

<b>TITLE</b>	<b>Financial Statements 2016/17</b>
<b>FOR CONSIDERATION BY</b>	Audit Committee on 26 September 2017
<b>WARD</b>	None specific
<b>DIRECTOR</b>	Graham Ebers, Director of Corporate Services

## **OUTCOME/BENEFITS TO THE COMMUNITY**

The Council demonstrates the highest levels of financial management which means that the council tax payers' money is used effectively and managed safely.

## **RECOMMENDATION**

That the Financial Statements and letter of representation for 2016/17 be approved.

## **SUMMARY OF REPORT**

The financial statements for 2016/17 are attached, together with the letter of representation, and the key issues are summarised below.

Financial resilience is one of the most important factors in ensuring future stability. Despite significant reductions in government funding and other financial pressures the council has continued to seek to ensure it is in a position to be able to operate within its available resources for the foreseeable future. This is a significant achievement in the current climate where some auditors have raised concerns around the public sector being able to deal with the continuation of austerity.

The financial position of the council depends on a number of factors such as financial governance, financial planning and financial control. The financial medium term plan covers a three year horizon, but the organisation plans further ahead, not just for the three years in the medium term financial plan but looking forward to the next twenty years. Our external auditors' opinion on the statement of accounts for 2016/17 is elsewhere on this agenda.

The deficit on the provision of services, including the Housing Revenue Account (HRA) is £6.0m which, after the required accounting adjustments (including capital financing) becomes a deficit of £0.3m on the General Fund and a deficit of £0.9m for the HRA. The General Fund balance at 31 March 2017 is £10.0m and for the HRA £4.9m.

The Revenue Monitoring outturn report was presented to the Executive Committee on 25 May 2017, and is summarised in the narrative report on page four within the financial statements. It shows that the Council forecast an underspend on its budget of £0.1m after carry forward requests.

The usable capital receipts reserve as at 31 March 2017 stands at £8.0m and the usable capital grants and contributions reserve stands at £7.3m. A further £43.0m is held under capital grants receipts in advance as these grants and contributions have conditions attached to them which dictate how they should be spent. These funds are available and required to fund the Council's capital commitments such as highways infrastructure improvements and schools capital expenditure.

The Housing Revenue Account (HRA) surplus was £1.5m. Following the required statutory adjustments through the movement in reserves statement and items such as voluntary debt repayment of £2.6m, the adjusted deficit was £0.9m.

School balances have decreased to £2.8m at 31 March 2017 from £4.6m at 31 March 2016, while the Dedicated Schools Grant (DSG) central reserve has decreased to £1.4m at 31 March 2017 from £2.2m at 31 March 2016.

The letter of representation is included at the end of this report.

## Background

The National Audit Office (NAO) issued their Overview of local government report in November 2016, the latest available report. It stated that “over the period 2010-11 to 2015-16 authorities had seen a real terms reduction in spending power of 23.4% or 4.7% per annum.”

It does note that the financial settlement to 2019/20 is “an easing in revenue income pressures”, however notes that “**the easing in spending power reductions is solely the result of anticipated increases in council tax income**” (emphasis by NAO).

Another excerpt from the report states: “The Department’s figures from previous settlements show council tax income as largely flat declining by 0.9% per annum from 2010-11 to 2015-16. However, from 2015-16 onwards council tax income is expected to grow by 3.9% per annum. In contrast, the rate of decline in government grant is relatively stable falling by 7.2% per annum in real terms from 2010-11 to 2015-16, and then 7.8% per annum from 2015-16 to 2019-20.” Wokingham Borough Council has seen dramatic reductions in central government funding, as shown in the narrative report, on page three of the financial statements.

The report stated that whilst most councils have risen to the challenges presented by reduced funding, a survey of local auditors showed that they are increasingly concerned about the future financial sustainability of some authorities and their capacity to make further savings.

The National Audit Office also stated that DCLG expected funding reductions to lead to service pressures rather than financial failure, given the strength of the local authority legal framework. Local authorities main response to funding reductions has been to reduce spending, but councils have tried to protect spending on statutory services for vulnerable groups. In general local authorities have not used reserves to offset funding reductions.

The external auditors in reaching their value for money conclusion have to test for financial resilience. This means the auditors have to be satisfied that the organisation has robust systems and processes in place to manage effectively its financial risks and opportunities, and to secure a stable financial position.

To meet our statutory responsibilities, increases in the demand for services linked to significant demographic changes, such as the ageing population and rising birth rate, we

have to improve our efficiency and productivity, control our costs and have sustainable financial plans to ensure we are financially resilient.

The quality of financial governance and leadership in any organisation is critical in meeting the financial management challenges and for securing financial resilience. Good basic systems, processes and controls are important, but it is the overall financial culture that makes the difference.

The authority has set the budgets over the past years in the context of a longer-term financial strategy and a medium-term financial plan (MTFP). The Long Term Financial Plan includes assumptions around inflation; income levels; demographics; future demand for services, and is based on reasonable predictions. The financial position depends on factors including the level of borrowing, receivables outstanding, investment risks, council tax and business rates collection rates and levels of reserves.

The opinion of our auditors is detailed elsewhere on this agenda and states;

*“In our opinion the financial statements :*

- give a true and fair view of the financial position of Wokingham Borough Council and Group as at 31 March 2017 and of its expenditure and income for the year then ended; and*
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17”*

Each year the Audit Committee is asked to approve the financial statements of the Council. The financial statements for 2016/17 are attached and explanations of key issues affecting the Council’s financial position during the year are set out below.

### **Analysis of Issues**

The income and expenditure for all services and functions, including the HRA and capital transactions, are combined within the financial statements to form the income and expenditure accounts for the authority. The balance sheet provides details of all the assets and liabilities of the council and how it is financed.

The key issues that have impacted upon the financial statements in 2016/17 are as follows:-

- Letter of Representation. There are no unadjusted errors to report on the letter of representation.
- This is the seventh time the Authority has had to prepare Group Financial statements to account for its interests in subsidiary companies, and also it is the third time the Authority has had to prepare accounts for its holding company, WBC (Holdings) Ltd.
- The deficit on the Council's pension funds has decreased by £66.0m to £281.2m at 31 March 2017 largely due to changes in financial assumptions made by the actuary. The Council also guarantees the pension liabilities of Optalis Ltd which were £8.1m at 31 March 2017. The next triennial valuation of the fund is due to be published by 31 March 2020, and may lead to changes in the required level of employers’ contributions if required.

- Approximately £76.8m was spent on the council's fixed assets in 2016/17, the larger items being £27.9m on Schools, £13.0m on Town centre regeneration, £10.9m on Wokingham Housing Limited, and £6.8m on social housing. See page five of the statement of accounts for more details.
- The balance on the General Fund at 31 March 2017 was £10.0m.
- The Housing Revenue Account balance was £4.9m at 31 March 2017 after adjustments and is above the level identified by risk assessment to be the council's required level of HRA balances.

The auditor raised no specific issues arising from the audit.

The draft accounts were approved by Graham Ebers, Director of Corporate Services, on 29 June 2017 in line with the Accounts and Audit Regulations 2015 which require the chief financial officer to approve the draft financial statements by 30 June. Member approval is required by 30 September each year after completion of the external audit of the accounts, and this is through the Audit Committee. The audit of the financial statements is now complete and the auditor's conclusions are reported elsewhere on this agenda. The financial statements have been amended to reflect the audit findings, and it is the final audited financial statements that the Audit Committee is asked to approve.

### Corporate Implications

The report is in respect of both the revenue and capital expenditure incurred during the 2016/17 financial year to deliver the priorities of the Council.

### FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

***The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.***

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	Nil	Yes	Revenue and capital
Next Financial Year (Year 2)	Nil	Yes	Revenue and capital
Following Financial Year (Year 3)	Nil	Yes	Revenue and capital

### Other financial information relevant to the Recommendation/Decision

N/A

### Cross-Council Implications

N/A

### List of Background Papers

Statement of Accounts

National Audit Office – Financial Sustainability of Local Authorities 2014

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<b>Date</b> 14 September 2017	<b>Version No.</b> 1



**WOKINGHAM  
BOROUGH COUNCIL**

26 September 2017

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This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Wokingham Borough Council (“the Group and Council”) for the year ended 31 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Wokingham Borough Council as of 31 March 2017 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### **A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local

Authority Accounting in the United Kingdom 2016/17 for the Group and Council that are free from material misstatement, whether due to fraud or error.

5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

## **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the consolidated and council financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Group or Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the consolidated or council financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the consolidated or council financial statements or otherwise affect the financial reporting of the Group or Council.

## **C. Compliance with Laws and Regulations**

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the consolidated and council financial statements.

## **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and council financial statements.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committees held throughout the year to the most recent meeting on the following date: 26<sup>th</sup> September 2017.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

#### **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 33 to the consolidated and council financial statements all guarantees that we have given to third parties.

#### **F. Subsequent Events**

1. Other than the events described in Note 43 to the financial statements, there have been no other events subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

#### **G. Other information**

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement 2016/17.
2. We confirm that the content contained within the other information is consistent with the financial statements.

#### **H. SERCOP Re-statement**

##### **Comparative information – comparative financial statements**

In connection with your audit of the comparative financial statements for the year ended 31<sup>st</sup> March 2107, we represent, to the best of our knowledge and belief, the following:

1. The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's financial statements.
2. There have been no significant errors or misstatements, or changes in accounting policies, other than the matters described above, that would require a restatement of the comparative amounts in the current year's financial statements. Other differences in the amounts shown as comparative amounts from the amounts in the financial statements for the year ended 31<sup>st</sup> March 2017 are solely the result of reclassifications for comparative purposes.

#### **I. Ownership of Assets**

1. Except for assets capitalised under finance leases, the Group and Council has satisfactory title to all assets appearing in the balance sheets, and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets

to which the Group and Council has satisfactory title appear in the balance sheets.

2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the consolidated and council financial statements.
3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. We have no other line of credit arrangements.

#### **J. Reserves**

1. We have properly recorded or disclosed in the consolidated and council financial statements the useable and unusable reserves.

#### **K. Contingent Liabilities**

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the consolidated and council financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the consolidated and council financial statements).

We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except as follows:

- (1) Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities) none of which involves any allegations of noncompliance with laws or regulations that should be considered for disclosure in the consolidated and council financial statements or as a basis for recording a loss contingency.

#### **L. Use of the Work of a Specialist**

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment and the pensions liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

#### **M. Estimates**

##### **Property, Plant and Equipment and Pension Estimate**

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We confirm that the significant assumptions used in making the accounting estimate of property, plant and equipment and pensions appropriately reflect our intent and ability to carry out providing services on behalf of the entity.

3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and council financial statements due to subsequent events.

**N. Retirement benefits**

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

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Graham Ebers, Director of Corporate Services

I confirm that this letter has been discussed and agreed at the Audit Committee on 26 September 2017

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Anthony Pollock, Chairman of Audit Committee