

TO: GOVERNANCE AND AUDIT COMMITTEE
26 January 2022

FINANCIAL STATEMENTS 2020/21
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 (Amendment) Regulations 2021), draft accounts were required to be signed by the 31 July 2021 and audited by the 30 September 2021. The Executive Director: Resources signed the draft 2020/21 Statement of Accounts on 28 May 2021. Copies of the accounts were then made available on the Council's website.
- 1.2 Due to delays in the completion of the audit of the Royal County of Berkshire Pension Fund by Deloitte LLP for the 2019/20 accounts it was not possible to bring the audited accounts to the Committee for authorisation before the revised deadline of 30 September 2021. In fact, the audit did not commence until late October.
- 1.3 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 2020/21 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 (to follow).**

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 2020/21

- 5.1.1 The Council, at its meeting on 26 February 2020, set a revenue budget for the 2020/21 financial year of £79.221m. Council spending was within budget for

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the twenty-third successive year with an underspend of -£3.615m on the General Fund. As a result of the under spend, the Council returned £3.236m to General Reserves rather than the budgeted £0.379m withdrawal.

5.1.2 The most significant variances were:

- An overspend on Education and Learning (£0.335m) resulting from overspends on staffing (£0.371m) and unbudgeted costs for renting modular classrooms during emergency roof repair works (£0.251m), partly offset by a significant variance at the Open Learning Centre (-£0.107m).
- A net underspend on Children's Social Care. The most significant variances included underspends on staffing (-£0.316m), care leavers support and maintenance costs (-£0.135m) partly offset by an overspend on care and accommodation costs (£0.243m).
- An overspend on externally provided social care primarily due to clients in the community requiring support with memory & cognition (£0.656m). An internal review of contracts within Forestcare helped achieve an underspend (-£0.184m).
- An underspend on Early Help and Communities (-£0.940m) primarily relating to Housing Welfare & Benefits and staff vacancies.
- Within Central there were additional consultancy costs associated with planning appeals (£0.156m). There was reduced income within the Traffic Service (£0.131m) and at The Lookout (£0.274m) partly offset by additional income generated for Suitable Alternative Natural Greenspaces (SANGS) capacity (-£0.129m). Government grant was transferred into Central to cover COVID-19 costs (-£0.481m).
- Within Delivery there were pressures in ICT (£0.198m), Waste Disposal (£0.457m), Car Parking, due to loss of income, (£0.666m) and Leisure (1.329m), as additional financial support was required. These were partly offset by underspends on running costs in Office Accommodation (-£0.120m) and Registration of Electors / Elections (-£0.105m), and a net overachievement of income at the Cemetery and Crematorium (-£0.230m). Government grant was also transferred into Delivery to cover COVID-19 costs (-£2.084m).
- A significant under spend on interest budgets (-£0.966m). Average cash balances have been substantially higher than those experienced in 2019/20, removing the need for any new borrowing in 2020/21.
- Higher than forecast capital receipts in 2019/20 and significant capital carry forwards into 2020/21 helped to create an under spend against the Minimum Revenue Provision (-£0.148m).
- Not all the COVID-19 LA Support Grant received from the government to help meet pressures resulting from the pandemic was required by directorates (-£1.810m).
- Not all the Contingency Fund was required in 2020/21, resulting in an underspend (-£1.930m).
- An overspend relating to an additional payment to the Thames Valley Local Enterprise Partnership (£0.241m), reductions in the section 31 grant receivable from central government (£0.326m) and increases in the levy payable to central government (£0.649m) because of the actual, more positive outturn position on Business Rates income.

A detailed comparison of the outturn and estimated expenditure is provided in the Narrative Report on pages 3 and 4 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 (CI&ES)

5.3.1 The Statement shows a deficit on the Provision of Services of £6.0m. 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 £79.6m 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.

5.4 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 £1.5m to £7.1m (page 77 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 2021, 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 2020/21 Report on 20 July 2021. 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 £84.2m, an increase of £27.0m on last year's figure, are summarised on page 79 of the Financial Statements. The largest movements in the year relate to the Business Rates Relief Reserve (£13.0m - designed to meet the additional cost of the reliefs granted in 2020/21 which won't actually impact on the budget until 2021/22), the budgeted creation of the Business Rates Revaluation Reserve, which will be used to meet the cost of any significant

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downward Business Rates valuations (£7.5m) and the Revenue Grants Unapplied Reserve (£4m), primarily relating to Covid-19 grants. 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 primarily 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 Net Pension Reserve liability has increased despite there being a positive return on assets (15%). This is primarily due to a decrease in the discount rate (which is linked to corporate bond yields) and revised projections for CPI (0.7% higher than last year) both of which have significantly increased the liability.
- 5.5.5 A new unusable reserve called the Dedicated Schools Grant Adjustment Account was created in 2020/21. Any deficit on the Schools Budget for the financial years 2020/21 to 2022/23 are required to be charged to this account under new legislation. This follows on from the requirement in the School and Early Years Finance (England) Regulations 2020 that a schools' budget deficit must be carried forward to be funded from future Dedicated Schools Grant (DSG) income rather than the General Reserve. As there is an overall deficit as at 31 March 2021, any general schools' balances previously held in earmarked reserves have now been transferred into this account (net deficit £2.626m). It is likely that after the three years responsibility for any remaining deficit will fall on the Council and it is therefore essential that emerging plans to address the deficit are agreed quickly and enacted by the Council and schools.

General Reserves

- 5.5.6 The General Reserves balance as at 31st March 2021 was £10.3m, with only £0.001m committed to funding the 2021/22 revenue budget. Taking into account the minimum recommended prudent balance of £4.5m there is potentially £5.8m available.

5.6 Other Balance Sheet Items

- 5.6.1 The Balance Sheet shows that the Council holds Long Term Assets valued at £708.8m (excluding pension assets). The overall value has increased by £13.0m compared to 2019/20. The most significant movements include:
- An increase in Other Land and Buildings primarily due to an increase in values and the completion of assets;
 - an increase in the value of assets under construction including expenditure on the Heathlands Re-development (£3.1m), the A3095 Improvement Scheme (£6.6m) and Downshire Way duelling (£1.3m).
 - a reduction in the value of Investment Properties (£9.0m)
- 5.6.2 Due to its significant capital programme the Council began borrowing externally in 2016/17. Due the Council's improved cash position during the year no further long term borrowing was required and short term borrowing decreased by £15.0m to zero.

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- 5.6.3 The short term creditor balance is £9.3m higher in 2020/21 than 2019/20. There is a significant creditor balance in 2020/21 relating to grants where the Council is acting as an agent for central government (£4.2m). The Council also received the government's share of section 31 grant relating to Business Rates reliefs (to assist with cash flow) which will need to be repaid next year (£13.5m). In 2019/20, £5.0m was owed to the Thames Valley Local Enterprise Partnership at the end for the year in relation to the Business Rates Pilot. There was no pilot arrangement in 2020/21. A breakdown is shown on page 76 of the accounts.
- 5.6.4 The increase in Capital Grants and Other Contributions compared to last year primarily reflects the receipt of S106 income which was not applied to capital schemes during the year.

5.7 Capital Financing Requirement

- 5.7.1 The Council's Capital Financing Requirement (CFR) increased by £3.0m to £214.6m as at 31 March 2021. 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 74) 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. As part of the audit of the pension fund it was discovered that the value of the Royal County of Berkshire Pension Fund's assets were understated by £48.12m in the Pension Fund's financial statements resulting in a misstatement of £5.732m in the Council's accounts. As this figure was above the materiality threshold for the Council, the accounts were amended. No other significant amendments were required to the Statement of Accounts.

5.9 Letter of Representation

- 5.9.1 The Letter of Representation 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 2021 and of its expenditure and income for the year then ended. The Letter is normally attached as an Annex but was not available when the agenda was published. It is expected to be available at the meeting so that the Committee can 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 (Amendment) Regulations 2021 require the 2020/21 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 September 2021.

Executive Director: Resources

- 6.2.1 The Financial Statements 2020/21 is the published document which includes the 2020/21 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.

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