

2021/22 Draft Financial Statements Highlight Report

Committee considering report:	Governance and Ethics Committee
Date of Committee:	25 July 2022
Portfolio Member:	Councillor Ross Mackinnon
Date Head of Service agreed report: <i>(for Corporate Board)</i>	6 July 2022
Date Portfolio Member sent/agreed report:	12 July 2022
Report Author:	Shannon Coleman-Slaughter
Forward Plan Ref:	GE4236

1 Purpose of the Report

- 1.1 This report is to inform members of the key highlights from the draft 2021/22 financial statements and progress by the Council's external auditors Grant Thornton in respect of the 2020/21 external audit.

2 Recommendation

This report does not include any recommendations and is for members to note only.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	The Council continues to maintain healthy usable reserve levels for future deployment in support of services and expenditure. The Balance Sheet of £30.6 million (£19.1 million negative Draft Balance Sheet as at 31.3.2021), is driven by the reduction in the pension fund liability to £382.5 million, (£426.7 million at 31.3.2021), which is subject to significant changes between reporting periods due to changes in underlying actuarial assumptions.
Human Resource:	Not applicable

Legal:	The Council is required to ensure the annual financial statements are properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.			
Risk Management:	Where external auditors deem that the Council's annual financial statements are not prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and the Local Audit and Accountability Act 2014, this can result in additional testing and external audit fees. If the external auditor finds that the Council has not produced financial statements that provide a true and fair view of the Council's financial position and performance this will result in a qualified audit opinion with significant reputational repercussions.			
Property:	Not applicable			
Policy:	Not applicable			
	Positive	Neutral	Negative	Commentary
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		

Environmental Impact:		X		
Health Impact:		X		
ICT Impact:		X		
Digital Services Impact:		X		
Council Strategy Priorities:		X		
Core Business:		X		
Data Impact:		X		
Consultation and Engagement:	Joseph Holmes – executive Director for Resources, s151 Officer			

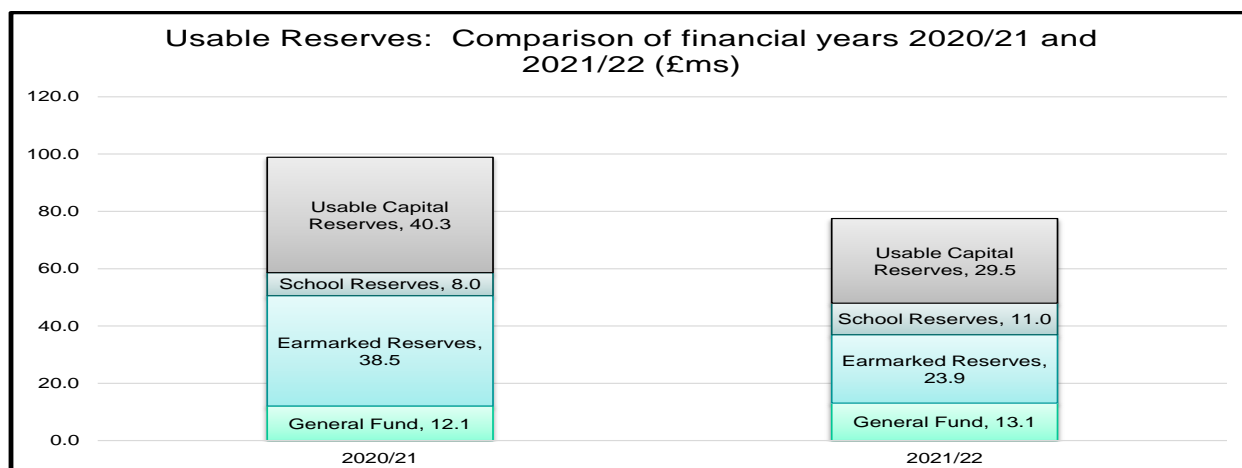
4 Executive Summary

- 4.1 The financial statements are produced in compliance with the CIPFA/LASAAC code of practice on local authority accounting and the Local Audit and Accountability Act 2014. At the time of producing the 2021/22 draft financial statements, the 2020/21 financial statements remain draft as the audit by the Council's external audits Grant Thornton has not been concluded and an opinion on the 2020/21 financial statements remains outstanding. The 2020/21 audit remains open as a consequence of the external audit of the Royal Berkshire Pension Fund having yet to be completed by its appointed external auditor Deloitte.
- 4.2 At the time of writing this report, the 2021/22 financial statements are currently under production and the figures in this report are subject to change. It is anticipated that the draft financial statements will be produced by the extended national deadline of 31st July 2021. The draft Balance Sheet is currently in a positive £30.5 million position with a General Fund position of £13.1 million. The General Fund is higher than the £10.5 million budgeted due to adjustments processed in response to findings of the Council's external auditors in relation to financial year 2020/21 and a variance at outturn.
- 4.3 In respect of overall net assets held by the Council, i.e. total assets less total liabilities, the graphic below provides a high level overview of the Balance Sheet as at 31.3.2022.

2021/22 Draft Financial Statements Highlight Report

Assets £711.3 Million	Liabilities (£680.7) Million	Usable Reserves £77.5 Million	Unusable Reserves (£47) Million
<ul style="list-style-type: none"> Plant, Property & Equipment (PPE) •£556.2 Million Investment Property •£72.6 Million Current Assets (e.g. cash and cash equivalents) •£82.5 Million 	<ul style="list-style-type: none"> Pension Fund Liability •£382.5 Million Long Term Borrowing •£186.9 Million Other Liabilities (e.g. creditors) •£111.3 Million 	<ul style="list-style-type: none"> General Fund •£13.1 Million Usable Ear Marked Revenue Reserves •£34.9 Million Usable Capital Reserves •£29.5 Million 	<ul style="list-style-type: none"> Unusable Pension Liability •£382.5 Million Other Unusable Reserves (e.g. Collection Fund and Dedicated Schools Grant) •(£335.5) Million

- 4.4 The Council's net assets summed £30.6 million (31 March 2021 DRAFT: net liabilities of £19.1 million). A key factor in the increase in net assets between 2021 and 2022 is the reduction in the defined benefit pension liability, the total amount payable decreasing from £426.7 million to £382.6 million. The pension fund liability is determined by the external actuaries and the performance of The Royal Berkshire Pension Fund. The main factor driving the decrease in the pension fund liability is an improved overall investment return on assets held within the Pension Fund, this increasing to 13.78% from 12.65% in 2020/21. The asset category generating the most significant valuation upturn being Equity Investments.
- 4.5 The Council's long-term assets have grown by £7.9 million to £711.3 million as of 31 March 2022. Operational asset items have increased from £605.3m (31 March 2021 DRAFT) to £628.8m as a result of continued capital investment during 2021/22. Investment property values have risen to £72.6m (from £66.3 million). The revaluation movements split between general investment property and the Council's commercial property portfolio are detailed in Appendix B.
- 4.6 In respect of the overall reserves position (usable plus unusable), usable reserves have decreased from £98.9 million as at 31.3.2021 to £77.5 million at 31 March 2022. The reduction in usable reserves has been driven by releases of s31 reliefs held within earmarked reserves to offset the Collection Fund Deficit repayment and utilisation of capital reserves to support the delivery of the capital programme, reducing the requirement of the Council to incur external borrowing costs. Unusable reserves (reserves held for accounting purposes and are not available for deployment in support of the budget), have moved from a £118 million at 31 March 2021 to £47 million at 31 March 2022. The move in the unusable reserves primarily relates to the decrease in the pension fund liability and a reduction in the Collection Fund deficit.



- 4.7 The General Fund will be reviewed in financial year 2022/23 with potential reprofiling to the National Non Domestic Rates (NNDR) volatility reserve to mitigate future volatility pressures.
- 4.8 Under International Standard on Auditing 570 the Council's appointed External Auditor Grant Thornton, request that as part of the closure of the 2021/22 financial statements, a going concern assessment as at the Balance Sheet date of 31st March 2022 is completed. When financial statements are prepared on a going concern basis, assets and liabilities are recorded on the basis that the Council will be able to realise its assets and discharge its liabilities in the normal course of business. The Draft Financial Statements Highlights Report should therefore be read in conjunction with the 2020/21 Going Concern Assessment Report.

5 Supporting Information

Introduction

- 5.1 Councils are required to annually produce a set of financial statements that comply with CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Accounts and Audit Regulations 2015. The statutory deadline for production and publication of the annual financial statements is 31st May. For financial year 2021/22 (as with 2020/21), the publication of draft financial statements deadline has been temporarily extended to 31st July in response to the Covid-19 pandemic. Recent amendments to the Accounts and Audit Regulations 2015 have made no provisions for the publication date for unaudited accounts. Therefore the regulations are currently programmed to revert to the 31 May date for financial year 2022/23 and for revival of the common inspection period of the first 10 working days in June.
- 5.2 Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), the Council's appointed external auditors are required to report whether, in their opinion, the Council's financial statements:
- (a) Give a true and fair view of the financial position of the Council and Council's income and expenditure for the year; and

- (b) Have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Background

- 5.3 The 2020/21 Financial Statements currently remain open / unsigned by the Council's external auditors Grant Thornton. A draft Audit Findings Report has been issued by Grant Thornton and subsequently reviewed by the Governance & Ethics Committee on 25 April 2022. The 2020/21 accounts remain open subject to the finalisation of the 2020/21 external audit of the Royal Berkshire Pension Fund by its external auditors Deloitte.
- 5.4 In respect of statutory changes which will impact on the preparation of the 2020/21 accounts, no new accounting standard have been adopted in relation to financial year 2021/22. In order to address the delays in issuing audit opinions by external auditors, CIPFA completed a consultation on the code of accounting practice, consulting on a number of temporary proposals to reduce audit scope. The Financial Reporting Advisory Board (FRAB), has subsequently approved a deferral of the IFRS 16 leases implementation. Under IFRS 16, with the exception of leases of low value items and short term leases, where the Council is lessee to a contract it will need to recognise on the Balance Sheet a right of use asset, and corresponding lease liability. This will increase the Council's Capital Financing Requirement and the Council will be required to make a Minimum Revenue Provision. The deferment approved by FRAB will result in IFRS 16 leases not becoming mandatory for Local Authorities for a further two financial years. Councils are however required to note the impact of accounting standards issued, not yet adopted.

Proposals

There are no proposals included within this report. This report is to note only.

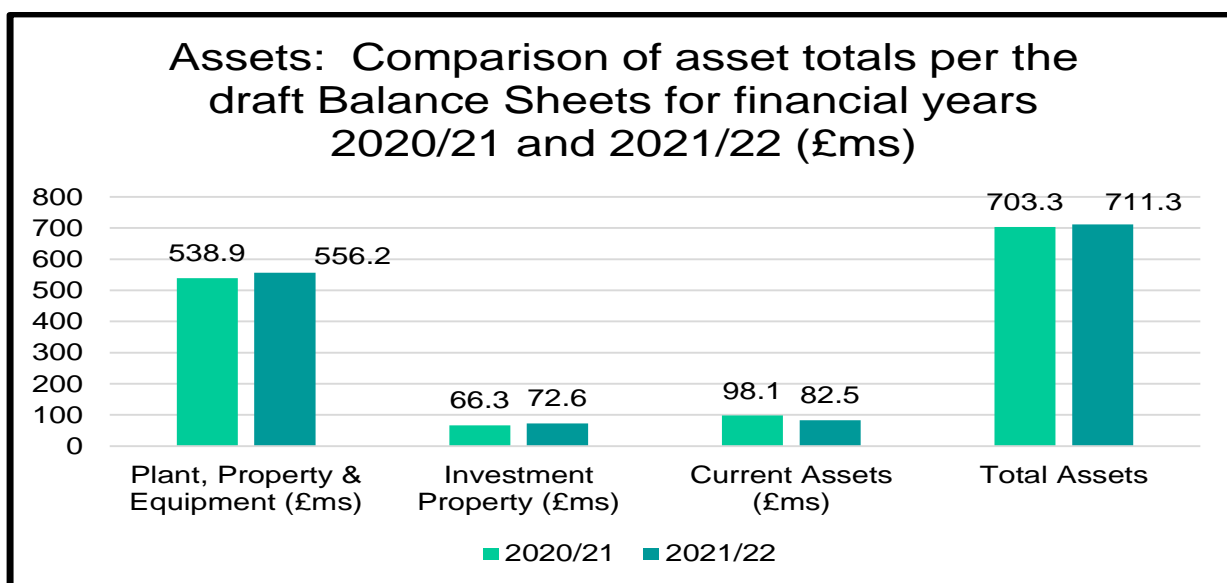
6 Other options considered

Not applicable, report is to note only.

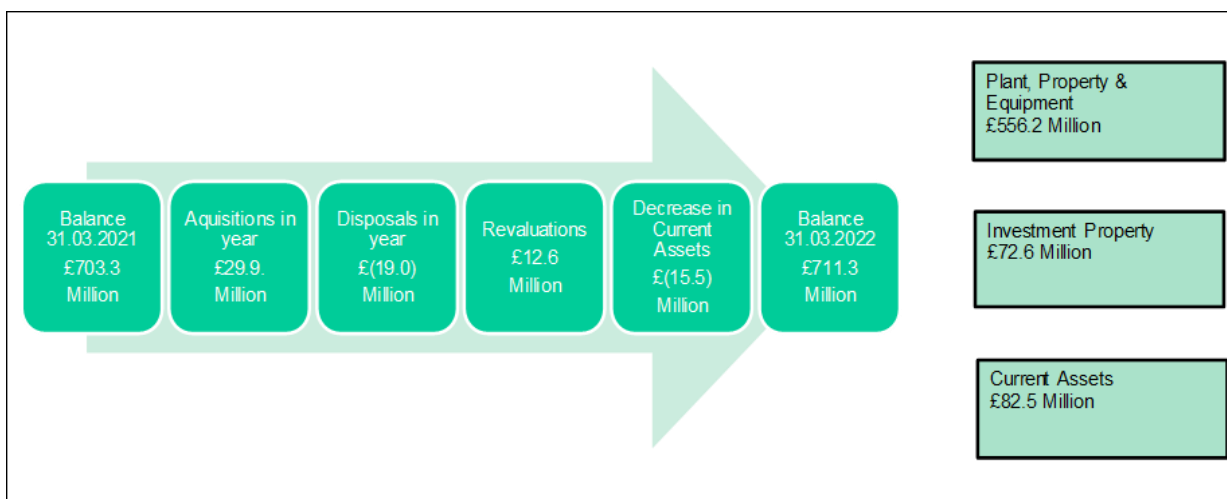
7 Conclusion

- 7.1 The financial statements are produced in compliance with the CIPFA/LASAAC code of practice on local authority accounting and the Local Audit and Accountability Act 2014. The 2020/21 financial statements are currently under production and the figures in this report are subject to change. It is anticipated that the draft financial statements will be produced by the extended national deadline of 31st July 2021.
- 7.2 The draft Balance Sheet is currently in a positive £30.5million position. The Council's net assets summed £30.6 million (31 March 2021 DRAFT: net liabilities of £19.1 million). A key factor in the increase in net assets between 2021 and 2022 is the reduction in the defined benefit pension liability, the total amount payable decreasing from £426.7 million to £382.6 million.

- 7.3 The Council’s long-term assets have grown by £7.9 million to £711.3 million as of 31 March 2022. Operational asset items have increased from £605.3m (31 March 2021 DRAFT) to £628.8 million as a result of continued capital investment during 2021/22. Investment property values have risen to £72.6 million (from £66.3 million). The movement in Investment Property values is detailed in appendix B.
- 7.4 Year-end current assets (inclusive of cash balances held by the Council) decreased from £98.1 million to £82.5 million as at 31 March 2022. The key factors driving the overall decrease are year-on-year reductions in other receivable amounts (from £24.2 million to £19.6million) and council tax and business rates balances (£21.2 million reducing to £8.5 million in 2021/22).



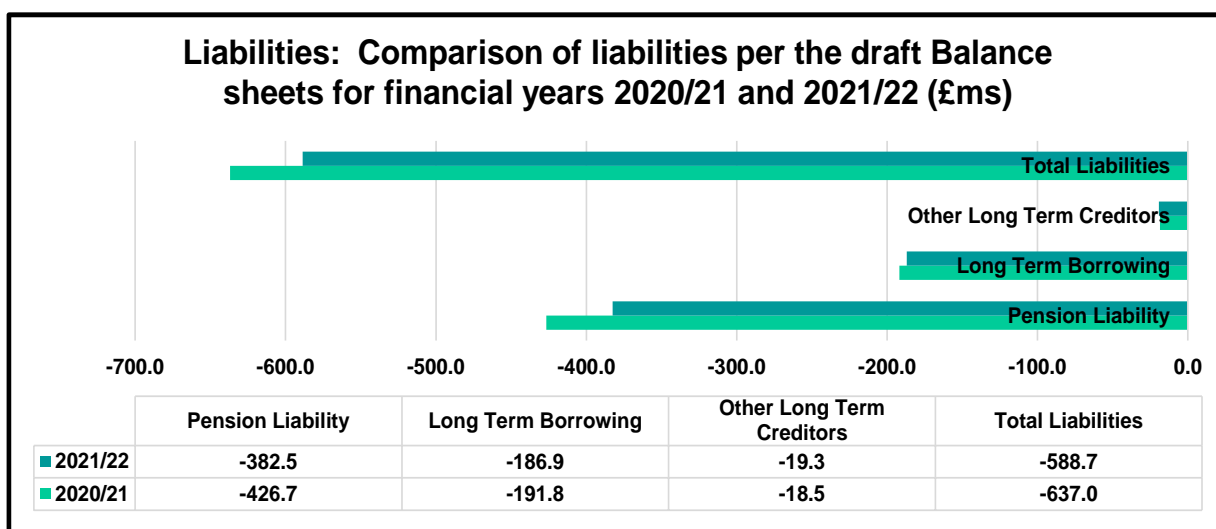
- 7.5 The Council’s total assets have increased from £655.6 million as at 31.3.2020 to £703.4 million as at 31.3.2021. The uplift is detailed in the following graphic.



- 7.6 Asset additions of £29.9 million primarily relate to infrastructure improvements and improvements to operational buildings inclusive of Council controlled schools. £19 million of disposals were processed relating to writing out of assets from the accounts where ownership/existence of the asset could not be substantiated. The write out figure

includes cumulative depreciations charges. The write off of assets is the result of undertaking a detailed review of the Council’s fixed asset register in response to findings by the Council’s external auditor Grant Thornton. The fixed asset register is subject on ongoing review as controls are implemented and embedded alongside Property Services colleagues to ensure the fixed asset databases in Uniform and Business World 7 (Agresso), are reconciled and accurate.

7.7 In respect of liabilities at 31 March 2022 liabilities had reduced to £588.7 million compared to £637.0 million at 31 March 2021. The change has been driven by the £44.1 million reduction in the pension liability and reduction in long term borrowing. Due to the comparatively low cost of short-term borrowing during 2021/22, no long-term borrowing was undertaken in support of the Capital Strategy. The Council’s chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council’s long-term plans change being a secondary objective. In keeping with this objective, with short-term interest rates remaining much lower than long-term rates and temporary investments earning Bank Rate or lower, it was considered to be more cost effective in the near term to use borrowed rolling temporary / short-term loans.



7.8 In respect of the overall reserves position (usable plus unusable), usable reserves have decreased from £98.9 million as at 31.3.2021 to £77.5 million at 31 March 2022. Unusable reserves (reserves held for accounting purposes and are not available for deployment in support of the budget), have moved from a £118 million at 31 March 2021 to £47 million at 31 March 2022.

7.9 Usable reserves are split between: General Fund, earmarked revenue reserves, (i.e. funding allocated from the General Fund and held for specific purposes such as risk mitigation) and usable capital reserves (i.e. capital receipts, un-ringfenced grant allocations and Community Infrastructure Levey payments). The General Fund is provisionally at £13.1 million at 31.3.2022, higher than anticipated per the MTFs at budget setting. The increase is attributable to a number of opening balance adjustments relating to findings from the 2020/21 external audit, (primarily a release of £2.3 million of receipts in advance resulting in higher income recognition), and a release of Earmarked funding into the General Fund to support the 2022/23 budget.

7.10 Unusable reserves have been impacted by the Pension Fund liability and the Collection Fund Deficit. Unusable reserves are amounts set aside that the Council is unable to use to fund expenditure because they are unrealised or notional, i.e. they are not cash backed and relate to accounting adjustments. The pension fund liability has reduced by £44.1 million as a result of an improved overall investment return on assets held within the Pension Fund, this increasing to 13.78% from 12.65% in 2020/21. The asset category generating the most significant valuation upturn being Equity Investments. Furthermore there has been a reduction in the Collection Fund deficit (£9.7 million at 31.3.2022 compared to £23.1 million at 31.3.2021), primarily due to a repayment of the Covid deficit which is spread over three financial years.

7.11 The Section 151 Officer concludes based on the draft Balance Sheet as at 31.3.2022, the Council continues to maintain healthy usable reserve levels for future deployment in support of services and expenditure.

8 Appendices

8.1 Appendix A – Directors Narrative Statement – **to follow**

8.2 Appendix B – Investment Property Revaluation Movements as at 31.3.2022

Subject to Call-In:

Yes: No: X

The item is due to be referred to Council for final approval	<input type="checkbox"/>
Delays in implementation could have serious financial implications for the Council	<input type="checkbox"/>
Delays in implementation could compromise the Council's position	<input type="checkbox"/>
Considered or reviewed by Overview and Scrutiny Management Committee or associated Task Groups within preceding six months	<input type="checkbox"/>
Item is Urgent Key Decision	<input type="checkbox"/>
Report is to note only	X

Officer details:

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Directors Narrative Statement – To follow

Appendix B

Investment Property Revaluation Movements at
31.03.2022

Commercial property held at 31 March 2022

Name and address of property	Property type	Value at 31 Mar	Value at 31 Mar	Mvmt £'000
		2021 £'000	2022 £'000	
Dudley Port Petrol Filling Station, Tipton	Petrol Filling Station	3,700	3,765	65
79 Bath Road, Chippenham	Retail Warehouse	9,500	11,775	2,275
Lloyds Bank, 104 Terminus Road, Eastbourne	Retail	1,800	1,800	0
Aldi/Iceland, Cleveland Gate Retail Park, Gainsborough	Retail Warehouse	5,725	6,300	575
303 High Street and 2 Waterside South, Lincoln	Retail	2,850	2,950	100
3&4 The Sector, Newbury Business Park	Office	17,435	18,010	575
Sainsbury's, High Street, North Allerton	Retail	7,050	7,185	135
Ruddington Fields Business Park, Mere Way, Nottingham	Office	6,750	7,200	450
Total value		54,810	58,985	4,175

Investment property held at 31 March 2022

Name and address of property	Property type	Value at 31 Mar	Value at 31 Mar	Mvmt £'000
		2021 £'000	2022 £'000	
The Stone Building, The Wharf, Newbury	Café	25	31	6
Pelican Lane Creche, Pelican Lane	Children's Nursery	0	0	0
Rainbow Nursery, Priors Road, Hungerford	Children's Nursery	35	40	5
Clappers Farm/Beech Hill Farm, Grazely	Tenanted Smallholding	1,700	1,800	100
Bloomfield Hatch Farm, Grazely	Tenanted Smallholding	1,000	1,100	100
Shaw Social Club, Almond Avenue, Shaw	Community Centre	70	70	0
Swings n Smiles, Lower Way, Thatcham	Children's Day Centre	375	400	25
Units 1 to 7, Kennet Enterprise Centre, Hungerford	Industrial	450	565	115
London Road Industrial Estate, Newbury	Industrial	7,850	9,565	1,715
Total value		11,505	13,571	2,066