

TITLE	Financial Statements 2014/15
FOR CONSIDERATION BY	Audit Committee on 28 September 2015
WARD	None specific
DIRECTOR	Graham Ebers

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 2014/15 be approved.

SUMMARY OF REPORT

The financial statements for 2014/15 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. Wokingham Borough Council is in the very top level of authorities where resilience has been proven to be of the highest level. This shows that 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 2014/15 is elsewhere on this agenda.

The surplus on the provision of services, including the Housing Revenue Account (HRA) is £7.982m which, after the required accounting adjustments (including capital financing) becomes a surplus of £0.1m on the General Fund and £2.344m for the HRA. The General Fund balance at 31 March 2015 is £11.139m and for the HRA £4.11m

The Revenue Monitoring outturn report was presented to the Executive Committee on 28 May 2015, and is summarised in the explanatory foreword to the financial statements. It shows that the Council forecast an underspend on its budget of £30,000 after carry forward requests.

The useable capital receipts reserve as at 31 March 2015 stands at £8.5m and the useable grants and contributions reserve stands at £14m. A further £20.9m 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 £7.255m largely due to a capital grant of £3m, a reduction in impairment costs of vacant properties (reduction in value) £1.2m, £0.6m extra rental and other income, and £0.5m extra income from sales of houses. Following the required statutory adjustments through the movement in reserves statement the adjusted surplus was £2.344m.

School balances have increased to £5.8m at 31 March 2015 from £5.3m at 31 March 2014, while the Dedicated Schools Grant (DSG) central reserve has decreased to £0.6m at 31 March 2015 from £1.54m at 31 March 2014.

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

Background

The National Audit Office issued their 'Financial Sustainability of Local Authorities 2014' report in November 2014. The key conclusions were that government has reduced its funding to local authorities by 37% in real terms between 2010-11 and 2015-16, and 25% after taking account of council tax receipts. Provisional data from DCLG show that from 2010-11 to 2015-16 spending power will have fallen by 25.2% (excluding funding for schools and benefit claimants).

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. Auditors reported that 16% of single tier and county councils (those responsible for social care and education) were not well placed to deliver their 2014-15 budgets.

The NAO 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, and have not been able to increase income from fees and charges to offset reductions, as income from fees and charges fell by 0.6% in real terms from 2010-11 to 2013-14.

The report noted that whilst DCLG aimed to give local authorities more freedoms and incentives on how funding is raised, this had contributed to much more complexity and risk in local authorities financial management and several key areas were identified. From 1 April 2013 councils have retained around half of any local growth in business rates, while since 2011/12, local authorities have received extra funding (New Homes Bonus) for every new residential property in their area. The Bonus is mostly funded by reallocating a portion of revenue support grant, meaning that while some authorities will gain, others will lose.

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 as at 31 March 2015 and of its expenditure and income for the year then ended;*
- *give a true and fair view of the financial position of the Group as at 31 March 2015 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 2014/15”*

Each year the Audit Committee is asked to approve the financial statements of the Council. The financial statements for 2014/15 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 2014/15 are as follows:-

- Letter of Representation. There are no unadjusted errors to report on the letter of representation.
- This is the fifth time the Authority has had to prepare Group Financial statements to account for its interests in subsidiary companies, and also it is the first time the Authority has had to prepare accounts for its holding company, WBC (Holdings) Ltd. The accounts have consolidated those of Wokingham Housing Ltd (WHL), Loddon Homes Ltd (LHL), Wokingham Enterprises Ltd (WEL) and Optalis Ltd.

- The deficit on the Council's pension funds has increased by £56.3m to £224.5m at 31 March 2015 largely due to actuarial losses on the scheme's assets and liabilities. The movements on the schemes net values are consistent with the movements in the discount rate for high quality corporate bonds and movements in the funds' investments, and liabilities, over the year. The Council also guarantees the pension liabilities of Optalis Ltd which were £7.3m at 31 March 2015. The increase in the deficit has arisen due to the continued historically low levels of interest on corporate bonds, which has the effect of increasing the overall liabilities of the fund. The next triennial valuation of the fund is due in March 2016, and may lead to changes in the required level of employers' contributions if required.
- Approximately £45.3m was spent on the council's fixed assets in 2014/15, the larger items being £18.7m on Environmental Services, £10.7m on Children's Services, £9.9m on Health and Wellbeing, and £4m on Chief Executive's service largely for the regeneration of Wokingham Town Centre. The Environmental expenditure included £14m on highways improvements including Wokingham station link road, while Children's Services expenditure included secondary and primary school improvements schemes, and Health and Wellbeing expenditure included £7.3m for refurbishments of council housing.
- Long Term Investments have reduced to £3k at 31 March 2015 compared to £1.953m at 31 March 2014. This is largely due to the transfer of the Council's shareholdings of £1.9m in Wokingham Housing Ltd (WHL), and £50k in Optalis, to the Council's new holding company, WBC Holdings Ltd, for nil consideration. Short term Investments on the balance sheet have increased to £47.6m at 31 March 2015 compared to £40.8m at 31 March 2014. In addition there were £10.9m of short term investments included in the cash and cash equivalents total of £13.4m, due to their short life. This made a total of £58.5m of short term investments, of which £37.1m was invested in house, while £11.9m and £9.5m were managed by Royal London Asset Management (RLAM) and Scottish Widows Investment Partnership Ltd (SWIP) respectively.
- Short term borrowing was £2m at 31 March 2015 compared to £5m at 31 March 2014. Long term borrowing was £132m at 31 March 2015, the same level as at 31 March 2014.
- The balance on the General Fund at 31 March 2015 was £11.139m.
- The Housing Revenue Account balance was £4.11m at 31 March 2015 after adjustments and is above the level identified by risk assessment to be the council's required level of HRA balances.

The auditor raised two specific issues arising from the audit as detailed below :

- *"In comparison with prior years there have been a number of issues with the quality and version control of working papers. This was in part due to the implementation of the new ERP system in September 2014. We will liaise with management to secure improvement for the 2015/16 audit."*

As stated above, this was the first set of accounts produced using the new WISER system, which increased the time required for specific functions and impacted upon

working papers production, despite the extensive training undertaken on the system pre final accounts. This issue will not arise in future years.

- *“There was one instance of a member of staff continuing to be paid for six months after leaving the employment of the Council. This overpayment was recovered in full from the individual, and other testing has confirmed that this was an isolated incident. We are therefore satisfied that this does not represent a risk of material misstatement to the 2014/15 financial statements, but it does indicate a potential weakness in the controls relating to the leavers process.”*

The appropriate actions have been implemented to ensure that this weakness in controls is corrected to prevent this issue occurring again.

The draft accounts were approved by Graham Ebers, Director of Finance and Resources, on 30 June 2015 in line with the Accounts and Audit Regulations 2011 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 2014/15 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

List of Background Papers

Statement of Accounts
National Audit Office – Financial Sustainability of Local Authorities 2014

Contact Stephen McGrail	Service Finance and Resources
Telephone No 0118 974 6560	Email Stephen.McGrail@wokingham.gov.uk
Date 23 September 2015	Version No. 1



WOKINGHAM
BOROUGH COUNCIL

28 September 2015

Ernst & Young
Apex Plaza
Reading
RG1 1YE

Finance

P.O. Box 151

Shute End, Wokingham

Berkshire RG40 1WN

Tel: (0118) 974 6000

Fax: (0118) 974 6770

This representation letter is provided in connection with your audit of the consolidated and parent financial statements of Wokingham Borough Council Group (“the Group and Council”) for the year ended 31 March 2015. 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 parent financial statements give a true and fair view of the Group and Council financial position of Wokingham Borough Council Group as of 31 March 2015 and of its income and expenditure for the year then ended in accordance with, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), 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 the Accounts and Audit Regulations (England) 2011 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.
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 2014/15 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.

3. The significant accounting policies adopted in the preparation consolidated and council financial statements are appropriately described in the consolidated and council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council has 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 2014/15, that are free from material misstatement, whether due to fraud or error.

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 and 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 and Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance 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 as agreed in terms of the audit engagement.
 - 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 financial statements.
3. We have made available to you all minutes of the meetings of the Council, Audit Committee and Executive (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 24 September 2015.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the 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 period 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 have disclosed to you, the group and Council has complied with, all aspects of contractual agreements that could have a material effect on the 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 Notes 32-34 to the consolidated and council financial statements all guarantees that we have given to third parties.
4. All potential liabilities and contingencies relating to contract disputes have been appropriately assessed and disclosed in the Council's financial statements in accordance with the Code of Practice for Local Authority accounting.

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
 - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
 - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
 - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
 - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H. Group Audits

1. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst parent, subsidiary undertakings and associated

undertakings

I. 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.

J. Use of the Work of an Expert

1. We agree with the findings of Barnett Waddingham engaged to provide IAS19 valuation services for the defined benefit pension scheme as set out in Note 19 and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records.
2. We believe the measurement processes employed, including related assumptions and models, in determining accounting estimates is appropriate and consistent with our expectations.
3. We did not give or cause any instructions to be given to the experts 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 experts.

Yours Faithfully,

Graham Ebers, Strategic Director Resources

I confirm that this letter has been discussed and agreed at the Audit Committee on 28 September 2015

Guy Grandison, Chairman of Audit Committee

This page is intentionally left blank