2019/20 Financial Statements Preparation and 2018/19 Final Audit Opinion

Committee considering report:	Governance and Ethics Committee
Date of Committee:	23rd April 2020
Portfolio Member:	Councillor Ross Mackinnon
Date Head of Service agreed report: (for Corporate Board)	26th February 2020
Date Portfolio Member agreed report:	
Report Author:	Shannon Coleman-Slaughter
Forward Plan Ref:	GE3890

1. Purpose of the Report

This report is to inform Members of the final external audit opinion for financial year 2018/19 and of the preparation underway for the production of the 2019/20 Financial Statements.

2. Recommendation

For Members to comment upon and note the report.

3. Implications and Impact Assessment

Implication	Commentary
Financial:	Whereby a Council is deemed to have not produced financial statements in accordance with relevant accounting requirements, this can result in additional testing by external auditors and increased external audit fees.
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, and do not provide a true and fair view of the Council's financial position and performance, this may result in a qualified audit opinion.
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 or Digital Services Impact:		**X**		
Council Strategy Priorities or Business as Usual:		***X***		
Data Impact:		X		
Consultation and Engagement:	Joseph Holmes, Executive Director for Resources, s151 Officer. Andy Walker, Head of Finance and Property.			

4. Executive Summary

4.1 The 2018/19 external audit opinion has now been finalised and issued by the external auditor Grant Thornton. Grant Thornton provided the final audit opinion in respect of the 2018/19 financial statements on 30th March 2020.

"In our opinion, the financial statements:

- Give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- Have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- Have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014."

4.2 Nationally there was a delay across the sector in respect of external audit opinions being finalised. This delay accounted for approximately 40% of the sector and was attributable to two main factors:

- 2018/19 was the first year that new external auditors commenced contracts across the sector. In respect of the Council, Grant Thornton replaced the previous auditor KPMG who had been undertaking external audits of the Council's financial statements for ten years.
- External auditors increased focus on accounting for fixed assets and pensions in response to tightened/enhanced expectations from the Financial Reporting Council (FRC).

4.3 Specifically in relation to the Council, during the course of the external audit of the 2018/19 financial statements a number of weaknesses were identified, primarily relating to fixed asset accounting. Nine red and amber recommendation were made in Grant Thornton's draft audit findings report. In response to the 2018/19 audit:

- A fundamental review of the Council's accounting policies and compliance with the CIPFA Code of Practice has been undertaken. Revised draft accounting policies for 2019/20 are included in Appendix A.
- The fixed asset register within the Council's key financial system Agresso has been subject to a review and reconciliation process with the Council's fixed asset register maintained by Property Services. This review is ongoing.
- A revised schedule of annual valuations over a five year rolling programme with an annual supporting indexation exercise has been agreed with the Council's external asset valuers Wilkes, Head and Eve.

4.4 In respect of the production of the 2019/20 financial statements, the MHCLG have issued guidance that the statutory deadline for publication for 2019/2020 final, audited accounts will be delayed. The deadline for the production of the 2019/2020 financial statements has been extended to 31st August 2020.

5. Supporting Information

Introduction

5.1 Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), the external auditors are required to report whether, in their opinion, the Council's financial statements:

- give a true and fair view of the financial position of the Council and Council's income and expenditure for the year; and
- 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

5.2 As at 31 July 2019, 40% of Local Authority audits of the 2018/19 financial statements were not completed, of which West Berkshire Council was one. It is important to note that the 31 July date is **not** a statutory deadline for conclusion of an external audit.

5.3 Two main factors were attributable to the delay in Councils' having their 2018/19 external audit opinions finalised across the sector:

- 2018/19 was the first year of the new Public Sector Audit Appointments (PSAA), contracts (PSAA is used by the Council (as by many councils) to appoint auditors on its behalf). As a result KPMG the Council's previous external auditor was replaced by Grant Thornton.
- The audit requirements for 2018/19 increased as external auditors worked towards meeting the anticipated expectations of the Financial Reporting Council (FRC), particularly in relation to fixed asset accounting and pensions accounting.

5.4 The final audit opinion was provided by the Council's appointed external auditors Grant Thornton on 30th March 2020.

Proposals

5.5 There are a number of actions that the Council needs to take to ensure that the financial statements are prepared in an enhanced way compared to 2018-19. There are a variety of key steps that the Council needs to complete to deliver an improved process for the 2019-20 financial statements closedown:

(1) Provide a clear timetable for the closedown of the financial statements and ensure that this is distributed within the finance & property service and across

the key contacts within the organisation – see appendix B – **Status – achieved**

(2) Respond to the GT audit recommendations – see Appendix C **– Status – ongoing**

(3) Ensure timely asset management liaison and valuation advice – following the 2018-19 financial statements audit, the process within the finance and property team has been significantly enhanced to ensure that all properties are included within the 5 year rolling programme of asset valuations and that all investment properties are revalued on an annual basis – **Status – Ongoing**

(4) Ensure efficient liaison with Grant Thornton – any change of auditors involves a different focus on the audit of the financial statements. A lessons learned meeting is being arranged with Grant Thornton to utilise for the 2019-20 audit. The s151 officer has quarterly meetings with the audit partner to discuss the preparation of the financial statements as well as wider considerations across the Council. Staff at the Council have been attending Grant Thornton run closedown workshops **– Status - achieved**

(5) Ensuring effect resources are allocated to the completion of the financial statements – to enhance the level of resources allocated to the closure of the financial statements, the financial reporting team have made a range of recruitment, long and short term as well as internal secondments to enhance the level of resources available to produce the financial statements and widen the number of individuals who can respond to audit queries – **Status – Ongoing**

(6) Ensuring that preparations are made for changing accounting standards and policies – the 2019-20 accounts will need to be prepared with new accounting standards to consider, especially in respect of IFRS 9 and IFRS 16. The Councils accounting policies also require review and updated, and in advance of the financial statements being prepared, they are presented in appendix A for consideration **– Status – Ongoing / Achieved**

6. Other options considered

Not applicable.

7. Conclusion

7.1 On 30th March 2020 the Council's appointed external auditor, Grant Thornton provided a final audit opinion in respect of the 2018/19 Financial Statements. The opinion is as follows:

"In our opinion, the financial statements:

- Give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- Have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014."

7.2 In response to the 2018/29 external audit a number of actions have been undertaken:

- A review of the Council's accounting policies to ensure compliance with the CIPFA Code of Practice. An initial draft of the 2019/20 policies for review and adoption is included in Appendix A.
- A review of the Property, Plant and Equipment listing in the Agresso fixed asset database. Additional resource of 1fte has been employed to focus primarily on the reconciliation of the Agresso fixed asset module and the fixed assets register maintained by Property Services.
- A new schedule of valuations has been agreed by Property Services with the external valuers, Wilkes, Head and Eve incorporating operational assets and investment properties. Operational assets are to be valued on a five year rolling programme with an indexation exercise undertaken on all properties not subject to a formal valuation in year. The indexation exercise is designed to identify any assets that may materially differ in value to the value stated in the fixed asset system and subsequent financial statements. Investment properties are to be valued annually in accordance with the CIPFA code of practice.

7.3 In respect of the production of the 2019/20 financial statements, the MHCLG have issued guidance that the statutory deadline for publication for 2019/2020 final, audited accounts will be delayed. The deadline for the production of the 2019/2020 financial statements has been extended to 31st August 2020.

8. Appendices

Appendix A – Draft 2019/20 Accounting Policies

Appendix B – Timetable for closedown of the financial statements

Appendix C – Update GT audit recommendations tracker

Corporate Board's recommendation:

*(add text)

To be completed after the Corporate Board meeting.

Background Papers:

None

Subject to Call-In:
Yes: ☐ No: X

Report is to note only X

Wards affected: All

Officer details:

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2019/20 Draft Accounting Policies

GENERAL PRINCIPLES

The Accounts and Audit Regulations 2015 (SI 2015 No 234) require the Council to prepare a Statement of Accounts for each financial year in accordance with proper accounting practices. For 2019/20, these proper accounting practices are the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) supported by International Financial Reporting Standards (IFRS). The Statement of Accounts has been prepared on a 'going concern' basis. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Asset Class	Accounting Basis in the CIES
Property, Plant and Equipment - Dwellings	Current value, comprising existing use value.
Property, Plant and Equipment - Other Land and Buildings	Current value, comprising existing use value. Where prices for comparable properties are available in an active market, properties are valued at market value taking into account the existing use. Where no market exists or the property is specialised, current value is measured at depreciated replacement cost.
Property, Plant and Equipment - Surplus Assets	Fair value
Investment Properties	Fair value
Intangible Assets	Fair Value
Financial Instruments - Fair Value through Profit or Loss	Fair value
Pension Assets	Fair value
Pension Liabilities	Measured on an actuarial basis (see note XX)

The Council's over-arching accounting policies are set out below. Further detail on the accounting treatment adopted for specific transactions and balances is included in relevant disclosure notes.

ACCRUALS OF INCOME AND EXPENDITURE

Activity is accounted for in the year that it takes place rather than when cash payments are made or received. In particular:

- Revenue from the sale of goods or services is recognised in accordance with the terms and conditions of the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Accruals are recognised where the value exceeds £5k.

CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable on notice of not more than 24 hours demand without material penalty. Cash equivalents are highly liquid investments that mature in no more than three days or less and that are readily convertible to known amounts of cash with low risk of change in value.

CHANGES IN ACCOUNTING POLICY

New Code requirements are set out in Note XX. The Council has not adopted any other new accounting standards or amendments with a significant impact on the Council's position.

INTERESTS IN COMPANIES AND OTHER ENTITIES

Where the Council has material interests in subsidiary and associate companies, these have been consolidated into the Council's Group Accounts on a line by line basis for subsidiaries and the equity method for associates, after first realigning accounting policies with the Council where appropriate and eliminating intra-Group transactions.
In the Council single entity accounts, interests in companies and other entities are classified as long-term investments and measured at cost less provision for any losses.

INVESTMENT PROPERTY

Investment properties are measured initially at cost and subsequently at fair value. Investment properties are not depreciated but are revalued annually according to market conditions at the year-end. Revaluation gains and losses are recognised in the Financing and Investment Income and Expenditure line within the Comprehensive Income and Expenditure Statement. However, regulations do not permit unrealised gains and losses to impact the General Fund balance. Therefore, gains and losses are reversed via the Movement in Reserves Statement and posted to the Capital Adjustment Account. Net rental income together with any revaluation gains and losses or impairments are recognised in the Financing and Investment Income and Expenditure line within the Comprehensive Income and Expenditure Statement.

SUPPORT SERVICES AND OVERHEADS

The costs of support services and overheads are charged to those that benefit from the supply or service in accordance with the absorption costing principle. The full cost of overheads and support services is shared between users in proportion to the benefits received.

REVENUE EXPENDITURE FUNDED BY CAPITAL UNDER STATUTE
Legislation requires defined items of revenue expenditure charged to services within the Comprehensive Income and Expenditure Statement to be treated as capital expenditure. All such expenditure is transferred from the General Fund balance via the Movement in Reserves Statement to the Capital Adjustment Account and is included in the Capital Expenditure and Financing disclosure at Note XX.

ASSET RECLASSIFICATION

The Council adheres to CIPFA and RICS guidance on the classification of properties. Where a property has had a change of use the Council will reflect this in the accounts and movements between asset classes are usually between PPE and Investment Property. Upon reclassification assets are subsequently valued in line with the relevant class of asset. In certain cases a property might be used for a combination of investment and operational purposes. In these instances the Council will split the valuation of the property between PPE and Investment and reflect this in the accounts.

RESERVES

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Earmarked reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. Where expenditure has been incurred which is to be financed from an earmarked reserve, the expenditure is charged to the relevant service within the Surplus or Deficit on the Provision of Services within the Comprehensive Income and Expenditure Statement. An amount is then transferred from the earmarked reserve to the General Fund Balance via an entry in the Movement in Reserves Statement.

SCHOOLS

Schools within the Council's group fall into the following categories:

- 29 Community Schools
- 16 Voluntary Aided
- 18 Voluntary Controlled
- Two Community Special Schools
- One Pupil Referral Unit
- One Foundation Secondary School
- Two nursery schools

Local authority maintained schools are considered to be under the control of the Council. Consequently the income, expenditure, assets and liabilities of maintained schools is accounted for in the single entity accounts of the Council. Other types of school, such as, academies and free schools are outside of the Council's control and therefore not included in this Statement of Accounts.

VALUE ADDED TAX
The Comprehensive Income and Expenditure Statement excludes amounts relating to VAT and will be included as an expense only if it is not recoverable from Her Majesty's

Revenue and Customs. VAT receivable is excluded from income within the Council's Income and Expenditure account.

DETAILED ACCOUNTING POLICIES

For inclusion with relevant disclosure notes.

PROPERTY, PLANT AND EQUIPMENT

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.
Property, plant and equipment is recognised where the initial cost or value exceeds £5,000.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the cost of dismantling and removing the item and restoring the site on which it is located

Infrastructure, community assets, assets under construction and vehicles, plant and equipment are then carried in the Balance Sheet at depreciated historic cost. Other categories of Property, Plant and Equipment are subsequently re-measured at existing use or fair value. Assets are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years.

Revaluation

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

As Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Where impairment losses are identified, they are accounted for in the same way as revaluation losses. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the CIES against any receipts arising from the disposal as a gain or loss on disposal.

Depreciation
Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).
Depreciation is calculated on the following bases:

- Buildings – reducing balance allocation over the useful life of the property as estimated by a qualified valuer;
- Vehicles, plant, furniture and equipment – reducing balance allocated over the life of the asset, usually 10 years.
- Infrastructure – reducing balance allocated over the life of the asset, usually 10 – 40 years.
- IT assets – straight line allocation over the useful life of the asset, usually five years.

Where an asset is material and has major components whose cost is significant to the total cost of the asset and have markedly different useful lives, the components are depreciated separately.
Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals
When an asset is disposed of or decommissioned, the carrying amount of the asset is de-recognised in the Balance Sheet. This amount, net of any receipts from disposal, are accounted for as a gain or loss on disposal and taken to the Other Operating Expenditure line in the CIES. Any revaluation gains previously accounted for in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written-off value of disposals is not a charge against council tax but is subject to separate arrangements for capital financing. Amounts reflected in the CIES are appropriated to the Capital Adjustment Account via the Movement in Reserves Statement.

Minimum Revenue Provision
The Council is not required to use Council Tax to fund depreciation, revaluation and impairment losses or amortisation of non-current assets. However, it is required to make an annual contribution from revenue towards provision for the reduction in its overall borrowing requirement equal to either an amount calculated on a prudent basis or as determined by the Council in accordance with statutory guidance.

Componentisation
The Code requires that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Within the Council's asset portfolio there are a number of asset classes where componentisation will not be considered, including:

- Equipment – as this is considered immaterial

- Asset classes which are not depreciated – such as land, investment property, heritage assets, community assets, surplus assets and assets held for sale.

The remaining assets, which are contained with the operational portfolio, are often of a specialised nature such as schools and leisure centres. The Council requires the Valuers to provide component information for each asset which is then reviewed to assess if inclusion of different components will have a material impact on depreciation.

Heritage Assets

These assets have historical, artistic or scientific importance and are held primarily for their contribution to art and culture. Heritage assets are deemed to have infinite lives and are not subject to depreciation, but the carrying amounts are reviewed where there is evidence of impairment such as physical damage. Any impairment is recognised and measured in accordance with the Council's general accounting policy on impairment.

Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance. It must be controlled by the Council as a result of past events, and future economic benefits or service potential must be expected to flow from the intangible asset to the Council. The most common class of intangible asset in local authorities is computer software. If an item does not meet the definition of an intangible asset (identifiability, control and future economic benefits), expenditure to acquire it or generate it internally is recognised as an expense when it is incurred.

At recognition, an intangible asset is measured at cost. Expenditure incurred on an intangible asset after it has been recognised will normally be charged to surplus or deficit on the provision of services as incurred. Only rarely will subsequent expenditure meet the recognition criteria in the Code. Where this occurs, the expenditure is recognised in the carrying amount of the intangible asset.

The asset is assessed to determine whether the useful life of an intangible asset is finite or indefinite, and, if finite, the length of that life. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of these rights (unless they can be renewed, when the useful life shall include the renewal period only if there is evidence to support renewal).

The Council applies amortisation to intangible assets with a finite useful lives on a reducing balances basis over the assets useful life, from the point at which the asset is available for use.

Assets with indefinite useful lives shall not be amortised, but shall be tested for impairment annually and whenever there is an indication the asset may be impaired. The useful life of the asset shall be reviewed annually.

NOTE: LEASES

Council as Lessee

Finance Leases

Leases are classified as finance leases where the terms of the agreement transfer substantially all the risks and rewards of ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, present value of the minimum lease payments in relation to the asset's fair value and whether the Council obtains ownership of the asset at the end of the lease term.

For leases of land and buildings, the land and building elements are considered separately for classification. Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are written off over the initial rental period. Contingent rents are charged as expenses in the periods in which they are incurred.

Property, Plant and Equipment recognised is subject to depreciation which is charged over the lease term. The interest element of finance leases is charged to Financing and Investment Income and Expenditure within the Comprehensive Income and Expenditure

Operating Leases

All other leases are treated as operating leases.

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased assets. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. if there is a rent-free period at the commencement of the lease).

Council as Lessor

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained on the Balance Sheet. Rental income is recognised in the Comprehensive Income and Expenditure Statement on a straight line basis over the life of the asset's lease, even if this does not match the exact pattern of payments, (e.g. initial expenditure in negotiation of the lease or premiums paid at commencement of the lease).

NOTE: FINANCIAL INSTRUMENTS

Financial instruments are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument. They are classified based on the business model for holding the instruments and their expected cash flow characteristics.

Financial Liabilities

Financial liabilities are initially measured at fair value and subsequently measured at amortised cost. For the Council's borrowing this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest).
Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

Financial Assets

To meet new Code requirements, financial assets are now classified into one of three categories:

- Financial assets held at amortised cost. These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specified amounts. The amount presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the CIES is the amount receivable as per the loan agreement.
- Fair Value through Other Comprehensive Income (FVOCI) – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of.
- Fair Value through Profit and Loss (FVTPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

NOTE: EMPLOYEE BENEFITS

Post-Employment Benefits: Pensions

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to fund the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

Employees of the Council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education.
- The Local Government Pension Scheme, administered by Westminster City Council and the London Pension Fund Authority.
- The NHS Pension Scheme, administered by NHS Pensions.

All of the above schemes provide defined benefits to members e.g. retirement lump sums and pensions, earned as employees working for the Council, or for related parties. Under IAS 19 and Code requirements, the Council recognises the cost of post-employment benefits in the reported cost of services when they are earned by employees rather than when the benefits are eventually paid as pensions.

The Teachers' scheme and NHS Scheme are also accounted for as defined contribution schemes. However, the arrangements for these schemes means the future benefit liabilities cannot be identified to the Council, therefore no liability for future payments of benefits is recognised in the Balance Sheet. Services are charged with employer contributions to Teachers' and NHS pensions in the Comprehensive Income and Expenditure Statement within the financial year.

Defined Benefit Pension Schemes: Local Government Pension Scheme

The liabilities of the Berkshire Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis. The basis of calculation is the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, including assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees. This future liability is then discounted back to present value, using a discount rate determined by reference to market yields at balance sheet date of high quality corporate bonds.
The assets of the Berkshire Pension Scheme attributable to the Council are held in the Balance Sheet at fair value.

The change in the net pension liability is analysed into the following components:

1. Service cost comprising: current service cost – allocated in the Comprehensive Income and Expenditure Statement (CIES) to the services for which the employees worked. Past service cost – debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non Distributed Costs.

2. Net interest on the net defined benefit liability – charged to the Financing and Investment Income and Expenditure line of the CIES

3. Re-measurements comprising: the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the

Pensions Reserve as Other Comprehensive Income and Expenditure. Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

4. Contributions paid to the pension fund are charged to the General Fund via an entry in the Movement in Reserves Statement to replace the service cost items above discretionary benefits

Discretionary Benefits

The Council has restricted powers to make discretionary awards of retirement benefits in the vent of early retirements. Any resulting liabilities are accrued in the year of the award and accounted for using the same policies as applied in the Berkshire Pensions Fund.

NOTE: COLLECTION FUND

The Collection Fund shows the transactions of the billing authority in relation to the collection of council tax and non-domestic rates from local taxpayers, and its subsequent distribution to local authorities and the Government. There is no requirement for a separate Collection Fund Balance Sheet since the assets and liabilities arising from collecting non-domestic rates and council tax belong to the bodies' concerned (i.e. major preceptors, the billing authority and the Government). The Council's share of council tax and business rates income is reflected in the Comprehensive Income and Expenditure Statement on an accruals basis in line with the Code. Income due from council tax and business ratepayers is recognised in full at 1 April i.e. the start of the financial year.

The Council's share of council tax and business rates income is reflected in the Comprehensive Income and Expenditure Statement on an agency basis in line with the Code. However, the amount to be reflected in the General Fund is determined by regulation. Therefore, there is an adjustment for the difference between the accrued income and the statutory credit made through the Movement in Reserves Statement and the Collection Fund Adjustment Account.

The Council, as a billing authority, is statutorily required under section 89 of the Local Government Finance Act 1988 to maintain a separate Collection Fund account as agent into which all transactions relating to collection of business rates and council tax income from taxpayers and distribution to local government bodies and central government are made. The Collection Fund account is accounted for separately from the General Fund. Surpluses or deficits on the council tax income and distributions are apportioned to the relevant precepting body in the following financial year in proportion to each body's Band D Council Tax amount.

Council Tax
Council tax is charged on residential properties based upon valuation bandings established when the system was introduced in 1993. The number of properties in each band and calculation of the tax base (adjusted to reflect relevant discounts and exemptions) is approved by Full Council annually as part of the budget setting process.

National Non Domestic Rates
The Council collects business rates for its area based on rateable values (as determined by the Valuation Office Agency) and multipliers set by central government. The total income estimated to be received in the year is notified to related bodies in the immediately preceding January in accordance with regulations.

Appendix C – GT audit recommendations

	Assessment	Issue and risk	Recommendations
1	Medium	The Council have a number of Investment Properties that should be revalued every year as per the requirements of the code. The Council have two investment properties purchased in March 2018 that have not been revalued in 2018-19 and therefore are not compliant with the Code	The Council should ensure that all investment properties are revalued in the financial year to ensure compliance with code requirements. **Management response** Six investment properties were not revalued as per code guidance. Four properties were purchased during 2018/19, one in March 2018, on this basis the management decision was taken not to revalue the properties. Two properties related to purchases in 2017/18, one of which was actually a deposit and not a full purchase. The Council has reviewed its processes and procedures in place for the valuation of assets including investment properties, moving forward all investment properties will be revalued in compliance with the code.
2	Medium	A review of the draft statement of accounts identified a number of disclosures that were not included and disclosures that were not compliant with the requirements of the code including fair value hierarchy and IFRS9 transition requirements	The Council should review the Code and any changes to disclosure requirements as a result of changes in accounting standards to ensure that the draft statement of accounts are compliant before the commencement of the audit **Management response** For the 2019-20 closedown process the Council is reworking its project plan to provide further time for review, including an external review prior to the section 151 sign off at the end of May.
3	Medium	The code requires that Local Authorities disclose the value of assets revalued in the year and the date at which land and building assets were last revalued. This analysis was not included within the statement of accounts and was therefore not code compliant	The Council should ensure that the analysis of when assets have been revalued to demonstrate current value is included within the statement of accounts **Management response** The Council has revised this analysis in the final set of financial statements for 2018-19 and this work has been built into the project plan for the 2019-20 closedown.

	Assessment	Issue and risk	Recommendations
4	Medium	A review of the budget monitoring as part of the VfM conclusion identified significant overspends in Adult Social Care above those modelled as part of the budgeting process. There is a risk that a failure to properly estimate the required service cost could lead to overspends in services and the depletion of reserves as a result.	The Council should review the modelling process employed to identify future Adult Social Care expenditure to ensure that it is realistic to avoid overspends in the service and potential impact on reserves **Management response** The Council has revised its modelling for Adult Social Care and Children's Social Care demand led budgets from 2019-20. The modelling is closely reviewed on a regular basis and has been highlighted in the quarterly reports presented to the Executive and Overview & Scrutiny Management Committee. The budget papers for 2020-21 clearly demonstrate the basis of the social care modelling as well as the current trajectory of spend.
5	Medium	The Council's Performance Investment Strategy does not report to members. The minutes of the meeting are not public and it is unclear as to what is and is not reported to members. Further it is unclear as to how the performance is linked to the financial outturn monitoring and whether there is an opportunity for Members at a Council or Executive level to challenge decisions made	The Council should review the overall reporting arrangements of performance within the Property Investment Strategy. This should include a clear link to financial performance, impact on the revenue budget and disclosure of reasons why opportunities have been taken as well as those rejected **Management response** The members of the Property Investment Strategy Board receive quarterly updates from the Council's external advisors which link to the revenue budget position. The strategy has also recently been reviewed by the Overview & Scrutiny Management Committee and a revised Strategy is coming to Full Council on the 3rd March.

	Assessment	Issue and risk	Recommendations
6	High	The analysis of when assets were last revalued includes £11.1m of assets that have not been revalued since 2012/13 or prior and 2013/14. Review of the this balance identified assets that are no longer owned by the Council, previous revaluations that had not been correctly processed and assets incorrectly classified. The Code requires that assets are revalued within an appropriate timeline and no more than five years. These assets have not been revalued within this timeline and there is a risk that the variance between the current value and carrying value may be material	The Council should review all assets to ensure that they have been revalued within an appropriate timeframe to ensure that the variance between carrying value and current value is not material. **Management response** The Council has revised its processes and procedures for the review and reconciliation of assets held within the Council's central fixed assets register and assets held within the accounting system assets module, with a view to timely identification of discrepancies. A full reconciliation of the two systems is underway which will inform revaluation schedules moving forward in compliance with the code.
7	Medium	Detailed transaction testing identified a case where supporting document could not be provided and therefore we are unable to confirm that the value has been correctly included. There is a risk that items will be incorrectly disclosed in the accounts leading to a potential overstatement. An unadjusted misstatement has been identified	The Council should ensure that all supporting documentation is retained and can be accessed when requested in order to provide evidence for figures disclosed within the statement of accounts.. **Management response** The Council has reviewed its processes and procedures to address compliance issues moving forward.
8	High	Review of PPE opening balanced identified approximately £12m of assets incorrectly included due to either duplication or failure to derecognise assets that have previously been disposed of. This has led to the overstatement of opening balances and has resulted in a Prior Period Adjustment.	The Council should review the fixed asset register to ensure that all assets included are correctly disclosed and that balances in the statement of account are correctly stated **Management response** The Council has revised its processes and procedures for the review and reconciliation of assets held within the Council's central fixed assets register and assets held within the accounting system assets module, with a view to timely identification of discrepancies.
9	Medium	Review of PPE opening balances identified a number of assets that the Council has failed to derecognise as a result of disposal. Recognition of these in the 2018/19 accounts has led to the identification of a material balance for disposals	The Council should review the fixed asset register to ensure that all assets included are correctly disclosed and that balances in the statement of account are correctly stated **Management response** The Council has revised its processes and procedures for the review and reconciliation of assets held within the Council's central fixed assets register and assets held within the accounting system assets module, with a view to timely identification of discrepancies.