



AGENDA ITEM:
SUMMARY

Report for:	AUDIT COMMITTEE
Date of meeting:	25 July 2018
PART:	I
If Part II, reason:	

Title of report:	Statement of Accounts 2017/18
Contact:	Cllr Graeme Elliot, Portfolio Holder for Finance and Resources James Deane, Corporate Director (Finance and Operations) Nigel Howcutt, Assistant Director (Finance and Resources)
Purpose of report:	The purpose of this report is to present the Council's final outturn and Statement of Accounts for 2017/18. It covers: <ul style="list-style-type: none"> · Account and Audit Regulations 2015 · Section 21(2) Local Government Act 2003 · Statement of Accounts · Commentary on financial statements
Recommendations:	It is recommended that Members of the Audit Committee: <ol style="list-style-type: none"> a) review the final financial outturn for 2017/18; b) approve the additional movements on earmarked reserves from the provisional outturn as set out at 6.4; c) review capital slippage as set out in appendix C d) review the Statement of Accounts 2017/18 and raise any matters on which assurance is sought in order to approve the Statements on behalf of the Council; e) subject to consideration of the External Auditor's Audit Findings Report, approve the letter of representation as attached at Appendix F in the capacity of those charged with Governance and; f) subject to (a) above, approve the Statement of Accounts for 2017/18.
Corporate objectives:	Delivering an efficient and modern council.
Statutory Officer Comments:	Section 151 Officer: My comments are included within the body of this report and within

	<p>the commentary and explanatory foreword to the Statement of Accounts.</p> <p>Deputy Monitoring Officer:</p> <p>The Council has a statutory duty to approve the Statement of Accounts by 31 July in accordance with the Account and Audit Regulations 2015.</p>
Consultees:	None
Background papers:	None

1. Background

- 1.1 The purpose of this report is to present the final outturn for 2017/18 and the final Statement of Accounts for Members approval.

2. Executive summary

- 2.1 The provisional outturn for 2017/18 was presented to Cabinet on 22 May 2018. Any final surplus or deficit against the Council's General Fund budgets is transferred to or from reserves, with Member approval. Likewise, any surplus or deficit arising from the Housing Revenue account can be transferred to Housing reserves or used to increase the HRA revenue contribution to capital.
- 2.2 The provisional outturn report outlined the following position:
- a surplus of £0.09m on the General Revenue Fund;
 - expected a net draw down of £0.7m from General Fund reserves and slippage of £0.3m of unapplied reserve drawdown into 2018/19;
 - a surplus expected on the HRA of £0.3m;
 - an underspend of £1.1m against General Fund capital budgets and slippage of £5.1m into future years and;
 - slippage of £9.4m of Housing Revenue account capital into future years.

The table below shows the comparative figures between provisional and final outturn:

	Provisional £m	Outturn	Final Outturn £m
GF Year end surplus	0.09		0.09
HRA year end surplus	0.3		0.4
GF net movement to/ (from) reserves	(0.7)		(0.1)
GRF capital underspend	1.1		1.1
GRF slippage	5.1		5.1
HRA capital slippage	9.4		9.4

3. General Fund Revenue Outturn

3.1 Appendix A details the final outturn position on the General Revenue Fund. This is summarised in the table below:

	Current Budget	Outturn	Variance	Variance
	£000	£000	£000	%
Finance and Resources	11,477	11,071	(406)	-3.5%
Housing and Community	1,744	1,605	(139)	-8.0%
Strategic Planning and Environment	8,261	8,326	65	0.8%
Net cost of services	21,482	21,002	(480)	-2.2%
Non controllable budgets	(16,420)	(16,963)	(543)	3.3%
Surplus or deficit on provision of services	5,062	4,039	(1,023)	-20.2%
Recharge to HRA and reserve movements	(5,062)	(4,039)	1,023	-20.2%
Contribution (to)/ from General Fund Working Balance	0	0	0	0.0%

3.2 The General Fund Revenue surplus has not materially changed between provisional and final outturn. At the time of the provisional outturn, final adjustments to the Funding Equalisation were yet to be completed. This reserve is specifically set up to accommodate statutory accounting adjustments arising from the Business Rates and Council Tax Collection Fund. Following a final review of the Collection Fund, an additional transfer of £0.48m was made to the reserve, bring the net transfer to that reserve to £0.27m. This together with the proposed transfer of the final outturn surplus of £0.09m to the Management of Change reserve explains the net movement from reserves between the provisional and final outturn. Further details of the underlying variances from budget in the General Fund are provided below.

Finance and Resources - £406k below budget

3.3 A pressure of £80k has arisen in the Revenues and Benefits service. Vacancies in the service are being offset by offsite processing costs to maintain performance.

3.4 In Financial Services a pressure of £85k has arisen due to a short term requirement for external professional services to support the production of the Statement of Accounts.

3.5 These pressures are being offset by vacancies during the year in the ICT, Corporate Administration and Legal services that are being reviewed as part of the outturn review.

- 3.6 There is a pressure of £135k relating to budgeted savings in the Parking service which have not been achieved in 2017/18 due to negotiations around a new parking enforcement contract taking longer than anticipated. Increased parking income has been utilised to mitigate this shortfall. A new contract has been agreed for 2018/19, and the budgeted savings have been built into budgets for 2018/19.
- 3.7 There is an over-achievement of income of £170k in car parking income due to an increased volume of customers using the Council owned car parks and the relatively good weather with limited disruption from snow.
- 3.8 A saving of £160k has arisen in the budgets for uninsured losses. These budgets are volatile in nature as they depend on the number and value of insurance claims received in year. For financial year 2017/18 the full budget was not required.
- 3.9 An under-achievement of income of £70k has been experienced in the Revenues service due to a reduction in court summons fees recovered. This is because fewer summonses have been raised as more cases have been resolved without recourse to legal action.

Housing and Community - £139k below budget

- 3.10 Additional income of £135k has been generated from Temporary Accommodation as a result of the high demand in the borough. The Council's own properties are being used to house tenants on a temporary basis rather than more expensive bed and breakfast accommodation. This income has been built into the base budget for 2018/19. A pressure of £150k has been experienced in Building and Development Control due to an ongoing requirement for temporary resource. A shortage of professional skills across the sector has led to continuing recruitment and retention issues. A review of the delivery of this service is underway with a view to improving processes and making efficiencies going forward.

Strategic Planning and Environment - £65k over budget

- 3.11 This is offset by savings of £120k in the Clean, Safe and Green service where performance has been maintained despite recruitment difficulties.
- 3.12 Planning income has generated an additional £240k of income due to a high volume of planning applications and the national price review implemented in January 2018. This has been incorporated into the base budget for 2018/19.
- 3.13 In Waste Services an additional £190k of income has been generated as a result of an incentive payment from Hertfordshire County Council (HCC) known as the Alternative Financial Model (AFM). This payment rewards Dacorum for improvements in the rate of recycling as a result of the co-mingled waste service.
- 3.14 An income reduction of £125k has been experienced in the Commercial Waste service due to an ongoing loss of customers. This is a trend that has been seen over the last 2 financial years. An external review of all elements of the Waste Service, and opportunities for increased income, is currently underway and will be considered as part of future years' budget setting once complete.

4. Housing Revenue Account

- 4.1 The final outturn position is detailed at Appendix B to this report. The Housing Revenue Account surplus has not materially changed between the provisional and final outturn. The final outturn against leaseholder contributions to expenditure is £0.1m high than reported at provisional outturn, the difference relating to additional minor capital receipts.

Dwelling Rent and Tenants Charges- £219k over- achievement of income

- 4.2 A surplus in Dwelling Rent income has been achieved due to a 40% reduction in Right to Buy sales from the previous year (down to 55 from 93 the previous year). In addition, a surplus has been generated due to a number of new tenancies beginning at target rent.
- 4.3 Income from the de-pooling of rent and service charges has not been as high as projected. Additional review of these income projections is being carried out as part of year end analysis and 2018/19 budget setting.

Other Income, including contribution toward expenditure- £460k over-achievement of income

- 4.4 Interest on Investment Income has seen an underachievement of income of £83k.
- 4.5 New leases on telecommunications aerials around the borough have generated an additional £152k of income.
- 4.6 The planned repairs work in 2017/18 included a larger proportion of works that are chargeable to leaseholders. This increased proportion of chargeable works resulted in an over-achievement of income.
- 4.7 There is a surplus on the budget for minor capital receipts of £100k for work carried out by the Estates and Legal teams, such as deed of variation and lifting of restrictive covenants on Right to Buy properties.

Repairs and Maintenance - £92k under budget

- 4.8 Osborne's Planned Work – there is an underspend in this area of £400k, which was a deliberate underspend in order to manage the pressure in responsive work, which by its nature is volatile.
- 4.9 Osborne's Responsive Work – these budgets have seen an overspend of £280k, due to a combination of factors including severe winter pressures in the final quarter of the year, additional requirements for asbestos surveys and removals following a corporate review of health and safety policies, and pressure to carry out Aids and Adaptations work, which is a demand led service with referrals from external Occupational Therapists. Significant improvements have been seen in the management of voids costs, which has kept these costs under control.
- 4.10 Osborne Overheads – an overspend of £425k has been seen due to an increase in the Osborne pension liability for staff that transferred to Osborne under TUPE. The increased charge is as a result of changes to pension regulations to consolidate bonus payments into pensionable pay.

4.11 Other Repairs – an underspend of £375k has been seen in non-Osborne budgets. The gas monitoring contract delivered a saving in the region of £200k due to increased efficiencies in the operation of the contract and there is an underspend relating to the ongoing fire assessment works. Additional specialist contractors have been procured to ensure all outstanding work is completed. This work remains a high priority and is fully budgeted for in 2018/19.

Supervision and Management - £335k under budget

4.12 There is an underspend of £170k on premises expenditure in Supported Housing, relating to building maintenance and utilities. This is an ongoing saving which has been captured in the base budget for 2018/19.

4.13 £180k underspend in the Tenants and Leaseholders section, across the Policy and Management service and the Supporting People service from vacancies over the course of the financial year. This will be examined as part of the 2019/20 budget setting process to identify if the savings can be delivered on an ongoing basis.

4.14 The HRA Recharge is £90k underspent in 2017/18 as a result of decreases in the costs of uninsured losses and an increase in the fair proportion of centrally allocated HRA support costs.

4.15 £90k overspend in Tenants and Leaseholders service from increased legal costs due to an increase in the volume of legal cases as a direct result of the council's more stringent approach to damages to council housing stock. There has also been an increase in bank charges arising from the change in charging policy of Capita, from a flat fee to a percentage fee of the transaction.

4.16 £90k additional costs from feasibility work to establish viable new build sites. This is a key priority for the Council going forward, and growth has been factored into the budget for 2018/19 to facilitate this vital work.

Revenue Contributions to Capital and Depreciation - £1.03m over budget

4.17 This increased depreciation charge is due to housing stock having increased in value and as a result, capital charges have also seen an increase.

4.18 The increased revenue contribution to capital reflects the overall surplus on the HRA.

5. Capital Programme

5.1 Appendix C shows the capital outturn in detail by scheme. The table below summarises the overall capital outturn position by Scrutiny area. The 'Slippage' column refers to projects where expenditure is still expected to be incurred, but it will now be in 2018/19 rather than 2017/18. The 'Variance' column refers to projects which are now complete, but have come in under or over budget and projects which are no longer required.

	Current Budget £000	Slippage £000	Revised Budget £000	Outturn £000	Variance £000 %	
Finance & Resources	5,065	(2,749)	2,316	2,464	148	2.9%
Strategic Planning & Environment	3,545	(1,226)	2,319	2,208	(111)	-3.1%
Housing & Community	6,595	(1,173)	5,422	4,324	(1,098)	-16.6%
G F Total	15,205	(5,148)	10,057	8,996	(1,061)	-7.0%
HRA Total	34,028	(9,438)	24,590	24,590	0	0.0%
Grand Total	49,233	(14,586)	34,647	33,586	(1,061)	-2.2%

General Fund Major Variances

The net underspend of £1.06m includes:

- 5.2 £185k expenditure on the Forum, due to additional works carried out in 2017/18, such as access controls, fixtures and fittings and internal modifications. This represents less than 1% on the total Forum budget of £20.4m.
- 5.3 Underspend of £1.11m on Affordable Housing Development Fund. This budget is for the grant of Right to Buy receipts known as 1-4-1 receipts to Housing Associations. The full budget was not required in year, and there are plans to grant the remainder in 2018/19.

The slippage to future years is detailed in Appendix C. This includes:

- 5.4 Slippage of £1.04m on the Demolition of the Civic Centre. Further to award of the tender for demolition of the Civic Centre in September 2017, work has been delayed due to:
- The initial asbestos survey identifying the need to safely remove a large amount of asbestos from the site prior to demolition.
 - A requirement to comply with UK Power Networks and Affinity Water requirements for them to survey the two substations and the water plant on site prior to commencing demolition.
- 5.5 Slippage of £485k on Berkhamsted Multi-Storey Car Park. Due to the complexities in the procurement, additional liaison with construction bidders was required in order for compliant bids to be submitted for this project. This led to an unavoidable delay in the awarding of the contract for the construction of the car park.
- 5.6 Slippage of £217k on Future Vision of CRM. Following an unsuccessful attempt to employ a temporary developer to project manage the implementation of this project, a decision has been made to undertake the preparatory work in house and then to employ a developer for the programming element. This has had the effect of delaying the bulk of the expenditure into 2018/19.
- 5.7 Slippage of £1.125m on Affordable Housing Development fund. Grant of 1-4-1 receipts which was expected in 2017/18 will now take place in 2018/19.

- 5.8 Slippage of £455k on the planned refurbishment of Tring Swimming Pool. The implementation of this project has been delayed by ongoing discussions with Tring School regarding the future management arrangements for the leisure site. These discussions have now progressed and an agreement is expected to be completed shortly, with the refurbishment work expected to begin in early 2018/19.

There is an additional £1.8m of slippage across various projects as detailed in Appendix C.

Housing Revenue Account Capital

There is slippage on the HRA capital programme of £9.4m.

- 5.9 Slippage of £3.8m on Planned Fixed Expenditure (DBC Commissioned Capital Works). This is due to the re-profiling of budget priorities in 2017/18 to have a more consistent capital workload in the medium term and to ensure a deliverable programme of works. In addition budgets have been re-prioritised in year to safeguard ongoing compliance works following the Grenfell Tower tragedy.
- 5.10 Slippage of £4m on New Build General Expenditure budget which is allocated for the purchase of land in order to respond to market opportunities. This will now be required in 2018/19.
- 5.11 Accelerated spend of £1.27m on Kylina Court (previously known as Wood House). As part of the re-phasing of the budget which took place at Q1, £2.38m was re-profiled into 2018/19. Due to the good progress made on site, £1.27m will in fact be required in 2017/18.
- 5.12 Slippage of £2.19m on Stationers Place. Although budget of £2.7m was re-profiled into 2018/19 at Q1, a further £2.19m is now expected to be incurred later than expected. This is due to ongoing issues which are being worked through, concerning existing utilities, bore holes, culvert repairs, aquifer layers, foul drainage connections and rights of way.

6. Balances and Reserves

- 6.1 The Reserves Summary at Appendix D reflects the movements approved by Council in February 2018 and updated for the reserve movements as set out below.
- 6.2 In cases where reserves were to be drawn down in 2017/18 to fund budgeted expenditure which was not spent in full, only the amount required to fund actual expenditure was drawn down. Where the balance is now required in 2018/19, the carry forward of unspent reserve budgets was agreed by Cabinet on 22 May 2018.
- 6.3 Variances over £50k on recommended reserve movements compared to the original budget and additional movements approved in year are as follows:

- Capital Development Reserve - £165k reduced drawdown. A drawdown of £200k was budgeted to fund the costs associated with setting up a Development Company. This will be drawn down in 2018/19 with £100k already committed.
- Dacorum Development Reserve - £50k reduced drawdown. A drawdown of £54k was budgeted to fund the cost of the Dacorum Ambassadors scheme in 2017/18. In total a contribution of £120k was approved over a 3 year period to fund the scheme as it works towards being self-funding. The budgeted contribution for 2017/18 was not fully required due to income from the scheme offsetting the majority of costs.
- Dacorum Development Reserve – increased drawdown of £50k. A drawdown of £50k was approved as part of the 2018/19 budget setting process towards health and safety and improvement works at Leys Road homeless hostel. Due to the urgent nature of the works, this was spent in 2017/18 rather than in 2018/19 as originally intended. This will be offset in 2018/19 by a reduced draw down.
- Earmarked Grants Reserve - £51k contribution to reserve. A grant of £51k was received during 2017/18 for the purposes of preventing homelessness in relation to the new Homelessness Reduction Act. This grant has been set aside to be spent in 2018/19.

6.4 It is recommended that Members approved the following reserve movements arising from final year- end adjustments:

- Contribution of £0.48m to the Funding Equalisation reserve following the processing of Collection Fund adjustments.
- Contribution of £91k to the Management of Change reserve relating to the final outturn surplus for 2018/19.

7. Statutory Framework- Statement of Accounts

7.1 The Account and Audit Regulations 2015 require that local authorities must approve their financial statements by 31 July. This represents a contraction of timescale for delivery of two months from the previous financial year. The nominated Auditor must complete his audit and issue the relevant audit opinion to ensure the statutory deadline is met.

7.2 The purpose of the external audit of the financial statements is to give an opinion on:

- whether they present a “true and fair” view of the financial position of the audited body and its expenditure and income for the year in question; and
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards.

7.3 The Auditor’s opinion is added to the Statement of Accounts, with further detail of the audit findings provided in the Annual Audit Letter to the Council.

- 7.4 The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting 2017/18 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

8. Statement of Accounts

- 8.1 It is the role of the Corporate Director (Finance and Operations) to present the Council's annual Statement of Accounts to this Committee for formal approval.
- 8.2 The published accounts of the Council are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. The Corporate Director (Finance and Operations), is required to:
- ensure the regularity of transactions, by putting in place systems of internal control to ensure that financial transactions are lawful;
 - maintain proper accounting records; and
 - prepare financial statements that give a true and fair view of the financial position of the body and its expenditure and income.
- 8.3 The Statement of Accounts includes a Narrative Statement which provides a user-friendly guide to the most significant matters reported in the accounts together with an overview of the Council's financial performance throughout the year.

9. Changes to the Draft Accounts Approved by the Corporate Director (Finance and Operations) on 31 May 2018

- 9.1 Since its publication, Council officers have undertaken an ongoing review of the detail of the draft accounts. As a result of this review, officers identified the following amendments which were then brought to the attention of the appointed Auditor and the accounts amended as necessary. These are:
- Reclassification of the former Magistrates Court and the Marlowes Health Centre from Investment Property to Assets Held for Sale, resulting in a reduction in the value of Investment Property of £1.92m and an increase in Assets Held for Sale by the same amount.
 - Reclassification of the Civic Centre site from Investment Property to Surplus Assets, resulting in a reduction in the value of Investment Property of £4.92m and an increase in Surplus Assets of the same amount.
 - A reduction in the disclosed net Pensions liability by £2.79m following the release of updated actuarial estimates by Hertfordshire County Council Pension Fund after publication of the draft accounts.
 - A reduction in long- term creditors of £3.26m following the disposal of the lease for part of the Jarmans Park site during the year.
- 9.2 The amendments detailed above will be set out in the Audit Findings Report.

- 9.3 There have been no other material changes to the Statement of Accounts since the publication of the draft accounts on 31 May 2018.

10. Expenditure and Funding Analysis

- 10.1 The Expenditure and Funding Analysis shows how annual expenditure is used and funded from income (government grants, rents, council tax and business rates) in comparison with the income and expenditure in accordance with generally accepted accounting practices. It shows how this expenditure is allocated for decision making purposes between the Council's committee. Income and expenditure accounted for under generally accepted accounting practices is presented more fully detailed the Comprehensive Income and Expenditure Statement.

11. Comprehensive Income and Expenditure Statement

- 11.1 The Comprehensive Income and Expenditure Statement (CIES) reports the net cost for the year of all functions for which the Council is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers.
- 11.2 The CIES for 2017/18 reflects a net gain of £62.0m and consists of the following:
- Surplus on the Provision of Services of £3.2m (2016/17 surplus of £0.8m);
 - Other Comprehensive Income of £58.7m (2016/17 income of £55.9m)
- 11.3 The change in Surplus on the Provision of Services of £2.4m between years is due to:
- An increase in Total Cost of Services of £4.7m;
 - A reduction in Other Operating Expenditure of £4.9m;
 - A reduction in Financing and Investment Income and Expenditure of £4.3m;
 - A reduction in taxation and Non Specific Grant Income £2.1m
- 11.4 Other Comprehensive Income and Expenditure for the year was £58.7m and consists of:
- £49.4m Surplus on revaluation of property, plant and equipment
 - £9.3m actuarial gain on pension asset/ liabilities

12. Balance Sheet

12.1 The Balance Sheet is fundamental to understanding the Council's financial position at the year end. It shows the balances and reserves and its long term indebtedness and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.

12.2 The Council's net worth was £769.1m as at 31 March 2018, which represents an increase of £62m on the previous financial year. The key changes to this are as follows:

- Other Comprehensive Income of £58.7m (2016/17 income of £55.9m)

13. Movement in Reserves Statement

13.1 The Movement in Reserves Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be used to fund expenditure or reduce local taxation) and 'other reserves'.

14. Cash Flow Statement

14.1 The Cash Flow Statement shows the movement in cash and cash equivalents held by the Council throughout the year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

15. Housing Revenue Account

15.1 The Housing Revenue Account (HRA) is 'ring-fenced' from the General Fund. This reflects the Council's statutory obligation to maintain a separate revenue account for local authority housing provision in accordance with Part 6 of the Local Government and Housing Act 1989.

15.2 The HRA statement shows a surplus of £1.2m for 2017/18. This is a decrease to the surplus in 2016/17 of £5.2m. The reduced surplus in 2017/18 relates largely to an increased asset impairment and depreciation charges for the year and reduction in gain on disposal on non-current assets.

16. Collection Fund

16.1 This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to non-domestic rates and Council Tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

17. Conclusion

17.1 The report represents a detailed picture of the Council's financial activity for 2017/18. I would like to thank all colleagues for their help, support in the preparation of the Statement of Accounts.