

TO: GOVERNANCE AND AUDIT COMMITTEE
22 September 2021

FINANCIAL STATEMENTS 2019/20
Executive Director: Resources

1 PURPOSE OF REPORT

- 1.1 In accordance with the Accounts and Audit Regulations 2015 (as amended by the Accounts and Audit (Coronavirus) Amendments Regulations 2020), the Director: Finance signed the draft 2019/20 Statement of Accounts on 20 July 2020. Copies of the accounts have been made available on the Council's website.
- 1.2 The accounts have been subject to audit by Ernst and Young LLP since the beginning of June. However, due to delays in the completion of the audit of the Royal County of Berkshire Pension Fund by Deloitte LLP it was not possible to bring the audited accounts to the Committee for authorisation before the revised deadline of 30 November 2020.
- 1.3 The pension fund audit has now been completed and 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 2019/20 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 2019/20**

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5.1.1 The Council, at its meeting on 27 February 2019, set a revenue budget for the 2019/20 financial year of £74.969m. The actual outturn for the General Fund is within budget with an under spend of -£0.646m. This is the twenty-second consecutive year the Council has managed to spend within its budget. As a result of the under spend the Council withdrew £1.968m from General Reserves rather than the £2.614m included in the Budget.

5.1.2 The most significant variances were:

- Within Children's Social Care there were additional costs because of an increase in the number of children being looked after, where 129 high cost care packages were required compared to 119 provided for in the budget. Care and accommodation costs exceeded the budget (£0.209m following an allocation of £2.525m from the Contingency Fund) as did employee costs (£0.243m). The increase in court cases also contributed to additional Special Guardianship Orders (£0.141m). Additional specialist legal support costs were also incurred (£0.195m).
- An overspend on externally provided adult social care, primarily due to an increase in the number of learning disability clients and the withdrawal of Continuing Health Care funding (£1.158m).
- Within Central passenger numbers were below budgeted levels resulting in an under spend on Concessionary Fares (-£0.126m). Additional income was also generated for Suitable Alternative Natural Greenspaces (SANGS) capacity (-£0.196m) and from monitoring of street works (-£0.108m), street naming and numbering (-£0.044m), the research and supply of Highway information (-£0.024m), Tree Services (-£0.060m) and from hay cutting (-£0.046m). This was partly offset by income being less than budgeted in Development Control (£0.296m).
- Within Delivery there were pressures in Industrial and Commercial Properties (£0.260m), Home to School Transport (£0.327m) and the Cemetery and Crematorium (£0.198m). There were however under spends in ICT (-£0.180m) and Waste Management (-£0.272m), and additional income from legal fees and car parks (-£0.230m) and reduced running costs at the car parks (-£0.189m).
- A significant under spend on interest budgets (-£2.530m). Additional income from CIL and the Business Rates pilot has significantly reduced the level of borrowing required by the Council. The Interest base budget also did not reflect the level of interest being generated from the loan to Downshire Homes Limited.
- Internally funded capital expenditure was financed from internal borrowing to spread the cost impact on revenue. The capital expenditure charged to the General Fund budget was therefore not required (-£0.463m). Higher than forecast capital receipts in 2018/19 and significant capital carry forwards into 2019/20 helped to create an under spend against the Minimum Revenue Provision (-£0.584m).
- An under-recovery of Business Rates income was met from a transfer from the Future Funding Reserve (£1.410m)
- An under spend on Council Wide budgets primarily relating to the full year impact of purchasing commercial properties in 2018/19 (-£0.428m).
- Transfers into the Transformation (£0.700m), Structural Changes (£1.400m), Schools Support (£0.160m) and School Masterplans and Feasibility Studies (£0.250m) Reserves, partly funded by the closure of the Community Capacity Reserve (-£1.260m).

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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

5.2.1 No changes were required this year.

5.3 Comprehensive Income and Expenditure Statement (CIES)

5.3.1 The Statement shows a surplus on the Provision of Services of -£11.7m. 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 -£101.0m 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.

5.4 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 reduced by £1.7m to £8.6m (page 94 of the Financial Statements).

5.4.2 The reduction 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

5.5.1 These are the reserves of the authority at 31 March 2020, 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 Executive Director: Resources 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 2019/20 Report on 14 July 2020. The Council's Reserves and Balances Policy Statement which sets out the purpose of each reserve was included at Annexe D to that report. Earmarked Reserves totalling £57.2m, an increase of £7.4m on last year's figure, are summarised on page 95 of the Financial Statements. The largest

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movements in the year relate to the Revenue Grants Unapplied Reserve (a £7.3m increase to £10.8m), which primarily relates to S106 income identified for revenue purposes, and the new reserve for Covid-19 (£2.3m) which holds the grant received in advance from Central Government for the costs of the pandemic. 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. The Pension Reserve liability has decreased despite there being a negative return on assets (-1%). This is primarily due to revised projections for CPI (0.5% lower than last years), a reduction in the projection for salary increases and a slowdown in improvements in mortality projections.

General Reserves

- 5.5.5 The General Reserves balance at 31st March 2020 was £7.1m. Of this, £0.4m will be used to finance the 2020/21 budget, leaving £6.7m available (of which £4.5m 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 £695.8m (excluding pension assets), with Other Land and Buildings (OLB) at £434.4m representing the most significant category. The overall value has increased by £37.4m compared to 2018/19. The most significant movements include:

- An increase in OLB primarily due to an increase in values following the revaluation of all the schools during 2019/20;
- an increase in the value of assets under construction with the most significant relating to the Downshire Way Duelling (£2.6m).

- 5.6.2 Due to its significant capital programme the Council began borrowing externally in 2016/17. Due to the Council's improved cash position during the year no further long term borrowing was required and short term borrowing decreased by £20.1m to £15.0m.
- 5.6.3 Within short term debtors the significant decrease in central government debt primarily relates to the governments share of the deficit on the Business Rates element of the Collection Fund in 2018/19 (£6.8m). In 2019/20 there is a surplus which is reflected in the Short Term Creditors figures (£3.2m) along with a significant prepayment of section 31 income relating to Business Rates reliefs (£2.3m). A breakdown of both figures can be found on page 94.
- 5.6.4 The reduction in Capital Grants and Other Contributions compared to last year reflects the transfer of the majority of S106 income to the Revenue Grants Unapplied Earmarked Reserve and the Capital Grants Unapplied Reserve.

5.7 Capital Financing Requirement

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- 5.7.1 The Council's Capital Financing Requirement (CFR) decreased by £6.3m to £211.6m as at 31 March 2019, partly as a result of using Basic Need Grant to finance prior year expenditure on (£5.9m). 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 19 (page 92) 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 no significant amendments were required to the Statement of Accounts. As part of the audit of the pension fund it was discovered that the pension liability had been underestimated by between £1.7m and £2.5m. As both figures are below the materiality threshold for the Council (£4.2m), it was decided not to amend the accounts. The difference has been included as an unadjusted judgmental difference in the audit results report included on the agenda.

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 2020 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 Executive Director: Resources.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 require the 2019/20 Statement of Accounts to be formally approved by Members (a Committee or Council) and signed by the Chairman / Mayor and the appointed auditor by 30 November 2020.

Executive Director: Resources

- 6.2.1 The Financial Statements 2019/20 is the published document which includes the 2019/20 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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