

**TO: GOVERNANCE AND AUDIT COMMITTEE  
24 JULY 2019**

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**FINANCIAL STATEMENTS 2018/19  
Director: Finance**

**1 PURPOSE OF REPORT**

- 1.1 In accordance with the Accounts and Audit Regulations 2015, the Director: Finance signed the draft 2018/19 Statement of Accounts on 29 May 2019. Copies of the accounts were made available on the Council's website. The accounts were then subjected to audit by Ernst and Young LLP.
- 1.2 This report summarises for Committee Members the key elements within the accounts and the findings of the audit.

**2 RECOMMENDATIONS**

**That the Committee:**

- 2.1 **Approves the Financial Statements for 2018/19 attached at Annexe A;**
- 2.2 **Authorises the Chairman of the meeting to sign and date the Statement of Accounts on behalf of the Committee;**
- 2.3 **Authorises the Chairman of the meeting to sign and date the Letter of Representation set out in Annexe B.**

**3 REASONS FOR RECOMMENDATIONS**

- 3.1 The Accounts and Audit Regulations 2015 require the accounts to be approved by Council (or Committee of the Council) and the Chairman of the meeting to formally sign the accounts to certify that this has been undertaken.

**4 ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 None.

**5 SUPPORTING INFORMATION**

**5.1 Outturn Expenditure 2018/19**

- 5.1.1 The Council, at its meeting on 28 February 2018, set a revenue budget for the 2018/19 financial year of £83.655m. The actual outturn for the General Fund is within budget with an under spend of -£2.528m, due in large part to a VAT refund of £2.3m which was received during the year. This is the twenty-first consecutive year the Council has managed to spend within its budget. As a result of the under spend the Council was able to return £0.013m to General Reserves rather than withdrawing the £2.515m included in the Budget.

- 5.1.2 The most significant variances were:

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- Within Children's Social Care there were additional costs as a consequence of an increase in the number of children being looked after. Care and accommodation costs exceeded the budget (£0.085m following an allocation of £2.134m from the Contingency Fund) as did employee costs (£0.086m). The increase in court cases also contributed to additional Special Guardianship Orders (£0.073m).
- An over spend within the Adult Community Team on residential costs and community services (£0.374m) partly offset by under spends within the team relating to staff vacancies (-£0.184m).
- An under spend within Housing Strategy primarily due to the funding of the adaptations team from grant and vacant posts (-£0.170m), additional government grant and vacant posts within the Housing Benefits Team (-£0.215m) and recovery of Housing Benefit overpayments during the year resulting in additional net income (-£0.468m).
- An over spend on directorate wide budgets within People due to delays in completing the Senior Leadership Restructure and additional transformation costs (£0.414m).
- Within Delivery the sale of Easthampstead Park Conference Centre was delayed resulting in additional one-off costs being incurred (£0.308m). The Car Parks under achieved on income (£0.357m) and additional running costs were incurred (£0.316m). There were however under spends in ICT (-£0.372m) and Waste Management (-£0.352m), and additional income from legal fees and the Cemetery and Crematorium (-£0.285m).
- Within Central under spends on Concessionary Fares (-£0.288m) and audit fees (-£0.095m) and additional income (-£0.431m), in particular from CIL and streets works.
- A significant under spend on interest budgets (-£3.369m), due to the Council taking advantage of short term interest rates, additional interest income and higher cash balances reducing the need to borrow.
- Higher than forecast capital receipts in 2016/17 and significant capital carry forwards into 2017/18 helped to create an under spend against the Minimum Revenue Provision (-£0.415m).
- A net over-achievement of Business Rates income, primarily due to additional income from Section 31 grants and the Council's share of the surplus on the Central Government Levy Account (-£0.874m).
- An under spend on Council Wide budgets primarily relating to the purchase of commercial properties which has progressed more rapidly than originally anticipated, allowing additional net savings to be generated in year (-£1.007m).
- A VAT refund relating to the overpayment of VAT on leisure income between 2010 and 2018 (-£2.299m).
- Transfers into the Transformation (£2.060m), Structural Changes (£1.500m) and Town Centre (£1.150m) Reserves partly funded by the closure of the Commercial Properties Acquisition Reserve (-£0.125m). Creation of new reserves for Schools Support (£0.350m), IT Transformation (£1.000m), Feasibility Studies (£0.500m) and Community Capacity (£1.260m).

A detailed comparison of the outturn and estimated expenditure is provided in the Narrative Report on pages 3 to 5 of the Financial Statements.

## 5.2 Changes to Accounting Policies and Disclosure Requirements

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5.2.1 The changes required under IFRS 9 Financial Instruments have now been incorporated into the financial statements. These changes include new classification and measurement requirements for financial assets, a new credit loss impairment model and new disclosure requirements. The financial assets held by the Authority will move from the Loans and Receivables category to Amortised Cost but will be accounted for on a similar basis. In addition, the high credit quality adopted by the Council for any of its investment counterparties and the fact that the investment in Downshire Homes Ltd is secured against the property assets has mitigated the impact of the new credit loss model. The new standard IFRS 15 Revenue from Contracts with Customers adopted this year, which potentially affects when revenue is reflected in the accounts, has had no material impact on the Council because of the types of income we collect.

### **5.3 Comprehensive Income and Expenditure Statement (CIES)**

5.3.1 The Statement shows a deficit on the Provision of Services of £39.4m. This is because the statement shows the cost of providing services in accordance with accounting practices, rather than the amount to be funded from taxation. The taxation position which shows the real impact on the General Fund is shown in the Movement in Reserves Statement. The CI&ES also includes gains and losses arising from the revaluation of assets and changes in pension liabilities. The total figure of -£0.6m explains the change in the net assets of the Council presented in the Balance Sheet. Individual Balance Sheet items are discussed in more detail below.

5.3.2 The loss on the disposal of Property, Plant and Equipment in 2018/19 does not impact on taxation and primarily relates to the transfer of the King's Academy Binfield school (£40.1m) to the King's Group of Academies and the loss arising from the replacement of parts of assets, for example road resurfacing.

### **5.4 Provisions**

5.4.1 The Council's balances contain specific provisions for known liabilities where the timing or amount of the liability is uncertain. These are considered each year as part of the budget cycle to ensure adequacy and need, and are again reviewed at the year end, in considering the annual accounts. Provisions have increased by £1.8m to £10.3m (page 92 of the Financial Statements).

5.4.2 The increase relates to movements on the provision for Business Rates appeals. This is required to cover the liabilities arising from the refunding of ratepayers who successfully appeal against the rateable value of their properties on the rating list. The change in provision reflects the latest information on appeals. The position is increasingly difficult to predict following the 2017 valuation and the Valuation Office Agency's new Check, Challenge, Appeal process, through which very few appeals have been concluded to date across the country.

### **5.5 Revenue Reserves**

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- 5.5.1 These are the reserves of the authority at 31 March 2019, consisting of Earmarked Reserves, the General Reserve and other Revenue Reserves (e.g. the Pension Reserve).
- 5.5.2 Earmarked Reserves are sums of money which have been set aside for specific purposes. These are excluded from general balances available to support revenue or capital expenditure.
- 5.5.3 At the end of each year the Director: Finance reviews earmarked reserves and adjusts them to reflect the changing risks the organisation faces. The movements identified were presented to the Executive in the Revenue Expenditure Outturn 2018/19 Report on 23 July 2019. The Council's Reserves and Balances Policy Statement which sets out the purpose of each reserve was included at Annex D to that report. Earmarked Reserves totalling £49.8m, an increase of £19.1m on last year's figure, are summarised on page 83 of the Financial Statements. The largest movement in the year related to the Future Funding Reserve (an £11.2m increase to £19.8m) which related to gains from the Council being part of the Berkshire Business Rates pilot and was anticipated when the 2018/19 budget was approved. Other changes arose from Section 31 grant receipts and the projected surplus on the Collection Fund from 2017/18. Earmarked reserves will help to balance the revenue budget over the medium term by smoothing the impact of changes in Business Rates income and central government funding decisions.
- 5.5.4 There are also a number of unusable revenue reserves, such as the Pension Reserve, so called because the Council is not able to utilise them to provide services. They are adjustment accounts which deal with situations where income and expenditure are recognised statutorily against the General Fund balance on a different basis from that expected by the Accounting Code of Practice.

### General Reserves

- 5.5.5 The General Reserves balance at 31st March 2019 was £9.1m. Of this, £2.6m will be used to finance the 2019/20 budget, leaving £6.5m available (of which £4m is determined as the minimum prudent level).

## **5.6 Other Balance Sheet Items**

- 5.6.1 The Balance Sheet shows that the Council holds Long Term Assets valued at £658.4m (excluding pension assets), with Other Land and Buildings (OLB) at £401.4m representing the most significant category. The overall value has increased by £11.9m compared to 2017/18. The most significant movements include:
- a significant decrease in assets under construction reflecting the completion of a number of assets, in particular King's Academy Binfield;
  - increases in Investment Property primarily due to the purchase of three properties during the year;
  - an increase in Long Term Debtors resulting from a further loan to Downshire Homes Ltd.
- 5.6.3 Due to its significant capital programme the Council began borrowing externally in 2016/17. A further £10.0m was borrowed from the Public Works

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Loans Board on a long term basis in 2018/19 and short term borrowing also increased by £5.1m to £35.1m.

### **5.7 Capital Financing Requirement**

5.7.1 Due to the significant capital spend during the year, the Council's Capital Financing Requirement (CFR) increased by £31.8m to £217.9m as at 31 March 2019. This is a measure of the capital expenditure incurred historically by the Council that has yet to be financed and represents the underlying need to borrow. A charge is made each year to revenue known as the Minimum Revenue Provision which writes down the balance of the CFR over time. Further details can be found in Note 20 of the Financial Statements.

### **5.8 Audit of Accounts**

5.8.1 The draft accounts have been subject to scrutiny by the Council's external auditor. Following the audit of the accounts an adjustment was required to the value of a number of property assets, in particular schools, within Property, Plant and Equipment to ensure that the value in the Balance Sheet as at 31 March 2019, based on the movement in construction indices, was materially correct. This adjustment (£11.5m) has had no impact on the Council's performance or Reserves.

5.8.2 In 2015 the Government introduced reforms to public sector pensions. In December 2018, the Court of Appeal ruled (the McCloud judgement) that the 'transitional protection' offered to some members of the judges and fire fighters' schemes as part of the reforms amounted to unlawful discrimination against younger employees. At the time the draft accounts were produced it was felt that the impact on the Local Government Pension Scheme was too uncertain to warrant an adjustment to the pension disclosures or a contingent liability. The position has moved on since this time, with the Government's loss of the right to appeal to the Supreme Court and the publication of some early projections of possible impact by the Government Actuaries Department. Ernst and Young's view was that a constructive obligation exists and a reasonable estimate of the impact can be made. An impact analysis was therefore requested from the actuary which demonstrated that the overall impact was potentially an increase in liabilities of the order of £4.4m. The opportunity was also taken to seek updated pension asset values from the actuary. Using asset values as at 31 March 2019 rather than an estimate at 31 January has resulted in a reduction in overall asset values and a further increase in the net pension liability (£3.5m). Both changes have now been reflected in the accounts included at Annexe A.

5.8.3 The Annual Governance Statement has also been amended following comments from the auditors, primarily to make more direct reference to the Head of Audit's Annual Report which was considered by the Committee at its meeting in June.

### **5.9 Letter of Representation**

- 5.9.1 The Letter of Representation (Annexe B) is a significant part of the audit process that enables the external auditor to form an opinion as to whether the financial statements give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended. The Committee is asked to review and confirm its approval of the letter and authorise the Chairman to sign it on its behalf with the Director; Finance.

## **6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

### Borough Solicitor

- 6.1 The Accounts and Audit Regulations 2015 require the 2018/19 Statement of Accounts to be formally approved by Members (a Committee or Council) and signed by the Chairman / Mayor and the appointed auditor by 31 July 2019.

### Director: Finance

- 6.2.1 The Financial Statements 2018/19 is the published document which includes the 2018/19 Statement of Accounts. The Statement of Accounts includes the Movement in Reserves Statement, Comprehensive Income & Expenditure Statement, Balance Sheet, Cash Flow Statement, Collection Fund and Group Accounts together with notes which expand and explain the information in these statements.

### Equalities Impact Assessment

- 6.3 None required.

### Strategic Risk Management Issues

- 6.4 There are none arising directly from this report.

## **7 CONSULTATION**

Not applicable.

### Contacts for further information

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