been prepared and a copy is attached as **Appendix A**. The Statement of Accounts comprises a number of different statements relating to financial performance and reserves as well as a statement on corporate governance arrangements. Also attached at **Appendix B** is the Annual Return for the Harbour Authority for approval.

4.2 The Statement of Accounts 2017-18 was signed by the Section 151 Officer and passed to Wales Audit Office on the 30 May 2018, a calendar month before it was required to be signed in accordance with Regulations. This demonstrates the Council's commitment to Earlier Closing of Accounts.

4.3 The Accounts include the following Core Financial Statements (pages 14 to 17):-

- Comprehensive Income and Expenditure Statement
- Expenditure and Funding Statement
- Movement in Reserves Statement
- Balance Sheet
- Cash Flow Statement

These are produced in accordance with International Financial Reporting Standards (IFRS) rather than the amount to be funded in cash terms when the budget is set. Therefore these statements include items such as depreciation on property, plant and equipment, the estimated cost of the shortfall on the pension scheme and other technical adjustments.

4.4 The net under-spend for the financial year, after allowing for capital financing and contingency costs, transfers to and from Earmarked Reserves and additional Council Tax income, is £0.387 million. This is transferred to the Council Fund which increases to £8.347 million as at 31 March 2018 (£7.960 million at 31 March 2017). This represents a 4.9% increase on the Council Fund from the balance at the 31 March 2017. The Expenditure and Funding Statement (page 36) shows how this Surplus on the Council Fund is adjusted to a deficit of £14.519 million on the Comprehensive Income and Expenditure Statement as a result of technical adjustments between the funding and accounting basis and transfers to earmarked reserves.

4.5 The Council's Reserves for 31 March 2018 are summarised in the table below with further details available on pages 60 to 65 within the Statement of Accounts:

Opening Balance 2017-18 £'000	Reserve	Movement during 2017-18		Closing Balance 2017-18 £'000
		Additions/ Re- classification £'000	Drawdown by Directorates £'000	
7,960	Council Fund Balance	387	-	8,347
866	Delegated Schools Balance	-	(506)	360
3,949	Maesteg School PFI Equalisation	(3,949)	-	-
46,344	Earmarked Reserves	11,568	(10,197)	47,715
<b>59,119</b>	<b>TOTAL INCLUDING COUNCIL FUND</b>	<b>8,006</b>	<b>(10,703)</b>	<b>56,422</b>

- 4.6 The Council Fund balance now exceeds £8 million. It ties in with the Medium Term Financial Strategy (MTFS) Principle 8 that the balance “will be maintained at a minimum of £7 million over the MTFS period at reach 2.7% of the Gross Revenue Expenditure by 2019-20”. Though it is too earlier to calculate the percentage for 2017-18 as the Welsh Government’s Revenue Outturn Return 2017-18 has not been completed, the calculation for 2016-17 would result in a requirement for the Council Fund balance to be £8.740 million.
- 4.7 As can be seen above, School balances have decreased by £506,000 to £360,000 at the end of the financial year, representing 0.39% of the funding available. Out of a total of 59 schools there are 22 schools (17 primary, 4 secondary and 1 special) with deficit budgets and 9 schools (7 primary, 1 secondary, 1 special) with balances in excess of the statutory limits (£50,000 primary, £100,000 secondary and special schools) in line with the School Funding (Wales) Regulations 2010. These balances will be analysed by the Corporate Director - Education and Family Support, in line with the agreed ‘Guidance and procedures on managing surplus school balances’.
- 4.7 The Maesteg School PFI Equalisation Fund has been unwound during 2017-18 as it is no longer required due to a change in the mechanism for allocating the PFI funding through the Revenue Support Grant and then the associated accounting treatment as a result. The released reserve was then used to enhance the Capital Programme Contribution Reserve for Band B Schools funding.
- 4.8 There has been a net increase in Earmarked Reserves of £1.371 million to £47.715 million at 31 March 2018 (£46.344 million at 31 March 2017). There have been additions to existing reserves or new reserves created of £11.568 million and drawdown by Directorates from reserves to match expenditure of £10.197 million. The below table shows some of the more significant movements on reserves:-

Opening Balance 2017-18 £'000	Reserve	Movement during 2017-18		Closing Balance 2017-18 £'000
		Additions/ Re- classification £'000	Drawdown by Directorates £'000	
11,380	Capital Programme Contribution	6,016	(5,314)	<b>12,082</b>
-	Corporate Pressures Contingency	1,000	-	<b>1,000</b>
8,103	Service Reconfiguration	1,130	(1,276)	<b>7,957</b>
-	City Deal Reserve	1,088	-	<b>1,088</b>
651	Directorate Issues	1,438	(137)	<b>1,952</b>
<b>20,134</b>		<b>10,672</b>	<b>(6,727)</b>	<b>24,079</b>

4.9 As can be seen above, there is a new Corporate Pressures Contingency Reserve of £1 million, which Cabinet approved in December 2017, to provide one off temporary relief in the event of unforeseen over-spends on corporate budgets following significant reductions proposed in the 2018-19 budget. The Service Reconfiguration Reserve has been increased by £1.130 million to meet the potential costs relating to service remodelling and consequential severance costs. A new City Deal Reserve has been set up to finance capital expenditure in 2018-19 following approval of the City Deal Business Plan. Both the Capital Programme Contribution Reserve and the Directorate Issues Reserves have been increased following a review of capital and service priorities over the MTFS period.

4.10 In addition to spending money providing services on a day to day basis, the Council also spends money providing new facilities, enhancing assets within the Council's portfolio or providing capital grants to others. The total capital spending during 2017-18 was £36.584 million. Assets created, improved or under development as a result of this spend included:

- Investment in the Cardiff Capital City Deal
- Extra Care Living Schemes
- Replacement Betws Primary School
- Disabled Facilities Grants
- Carriage reconstruction and street lighting

4.11 There are various notes within the Accounts which detail how the capital expenditure is financed and what assets have been produced or enhanced.

4.12 The Annual Governance Statement (AGS) on page 88 highlights the challenges the Council faces in the delivery of the £32.8 million savings identified in the Medium Term Financial Strategy. It also includes an Action Plan for 2018-19.

4.13 The unaudited Statement of Accounts is now being reviewed by Wales Audit Office. Again with the principle of faster closing of accounts, a fair amount of external audit work was actually done in advance of the date when the certified Accounts were passed to them. A final audited

version of the Accounts will be brought back to Audit Committee in September and it will be these that will need Committee Approval in accordance with the Accounts and Audit (Wales) Regulations 2014 (as amended 2018) and signed by the Chair of Audit Committee.

- 4.14 The Annual Return 2017-18 for the Harbour Authority is attached at **Appendix B**. This has been audited as correct by Internal Audit. It is now requested that Audit Committee approves this Return and submits it to Wales Audit Office for review.

## **5. Effect upon policy framework & procedural rules**

- 5.1 There is legal requirement for the Statement of Accounts to be signed by the responsible financial officer by the 30 June following the end of the financial year.

## **6. Equality Impact Assessment**

- 6.1 Whilst the production of the Statement of Accounts itself does not itself raise any equality issues, it does summarise the financial consequences of the budget reductions and service reconfigurations identified in the Council's Medium Term Financial Strategy. When these proposals were being developed consideration was given to their potential impact on protected groups within the community.

## **7. Well-being of Future Generations (Wales) Act 2015 Implications**

- 7.1 This report links to the Council's long-term well-being objectives. It presents a positive picture in respect of both the 2017-18 revenue position and the accumulated reserves position.

## **8. Financial implications**

- 8.1 These are reflected in the body of the report.

## **9. Recommendation**

- 9.1 It is recommended that Audit Committee:-
- note the unaudited Statement of Accounts for 2017-18 (Appendix A);
  - approve the Harbour Authority Annual Return 2017-18 (Appendix B).

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**6 June 2018**

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**Background Documents:**

Statement of Accounts 2017-18  
Harbour Authority Annual Return 2017-18