

<b>REPORT TO:</b>	<b>GENERAL PURPOSES AND AUDIT COMMITTEE</b> <b>23<sup>rd</sup> JULY 2019</b>
<b>SUBJECT:</b>	<b>FINANCIAL PERFORMANCE REPORT FOR 2018/19</b>
<b>LEAD OFFICER:</b>	<b>LISA TAYLOR</b> <b>DIRECTOR OF FINANCE, INVESTMENT AND RISK</b> <b>(INTERIM SECTION 151 OFFICER)</b>
<b>CABINET MEMBER:</b>	<b>COUNCILLOR SIMON HALL CABINET MEMBER FOR FINANCE AND RESOURCES</b>
<b>WARDS:</b>	<b>ALL</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b>	
<p>The report is a statutory requirement and communicates to our key stakeholders the Council's financial performance and outcome for the period 1 April 2018 to 31 March 2019. This reporting requirement is a key stage in the communication of the delivery of the Council's Financial Strategy and maps progress in the achievement of the objectives contained within the strategy.</p>	
<b>FINANCIAL SUMMARY:</b>	
<p>This report sets out the financial performance of the Council for the period 1 April 2018 to 31 March 2019, which showed an overspend of £5.466m, including exceptional items of £5.121m.</p>	
<b>FORWARD PLAN KEY DECISION REFERENCE No.:</b>	
<b>RECOMMENDATIONS</b>	
<b>The Committee(s) is asked to:</b>	
<p>1.1 Approve the levels of reserves and provisions set out in section 8 of the report, as recommended by the Interim Section 151 Officer;</p> <p>1.2 Note the Council's outturn position, and the progress of the Council's current Financial Strategy objectives;</p> <p>1.3 Note the departmental revenue budget outturn variances as contained within Table 1 and 2 and Appendix 1 of the report;</p> <p>1.4 Note the capital budget outturn as detailed in section 4 and Appendix 2 of this</p>	

report.

- 1.5 Note that a report seeking final approval of the accounts following their review by external audit is a separate item on this agenda
- 1.6 Note that work has commenced to review the MTFs which was approved at full Council in October 2018 and will be presented to Cabinet as part of the budget 2020/21 report in February 2020 with a report on the budget setting process also being presented to Scrutiny and Overview Committee in September 2019.

## **2. EXECUTIVE SUMMARY**

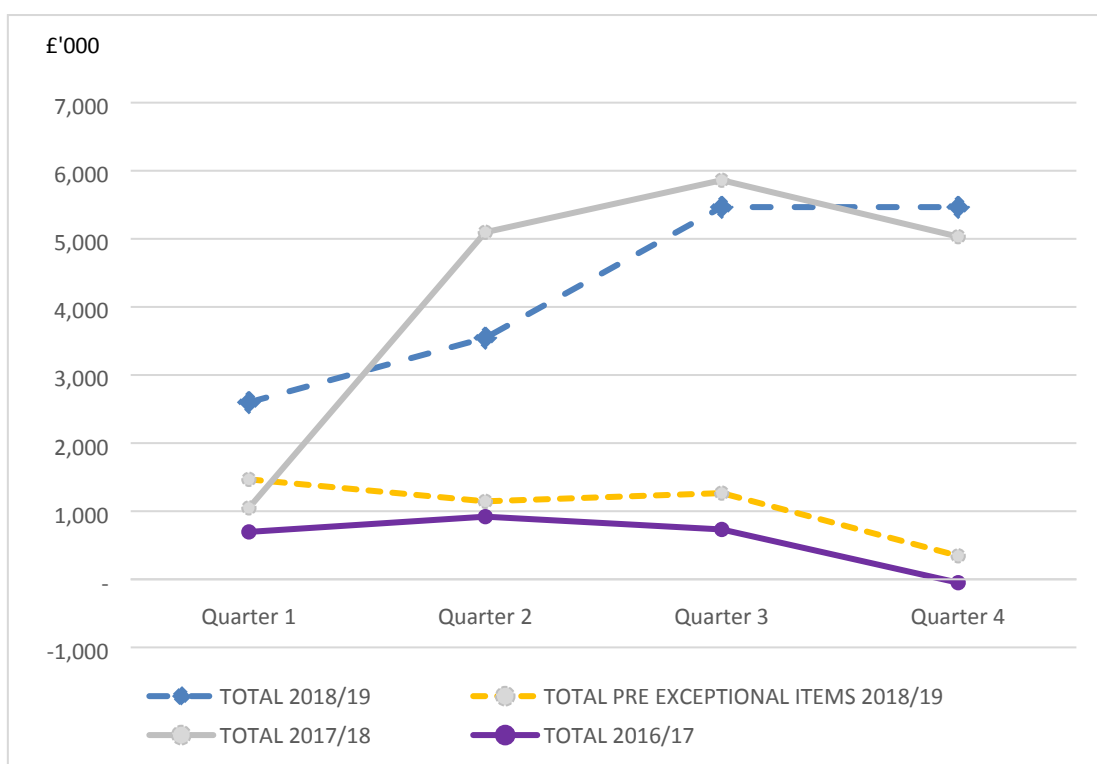
- 2.1 This report presents to the Committee progress on the delivery of the Council's Financial Strategy. The final budget position of the Council for 2018/19 was an overspend of £5.466m, made up of pre-exceptional overspend of £345k and exceptional items of £5.121m., which has been funded from our earmarked reserves and Council tax surplus. The Council's collection fund is currently in surplus as a result of cash collected in 2018/19. However due to accounting restrictions the surplus isn't released until the year following the year in which it is achieved. A surplus of in excess of the overspend is available in 2019/20, and £5.466m will go into reserves to replace the amounts used in 2018/19.
- 2.2 The Council has met the challenge of reducing grant since 2010 and maintained a robust financial position. The Financial Strategy for 2018/22, which was approved on a recommendation of Cabinet 24<sup>th</sup> September 2018 to full Council (Minute A33/18, Council Meeting 8<sup>th</sup> October 2018), sets out the strategy for managing the significant financial challenge for the medium term and will be refreshed as part of the 2020/21 budget setting process.
- 2.3 The 2018/19 budget was set with the inclusion of growth to help manage pressures as well as significant savings targets. Despite this growth there continues to be increasing demand for the services in the key areas of adult and children's social care and temporary and emergency accommodation.
- 2.4 These pressures are mainly demand related, and are a continuation of pressures experienced in previous years, although the scale has been limited by a combination of improved demand management, and growth awarded in the 2018/19 budget.
- 2.5 Work has been ongoing to try and reduce the impact of the pressures which includes: -
  - The continued integration between health and social care through the One Croydon Alliance.
  - Greater governance for all Adult Social Care placements.
  - Continuation of the Gateway service to provide more support at the front door to prevent service users coming in later with more complex and expensive issues.

- Continuation of the Think Family programme – focusing on cohorts of the most expensive households who use multiple council services to make efficiencies through a joined up approach.
- Continued implementation of the recommendations from the Children’s Social Care Ofsted Inspection.
- The implementation of Adult Social Care fees and charges from 2019/20.
- Recognising the impact of parking income increase.
- A review of the SEN travel policy and the type of provision.
- Continued lobbying of Government to fully fund services, especially in relation to UASC and NRPF.
- A review of services provided by external contractors.
- Gains available from the London Business Rates pool.

2.6 Throughout the year, through the quarterly monitoring reports, Cabinet have been kept updated on areas of the Council’s budget that have been impacted on heavily and have led to significant pressures during the year. These include Adult Social Care demands, Children Social Care demand and the impact following the recent OFSTED inspection, UASC and NRPF.

2.7 Through strong financial management the revenue budget has been carefully managed and the outturn for 2018/19 was an overspend of £5.466m. This is as forecast at quarter 3 for the 2018/19 financial year. This is shown in Graph 1.

**Graph 1 – Forecast Revenue outturn for 2016/17 - 2018/19 by quarter.**



- 2.8 The target set out in the Financial Strategy is to hold General Fund balances of 5% of the council's net budget requirement. For 2018/19 this would equate to balances of £13m (currently £10.4m). The Financial strategy made clear that although 5% remains a target there are no plans to actively move towards the target in cash terms over the medium term. It should be noted that, because of the decline in net budget requirement, the target has reduced in 2019/20, where the target will be £12.5m.
- 2.9 The 2018/19 overspend of £5.466m is made up of Departmental overspends of £6.998m, offset by non-departmental underspends of £6.653m and exceptional items of £5.121m. Details are provided in Table 1, of this report.
- 2.10 The Council's earmarked reserves have decreased by £1.519m to £14.228m. A number of targeted funding streams have continued to be drawn out of reserves in 2018/19 to support delivery, mainly around the transformation agenda.
- 2.11 General Fund Schools' reserves have increased by £1.325m to £3.732m.
- 2.12 The Council's General Fund Provisions have increased from £41.2m to £41.5m as at 31<sup>st</sup> March 2019.
- 2.13 The Collection Fund has an overall surplus of £5.409m which has been carried forward in to 2019/20. Croydon's share of this is a surplus of £6.938m, which is greater than the overall surplus because of the way NNDR retention percentages with the MHCLG have changed between 2017/18 and 2018/19.

Croydon's share is comprised of a Council Tax surplus of £4.676m and a Business / Rates surplus of £2.262m. £5.466m of this balance has been transferred to earmarked reserves on 1 April 2019 in order to fund the 2018/19 deficit.

- 2.14 The HRA final outturn is a surplus of £0.736m which has been transferred to HRA reserves.
- 2.15 The Council's Pension Fund increased in value in 2018/19 by £111.6m to a value of £1.25bn.
- 2.16 The draft accounts have been prepared and have been presented to the Council's external auditors in line with the statutory deadline of 31<sup>st</sup> May 2019. This is the second year of the faster closedown requirement, and the council achieved this date, some 20 working days faster than accounts preparation in previous years. There are a number of assumptions and estimates used in the preparation of the draft accounts, which are set out in Section 8 of this report.
- 2.17 The Accounts and Audit Regulations 2015 no longer require the draft accounts to be approved by those charged with governance, and the draft accounts do not form an appendix to this report, instead they are an appendix to the audit findings report, which is a separate report on this agenda. However, this report does summarise the Council's financial position at the end of 2018/19, and provides an update on progress towards the Council's financial strategy objectives. The council's draft accounts have been published on the Council's website. This is in addition to the statutory public inspection periods, which ran from 3 June to 12 July 2019.
- 2.18 The draft accounts will be subject to external audit. If there are any significant changes to the draft accounts, they will be set out within the Grant Thornton external audit report, which will be presented to the General Purposes and Audit Committee as a separate item on this agenda. This report will also summarise the outcome of the audit, along with the report to Members charged with Governance as per established good governance practice in previous years.

### **3. GENERAL FUND REVENUE ACCOUNT OUTTURN 2018/19**

- 3.1 Departmental spend was £6.998m more than budgeted in 2018/19. The areas of overspend are those that have in the main been reported to Cabinet throughout the year and reflect the areas of the council's budget that is impacted heavily by demand and our statutory responsibilities. Growth had been built into the 2018/19 to reflect a new achievable budget for these areas. The main overspends were on placement costs in relations to looked after children and children with disabilities.
- 3.2 Despite the financial pressures placed on the budget, the Council has maintained strong financial controls throughout the year. As shown in Table 1, underspends on non-departmental spend enabled the council to make £6.653m

of savings to offset departmental pressures and exceptional items, which total £5.121m and include costs from UASC, NRPF, and Universal Credit.

**Table 1 - Revenue Outturn Summary for 2018/19**

Quarter 3 forecast  outturn  variance £'000	Department	Revised  Budget £'000	Outturn  2018/19 £'000	Variation from Revised Budget	
				£'000	%
				2,099	Health, Wellbeing and Adults
9,131	Children, Families and Education	68,354	77,886	9,532	13.95%
(5,350)	Place	48,430	43,020	(5,410)	-11.17%
1,002	Gateway, Strategy and Engagement	31,434	31,410	(24)	-0.08%
2,018	Resources	28,439	29,608	1,169	4.11%
<b>8,900</b>	<b>Departmental Total</b>	<b>282,066</b>	<b>289,064</b>	<b>6,998</b>	<b>2.48%</b>
(6,100)	Non-Departmental Items	(282,066)	(288,719)	(6,653)	
<b>2,800</b>	<b>Revenue Total before Exceptional Items</b>	<b>0</b>	<b>345</b>	<b>345</b>	
2,666	Exceptional items	0	5,121	5,121	
<b>5,466</b>	<b>Total transfer from balances</b>	<b>0</b>	<b>5,466</b>	<b>5,466</b>	

3.3 The main variances over £500k that contributed to the departmental overspend are summarised in Table 2 below. A complete breakdown of all variances is shown in Appendix 1.

**Table 2 - Analysis of departmental variances 2018/19 (+/- £500k)**

<b>HEALTH, WELLBEING AND ADULTS</b>	<b>Explanation of variance</b>	<b>Underspend (£'000)</b>	<b>Overspend (£'000)</b>
<b>Adults Social Care and All-Age Disability Directorate</b>	Savings not achieved relating to ICT transformation project		622
	Improved Better Care Funding	(2,000)	
<b>OBC Provider Services - Social Care</b>	Nursing care – increase in client numbers		2,790
	Staff savings to fund move to locality working	(1,250)	
	Overspend on residential care primarily due to increase in client numbers		624
	Risk share contribution from CCG	(500)	
	Use of Transformation funding to deliver service changes	(5,250)	
<b>25-65 Disability</b>	Increase package costs		2,848
<b>Transformation and Clienting</b>	Use of Transformation funding to deliver service changes	(1,529)	
<b>0-25 Send Service SWD</b>	Increase in family supports and high placement costs		1,607
<b>Public Health</b>	Increase in costs due to higher than anticipated demand for out of borough genitourinary medicine services (GUM)		843
	<b>Variances Below £500k</b>	(536)	
	<b>SUB TOTAL</b>	(11,065)	9,334
	<b>Total Variance - HEALTH, WELLBEING AND ADULTS</b>		<b>1,731</b>

<b>GATEWAY, STRATEGY AND ENGAGEMENT</b>	<b>Explanation of variance</b>	<b>Underspend (£'000)</b>	<b>Overspend (£'000)</b>
<b>Housing Need</b>	Increase in the number of households being placed in the Private Rental Sector. And an increase in costs associated with voids, repairs and agency staff		659
	<b>Variances Below £500k</b>	(683)	
	<b>SUB TOTAL</b>	(683)	659
	<b>Total Variance - GATEWAY, STRATEGY AND ENGAGEMENT</b>		<b>(24)</b>

<b>CHILDREN, FAMILIES AND EDUCATION</b>	<b>Explanation of variance</b>	<b>Underspend (£'000)</b>	<b>Overspend (£'000)</b>
<b>Early Help and Children's Social Care Directorate</b>	Legal fees to external providers		531
<b>Care Planning Service</b>	Increase in costs in relation to Section 17 expenditure due to increased demand		1,002
<b>Corporate Parenting</b>	An increase in the number of external placements, court driven assessments and supervised contacts		6,353
	<b>Variances Below £500k</b>		<b>1,646</b>
	<b>SUB TOTAL</b>	<b>0</b>	<b>9,532</b>
	<b>Total Variance - CHILDREN, FAMILIES AND EDUCATION</b>		<b>9,532</b>

<b>RESOURCES</b>	<b>Explanation of variance</b>	<b>Underspend (£'000)</b>	<b>Overspend (£'000)</b>
<b>Facilities Management and Support Services</b>	Increased rental income and reduced rent costs	(1,883)	
	Business Support – Increased staffing levels		506
<b>Commissioning and Procurement</b>	SEN – increased transport costs due to service demand		2,089
<b>Director of Finance, Investment and Risk</b>	Shortfall in Housing Benefit subsidy		1,510
<b>Croydon Digital Service</b>	A saving on the cost of the ICT contract and capitalisation of salaries	(561)	
<b>Director of Law and Governance</b>	Over achievement of legal income	(520)	
	Electoral services		605
	<b>Variances Below £500k</b>	<b>(577)</b>	
	<b>SUB TOTAL</b>	<b>(3,541)</b>	<b>4,710</b>
	<b>Total Variance - RESOURCES</b>		<b>1,169</b>



PLACE	Explanation of variance	Underspend (£'000)	Overspend (£'000)
<b>Public Realm</b>	Street lighting – increased energy costs		784
	Savings due to reduced unit cost of landfill during the Energy Recovery Facility commissioning phase	(1,205)	
	Additional Pay and Display and PCN income	(3,819)	
	Capitalisation of Highways and Road enhancement costs	(580)	
	<b>Variances Below £500k</b>	(590)	
	<b>SUB TOTAL</b>	(6,194)	784
	<b>Total Variance - PLACE</b>		(5,410)
	<b>TOTAL DEPARTMENTAL OVERSPEND</b>		<b>6,998</b>

3.4 Table 3 below shows the major variances relating to non-departmental expenditure. It should be noted that our budgeting methodology means that there will always be a number of favourable non-departmental items that will help cover departmental pressures.

**Table 3 - Analysis of non-departmental variances 2018/19 (+/- £500k)**

Explanation of variance	Underspend (£000)	Overspend (£000)
Use of contingency budget	(2,000)	
Revolving Investment Fund gains	(1,873)	
Additional income and grants: Section 31 funding and London Pool gains	(3,531)	
Unachievable contract review savings		763
Unachievable digital advertising income target		750
Other variances	(763)	
<b>Sub-total</b>	<b>(8,167)</b>	<b>1,514</b>
<b>TOTAL</b>	<b>(6,653)</b>	

3.5 Table 4 below gives details of all the exceptional items. These exceptional costs relate to additional costs associated with Unaccompanied Asylum Seeking Children (UASC) over and above the burden on Croydon council taxpayers assumed in the 2018/19 budget, the impact of the failure of Central Government to implement the provisions of the Immigration Act as far as they would impact on No Recourse to Public Funds costs for UASC and the impact of Universal Credit in Croydon. It should be noted that the overall shortfall on government funding in respect of this is some £10.6m, £5,1m more than was budgeted.

**Table 4 – Exceptional Items**

<b>Explanation of variance</b>	<b>Underspend (£000)</b>	<b>Overspend (£000)</b>
Additional Costs in relation to Unaccompanied Asylum Seeking Children (UASC)	-	3,071
No Recourse to Public Funds costs for UASC	-	2,050
	-	<b>5,121</b>

3.6 Table 5 below shows the position of the Council's balances and reserves as at 31 March 2019, compared with previous years. This table excludes Locally Managed Schools (LMS) reserves, as they are controlled by Schools.

**Table 5 - Analysis of Reserves and Balances**

<b>Balances and Reserves</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>
General Fund Balances	10.7	10.4	10.4
Earmarked Reserves	30.1	15.7	14.2
General Fund Provisions	37.1	41.2	41.5
Capital Receipts	7.40	11.0	0
Right to Buy Receipts	38.6	44.4	32.6
<b>Total</b>	<b>123.9</b>	<b>122.7</b>	<b>98.7</b>

3.7 Further details of earmarked reserves are provided in Section 8 of this report.

### **3.8 REVENUE BUDGET MANAGEMENT**

3.8.1 The overall revenue outturn position for 2018/19 is a £5.466m overspend. The past few financial years have been very challenging both due to financial constraints and increased demand for Council services. The Council has in place a strong financial management framework, and has continued to rigorously monitor, manage and control spending within the framework of the Financial Strategy. .

3.8.2 The Council continues to face increasing pressures in the delivery of services. The pressures in terms of grant loss and massive increase in demand experienced by the Council have continued into the current year. The Council has required the use of non-departmental savings to ensure budget delivery within resources available. Table 6 shows the overall Council position including non-departmental savings over the last 3 years.

**Table 6 – Council quarterly forecast outturn**

<b>Quarter</b>	<b>TOTAL 2018/19 £'000</b>	<b>TOTAL 2017/18 £'000</b>	<b>TOTAL 2016/17 £'000</b>
Quarter 1	2,599	1,049	696
Quarter 2	3,545	5,097	920
Quarter 3	5,466	5,861	732
Quarter 4	5,466	5,032	(50)

## **TRANSFORMATION**

3.8.3 The Council has continued to make use of new guidance on the use of flexible capital receipts which were published by the MHCLG in March 2016. This allows local authorities to use capital receipts to fund the up-front set up or implementation costs of projects that will generate future ongoing savings and/or transform service delivery. Table 7 below provides details of the transformation projects that have been funded from capital receipts during 2018/19.

3.8.4 The Council presented a strategy to Cabinet on 11th December 2017 (Min 98/17) that set out the intended usage of flexible capital receipts. Table 7 below gives details of the projects funded from the capital receipts in 2018/19, these total £29.306m.

**Table 7 – Transformation Projects**

	<b>£m</b>
Housing Initiatives	3.092
Adult Social Care new Initiatives	11.847
Children's Services	9.810
Demand Management	0.203
Transformation programme including ICT	4.354
<b>Total</b>	<b>29.306</b>

3.8.5 To enable the continued delivery of our transformation programme we will continue to use this approach to the flexible use of Capital Receipts in 2019/20. Further reports on progress of these projects will be presented to Cabinet as part of the quarterly financial monitoring report.

## **4. CAPITAL OUTTURN 2018/19**

4.1 The original approved capital programme totalled £345m, which was increased during the year to £449m to reflect both programme slippage and re-profiling of schemes. Total 2018/19 capital spend was £355m, with the resultant underspend of £94m (21%) mainly attributable to slippage in the delivery of

schemes. Table 8 below, shows spending against budget by Department in 2018/19 and Appendix 2 provides a detailed breakdown of spend against budget for the capital programme.

**Table 8 – Capital Outturn Variances for 2018/19**

Department	Original Budget £'000s	Budget Adjustments £'000s	Revised Budget £'000s	Outturn £'000s	Outturn Variance £'000s
Health, Wellbeing and Adults	0	579	579	245	(334)
Children, Families and Education	35,527	(1,192)	34,335	20,387	(13,948)
Place	224,984	(87,095)	137,889	107,788	(30,101)
Gateway, Strategy and Engagement	33,850	94,718	128,568	98,997	(29,571)
Resources	19,105	91,664	110,769	98,105	(12,664)
<b>General Fund</b>	<b>313,466</b>	<b>98,674</b>	<b>412,140</b>	<b>325,522</b>	<b>(86,618)</b>
Housing Revenue Account	32,385	4,715	37,100	30,058	(7,042)
<b>Total Capital</b>	<b>345,851</b>	<b>102,149</b>	<b>449,240</b>	<b>355,580</b>	<b>(93,660)</b>

4.2 The impact of slippage from 2018/19 into the 2019/20 capital programme was considered as part of the July Financial Review Cabinet report. Capital schemes in 2018/19 included the following:

- ▶ Education Estates Strategy
- ▶ Progression of New Addington Leisure Centre
- ▶ Improvement to the New Waste Collection Service
- ▶ Improvements to the Public Realm
- ▶ Commencement of Growth Zone
- ▶ House building by the councils wholly owned development company Brick by Brick Croydon Limited
- ▶ Refurbishment of the Fairfield Halls
- ▶ Financing for Affordable Homes
- ▶ Investment in ICT
- ▶ Assets Acquisitions Fund

## 5 HOUSING REVENUE ACCOUNT (HRA)

5.1 The final HRA outturn was a surplus of £0.736m which has been transferred to HRA reserves. The variances to budget that are on-going will be included in the budget planning for 2019/20.

5.2 The main variances of HRA revenue spend against budget are set out in Table 9 below.

**Table 9- Analysis of Housing Revenue Account Variances 2018/19**

Division	Variance	Detailed explanation
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	£'000s	
<b>HRA – Housing Needs</b>	1,171	Overspend on leased properties used for the provision of temporary accommodation and staffing costs as a result of carrying out fire safety assessments.
<b>HRA – Council Homes, Districts &amp; Regeneration</b>	(1,907)	Underspends due to vacancies within the team. Repairs costs being lower than budgeted for.
<b>Total HRA underspend</b>	<b>(736)</b>	

5.3 HRA capital expenditure totalled £30.058m. Expenditure was lower than the revised budget of £37.100m by £7.042m, due principally on reduced spending on the major repairs programme.

5.4 The Contingency reserve is set at 3% of total income, which is viewed to be appropriate to the level of risk within HRA income. The balance of the under-spend has been transferred to the HRA earmarked reserve. Table 10 below shows the position on the HRA balances and reserves at 31 March 2019 compared with the previous year.

**Table 10 – Movement in HRA reserves and balances**

HRA	Balance at 01-Apr-18 £'000	HRA Outturn 2018/19 £'000	Balance at 31-Mar-19 £'000
<b>Reserves</b>	<b>(14,535)</b>	<b>(0,736)</b>	<b>(15,271)</b>
Major Repairs Reserve	(1,929)	1,929	0
<b>Total</b>	<b>(16,464)</b>	<b>1,193</b>	<b>(15,271)</b>

## 6. PENSION FUND AND TREASURY MANAGEMENT

6.1 The accounts for the Pension Fund are included, as a separate set of accounts, within the published Croydon Council's annual accounts. Table 11 below shows the change in the value of the Croydon Pension Fund during 2018/19: -

**Table 11 - Pension Fund Performance 2018/19**

<b>Detail of Composition of Net Assets</b>	<b>2017/18</b>	<b>2018/19</b>	<b>Net Increase / (Decrease)</b>	<b>Change</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>
Total Investments	1,114.702	1,230.117	115.415	10.35
Other balances held by Fund Managers	1.465	1.557	0.092	6.28
Debtors	4.052	9.536	5.484	135.34
Cash Held by:				
Fund Managers	8.603	6.452	(2.151)	(25.00)
London Borough of Croydon	17.380	5.528	(11.852)	(68.19)
Creditors	(6.759)	(2.147)	4.612	68.23
<b>Net Assets at Year End</b>	<b>1,139.443</b>	<b>1,251.043</b>	<b>111.600</b>	<b>9.80</b>

6.2 For the year ending 31 March 2019, the Fund produced an investment return of 10.4% which along with net cash outflow of £5.68m from the Fund, meant the net value increased by 9.80% over the reporting period. The diversified nature of the investment strategy has ensured that the fund has been able to deliver growth throughout the year. The Fund performed 4.5% above the benchmark for the year and has exceeded the return assumed by the actuaries. Over a 5 year period the Fund has returned 10.7% p.a. which is 5.3% above the benchmark return. This is despite the Fund continuing the process of restructuring the asset allocation to optimise the position.

6.3 A critical function of the Pensions Committee is to ensure that the Asset Allocation Strategy matches the current economic climate in order to stabilise returns and reduce portfolio volatility whilst closing the funding gap. In the long-term, this will allow the Fund to meet its current and future liabilities to pensioners and stabilise employer contribution rates, without putting an additional burden on council tax payers. The economic outlook suggests slow growth in the developed world and further uncertainty in the euro zone. Table 12 below shows annualised performance by asset class over the 12 months to 31 March 2019.

**Table 12 – Performance by asset class for the year end 31/03/19**

<b>Asset Class</b>	<b>Value at 31-3-19 £m</b>	<b>Return %</b>	<b>Benchmark %</b>	<b>Over / Under performance %</b>
Global Equities	457.993	11.9	11.9	-
Emerging Market Equities*	58.044	6.1	11.5	(5.4)
Global Bonds**	84.066	5.5	4.9	0.6
UK Corporate Bonds	65.007	3.7	3.7	-
Sterling Bonds	67.125	5.4	3.9	1.5
Absolute Return Bonds	66.221	1.1	0.8	0.3
Private Equity	109.991	16.9	6.9	7.0
Infrastructure	142.954	9.1	6.9	2.2
Property	178.566	5.5	5.2	0.3
Cash & other		-	-	-
<b>Total Fund</b>	<b>1,131.361</b>	<b>10.4</b>	<b>5.9</b>	<b>4.5</b>

\*Emerging Market Equities the return quoted is from the inception date 26/10/2018.

\*\*Global Bonds the return quoted is from the inception date 30/11/2018.

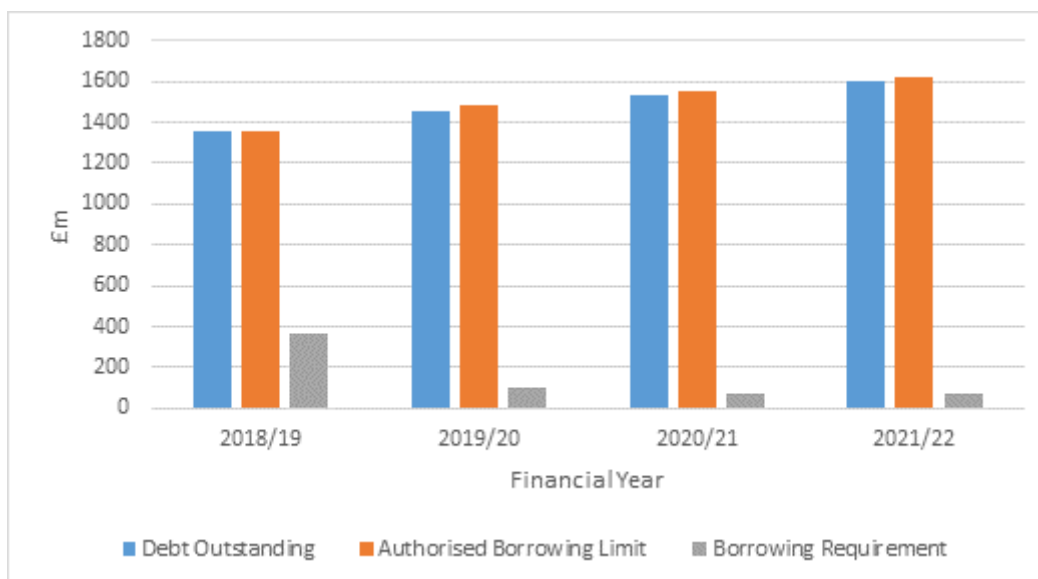
## Treasury Management

- 6.4 The Director of Finance, Investment and Risk and Interim Section 151 Officer is responsible for setting and monitoring the Prudential Indicators in accordance with the Council's Capital Strategy and Treasury Management Strategy.
- 6.5 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The Code was updated in 2017 and the Council has adopted this updated Code of Practice on 4 March 2019 (Minute 20/17).
- 6.6 The Prudential Indicators set will continue to be monitored throughout the year and will be reported to Cabinet on a quarterly basis. The indicators break down into four blocks relating to capital expenditure, the affordability of that investment programme, debt and treasury management as follows:
- The capital investment indicators reflect the Authority's future plans to undertake capital works, and the extent to which these will be funded through

borrowing. Hence, in the budget for 2019/20, £221.9m of investment is planned, £139.2m of which is to be financed from borrowing.

- Apart from borrowing that is supported by government grant funding, the cost of new prudential borrowing to the Authority will be £45.77 per Band D council taxpayer in 2019/20. This Prudential Indicator reflects the impact of funding decisions relating to capital investment in Croydon. The Prudential Code specifically indicates that it is not appropriate to compare this indicator with other authorities.
- The external debt indicators illustrate the calculation of the affordable borrowing limit. The treasury indicators show that the Authority will limit its exposure to variable rate debt to no more than 20% of total debt and will only invest up to 30% of the total investments for periods in excess of one year for reasons of limiting exposure to risk and guaranteeing adequate liquidity.
- The final indicator in graph 2 below shows a comparison of new debt against Prudential Limits. In order to take advantage of low borrowing costs, the Authority borrowed £40m from the PWLB on 25 March 2019, in advance of need. This meant the Authority temporarily exceeded the agreed authorised borrowing limit.

**Graph 2: Comparison of Debt against Prudential Limits for 2018 to 2022**



## Borrowing

6.7 As part of its Treasury management framework the Council agreed a set of Prudential Indicators covering 2018/19 and the next three years on a rolling programme. These indicators relate to capital investment and the treasury function to provide a level of assurance that investment and borrowing decisions are sustainable, affordable and prudent, and are shown in Table 13 below:



**Table 13 - Prudential Indicators 2018/19 – 2021/2022**

PRUDENTIAL INDICATORS	2018/19	2019/20	2020/21	2021/22
	Actual Outturn  £m	Forecast  £m	Forecast  £m	Forecast  £m
<b>1. <u>Prudential Indicators for Capital Expenditure</u></b>				
1.1. Capital Expenditure				
- General Fund	295.193	183.474	95.818	87.497
- HRA	30.059	38.451	26.951	26.951
<b>Total</b>	<b>325.252</b>	<b>221.925</b>	<b>122.769</b>	<b>114.448</b>
1.2. In year Capital Financing Requirement				
- General Fund - gross of MRP costs	188.012	139.219	73.949	75.097
- HRA	0.000	0.000	0.000	0.000
<b>Total in year Capital Financing Requirement</b>	<b>188.012</b>	<b>139.219</b>	<b>73.949</b>	<b>75.097</b>
1.3. Capital Financing Requirement as at 31 <sup>st</sup> March – <b>balance sheet figures</b>				
- General Fund (net of MRP costs)	988.459	1,142.854	1,207.103	1,272.20
- HRA	322.497	322.497	322.497	322.497
<b>Total</b>	<b>1,310.956</b>	<b>1,465.351</b>	<b>1,529.60</b>	<b>1,594.697</b>

<p><b>2. <u>Prudential Indicators for Affordability</u></b></p> <p>2.1. Ratio of financing costs to net revenue streams</p> <ul style="list-style-type: none"> <li>- General Fund</li> <li>- HRA</li> </ul> <p>2.2. General Fund impact of Prudential (unsupported) borrowing on Band D Council Tax levels (per annum)</p> <ul style="list-style-type: none"> <li>- In year increase</li> <li>- Cumulative increase (includes MRP costs).</li> </ul> <p>2.3. HRA impact of additional borrowing (unsupported) on housing rents (per annum)</p> <p>[The HRA's additional £223.1m debt costs are reflected in these ratios.]</p>	<p>8.6%</p> <p>13.25%</p> <p>£45.77</p> <p>0</p>	<p>9.1%</p> <p>13.25%</p> <p>£33.89</p> <p>£145.91</p> <p>0</p>	<p>9.1%</p> <p>13.2%</p> <p>£18.00</p> <p>£163.91</p> <p>0</p>	<p>9.1%</p> <p>13.2%</p> <p>£18.28</p> <p>£182.19</p> <p>0</p>
<p><b>3. <u>Prudential Indicators for Long External Debt</u></b></p> <p>3.1. Debt brought forward 1<sup>st</sup> April</p> <p>Debt carried forward 31<sup>st</sup> March</p> <p>(Includes the £223.1m debt for the HRA self- financing settlement sum plus RIF &amp; Growth Zone borrowings in future years).</p>	<p>986.98</p> <p>1,357.113</p>	<p>1,357.113</p> <p>1,456.332</p>	<p>1,456.332</p> <p>1,530.281</p>	<p>1,530.281</p> <p>1,605.378</p>
<p><b><u>Additional Borrowing</u></b></p>	<p><b>370.133</b></p>	<p><b>99.219</b></p>	<p><b>73.949</b></p>	<p><b>75.097</b></p>

PRUDENTIAL INDICATORS	2018/19	2019/20	2020/21	2021/22
	Forecast Outturn  £m	Forecast  £m	Forecast  £m	Forecast  £m
3.2. Operational boundary for external debt (excludes revenue borrowing) Borrowing	1,220.11	1,351.129	1,415.378	1,480.500
Other long term liabilities	84.920	84.920	84.920	84.920
3.3. Total operational debt (excludes revenue borrowing)	1,220.11	,351.129	1,415.378	1,480.475
Add margin for cash flow contingency	50.00	50.00	50.00	50.00
Authorised limit for external debt (includes revenue borrowing)	1,270.11	1,401.129	1,465.378	1,530.475
Other long term liabilities	84.920	84.920	84.920	84.920
<b>Authorised Borrowing Limit</b>	<b>1,355.030</b>	<b>1,486.049</b>	<b>1,550.298</b>	<b>1,615.395</b>
<b>4. Prudential Indicators for Treasury Management</b>				
4.1. Lending limits - upper limit for total principal sums invested for over 365 days expressed as a % of total investments	30%	30%	30%	30%

	Lower limit	Upper limit
4.2. Maturity structure of new fixed rate borrowing, if taken, during 2018/19		
- Under 12 months	0	20%
- 12 months to 24 months	0	20%
- 24 months to 5 years	0	30%
- 5 years to 10 years	0	30%
- 10 years and above	0	100%

£223.126m of debt carried forward relates to long term loans taken up from the PWLB on 28/3/12 for the HRA Self Financing settlement payment. This sum was paid to the Government to exit the national HRA Subsidy system.

## 7. PROGRESS AGAINST THE CURRENT FINANCIAL STRATEGY

7.1 The current Financial Strategy that was approved on a recommendation of Cabinet to full Council (Minute A33/18, Council Meeting 8 October 2018), and this established the approach that the council would be taking to ensuring the overall financial health of the organisation remained strong over the medium term and the financial assumptions of the council that align to the Corporate Plan. Detailed below are the key priorities on how we will manage the medium term position:

- (a) Delivering our Corporate Plan
- (b) Secure Medium to long term revenue from sound property investment
- (c) Investment in the borough through the Revolving Investment Fund and delivery of our Growth Promise
- (d) Improving children's services and the implementation of the children's improvement plan
- (e) Transformation of Adult Social Care Provision

### Delivering our Corporate Plan

7.2 It is crucial that the financial strategy is completely aligned with the Corporate Plan. The corporate plan sets out the key priorities for the next four years and identifies the need to drive even harder the approach to:

- supporting residents and families
- tackling issues before they reach crisis
- delivering creative solutions to deliver better outcomes

- overcome the challenges presented by ongoing reductions to funding an increasing need for Council services

7.3 Building on the approach already established in the Gateway Service, the Corporate Plan will drive, a total place based approach that uses business intelligence to design new preventative services and programmes tailored to local need and delivered close to home. Working in partnership, notably with health, police and the voluntary sector, we will look to design holistic and integrated services based on a system-wide approach, with joint pooled resources and pathways operating across organisational boundaries and maximising the use of digital technology.

7.4 A key element of delivering the corporate plan priorities and securing better outcomes requires us to recognise the variations in assets and needs within the different localities across the borough. Providing the right services closer to home, and developing preventative programmes in conjunction with communities and families who need them is central to the new approach. This reflects approaches already underway in the Gateway Service and through our work with Health in the One Alliance. Trialling different approaches in different areas will enable us to test the impact of this approach.

7.5 This is an approach not driven by saving money but driven by improving outcomes for residents. However we do believe it will lead to a more effective use of our resources and increase the opportunity to reduce the amount of the council's resources spent on acute need which can be both expensive and not lead to the best outcome for our residents

### **Sound Property investment**

7.6 The Council has an aspiration to secure medium to long term revenue returns from sound property investment principally within the Borough. If chosen carefully the revenue returns should be consistent and less prone to fluctuation due to the protection within the lease agreements. These returns will be key to our future revenue income and enable expenditure on key services. We will be principally looking at the opportunity that property investment offers to help generate a secure revenue stream over the medium to long term. In order to complete in the market a £100m asset acquisition fund was created.

7.7 During 2018/19 Council has purchased the Colonnades Retail and Leisure Park on the Purley Way, which is estimated to provide revenue savings to the Council of around £1.4m a year net of interest and other costs, and help protect the delivery of core services to residents. Additionally Croydon Park Hotel was also purchased which is estimated of around £1m a year.

### **RIF**

7.8 The Revolving Investment Fund (RIF) is key to our financial strategy and enables investment in the borough and supporting the delivery of Growth within the borough. RIF acts as a funder to the Council's wholly owned development company Brick by Brick, the Housing LLP, Box Park and

Taberner House.

- 7.9 The RIF lends at commercial rates whilst borrowing at the lower rates which are available to the Council. The net returns estimated over the next 3 years are between £1m and £2m per annum, and have been included in the revenue budget for 2019/20.

### **Children's Services**

- 7.10 Improving Children's services continues to be a key priority and the implementation of the Children's Improvement plan following the Ofsted inspection in the summer of 2017 remains a key priority. Our aim is to deliver good services for children and young people. We recognise that this is likely to be a three year journey. The plan will continue to focus on the child's experience and will continue to require close working with partners to implement our vision.
- 7.11 To implement improvements we are investing in our staff to ensure they are stable and skilled and their case loads are manageable. We are strengthening our strategic commissioning to ensure efficient and effective services are delivered and that children are at the forefront of service delivery.
- 7.12 We invested over £10m in 2018/19 and £11m in 2019/20.
- 7.13 The implementation of our Early Help Strategy is also key to delivering service improvement and we are working with partners to deliver a joined up service offer for children aged 0-18 and their families. Services will be provided on a locality basis and be evidence based. The aim is to develop a service that builds sustainability in Croydon enabling more families to be self-sufficient and less reliant on council services, generating a better outcome for the family, which will also be at a lesser cost

### **Adults Services**

- 7.14 The Transformation of Adult Social Care is key to enabling us to deliver personalised services, as well as a financially sustainable adult social care system. It has been developed as a response to reducing budgets and increasing demand arising from an aging population and an increase in clients with increasingly complex needs. The programme has enabled:-
- People will have better access to advice, information and targeted prevention that will help them to live their lives without support from the Council;
  - People will be supported through re-ablement to be as independent as possible;
  - People will have more choice and control, leading to higher satisfaction levels;
  - More people will be supported to live independently.
  - In line with the Care Act we are moving toward delivering services through an Asset Based Approach.

7.15 This will deliver better outcomes for our residents, at a lower cost. Integration of our services with our health partners is a key priority and the One Croydon Alliance has been and will continue to be key in delivering services working together with the hospital, borough GP'S, CCG, Mental Health Trust and Age UK.

## 8.0 STRONG FINANCIAL MANAGEMENT AND RESERVES

8.1 Over the last five years the council has worked hard to maintain financial stability. Given the turbulent economic environment faced, maintaining financial stability will be essential in order to continue to maintain a medium to long term strategic focus for the Borough and its priorities.

8.2 The level of general fund balances as at 31<sup>st</sup> March 2019 is £10.4m. This represents 3.9% of 2018/19's net budget requirement against a Financial Strategy target of 5%. Table 14 below sets out actual general fund balances against the targeted level.

**Table 14 – Comparison of General Fund Target Balance with Actual Balances**

Year	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Target 5% (£m)	13.9	13.4	13.0	12.9	12.5	12.4
General Fund balance (£m)	10.7	10.7	10.7	10.4	10.4	n/a

8.3 The Council has a General Fund balance of £10.4m as at 31<sup>st</sup> March 2019 and earmarked reserves of £14.2m excluding Schools reserves.

8.4 The General Fund balances are in place to meet unanticipated costs arising in the year or budget overspends. The appropriate level of the General Fund balances has regard to assessment of risks from the external environment that may result in overspending and impact on the Council's financial position in the context of the overall arrangements that the Council has for mitigating risks, including earmarked reserves detailed in table 15 below. Through the review that will be taking place of the medium term financial strategy and the continuation of strong and robust financial management the plan is to increase the reserves in 2021/22.

**Table 15 – Analysis of earmarked reserves (greater than £0.5m)**

Reserves	Balance 31/03/2019	Balance 31/03/2018
	£m	£m
<b><u>NON DEPARTMENTAL</u></b>		
Revolving Investment Fund - set aside to fund the up-front costs of the schemes within the investment fund.	2.897	3.199
<b><u>DEPARTMENTAL - PLACE</u></b>		
Growth Zone funding received from the DCLG to fund early life of zone. This now includes income earned	9.512	7.000
Selective Licencing - income from private rental licencing scheme to be used over the life of the licence to improve the standards of private rental housing within the Borough. 2019/20 is the last year of this scheme	1.718	2.884
Street Lighting PFI sinking fund – will be used to match operational requirements.	0	1.555
Other (only identified if over £0.5m as at 31 March)	5.567	5.810
Draw Down of Reserves budgeted to be replaced on 1 April	-5.466	-4.700
<b>TOTAL EARMARKED RESERVES</b>	<b>14.228</b>	<b>15.748</b>

### SCHOOLS RESERVES

- 8.5 The overall value of school reserves have increased from £2.4m, by £1.3m to £3.7m.
- 8.6 Six schools have converted to academies during the financial year. The balances of the closing schools are not included in the totals, as they are transferred to the academy.
- 8.7 The government allows Schools' Forums to set their own policy on reviewing levels of balances held by schools. The Schools Forum agreed a maximum of 4% for Secondary Schools and 6% for all other schools of revenue reserves as a percentage of annual funding received. The review is carried out on the schools quarter 2 returns. In 2018/19 there were no schools that held balances above the thresholds.
- 8.8 Table 16 below shows the percentage of deficits in maintained schools.



**Table 16 - Schools deficits balances**

Type of School	Number of schools	Number of schools in deficit	% of Schools in deficit
Nursery Schools	5	0	0
PRU	1	0	0
Primary Schools	33	7	21%
Secondary Schools	6	3	50%
Special Schools	5	0	0
<b>Total</b>	<b>50</b>	<b>10</b>	

*\*Note: Values in the above table excludes community reserves and Capital reserves held by schools, and includes all maintained schools at the end of March 2019.*

## General Fund Provisions

- 8.9 The General Fund provisions are analysed in table 17 below. A provision is a sum of money held for a specific purpose to cover a potential cost, where the amount or timing is not certain.

**Table 17 - General Fund Provisions**

Provisions	Balance 31/03/2017 £m	Balance 31/03/2018 £m	Balance 31/03/2019 £m
Provision for Doubtful debts	30.458	34.393	34,746
Insurance Fund	4.850	4.580	4.850
Other provisions	2.034	3.909	3.928
<b>Total</b>	<b>37.072</b>	<b>43.152</b>	<b>43.524</b>

- 8.10 Table 18 below shows the combined total of general fund balances and earmarked reserves. Overall, general fund and earmarked reserves represent around 16% of the Council's net budget requirement.

**Table 18: Reserves and Budgeted Net Operational Expenditure**

<b>Balances and reserves</b>	<b>2015/16 £m</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>
General Fund balance	10.677	10.727	10.394	10.394
Earmarked reserves	32.171	30.124	15.746	14.227
<b>Total</b>	<b>42.848</b>	<b>40.851</b>	<b>26.140</b>	<b>24.621</b>
<b>Net Budget Requirement</b>	<b>259.999</b>	<b>258.55</b>	<b>266.898</b>	<b>270.365</b>
<b>General Funds Balances% of net budget requirement</b>	4.11%	4.15%	3.89%	3.84%

## **9.0 FINANCIAL SERVICES, SYSTEMS, PROCESSES AND GOVERNANCE**

- 9.1 Financial management continues to be an area of strength for the organisation. Despite this strong performance it is clear that the challenge for the public sector will become greater over the coming years.
- 9.2 Grant Thornton are presenting their Audit Findings Report to this General Purposes & Audit Committee with an unqualified audit opinion on the Council's Financial Statements.
- 9.3 The Council delivers a comprehensive internal audit plan through a contract with Mazars Public Sector Internal Audit Ltd. The plan includes key financial systems, risk based audits from across the organisation as well as probity audits in schools and other establishments. The internal audit plan has been delivered in full with all field work completed. The detailed audit outcomes for the key financial audits are shown in Table 19 below.
- 9.4 From all audits finalised to date, 60% have been given a full or substantial assurance level. After each audit is finalised there is a robust follow-up procedure to ensure that agreed recommendations are implemented. At this point in the year, 58% of recommendations made in audits for 2017/18 and 72% of followed-up recommendations made in 2018/19 have been implemented. Internal audit will continue to follow-up on these until the vast majority have been implemented, including all high priority recommendations.

**Table 19 – 2018/19 Audit Plan**

<b>2018-19 Audit Plan</b>	<b>Assurance</b>
Business Rates	Substantial
Community Care Payments	Limited
Council Tax	Substantial
Creditors (inc P2P)	Substantial
Debtors (Accounts Receivable)	Substantial
Housing Benefits	Substantial
Housing Rents & Accounting (Reduced Scope)	Limited
Housing Repairs	Limited
Main Accounting System (Reduced Scope)	Substantial
Parking Enforcement & Tickets	Report in draft
Payments to Schools	Substantial
Payroll	Report in draft
Pensions Administration	Limited
Treasury Management (Reduced Scope)	Full

## **ANNUAL GOVERNANCE STATEMENT (AGS)**

- 9.5 The Accounts and Audit Regulations 2015 require the Council to review, at least annually the effectiveness of its system of internal control and publish an Annual Governance Statement (AGS) each year with the financial statements. The AGS is a separate item on this agenda.

The information for the AGS has been collected from the following sources;-

- External Audit;
- Internal Audit;
- Risk Management Process;
- Executive Directors Assurance Statements; and
- Performance Management.

- 9.6 There are detailed actions to manage and mitigate the risks identified within the Annual Governance Statement, which will be monitored by the Corporate

Leadership Team on a quarterly basis to ensure appropriate action is taken in-year.

## Financial Performance Data

9.7 Table 20 below sets out sundry debt collection performance for 2018-19. Collection rates remained strong throughout the year, although collection of up to 30 days and 60-90 day debt were below expected rate due to several high value invoices raised for NHS and other London Authorities. These organisations take longer to pay, on average 50-60 days from the receipt of the invoice.

**Table 20 – Sundry debt collection performance in 2018-19**

Age of debt	Debt Issued £m	Debt Outstanding at 31-3-201 £m	Actual Collection Rate at 31-3- 2019	Target Collection Rate
2 months (31-60days)	12.927	5.434	57.96%	80%
3 months (61-90days)	5.682	1.487	73.82%	90%
4 to 6 months (91-120days)	12.276	0.592	95.17%	95%
7 to 12 months (121-365days)	82.311	1.624	98.03%	97.50%

## Collection Fund

9.8 The Collection Fund is a ring-fenced account into which all sums relating to Council Tax and Business Rates are paid. Surpluses or deficits within the fund are split between the precepting bodies in accordance with pre-determined percentages, which for Council Tax is Croydon Council and the Greater London Authority (GLA), and for Business Rates includes the GLA as well as the Ministry of Housing Communities and Local Government (MHCLG).

9.9 Deficits within the fund must be met by the precepting bodies, but any surpluses can be used by those bodies to fund expenditure within their own organisation. Table 21 below sets out the position of the Collection fund at the end of 2018/19.

**Table 21 – Collection Fund at 31 March 2019**

	<b>Council Tax</b>	<b>Business Rates</b>	<b>Total Collection Fund</b>	<b>Total Collection fund at 31.3.18</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Overall (surplus) / deficit	(5,702)	293	(5,409)	(12,050)
Croydon Council - share	82%	variable	-	-
<b>Croydon Council – Amount</b>	<b>(4,676)</b>	<b>(2,262)</b>	<b>(6,938)</b>	<b>(6,823)</b>

- 9.10 The Council Tax surplus of £5.702m was due primarily to growth in the council tax base, as well as stronger collection than budgeted. The predicted surplus declared in January 2019 was £4.951m (Croydon's share £4.059m) which will be distributed in 2019/20, and is very close to the outturn value achieved.
- 9.11 For Business Rates there is a small deficit of £0.293m. The declaration made in January 2018 was to distribute a surplus of £0.067m (Croydon's share being £2.519m). The reason Croydon's share is greater than the overall surplus is due to the change in business rates retention share between 2017/18 and 2018/19. Croydon is repaying 30% of a £5.8m deficit from 2017/18, but is gaining 64% of a £6.1m surplus in 2018/19, hence the gain.
- 9.12 Croydon's combined share of the Collection Fund is therefore a credit of £6.938m, of which £6.578m has been considered as part of the 2019/20 budget setting process.
- 9.13 The net collectable debt for council tax in 2018/19 was £211.1m, an increase of £13.5m on the previous year due to an increase in property within the borough.
- 9.14 The Ambitious for Croydon target relates to the amount of income collected in the initial year of billing (2018/19 debt collected in 2018/19). The target set for 2018/19 was 97.25% and the actual performance was 97.25%. Table 22 below shows the performance against the target.

**Table 22 – Collection target and performance for Council Tax Collection**

	2018/19		
	Target	Actual	Variance
% collection	97.25%	97.25%	0.0%
£m's collection	£204m	£204m	(£0m)

**National Non Domestic Rate (NNDR) Collection –**

9.15 The target set for NNDR collection in 2018/19 was 98.75% and the actual performance was 99.25%, an increase of 0.50% over the target. The collectable income for business rates in 2018/19 did fall during the year compared to the target. This was as a result of appeal decisions reducing what businesses owed in NNDR during 2018/19. Therefore, although the Council increased its rate of collection, the amounts that businesses needed to pay was reduced, resulting in less overall income. It should be noted that this reduction in collectable income was offset by releasing funds from the NNDR bad debt and appeal provisions, meaning the overall NNDR position at year-end was a small deficit of £293k. See Table 21 above for more details. Table 23 below shows the impact of actual performance against the target in cash terms.

**Table 23 – Collection target and performance for NNDR Collection**

	2018/19		
	Target £000	Actual £000	Variance £000
% collection	98.75%	99.25%	0.50%
£ collection	£128m	£124m	(£4m)

**10. FORMAT AND PREPERATION OF THE ACCOUNTS**

10.1 There are no significant changes to the format of accounts in 2018/19. The council continues to prepare group financial statements that include the activity of Brick by Brick (Croydon) Limited. The group statements are included at the end of the Council's main statements, and will combine the activity of Croydon Council and Brick by Brick into a "single entity" set of statements, once activity between the two organisations has been removed. These group accounts will reflect the circa £98m of expenditure undertaken by Brick by Brick towards the construction of new homes in the Borough.

- 10.2 In preparing the accounts, it is necessary to make judgements about uncertainty of future events, and to make estimates based on assumptions. The key areas are set out below:
- 10.3 Properties are valued based on valuations prepared by the Council's external professional valuers. They are then depreciated over the useful economic life of the asset based on the asset category. Variations in property valuations and useful economic life estimates could have a major impact on the total comprehensive income and expenditure and the balance sheet net balances value.
- 10.4 Estimates are used in the preparation of the provision for doubtful debt. The Council uses historical collection rates when estimating these provisions
- 10.5 Changes in the collection rates of key revenue streams could have an impact on the total comprehensive income and expenditure position.
- 10.6 The Council aims to take a prudent approach when making estimates to ensure that they do not overstate their position. Where possible the Council uses professional guidance in calculating the value of its assets.

#### **EXTERNAL AUDIT OF THE ACCOUNTS**

- 10.7 The audited of the Council's accounts is under way, and this will be completed by the end of July 2019 in line the statutory deadlines. The duties and powers of auditors appointed by the Public Sector Audit Appointments are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the National Audit Office Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.
- 10.8 Audit in the public sector is under-pinned by three fundamental principles:
- auditors are appointed independently from the bodies being audited;
  - the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
  - Auditors may report aspects of their work widely to the public and other key stakeholders.
- 10.9 Auditors are required by the statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from the audit work. This is called the International Standard on Auditing (ISA) 260 Report and can be found elsewhere on this meeting's agenda for consideration by the General Purposes Audit and Advisory Committee. The principal purposes of the report are:
- to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance;

- to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
- to provide recommendations for improvements arising from the audit process.

10.10 Those charged with governance will be required to review this report in order to:

- consider the statement of accounts before the financial statements are approved and certified; and
- ensure the representation letter can be signed on behalf of the authority by the Director of Finance, Investment and Risk (Interim Section 151 Officer) and those charged with governance before Grant Thornton issues its opinion on the financial statements.
- give the opportunity for those charged with governance to amend the financial statements for the unadjusted misstatements/significant qualitative aspects of financial reporting issues identified above.

10.11 Should Members choose not to amend the financial statements, in accordance with ISA 260, the Auditors will request that members extend the representation letter to explain why adjustments are not being made to the financial statements.

10.12 Lisa Taylor Director of Finance, Investment and Risk, Interim Section 151 Officer will advise Members of the Committee accordingly throughout this process.

## **PUBLIC ACCESS**

10.13 The Council has improved Public Access and awareness of the Council's Accounts through its Public Access Strategy. The Council's accounts will be available for public inspection for a period of 30 working days, which commences the day after the Council's accounts are signed and published on the Council's internet site. This period began on Monday 3rd June and ran until Friday 12 July 2019. During this time, the Accounts were available via the Council's website as well as at Bernard Wetherill House.

10.14 The Accounts and Audit (England) Regulations 2015 also require publication (including on the Council's website) of the statement of accounts together with any certificate, opinion, or report issued, given or made by the auditor, which will be completed ahead of the statutory deadline of 31<sup>st</sup> July.

## **11. FINANCIAL CONSIDERATIONS**

11.1 The body of the report sets out the 2018/19 outturn in the context of the Council's Financial Strategy as approved by Cabinet on the 24<sup>th</sup> September 2018.

## **12. LEGAL CONSIDERATIONS**

12.1 The Council Solicitor comments on behalf of the Director of Law and Governance and Deputy Monitoring Officer that the Council are obliged to



prepare a statement of accounts in accordance with the Accounts and Audit (England) Regulations 2015 and proper accounting practices.

12.2 Under paragraph 17.9 of the Financial Regulations which form part of the Constitution, the Chief Financial Officer is responsible for:

- the proper administration of the Council's financial affairs;
- setting and monitoring compliance with financial management standards;
- amendments to the Financial Regulations;
- advising on the corporate financial position and on the key financial control necessary to secure sound financial management;
- providing financial information;
- approval of financial schemes of delegation;
- preparing the revenue budget and capital programme;
- Treasury management;
- Internal Audit;
- Anti-Fraud;
- Risk Management; and
- Insurance.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance & Deputy Monitoring Officer

12.3 The Council Solicitor comments that the Council are obliged to prepare a statement of accounts in accordance with the Accounts and Audit (England) Regulations 2015 and proper accounting practices.

12.4 Under the Financial Regulations which form part of the Constitution, the Chief Financial Officer has the delegated responsibility to spend balances and reserves in accordance with the final accounts that are received at General Purposes & Audit Committee. However, the General Purposes & Audit Committee is required to sanction any changes to the agreed amounts if they differ.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance & Deputy Monitoring Officer)

### **13. OTHER CONSIDERATIONS**

13.1 There are no immediate human resource impacts.

Approved by: Sue Moorman, Director of HR.

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**Report Author**

Lisa Taylor Director of Finance, Investment and Risk (Interim Section 151 Officer)

**Contact Officer**

Lisa Taylor Director of Finance, Investment  
and Risk (Interim Section 151 Officer)

**Appendices**

Appendix 1 – Revenue Outturn Variances

Appendix 2 – Capital Outturn