

Subject:	Annual Governance Statement and Statement of Accounts 2014/15	Status:	For Publication
Report to:	Audit & Accounts Committee	Date:	3 rd October 2018
Report of:	Finance Manager	Portfolio Holder:	Resources
Key Decision:	<input type="checkbox"/> Forward Plan <input checked="" type="checkbox"/>	General Exception	<input type="checkbox"/> Special Urgency <input type="checkbox"/>
Equality Impact Assessment:	Required:	Yes/No	Attached: Yes/No
Biodiversity Impact Assessment	Required:	Yes/No	Attached: Yes/No
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1.	RECOMMENDATION(S)
1.1	That Members note the contents of this report, and the changes made to the Annual Governance Statement and the Statement of Accounts since the drafts were submitted in June 2015.
1.2	Members approve the attached Annual Governance Statement and Statement of Accounts 2014/15 (see appendix 1).

2. PURPOSE OF REPORT

- 2.1 The purpose of the report is to update Members on the changes made to the Accounts for 2014/15 during the audit process.
- 2.2 Members approve the attached Annual Governance Statement and Statement of Accounts 2014/15.

3. CORPORATE PRIORITIES

- 3.1 The matters discussed in this report impact directly on the following corporate priorities:
 - **A clean and green Rossendale:** our priority is to keep Rossendale clean and green for all of Rossendale's residents and visitors, and to take available opportunities to recycle and use energy from renewable sources more efficiently.
 - **A connected and successful Rossendale that welcomes sustainable growth:** our priority is to ensure that we are well connected to our residents, key partners and stakeholders. We want to make the most of every pound we spend and we are always looking for new and innovative ways to make the resources we do have, work harder for us.
 - **A proud, healthy and vibrant Rossendale:** our priority is to ensure that we are creating and maintaining a healthy and vibrant place for people to live and visit.

4. RISK ASSESSMENT IMPLICATIONS

- 4.1 All the issues raised and the recommendation(s) in this report involve risk considerations as set out below:
 - *Operational Governance and Risks:* the Annual Governance Statement: Year ended 31st March 2015 details the significant risks faced by the Council and the measures in place to mitigate, manage and monitor those risks.
 - *Level of General Fund Reserves:* The Council must set a level of General Fund reserves based on an assessment of the potential risks to which the Council is exposed. Through its Medium Term Financial Strategy the Council has acknowledged the level of risks in the general economic environment through a suggested minimum

level of General Fund balances of £1m. The Balance Sheet in the Statement of Accounts at Appendix 1 shows the General Fund Balance at the 31st March 2015 remains at £1m.

- *Contingent Assets and Liabilities*: An assurance will be submitted verbally to the Members at the Committee to confirm the current position with regards to Contingent Assets and Liabilities.

5. BACKGROUND AND OPTIONS

5.1 2014/15 Accounts and the audit process since June 2015

The original draft Annual Governance Statement and Statement of Accounts for 2014/15 were brought to this Audit & Accounts Committee in June 2015 and then submitted for public scrutiny and external audit. During the audit process the operation of the East Lancs Empty Homes Scheme, and the accounting treatment of the Homes and Communities Agency (HCA) Grant for the Scheme, came into question.

There were questions around the operation of the scheme, the confirmation of renovation works paid for under the scheme and the validity of the grant rules on individual properties. This is why the audit of these has taken such a lot of time to resolve.

5.2 East Lancs Empty Homes Scheme

The East Lancs Empty Homes Scheme began late in 2012/13 and grew in operation during 2013/14 and 2014/15. Operations were contracted out to a managing agent, AAW Ltd, which went into liquidation on 30th January 2015. At that point the Council took over the day to day management of the scheme and the 359 lease & repair properties involved.

5.2.1 East Lancs Empty Homes Scheme - Internal Audit investigation

The Council instigated a full internal review of the scheme and its operations during 2015 and the findings were submitted to Members in December 2015. The purpose of the report was for Members to formally receive Lancashire County Council's (LCC) independent report on "Bringing Empty Homes into Use" (the Empty Homes Project) commissioned by the Chief Executive to seek a clear understanding of the failures of the project from February 2012 to January 2015. This report can still be found on the Council's website and the consequences highlighted have informed the External Auditor's approach to the 2014/15 accounts.

The consequences of the failings reported by this internal audit review were as follows:

1. The appointment of the contractor was not done in accordance with the Council's procurement policy and procedures
2. An inadequately skilled contractor was appointed who failed to deliver the Council's (unspecified) requirements, but who instead incurred considerable liabilities on the Council's behalf.
3. At the end of January 2015 the Council found itself responsible for c.350 properties, many uninhabitable, despite profound confusion of the legal relationships between homeowners, tenants, contractor and the council.
4. Monies had been paid for work that has not been done, and in ways that were not agreed and not transparent.
5. Tenants had been housed who were not previously resident in the district and who may be detrimental to the area in which they now reside, including Rossendale.

Members will note that point 4 above has led to the External Auditor's qualified opinion on the accuracy of these 2014/15 accounts.

5.2.2 East Lancs Empty Homes Scheme - the HCA Grant

Initially the HCA Grant was fed directly into the Comprehensive Income and Expenditure Statement (CIES) and any unapplied amounts were carried forward at the year-end in the Grants Unapplied section of the Usable Reserves.

After extensive discussions with the external auditors, including the national technical team for Grant Thornton, this treatment was found to be inaccurate and has been replaced with the current approach that the Grant goes into the Short-term Capital Grant Receipts in Advance Account (Note 34) and is fed into the CIES as grant income only when it is earned through the completion of renovation works and the tenancy of each property as it meets the decent homes standards. The amount of grant received in each financial year and that recognised in the CIES is shown clearly in Note 34.

5.2.3 East Lancs Empty Homes Scheme - and the Annual Governance Statement

The Internal Audit report to Council in December 2015 detailed the lessons learned from the failures of the scheme and the actions being taken to remedy those failures and prevent future similar incidents. The lessons learned have also informed the revised Annual Governance Statement within these audited 2014/15 Accounts, including the improvement of risk management across the organisation as shown on page 17.

5.2.4 East Lancs Empty Homes Scheme - post Balance Sheet Events for 2014/15

In accordance with International Financial Reporting Standards, these Accounts have been prepared based upon knowledge right up to the date that they are signed off. Therefore, the cost of renovation works to the empty properties has now been included at the end of March 2015 as a Provision for liabilities existing at the 31st March 2015, rather than costs originating in 2015/16 and beyond.

Initially £1,164k of renovation costs were included in the 2015/16 draft accounts, when the tenders had been drawn up and the contracts let. However, given that the costs related to conditions existing at the end of March 2015, creation of the Provision for these costs has now been moved back to the 2014/15 Accounts and the value increased to £1,851k - see Note 33.

In order to fund this Provision, £2m of Earmarked Reserves were re-assigned into the Empty Homes Strategy Reserve in these revised 2014/15 Accounts and then £1,851k was used to create the Provision above.

5.2.5 East Lancs Empty Homes Scheme - restatement of Prior Year Accounts 2013/14

All the changes to the 2014/15 Accounts arising from the Empty Homes Scheme above have also now been reflected in restatements to the 2013/14 Accounts where necessary. The main areas of change have been

- the treatment of the HCA Grant through the new Short-term Capital Grant Receipts in Advance (Note 34) rather than the Government Grants Unapplied Account (Note 35c)
- splitting the Capital Financing Requirement (Note 20), the Capital Receipts Reserve (Note 35b) and the Capital Adjustment Accounts (Note 36b) between Empty Homes activity and other Council activities
- amending the value of Deferred Capital Receipts (Note 36c) to match the Long-term Debtors (Note 23) loans outstanding for these housing renovation works

More information on the changes to 2013/14 Accounts can be found a Note 2 on page 35.

5.2.6 East Lancs Empty Homes Scheme - communications with the HCA

Council officers have kept the HCA informed of the operations of the scheme and the amended grant treatment throughout the audit process. The main concern has been the assurance to the HCA that all the properties on which they approved grant have met the criteria of being an empty property returned to use in a condition matching the decent homes standards.

The Council has undergone an assurance audit to this affect between August 2017 and the current date. Though some hard-to-reach properties are still outstanding, the HCA has been confident enough with progress so far that they have given the Council written assurances that they are satisfied with the grant scheme. We have therefore been able to establish the correct accounting treatment of the HCA Grant. Where any individual property has been pulled out of the Scheme on financial viability grounds, Council officers have acknowledged the potential requirement to return the HCA grant already received, hence the increase in Government Creditors in Note 32.

5.3 Other changes arising from the audit

There were some other amendments arising from the audit which were not related to the Empty Homes Scheme

- The Pensions Deficit payment of £955k had been incorrectly excluded from the Cost of Services in the CIES, this has been rectified.
- In the Collection Fund health centres across the country were appealing their business rates valuations and many were receiving a reduction in current year costs and several years of compensation. It was anticipated that this could cost up to £450k in total. The additional appeals provision had the effect of reducing the Council's levy payment to central government by £90k. The claims were settled in 2015/16 at an average reduction of 15.1%. The refunds calculated on those reductions amounted to over £315k, which was funded through this provision.
- The original draft Accounts included a creditor of £51k for business rates transitional grant that was initially thought to be payable to other preceptors, but was confirmed by the auditors as not being subject to the usual sharing profile, but was instead due solely to the Council. Therefore costs were reduced and Creditors in the Balance Sheet were reduced.
- The above changes have been reflected in the Cash Flow Statement, but these did not change the Cash & Cash Equivalents at the end of March 2016, which remains at £3,863k.
- The Group Accounts have been updated following the audit amendments to the Council's accounts noted above, and the audit adjustments in the approved accounts for Rossendale Transport Ltd.

COMMENTS FROM STATUTORY OFFICERS:

6. SECTION 151 OFFICER

6.1 Financial matters are noted in the report attached.

7. MONITORING OFFICER

7.1 Unless specifically commented upon within the report, there are no specific implications for consideration.

8. POLICY IMPLICATIONS AND CONSULTATION CARRIED OUT

8.1 Unless specifically commented upon within the report, there are no implications for consideration. Staffing issues have been discussed with colleagues in the People & Policy section.

9. CONCLUSION

9.1 Members should note the changes made during the audit and the impact that these have of the Accounts for 2014/15.

9.2 Members are now in a position to approve the Statement of Accounts for 2014/15 and the Annual Governance Statement on pages 12 to 17 attached at Appendix 1.

Background Papers

Document	Place of Inspection
Draft Statement of Accounts 2014/15.	Audit & Accounts Committee 30 th June 2015 https://www.rossendale.gov.uk/download/meetings/id/7929/item_d5_appendix_1