

North Tyneside Council Report to Council Date: 26 July 2018

ITEM 7

2017/18 Annual Financial Report

Portfolio(s): Elected Mayor

Finance and
Resources

Cabinet Member(s): Norma Redfearn

Councillor Ray
Glendon

Report from Service Area: Finance

Responsible Officer: Janice Gillespie, Head of Finance **Tel:** 643 5701

Wards affected: All

PART 1

1.1 Executive Summary:

The purpose of this report is to seek full Council's approval of the 2017/18 Audited Annual Financial Report in accordance with Section 9 (2) of the Accounts and Audit Regulations 2015.

1.2 Recommendation(s):

Council is recommended to:

- (a) approve the Audit Completion Report, submitted by the Authority's external auditors Mazars, agree the draft Letter of Management Representation; and,
- (b) approve the 2017/18 Audited Annual Financial Report.

1.3 Forward Plan:

This report was included on the Forward Plan first published on 13 April 2018.

1.4 Council Plan and Policy Framework:

This report covers the financial aspects of all service responsibilities as identified within the 2018-20 Our North Tyneside Plan and the Authority's policy frameworks

1.5 Information:

1.5.1 Background

It is a requirement of Section 9 (2) of the Accounts and Audit Regulations 2015 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code that the Authority approves its audited Annual Financial Report for the financial year.

As laid out in the Accounts and Audit Regulations 2015, from 2017/18, the Authority is required to produce draft accounts by 31 May and must publish audited accounts by 31 July. This is a change from the previous publication dates of 30 June and 30 September respectively. As a result the draft accounts were prepared one month earlier and the audit completed two months earlier than previously.

- 1.5.2 The audit of the 2017/18 accounts is substantially complete and an unqualified audit opinion is expected to be issued. The Audit Completion Report, produced by Mazars, in respect of the 2017/18 Annual Financial Report will be presented to the Audit Committee on 25 July 2018. No material errors have been identified in the financial statements. However, the audit identified a need to revalue elements of the Authority's portfolio due to a large increase in the cost of construction index used to value buildings. The Building Cost Information Service (BCIS) produce indices which are used in the preparation of the valuation of assets. These indices have shown a marked increase in 2018 – an average of approximately 20% for North Tyneside. As a result it was necessary to revalue the assets within the Authority's portfolio that are valued at Depreciated Replacement Cost (DRC) resulting in an increase in the net book value of £87.686m.

A number of disclosure errors identified during the audit have been corrected and are reflected in the Annual Financial Report. A number of Internal Control issues have been raised and discussed with Mazars. Actions have been agreed to respond to those issues raised. A copy of the Audit Completion Report is attached as Appendix B.

- 1.5.3 The audited 2017/18 Annual Financial Report is attached for consideration and approval as Appendix A to this report. The Statement follows a statutory format as set out in the CIPFA Code.

Annual Financial Report

- 1.5.4 The main elements of the Annual Financial Report are:

- (a) Narrative Statement by the Chief Finance Officer;
- (b) The statutory accounts themselves, namely;
 - Statement of Responsibilities;
 - Comprehensive Income and Expenditure Statement;
 - Movement in Reserves Statement;
 - Balance Sheet;
 - Cash Flow Statement;
 - Housing Revenue Account;
 - Collection Fund Statement.

- Statement of Accounting Policies adopted when compiling the accounts; and,

(c) The Annual Governance Statement.

1.5.5 Each account above is supported by a comprehensive set of supporting and explanatory notes.

Summary

1.5.6 The Authority's Annual Financial Report (the Accounts) is prepared in accordance with statute and accounting Codes of Practice. The Accounts record the Authority's financial position as at 31 March 2018 by way of a series of formal statements such as the Comprehensive Income and Expenditure Statement (CIES), the Movement in Reserves Statement (MiRS), the Balance Sheet and the Cash Flow Statement.

1.5.7 As noted in the Outturn report, the final position of the Authority was £0.722m underspent prior to a transfer to the Strategic Reserve for £0.522m and a contribution of £0.200m to balances resulting in a final balance of £6.804m. The Housing Revenue Account (HRA) balance as at 31 March 2018 was £6.083m, and Schools Balances were £3.356m. The Authority incurred expenditure of £76.687m in the year on its Investment Plan (£53.156m General Fund and £23.531m HRA).

The Statement of Accounts

A summary of the main features of the 2017/18 statutory accounts follows:

1.5.8 The **Comprehensive Income and Expenditure Statement** (page 25) records revenue transactions (for both the General Fund and the Housing Revenue Account) through the Authority's books for the financial year. As its name indicates this account includes the income and expenditure for each service, along with expenditure on precepts and levies, interest paid, investment income, gains and losses on disposal of fixed assets and the costs associated with pensions. It also includes general income from Government Grants, Council Tax and Business Rates.

1.5.9 For 2017/18, the result of these transactions is a net surplus on the Comprehensive Income and Expenditure Statement of £113.913m (£42.960m 2016/17). This surplus (and the previous year's surplus) represents accounting convention and it does not impact on the Authority's balances at the year-end. For that reason, the Comprehensive Income and Expenditure Statement needs to be read in conjunction with the **Movement in Reserves Statement** (page 26), which makes a series of further accounting adjustments to arrive at the actual movement in balances in the year.

1.5.10 The Movement in Reserves Statement shows that after these adjustments the General Fund balances, which include Earmarked Reserves, have increased by £6.655m. This increase relates to a fall in school balances of £1.631m together with an increase in general fund balances of £0.200m and an increase in the earmarked reserves of £8.086m. The General Fund balance is now £6.804m whilst the school balances have reduced to £3.356m. The HRA balance increased by £0.117m (to

£6.083m) reflecting the reported under spend. HRA reserves have decreased by £1.153m to £22.820m.

- 1.5.11 The **Balance Sheet** is set out on page 28. As the revenue accounts are closed down for the year, the General Fund and HRA balances, along with the capital transactions from the Authority's Investment Plan, are transferred to the Authority's Balance Sheet. This represents the final position of the Authority at the end of the financial year, showing the assets that the Authority owns (such as land and buildings), the amounts it is owed (debtors etc) and what it owes to outside bodies and individuals (loans outstanding, creditors etc). As outlined in 1.5.2 a revaluation exercise was undertaken during the audit to reflect the increase in building costs (which forms part of the valuation of certain assets). This in the main is the reason for the increase in net assets between years (overall increase is £113.913m increase in property, plant and equipment £146.304m)
- 1.5.12 The **Cash Flow Statement** (page 30) shows the movement in cash and cash equivalents during the year.
- 1.5.13 The **Housing Revenue Account** (page 144) sets out the transactions that are ring-fenced for Council Housing.
- 1.5.14 The **Collection Fund Statement** (page 156) accounts independently for income relating to Council Tax and Business Rates on behalf of those bodies (including the Authority's own General Fund) for whom the income has been raised. The costs of administering collection are accounted for in the General Fund. Collection Fund balances relating to North Tyneside Council are consolidated into the Authority's Balance Sheet with the surplus/deficit relating to the Authority shown in the Collection Fund Adjustment Account.

Annual Governance Statement

- 1.5.15 The Annual Governance Statement is a statutory document which is signed by the Elected Mayor, the Chair of the Council, the Chair of the Audit Committee, and the most senior officer of the Authority (the Chief Executive). The purpose of the document is to demonstrate to all stakeholders that the Authority has controls in place to ensure that its business is conducted in accordance with law and proper standards and that public money is safeguarded, correctly accounted for and is used economically, efficiently and effectively. Although the financial management of the Authority is an essential part of the internal control framework, the Statement is not purely concerned with financial issues but also covers the Authority's constitution, corporate governance arrangements, facilitation of policy and decision making.

1.6 Decision options:

It is a statutory requirement that the audited Annual Financial Report is approved by 31 July 2018.

1.7 Reasons for recommended option:

The Authority is required under the Accounts and Audit Regulations 2015 to approve its audited Annual Financial Report by 31 July 2018.

1.8 Appendices:

Appendix A: Annual Financial Report for 2017/18

Appendix B: Audit Completion Report for 2017/18

1.9 Contact officers:

Janice Gillespie, Head of Finance, Tel 643 5701

Claire Emmerson, Senior Manager Financial Strategy and Planning, Tel 643 8109

Cathy Davison, Principal Accountant, Tel 643 5727

1.10 Background information:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author:

- (a) Revenue Budget 2017-18 (P)
- (b) Approved Investment Plan 2017-20 (P)
- (c) CIPFA Code of Practice 2017/18 (P)
Can be inspected at the Authority's offices.
- (d) Outturn Report 2017-18 (P)

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

As this is a financial report, implications are covered in the body of the report itself and the 2017/18 Annual Financial Report attached as Appendix A to this report. The Annual Financial report will also be considered by the Audit Committee at its meeting on 25 July 2018.

2.2 Legal

The Authority is required under the Accounts and Audit Regulations 2015 and the Chartered Institute of Public Finance and Accountancy's Code to prepare and approve its accounts for the financial year 2017/18 by 31 July 2018.

2.3 Consultation/community engagement

In line with statutory requirements the draft Annual Financial report for the year ended 31 March 2018 was published by 31 May 2018 and was available on the Authority's website.

Internal consultation on this report and the Annual Financial Report has taken place with the Cabinet Member for Finance and Resources, the Chief Executive and his Senior Leadership Team. Members briefing sessions were provided on 5 and 6 June 2018.

Members of the public were able to inspect the accounts under the statutory public inspection of accounts period from 1 June 2018 to 12 July 2018.

The Annual Financial Report records the financial position of the Authority for the year ended 31 March 2018. This sets out the financial transactions that have been undertaken under the Authority's 2017/18 budgets (both revenue and capital). The 2017/18 budget was completed after widespread consultation in line with the Authority's approved Budget Engagement Strategy. The report to Council on 16 February 2017 entitled "2017-2020 Financial Planning and Budget Process report" summarises the outcome of this engagement.

2.4 Human rights

The proposals within this report do not have direct implications in respect of the Human Rights Act 1998.

2.5 Equalities and diversity

There are no direct equalities and diversity implications arising from this report.

2.6 Risk management

Potential future financial pressures against the Authority are covered in this report and registered through the Authority's risk management process.

2.7 Crime and disorder

There are no direct crime and disorder implications arising from this report.

2.8 Environment and sustainability

There are no direct environmental and sustainability implications arising from this report.

PART 3 - SIGN OFF

- Deputy Chief Executive ☐
- Head of Service ☐
- Mayor/Cabinet Member(s) ☐
- Chief Finance Officer ☐
- Monitoring Officer ☐
- Head of Corporate Strategy ☐