

Notice of Meeting



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Governance and Ethics Committee

Monday 25th July, 2022 at 6.30 pm

in the Council Chamber, Council Offices,
Market Street, Newbury

Note: This meeting can be streamed live here: <https://www.westberks.gov.uk/governanceethicscommitteelive>

Date of despatch of Agenda: Friday, 15 July 2022

For further information about this Agenda, or to inspect any background documents referred to in Part I reports, please contact Sadie Owen on 01635 519052
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Further information and Minutes are also available on the Council's website at www.westberks.gov.uk



Agenda - Governance and Ethics Committee to be held on Monday, 25 July 2022
(continued)

To: Councillors Jeff Cant (Chairman), Jeremy Cottam (Vice-Chairman), Jeff Beck, Rick Jones, Tony Linden, David Marsh, Geoff Mayes, Andy Moore, Biyi Oloko, Bill Graham and David Southgate

Substitutes: Councillors Adrian Abbs, Owen Jeffery, Steve Masters, Graham Pask, Claire Rowles, Anne Budd and John Downe

Agenda

| | Page No. |
|---|-----------------|
| 1 Apologies To receive apologies for inability to attend the meeting (if any). | 1 - 2 |
| 2 Minutes To approve as a correct record the Minutes of the meeting of this Committee held on 27 June 2022. | 3 - 6 |
| 3 Declarations of Interest To remind Members of the need to record the existence and nature of any personal, disclosable pecuniary or other registrable interests in items on the agenda, in accordance with the Members' Code of Conduct . | 7 - 8 |
| 4 Forward Plan Purpose: To consider the Forward Plan for the next 12 months. | 9 - 10 |

Governance Matters

| | |
|---|---------|
| 5 Internal Audit Annual Assurance Report 2020/21 (GE4226) Purpose: Public Sector Internal Audit Standards (PSIAS) require the Audit Manager to make a formal annual report to those charged with governance within the Council. | 11 - 28 |
|---|---------|

Agenda - Governance and Ethics Committee to be held on Monday, 25 July 2022
(continued)

- | | | |
|---|---|---------|
| 6 | 2021/22 Draft Financial Statements Highlight Report (GE4236) Purpose: the 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. | 29 - 40 |
| 7 | Financial Year 2021/22 Annual Treasury Outturn Report (EX4237) Purpose: the report provides an overview of the treasury management activity for financial year 2021/22 as at 31 March 2022, as required by the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code). | 41 - 56 |
| 8 | Going Concern Assessment as at 31 March 2022 Purpose: the report summarises management's assessment of the Council's ability to function as a going concern; this determination supporting the preparation of the Statement of Accounts for 2021/22. | 57 - 68 |

Sarah Clarke
Service Director: Strategy and Governance

West Berkshire Council is committed to equality of opportunity. We will treat everyone with respect, regardless of race, disability, gender, age, religion or sexual orientation.
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Governance and Ethics Committee – 25 July 2022

Item 1 – Apologies for absence

Verbal Item

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Note: These Minutes will remain DRAFT until approved at the next meeting of the Committee

GOVERNANCE AND ETHICS COMMITTEE

MINUTES OF THE MEETING HELD ON MONDAY, 27 JUNE 2022

Councillors Present: Jeff Cant (Chairman), Jeremy Cottam (Vice-Chairman), Rick Jones, Tony Linden and Geoff Mayes

Also Present: Councillor Biyi Oloko, Bill Graham (Parish Council Representative), David Southgate (Parish Council Representative) and Councillor Thomas Marino (Executive Portfolio: Internal Governance and Strategic Partnerships)

Officers Present: Catalin Bogos, Sarah Clarke, Joseph Holmes, Gordon Oliver and Sadie Owen

Apologies for inability to attend the meeting: Councillor Jeff Beck, Councillor David Marsh and Councillor Andy Moore

PART I

3 Minutes

The Minutes of the meetings held on 25 April and 10 May 2022 were approved as true and correct records and signed by the Chairman.

4 Declarations of Interest

There were no declarations of interest received.

5 Forward Plan

The Committee considered the Governance and Ethics Committee Forward Plan (Agenda Item 4).

RESOLVED that: Governance and Ethics Committee note the Forward Plan.

6 Annual Governance Statement 2021-22 (GE4218)

Joseph Holmes introduced the report (Agenda Item 5), which summarised the key governance issues for the Council and the action plan to address these.

Councillor Tony Linden voiced concern at the quantity of work for officers and Members as a consequence of the large number of meetings, particularly given the forthcoming local elections in 2023. He highlighted the importance of being as efficient as possible without too much bureaucracy.

Councillor Jeremy Cottam suggested that election candidates should be given advance warning of the Member training requirements and programme timetable should they be successful.

RESOLVED that: Governance and Ethics Committee approve the Annual Governance Statement 2021-22.

7 Constitution Review - Update (GE4241)

Sarah Clarke introduced the report (Agenda Item 6), which updated the Committee on progress made with the review of the Constitution.

It was explained that the intention had been to bring revised documents to Council for approval in July. However, it was now proposed to hold a number of workshops with Members and officers regarding the proposed changes to the above sections of the Constitution, prior to bringing to Council in September for approval.

It was clarified that the review aimed to simplify the Constitution rather than completely re-write it.

Councillor Linden stressed the importance of cross-party involvement and encouraged Members to attend the workshops to contribute to the revision of the Constitution.

Councillor Rick Jones supported Councillor Linden's comments, and queried whether the current external governance review commissioned by the Chief Executive would lead to further amendments of the Constitution.

Sarah Clarke did not anticipate that the governance review would have a major impact on the review, however may possibly inform decisions in relation to contract rules and financial rules and thresholds.

Councillor Jeff Cant observed that in relation to committee minutes, and the introduction of Zoom, officers did not appear to be using technology to its best, with minutes far too lengthy. Whilst it was acknowledged that some committee's had legal requirements it was felt that generally minutes should be streamlined.

RESOLVED that: Governance and Ethics Committee note the report.

8 Exclusion of Press and Public

RESOLVED that: members of the press and public be excluded from the meeting for the under-mentioned item of business on the grounds that it involves the likely disclosure of exempt information as contained in Paragraphs 3, 5 and 6 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended by the [Local Government \(Access to Information\)\(Variation\) Order 2006](#). [Rule 8.10.4 of the Constitution also refers](#).

9 Risk Management Q4 2021/22 Report (GE4024)

(Paragraph 3 – information relating to financial business affairs of a particular person, Paragraph 5 – information relating to legal privilege and Paragraph 6- information relating to proposed action to be taken to the Local Authority)

Catalin Bogos introduced an exempt report (Agenda Item 8), concerning the corporate risks as at the end of March 2022, and actions taken to mitigate them.

RESOLVED that:

Governance and Ethics Committee note the report, including the actions taken to manage the existing risks on the Corporate Risk Register and the following recommendations agreed by Corporate Board and Operations Board:

- That, Corporate Board and Operations Board note the current (March 2022) position and actions undertaken to minimise the impact for existing **17 risks** on the Corporate Risk Register (CRR).
- That, Corporate Board and Operations Board note the actions proposed to further minimise the impact for risks on the Corporate Risk Register.
- That, Corporate Board and Operations Board note the current (March 2022) progress with risk mitigation actions and that there are three risks proposed to be escalated on the Corporate Risk Register and one to be de-escalated.

GOVERNANCE AND ETHICS COMMITTEE - 27 JUNE 2022 - MINUTES

(The meeting commenced at 6.30 pm and closed at 7.30 pm)

CHAIRMAN

Date of Signature

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Governance and Ethics Committee – 25 July 2022

Item 3 – Declarations of Interest

Verbal Item

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Governance and Ethics Committee Forward Plan 25 July 2022 – 20 March 2023

| 25 July 2022 | | | | | | |
|--------------------------|--------|---|--|---------------------------|---|------------|
| 1. | GE4226 | Internal Audit Annual Report 2021/22 | The Public Sector Internal Audit Standards (PSIAS) require the Audit Manager to make a formal annual report to those charged with governance within the Council. | Julie Gillhespey | Councillor Tom Marino, Internal Governance and Strategic Partnerships | Audit |
| 2. | GE4236 | Financial statements 2021-22 | To present the draft West Berkshire Council Financial Statements 2021/22. | Shannon Coleman-Slaughter | Councillor Ross Mackinnon, Finance and Economic Development | Audit |
| 3. | EX4237 | Treasury Management Annual Report | This report summarises the results of the Council's management of cash-flow, borrowing and investments in the financial year 2021/22. | Shannon Coleman-Slaughter | Councillor Ross Mackinnon, Finance and Economic Development | Audit |
| 26 September 2022 | | | | | | |
| 4. | GE4227 | Internal Audit Update Report Quarter 1 | To update the Committee on the outcome of Internal Audit work carried out during Quarter 1 of 2022/23. | Julie Gillhespey | Councillor Tom Marino, Internal Governance and Strategic Partnerships | Audit |
| 5. | GE4238 | External Auditor's ISA 260 report | To present the External Auditor's report. | Joseph Holmes | Councillor Ross Mackinnon, Finance and Economic Development | Audit |
| 21 November 2022 | | | | | | |
| 6. | GE4239 | Strategic Risk Register Update Q2 2022/23 | To provide an update on the Strategic Risk Register as at Q2 of 2022/23. | Catalin Bogos | Councillor Tom Marino, Internal Governance and Strategic | Governance |

Governance and Ethics Committee Forward Plan 27 June 2022 – 20 March 2023

| | | | | | | |
|------------------------|--------|--|--|------------------|---|-------|
| | | | | | Partnerships | |
| 16 January 2023 | | | | | | |
| 7. | GE4228 | Internal Audit Update Report Quarter 2 2022/23 | To update the Committee on the outcome of Internal Audit work carried out during Quarter 2 of 2022/23. | Julie Gillhespey | Councillor Tom Marino, Internal Governance and Strategic Partnerships | Audit |
| 20 March 2023 | | | | | | |
| 8. | | No reports to date | | | | |

Internal Audit Annual Assurance Report 2020/21

| | |
|--|----------------------------------|
| Committee considering report: | Governance and Ethics Committee |
| Date of Committee: | 25 July 2022 |
| Portfolio Member: | Councillor Tom Marino |
| Date Head of Service agreed report: <i>(for Corporate Board)</i> | 8 June 2022 |
| Date Portfolio Member agreed report: | |
| Report Author: | Julie Gillhespey (Audit Manager) |
| Forward Plan Ref: | GE4226 |

1 Purpose of the Report

The Public Sector Internal Audit Standards (PSIAS) require the Audit Manager to make a formal annual report to those charged with governance within the Council.

2 Recommendation

That the Governance and Ethics Committee note the contents of the report.

3 Implications and Impact Assessment

| Implication | Commentary |
|-------------------------|---|
| Financial: | Not Applicable |
| Human Resource: | Not Applicable |
| Legal: | Not Applicable |
| Risk Management: | Internal Audit work helps to improve risk management processes by identifying weaknesses in systems and procedures and making recommendations to provide mitigation. The aim of which is to help ensure that services and functions across the Council achieve their goals and targets, and the organisation as a whole meets its plans and objectives. |

| | | | | |
|--|-----------------|----------------|-----------------|-------------------|
| | | | | |
| 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: | Section 151 Officer and Monitoring Officer. | | | |

4 Executive Summary

- 4.1 The PSIAS require the Audit Manager to make a formal report annually to those charged with governance in the Council. The report is required to include an opinion on the Council's governance, risk management and internal control framework, which in turn supports the Annual Governance Statement.
- 4.2 The audit opinion is based upon the assurance work undertaken during the year; knowledge gained from previous assurance work; as well as intelligence gained from other sources of assurance, both internal and external, for example, Ofsted and the Council's Finance and Governance Group.

4.3 Purpose of the Audit Manager's Annual Assurance Report

To provide:-

- (a) An opinion on the Council's governance, risk management and control environment;
- (b) Information to support the opinion given;
- (c) A summary of the work undertaken compared with planned;
- (d) Performance of the Internal Audit Team;
- (e) A statement as to whether the work of the Audit Team complies with the PSIAS.

4.4 Assurance Opinion

- (a) For a second year the Covid 19 pandemic has had an impact on the level of planned assurance work undertaken. However, from the assurance work undertaken and other sources of control/governance information e.g. the Finance and Governance Group, the Audit Manager is able to conclude that reasonable assurance can be given that the governance, risk management and control framework remains robust.
- (b) In relation to the assurance opinions given there was one corporate audit given a weak opinion. The proportion of limited assurance reports continues to be very low compared with the number of completed audits during the year given a satisfactory opinion and above. The low assurance report will be followed up to check on progress made on implementing agreed recommendations.

- (c) There was one Follow-up review completed during the year where we concluded unsatisfactory progress had been made.

4.5 Performance of the Audit Team

The team has a service performance indicator to achieve 80% of the audit plan. For 2021/22 the actual result was 86%, an improvement on the previous year's 81%.

5 Supporting Information

Introduction

- 5.1 The Accounts and Audit (England) Regulations (2015) require each local authority to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices.
- 5.2 The Public Sector Internal Audit Standards (PSIAS), including the CIPFA "Local Government Application Notes", require the Chief Audit Executive (the Audit Manager) to make a formal report annually to those charged with governance in the Council. The report is required to include an opinion on the Council's governance, risk management and internal control framework, which in turn supports the Annual Governance Statement.

Background

- 5.3 This report provides that opinion and includes information to support the opinion given. The report content has been compiled to conform to the requirements of the PSIAS.
- 5.4 The audit opinion is based upon the assurance work undertaken during the year and knowledge gained from previous assurance work, as well as intelligence gained from other sources of assurance, both internal and external, for example, Ofsted and the Council's Finance and Governance Group.
- 5.5 A system of internal control cannot provide total assurance that all risk has been identified and eliminated; it is used to manage the level of risk so that it is at an acceptable level for an organisation, taking into account the Council's risk appetite.

Purpose of the Audit Manager's Annual Assurance Report

- 5.6 To provide:-
 - (a) An opinion on the Council's governance, risk management and control environment;
 - (b) Information to support the opinion given;
 - (c) A summary of the work undertaken compared with the work planned;
 - (d) Information on the performance of the Internal Audit Team;
 - (e) A statement as to whether the work of the Audit Team complies with the PSIAS.

Assurance Opinion

- 5.7 For a second year the Covid 19 pandemic has had an impact on the level of planned assurance work undertaken, due to specific Covid related advice and assurance work being required, together with audits being postponed where services were impacted by Covid and could not support the audit work. However, from the assurance work undertaken and other sources of control/governance information e.g. the Finance and Governance Group, the Audit Manager is still able to conclude that reasonable assurance can be given that the governance, risk management and control framework remains robust.
- 5.8 No system of control can provide absolute assurance against material misstatement or loss, therefore Internal Audit can only provide reasonable assurance. This year there was only one corporate audit which had a less than satisfactory audit opinion. As with previous years, the number of limited assurance reports is very low which is the key criteria on which this annual audit opinion is based.
- 5.9 An audit of the new risk management framework was carried out in 2020/21, the conclusion was that the new framework was satisfactory/fit for purpose, although there were some areas for improvement identified. During 2021/22 we carried out a follow-up review of the Risk Management audit and concluded that satisfactory progress had been made on the implementing our recommendations.
- 5.10 There have been no limitations or restrictions on the audit plan coverage or scope of the work undertaken that could have a negative impact on the opinion. There have been no impairments to the objectivity or independence of the Audit team.

Results of Work Undertaken to Support the Opinion

5.11 Internal Audit use the following categories for their assurance work report opinions:-

| Opinion Category | Definition |
|----------------------|---|
| Very Well Controlled | Very strong control framework with only minor control weaknesses or low levels of non-compliance identified. |
| Well Controlled | Strong control framework with a small number of control/compliance issues identified. |
| Satisfactory | An adequate control framework is in place, a number of control weaknesses identified but not significant enough to cause concern. |
| Weak | There are a large number of control weaknesses and/or some significant control issues which are of concern. |

| | |
|-----------|--|
| Very Weak | The overall control framework has significant weaknesses and is not effective. |
|-----------|--|

5.12 A summary of the Internal Audit assurance work completed during the year is detailed below together with the assurance opinion that was given:-

Corporate

| Very weak | Weak | Satisfactory | Well Controlled | Very Well Controlled |
|-----------|------|--------------|-----------------|----------------------|
| 0 | 1 | 9 | 4 | 0 |

Schools

| Very Weak | Weak | Satisfactory | Well Controlled | Very Well Controlled |
|-----------|------|--------------|-----------------|----------------------|
| 0 | 1 | 8 | 9 | 1 |

5.13 The first table includes six reports that are in the final stages of consultation, where the accuracy of the report content has been checked, so the audit opinion is not going to change.

5.14 The tables show that the majority of audit opinions were satisfactory or above. There was only one corporate review that was given a less than satisfactory opinion, Adult Social Care Carers Payments, the key issues of which were reported to Committee in the Quarter 3 Update Report. The outcome of school reviews was very positive with over 50% achieving well controlled or above. Only one school was identified in the weak category, the i-college, again the key outcomes have previously been reported to Committee. For both weak audits a Follow-up is in progress.

5.15 Internal Audit undertake a follow-up review in all cases where there is a weak or very weak opinion, and in some cases for a satisfactory opinion. The outcome of the follow-up work completed during the year is detailed below:-

| Satisfactory Follow-up | Unsatisfactory Follow-up |
|------------------------|--------------------------|
| 3 | 1 |

- 5.16 The unsatisfactory follow-up relates to the audit of Deprivation of Liberty Safeguards (DoLS).
- 5.17 From the 9 agreed recommendations, we found that 5 had been fully implemented. From the 4 not implemented, 3 were partially agreed, although the service manager agreed with the principle of these recommendations, there was limited resource within the team to action them, and the intention was for them to be progressed as part of the implementation of the legislation to replace DoLS (Liberty Protection Safeguards - LPS) and associated improvements to the use of Care Director v.6 for DoLS administration.
- 5.18 The outstanding recommendations relate to setting and monitoring performance management targets in respect of processing of applications, and establishing a monitoring process for Court of Protection DoLS applications.
- 5.19 Where there is an unsatisfactory opinion given for a follow-up the usual practice is for the relevant managers to attend committee in order to provide a further update on progress to date/further actions planned. In this case the Audit Manager deemed this was not necessary as the outstanding actions are all linked to the forthcoming change of legislation (LPS) and Care Director upgrade.

Internal Audit Work Progress Update since the last Quarterly Report

- 5.20 The last Plan progress update was reported to the Governance and Ethics Committee at the April meeting, attached to this report are three appendices listing the work undertaken up to the end of the financial year, with completed work at Appendix A, work in progress at Appendix B, and table C showing progress on the specific Anti-Fraud Work Plan.

Audit Team Resources and Performance

- 5.21 The team has a service performance indicator to achieve 80% of the audit plan. For 2021/22 the actual result was 86%, which was an improvement on the previous year's result of 81%.
- 5.22 All internal audit work has been undertaken in accordance with the requirements of the PSIAS, the Core Principles of Internal Audit and the Code of Ethics for Internal Audit. Under the PSIAS there is a requirement to have an external assessment of the internal audit service every five years. The last external assessment was undertaken in May 2018. The outcome of which was that the Council 'generally conforms', this is the highest category of compliance (the other possible conclusions being 'partially conforms' and 'does not conform').
- 5.23 The Audit Team currently consists of five posts; the Audit Manager, a Principal Auditor and three Senior Auditors. One of the Senior Auditor posts became vacant in June this year, an initial recruitment exercise was not successful, a further attempt will be made in a few months' time.

Audit Plan Actual Coverage

5.24 The following table shows the level of time spent in each type of audit activity compared with the planned time:-

| Audit Activity | Planned Time | Actual Time (up to allocated project time budgets) |
|--|---------------------|---|
| Assurance work | 599 | 441 |
| Investigations (potential fraud etc.) | 0 | 5 |
| Advisory reviews (planned and requested in year) | 41 | 41 |
| Covid-19 related work | 60 | 99 |
| Plan preparation and Monitoring (corporate and schools)/G&E Update Reports | 32 | 44 |
| Adhoc advice requests (corporate and schools) | 20 | 44 |
| Follow-ups | 20 | 22 |
| Other (external professional liaison, general grant compliance work, fraud training, monitoring of SFVS returns) | 34 | 44 |
| Plan Contingency Days | 50 | Used on unplanned work |
| Total Days | 856 | 740 |

(These are the totals that are used to calculate the productivity percentage i.e. the 86% referred to in 5.21)

5.25 Notes to support the information in the table at point 5.23 above:-

- (a) The largest number of unplanned days was spent on investigations and Covid related audit work.
- (b) The Audit Team have again this year been heavily involved in carrying out Covid business grant fraud prevention checks which makes up a large proportion of the days spent on Covid related work. Central government mandated a range of assurance checks that should be undertaken for each phase of business grants, some of which needed to be undertaken pre-payment so the team needed to meet this demand in a timely manner so that we did not delay payments.
- (c) Unplanned advisory/investigatory work reduces the level of assurance work that can be undertaken in a year. The team undertook 74% of actual assurance work compared with planned, if the team had not spent time on unplanned investigation/Covid work then the days spent on planned assurance work would have been in the region of 81%.
- (d) The planned work not undertaken is reviewed as part of risk assessing and preparing the new audit plan, and rescheduled into the following year where deemed appropriate.

5.26 The Covid 19 pandemic has had an impact on the level of planned assurance work undertaken, due to specific Covid related advice and assurance work, together with audits being postponed where services were impacted by Covid and could not support the audit work. The Audit Manager has provided the Committee with updates during 2021/22 regarding Covid work and the impact on the audit plan, at the end of the year the team had spent 99 days on Covid related work (equates to approx. 57% of one auditor's annual time budget).

5.27 Under the Local Government Transparency Code 2015 the Council is required to publish certain information regarding fraud. In order to meet this duty the following information is provided:-

- (a) There are no professionally accredited counter-fraud internal investigators, the Internal Audit team has the skills and experience to undertake such work where it arises (4 members of staff).
- (b) There have been no occasions where the powers under the Prevention of Social Housing Fraud have been used by the Audit Team.
- (c) There was one potential fraud case that was made via a whistleblower. After an initial investigation we considered there was no evidence to support the allegations.

- (d) There have been no specific costs incurred for the fraud work undertaken this year except for the salary costs for the days spent by the Audit Team on fraud related work. Cost of the days spent on the potential fraud case stated above (using an average daily salary cost) was approximately £1,165 for 2021/22.

Proposals

5.28 Committee note the content of the report.

6 Other options considered

Not applicable, the report is for information only.

7 Conclusion

This report was produced to provide the Audit Manager's opinion on the Council's governance, risk management and control framework for 2021/22. The Audit Manager's annual audit opinion is that reasonable assurance can be provided that the Council's governance, risk management and control framework remains robust.

8 Appendices

- 8.1 Appendix A – Audit Work Completed during last quarter of 2021/22.
8.2 Appendix B – Audit Work in Progress as at 31st March 2022.
8.3 Appendix C – Fraud Plan Progress as at 31st March 2022.

Subject to Call-In:

Yes: No:

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

Officer details:

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Job Title: Audit Manager

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1) COMPLETED AUDITS

| Directorate/Dept/Service | Audit Title | Overall Opinion |
|----------------------------|--|-----------------|
| Corporate | | |
| Corporate | National Fraud Initiative Exercise | N/A |
| Resources | | |
| Strategy and Governance | Service Planning | N/A Advisory |
| Strategy and Governance | Disclosure and Barring Service | Satisfactory |
| Strategy and Governance | Members Expenses | Satisfactory |
| People | | |
| Children & Family Services | Turnaround Families Grant Claims 2021/22 | N/A |
| Adult Social Care | Shared Lives | Satisfactory |
| Place | | |
| Environment | Waste Management Contract | Satisfactory |

NOTE

The overall opinion is derived from the number/significance of recommendations together with using professional judgement. The auditor's judgement takes into account the depth of coverage of the review (which could result in more issues being identified) together with the size/complexity of the system being reviewed.

2) COMPLETED FOLLOW UPS

| <u>Directorate/Service</u> | <u>Audit Title</u> | <u>Overall Opinion - Report</u> | <u>Opinion - Implementation progress</u> |
|----------------------------|-----------------------------------|---------------------------------|--|
| Adult Social Care | Deprivation of Liberty Safeguards | Weak | Unsatisfactory |

3) COMPLETED ADVISORY REVIEWS/OTHER WORK

| Directorate/Dept/Service | Review Title |
|--------------------------|--------------|
| | |
| | |
| | |

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1) CURRENT AUDITS

| Corporate/Directorate/ Service | Audit Title | Current Position of Work | Audit Plan Year |
|---|---|-------------------------------------|------------------------|
| Corporate | | | |
| Development & Regulation | Business Continuity | Testing | 2021/22 |
| Resources | | | |
| Finance and Property | Budgetary Control | Draft Report Issued | 2021/22 |
| Finance and Property | Accounts Payable | Draft Report Issued | 2021/22 |
| Strategy and Governance | Electoral Services – Financial Processes | Testing | 2021/22 |
| Strategy and Governance | Project Management Oversight | Background | 2021/22 |
| I.T. | Security of Systems | Draft Report Issued | 2021/22 |
| Finance and Property | Building Maintenance | Draft Report Issued | 2020/21 |
| People | | | |
| Children and Families | Adoption Service Provision | Testing | 2021/22 |
| Children and Families | Foster Carer Payments | Testing | 2020/21 |
| Education | Special Educational Needs and Disabilities (SEND) Assessments | Background | 2021/22 |
| Place | | | |
| Development and Regulation | Common Housing Register | Draft Report Issued | 2021/22 |
| Environment | Street Works/Traffic Regulation Orders/Section 38 Charges | Background | 2021/22 |
| Environment | Parking | Testing | 2021/22 |
| Development and Planning | Purchase and Utilisation of Council Properties | Draft Report Issued | 2019/20 |

2) CURRENT ADVISORY REVIEWS/OTHER WORK

| Audit/Review Title | Current position of work |
|--|---------------------------------|
| General Grants sign off work | Majority completed |
| Covid Grants – payments assurance work | Ongoing |
| COVID Business Grants – payment assurance work | Ongoing |

3) CURRENT FOLLOW-UPS

| Directorate/Service | Audit title |
|----------------------------|------------------------------|
| Resources | |
| Strategy and Governance | Risk Management |
| People | |
| Education | i-college |
| Place | |
| Environment | Grounds Maintenance Contract |

Anti-Fraud Work Plan**(Drawn together from entries in the Audit Plan for 2021/22)**

| <u>Audit Name</u> | <u>Work Focus</u> | <u>Update Position 31/03/2022</u> |
|---|--|--|
| NFI Investigation Work | Review of data matches to assess whether fraudulent. | Completed for 2021/22 |
| Covid Grant Assurance Work (Non-business) | Review of appropriateness/accuracy of grant payments made to third parties/use of grants the Council has received. | Completed Compliance and Enforcement Grant Assurance. Completed Test and Trace Support Grant. Completed Infection Control Grant. |
| Covid Business Grants Assurance | Review of payments to assess whether inaccurate or fraudulent. | Ongoing. |
| Contract letting - Other than Care Packages | Check for compliance with Contract Rules of Procedure/legislation. Check for risk of contracts being awarded inappropriately/potential for conflict of interest/personal gain. | Postponed at request of Service, rescheduled for next year. |
| Personal Budgets (Direct Payments/Use of payment cards) (Education Service) | Personal Budgets may be used inappropriately/fraudulent documentation could be provided for expenditure incurred. | Rescheduled for next year. |
| Street Works/Traffic Regulation Orders/Section 38 Charges | Income collection – to ensure that the relevant charges are requested/received. | Background. |
| Parking | Income collection – income is maximised/reduced risk of theft. | Testing Stage. |
| *Council Tax Reduction Scheme | Reductions granted are valid, regularly reviewed, and investigated where applicable. | Completed. |

*A piece of work which has been commissioned from an external fraud work provider.

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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 | | |

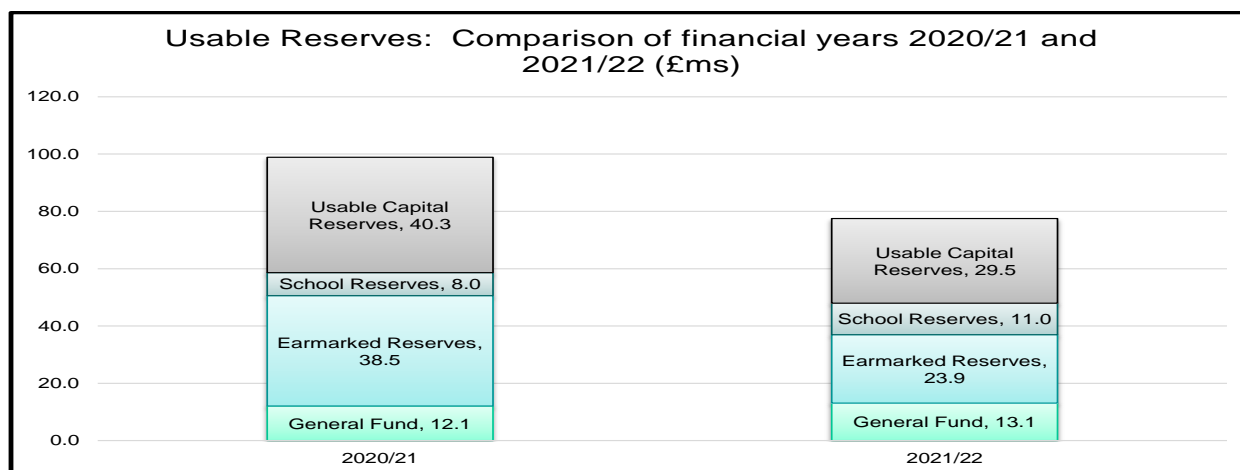
| | | | | |
|-------------------------------------|--|---|--|--|
| Environmental Impact: | | X | | |
| Health Impact: | | X | | |
| ICT Impact: | | X | | |
| Digital Services Impact: | | X | | |
| Council Strategy Priorities: | | X | | |
| Core Business: | | X | | |
| Data Impact: | | X | | |
| Consultation 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.

| 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

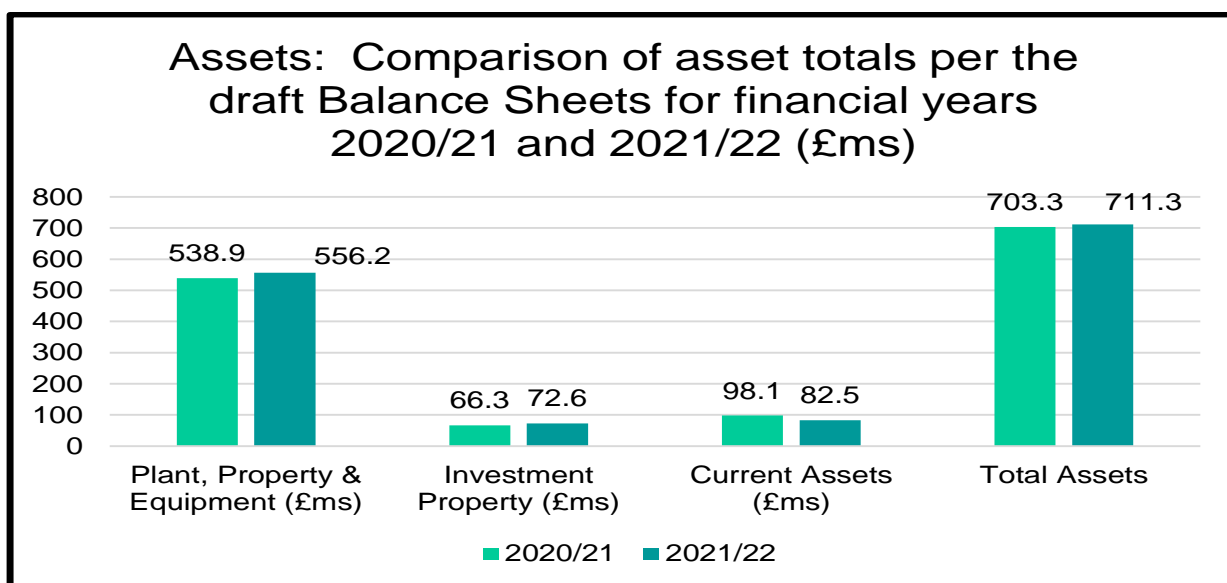
Not applicable, report is to note only.

7 Conclusion

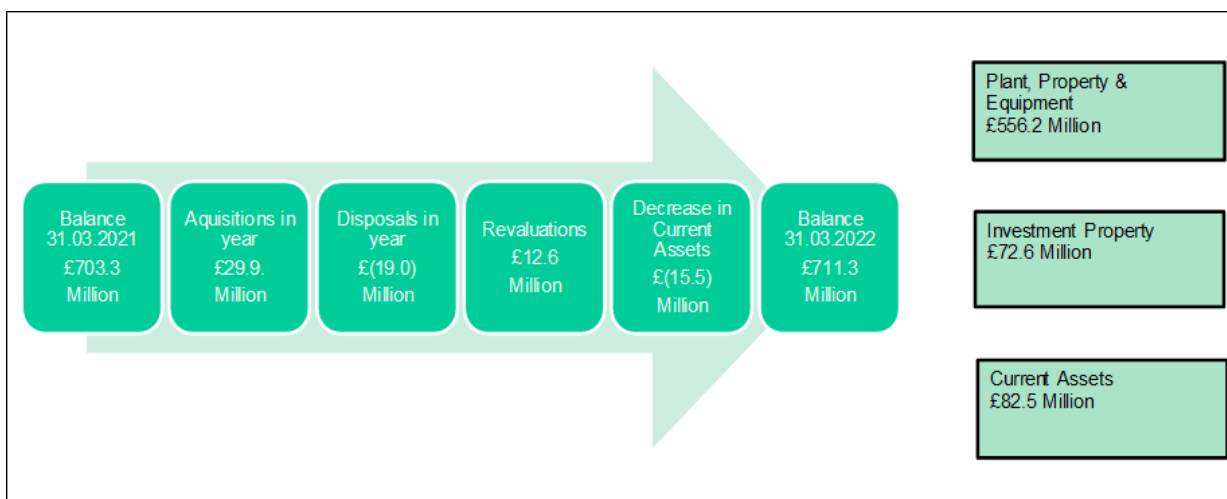
- 7.1 The financial statements are produced in compliance with the CIPFA/LASAAC code of practice on local authority accounting and the Local Audit and Accountability Act 2014. The 2020/21 financial statements are currently under production and the figures in this report are subject to change. It is anticipated 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).



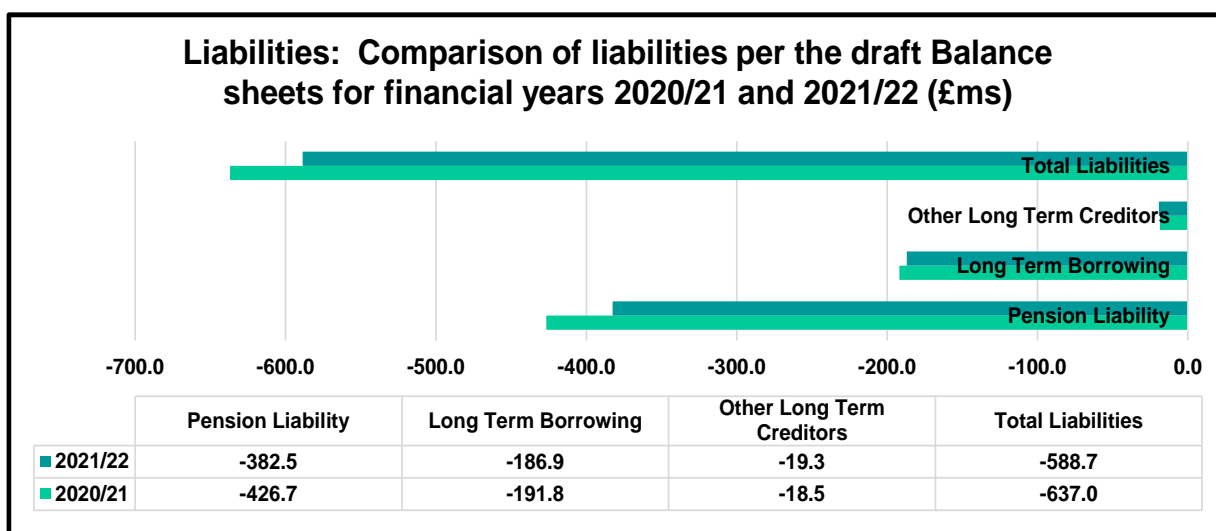
7.5 The Council’s total assets have increased from £655.6 million as at 31.3.2020 to £703.4 million as at 31.3.2021. The uplift is detailed in the following graphic.



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:

Name: Shannon Coleman-Slaughter
Job Title: Chief Financial Accountant
Tel No: 01635 503225
E-mail: Shannon.colemanslaughter@westberks.gov.uk

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, Priory 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 |

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Financial Year 2021/22 Annual Treasury Outturn Report

| | |
|--|---------------------------|
| Committee considering report: | Executive |
| Date of Committee: | 22 September 2022 |
| Portfolio Member: | Councillor Ross Mackinnon |
| Date Head of Service agreed report: <i>(for Corporate Board)</i> | 4 July 2022 |
| Date Portfolio Member agreed report: | 12 July 2022 |
| Report Author: | Shannon Coleman-Slaughter |
| Forward Plan Ref: | EX4237 |

1 Purpose of the Report

The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) requires the Council to approve treasury management semi-annual and annual reports. This report provides an overview of the treasury management activity for financial year 2021/22 as at 31st March 2022.

2 Recommendation

There are no recommendations included within this report, it is for members to note only.

3 Implications and Impact Assessment

| Implication | Commentary |
|-------------------|--|
| Financial: | <p>The Treasury function is responsible for the daily cash flow management of the Council. Income from investments contributes to the Council's annual budget.</p> <p>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. At 31st March 2022 the Council held £191.8 million of loans, (a decrease of £5.6 million compared to 31st March 2021, as part</p> |

| | | | | |
|-------------------------|--|----------------|-----------------|-------------------|
| | of its strategy for funding previous and current years' capital programmes. | | | |
| Human Resource: | Not applicable | | | |
| Legal: | The Council's Investment & Borrowing Strategy for 2021/22 was approved at a meeting on 2 March 2021. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. | | | |
| Risk Management: | All investments are undertaken with a view to minimising the risk of financial loss. The Investment and Borrowing Strategy approved by the Council sets parameters to ensure this. Furthermore in August 2021 HM Treasury significantly revised guidance for the Public Works Loan Board (PWLB), lending facility and CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. The principles of the Prudential Code took immediate effect and compliance will be monitored through the Treasury Management Group and capital Strategy Group. | | | |
| 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 | | Business as usual |
| Core Business: | | X | | |
| Data Impact: | | X | | |
| Consultation and Engagement: | Joseph Holmes – Executive Director for Resources, s151 Officer | | | |

4 Executive Summary

4.1 The Council's Investment and Borrowing Strategy for 2021/22 was approved at a meeting on 2 March 2021. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates.

4.2 On 31st March 2021, the Council had a Capital Financing Requirement (CFR) of £273.2 million (i.e. the underlying need to borrow for capital purposes is measured by the CFR, while usable reserves and working capital are the underlying resources available for investment). 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. At 31st March 2022 the Council held £191.8 million of loans, (a decrease of £5.6 million compared to 31st March 2021, as part of its strategy for funding previous and current years' capital programmes. The Council's borrowing position is summarised in the table below.

| Borrowing | Balance at 31.3.2021 £m | Movement In Year £m | Balance at 31.3.2022 £m | Weighted Average % | Weighted Average Maturity Years |
|--------------------------------|-------------------------------|---------------------------|-------------------------------|--------------------------|---------------------------------------|
| Public Works Loan Board | -196.5 | 5.4 | -191.0 | 3.35 | 30.78 |
| Local Authorities (short term) | 0.0 | 0.0 | 0.0 | - | - |
| Community Investment Bond | -1.0 | 0.2 | -0.8 | 1.2 | 3.55 |
| Total Borrowing | -197.5 | 5.6 | -191.8 | 3.34 | |

4.3 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £35.1 million as at 31st March 2021 to £36.7 million as at the end of March 2022 due to timing differences between income and expenditure. The investment position is shown in the table below.

| Investments Held | Balance as at 31.3.2021 £m | Movement In Year £m | Balances as at 31.3.2022 £m | Income Return at 31.3.2022 % | Weighted Average at 31.3.2022 Days |
|--|----------------------------------|---------------------------|-----------------------------------|------------------------------------|--|
| Bank & Building Society Deposits (unsecured) | 12.9 | -9.0 | 3.9 | 0.02 | 1.0 |
| Government (incl Local Authorities) | 14.0 | 4.0 | 18.0 | 0.04 | 86.0 |
| Money Market Funds | 8.2 | 6.6 | 14.8 | 0.10 | 1.0 |
| Total Investments | 35.1 | 1.6 | 36.7 | 0.05 | 43.0 |

4.4 In respect of changes impacting on 2022/23, in August 2021 HM Treasury significantly revised guidance for the Public Works Loan Board (PWLB), lending facility. Councils that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised/enhanced reporting requirements until financial year 2023/24.

4.5 To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not

required to be sold; however, Councils with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

- 4.6 Essentially acceptable use of PWLB borrowing includes cash flow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure.
- 4.7 Changes to the guidance for PWLB and the Prudential Code should be reviewed in conjunction with additional powers awarded to the Secretary of State for levelling Up as part of the Queen's Speech, which focus on Council's having appropriate levels of debt. Treasury Management Group in conjunction with the s151 Officer will review and report on the treasury management activities of the Council during financial year 2022/23. In respect of financial year 2021/22 the S151 Officer is satisfied that treasury management practices in year have been compliant with the regulatory guidance and the approved performance management criteria.

5 Supporting Information

Introduction

- 5.1 The Council's Investment & Borrowing Strategy for 2021/22 was approved at a meeting on 2 March 2021. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury Investment & Borrowing Strategy.
- 5.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report.
- 5.3 The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's 2021/22 Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 21 January 2021.

Background

- 5.4 **Economic background:** The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period. Bank Rate was 0.1% at the beginning of the reporting period. UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply

shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series. Core inflation, rose to 5.2%. The Bank of England increased Bank Rate from 0.10% to 0.25% in December, with a further increases to 0.50% in February and 0.75% in March.

5.5 Local Context: On 31st March 2021, the Council had net investments of £35.1 million arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in the table below.

| | |
|--|-------------------------|
| Net investments | 31.3.21 Actual £m |
| General Fund CFR | 273.2 |
| Less: Other debt liabilities - Waste PFI | -12.2 |
| Borrowing CFR | 260.9 |
| External borrowing | -197.5 |
| Internal (over) borrowing | 63.4 |
| | Less: Usable reserves |
| | -99.6 |
| | Less: Working capital |
| | 1.1 |
| Net investments | -35.1 |

5.6 Lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Council has pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position at 31st March 2022 and the change during the year is shown in the table below.

| Net Borrowing | 31.3.21 Balance £m | Movement £m | 31.3.22 Balance £m | 31.3.22 Rate % |
|---------------------------|--------------------------|----------------|--------------------------|----------------------|
| Long-term borrowing | -197.5 | 5.6 | -191.8 | 3.34 |
| Short-term borrowing | - | - | - | - |
| Total borrowing | -197.5 | 5.6 | -191.8 | 3.34 |
| Long-term investments | - | - | - | - |
| Short-term investments | 14 | 4 | 18 | 0.04% |
| Cash and cash equivalents | 21.1 | -2.4 | 18.7 | 0.06% |
| Total investments | 35.1 | 1.6 | 36.7 | 0.05% |
| Net Borrowing | -162.4 | 7.2 | -155.2 | |

5.7 As at March 2022 the Council held £191.8 million of loans (a decrease of £5.6 million on 31st March 2021). Outstanding loans as at 31st March 2022 as detailed in the table below.

Financial Year 2021/22 Annual Treasury Outturn Report

| Borrowing | 31.3.21 Balance £m | Net Movement £m | 31.3.22 Balance £m | 31.3.22 Weighted Average Rate % | 31.3.22 Weighted Average Maturity (years) |
|-------------------------|--------------------------|--------------------|--------------------------|--|--|
| Public Works Loan Board | -196.5 | 5.4 | -191 | 3.35 | 30.78 |
| Community Bond | -1 | 0.2 | -0.8 | 1.2 | 3.55 |
| Total borrowing | -197.5 | 5.6 | -191.8 | 3.34 | 30.73 |

- 5.8 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 strategy no new borrowing was undertaken in financial year 2021/22. £5.6 million of loans were allowed to mature without replacement enabling the Council to reduce net borrowing costs.
- 5.9 Although not classified as borrowing the Council has additional capital financing in respect of the Private Finance Initiative for the Waste contract. After £766k repayment of prior years' liabilities, total debt PFI financing stood at £11.5 million on 31st March 2022.
- 5.10 In respect of the Council's total debt, inclusive of PFI financing, borrowing at 31st March 2022 was £203.3 million.
- 5.11 In respect of treasury activity, CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During financial year 2021/22, the Council's investment balances ranged between £35.1 million and £36.7 million due to timing differences between income and expenditure. The investment position is shown in the table below.

| Investments Held | Balance as at 31.3.2021 £m | Movement In Year £m | Balances as at 31.3.2022 £m | Income Return at 31.3.2022 % | Weighted Average at 31.3.2022 Days |
|--|----------------------------------|---------------------------|-----------------------------------|------------------------------------|--|
| Bank & Building Society Deposits (unsecured) | 12.9 | -9.0 | 3.9 | 0.02 | 1.0 |
| Government (incl Local Authorities) | 14.0 | 4.0 | 18.0 | 0.04 | 86.0 |
| Money Market Funds | 8.2 | 6.6 | 14.8 | 0.10 | 1.0 |
| Total Investments | 35.1 | 1.6 | 36.7 | 0.05 | 43.0 |

- 5.12 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 5.13 Ultra-low short-dated cash rates, which were a feature since March 2020 when Bank Rate was cut to 0.1%, prevailed for much of the 12-month reporting period which resulted in the return on sterling low volatility net asset value (LVNAV) Money Market

Funds being close to zero. However, higher returns on cash instruments followed the increases in Bank Rate in December, February and March.

- 5.14 Similarly, deposit rates with the Debt Management Account Deposit Facility (DMADF) initially remained very low with rates ranging from 0% to 0.1%, but following the hikes to policy rates increased to between 0.55% and 0.85% depending on the deposit maturity.
- 5.15 The total amount of interest earned on Money Market Funds in 2021/22 was £10.7k.
- 5.16 The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return). Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also broadens the definition of investments to include all such assets held partially or wholly for financial return.
- 5.17 In respect of non-treasury investments the Council holds directly owned property of £13.6 million. These investments generated £535K of investment income for the Council after taking account of direct costs, representing a rate of return of 3.94%. A breakdown of property owned is included in Appendix B
- 5.18 In respect of non-treasury investments held for commercial purposes, the Council holds £59.0 million of directly owned property. These investments generated £501K of investment income for the Council after taking account of direct costs, representing a rate of return of 0.85%. A breakdown of property owned is included in Appendix B.

Proposals

No proposal are contained within this report. Report is to note only.

6 Other options considered

No other options considered, report is to note only.

7 Conclusion

- 7.1 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to interest rates as shown in the table below.

| Borrowing | Actual Interest Cost 2021/22 £000s | Forecast Interest Cost 2021/22 £000s | Budgeted Interest Cost 2021/22 £000s | Under / (Over) £000s | Actual Interest Rate at 31.3.2022 % |
|-------------------------|---------------------------------------|---|---|-------------------------|--|
| Short-term borrowing | 0 | 0 | -9 | 9 | - |
| Public Works Loan Board | -6527 | -6527 | -6648 | 121 | 3.35 |
| Community Bond | -11 | -11 | 0 | -11 | 1.2 |
| Total borrowing | -6538 | -6538 | -6657 | 119 | 3.34 |
| PFI Debt | -748 | -748 | -748 | 0 | 6.1 |
| Total Debt | -7286 | -7286 | -7405 | 119 | 3.49 |

Financial Year 2021/22 Annual Treasury Outturn Report

| Investing | Actual Interest Received 2021/22 £000s | Forecast Interest Received 2021/22 £000s | Budgeted Interest Received 2021/22 £000s | (Under)/ Over £000s | Actual Interest Rate YTD % |
|--------------------------------------|---|---|---|------------------------|----------------------------|
| Short Term Investments | 18 | 18 | 113 | -95 | 0.04 |
| Cash and Cash Equivalents | 13 | 13 | 5 | 8 | 0.06 |
| Total Treasury Investments | 31 | 31 | 118 | -87 | 0.05 |
| Pre-paid Pension Contributions (PPC) | 123 | 123 | 0 | 123 | 5.10 |
| Total Treasury Investments (inc PPC) | 154 | 154 | 118 | 36 | 0.05 |

7.2 The Executive Director for Resources, Section 151 Officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Investment & Borrowing Strategy. Compliance with specific investment limits is demonstrated below.

| Compliance with Approved Boundaries | Maximum During 2021/22 £m | Actual at 31.3.2022 £m | Operational Boundary 2021/22 £m | Authorised Limit 2021/22 £m | Complied Yes/No |
|-------------------------------------|------------------------------|---------------------------|------------------------------------|--------------------------------|-----------------|
| Borrowing | 197.5 | 191.8 | 282.0 | 292.0 | Yes |
| PFI and Finance Leases | 12.2 | 11.5 | 12.0 | 12.0 | No |
| Total Debt | 209.7 | 203.3 | 294.0 | 304.0 | N/A |

7.3 One instance of non-compliance with both the Operational Boundary and Authorised Limit was identified during the financial year. The boundary was breached due to timing issue relating to the in year payment of the PFI liability. As at 31.3.2022 the Council was compliant with both the Operational Boundary and Authorised Limit.

7.4 The table below details the individual institutional counterparty limits and the Council's compliance during 2021/22. The individual counter party limits (as adopted in the Council's approved Investment & Borrowing Strategy) were complied with throughout the financial year.

| Counterparty/Investment Limits | Maximum Invested £m | 31.03.2022 Actual Invested £m | 2021/22 Individual Counterparty Limit £m | Complied Yes / No |
|--|------------------------|----------------------------------|---|---|
| Debt Management Office (DMO) | 44.0 | 10.5 | Unlimited | Yes |
| UK Local Authorities (inc Police, Fire and similar) | 25.0 | 7.0 | 5.0 | Yes - individual counterparty have not been exceeded. |
| UK Building Societies (ranked 1 - 11 by asset size) | 0.0 | 0.0 | 5.0 | Yes |
| UK Building Societies (ranked 12 - 21 by asset size) | 0.0 | 0.0 | 4.0 | Yes |
| UK Building Societies (ranked 22 - 25 by asset size) | 0.0 | 0.0 | 3.0 | Yes |
| UK Banks and other financial institutions with Moody's short term rating or P1 or equivalent | 5.0 | 3.9 | 5.0 | Yes - individual counterparty have not been exceeded. |
| UK Banks and other financial institutions with Moody's short term rating or P2 or equivalent | 0.0 | 0.0 | 4.0 | Yes |
| UK Banks and other financial institutions with Moody's short term rating or P3 or equivalent | 0.0 | 0.0 | 3.0 | Yes |
| UK based money market funds rated AAAMf | 5.0 | 14.8 | 5.0 | Yes - individual counterparty have not been exceeded. |
| Registered Charities, Public Sector Bodies and Council owned companies, joint ventures. | 0.0 | 0.0 | 5.0 | Yes |

7.5 The Council measures and manages its exposures to treasury management risks using the following indicators:

7.6 The Maturity Structure of Borrowing indicator: This indicator is set to control the Council's exposure to refinancing risk. The table below details performance against the indicator. When excluding long term maturity loans utilised to fund Commercial Property purchases the Council is within the set maturity structure. However when taking into consideration the financing of commercial property the Council exceeds the 50% upper limited on debt in excess of ten years. It should be noted that the loan periods of debt financing commercial property are 45 – 50 years at low financing rates, the financing risk of these properties due to the life span of the financing and the expectation of selling assets to support refinancing, means the debt is still at comparatively low risk.

| Maturity Structure | 31.3.2022 Actual | Upper Limit | Lower Limit | Complied Yes/No |
|---|---------------------|----------------|----------------|--------------------|
| Under 12 Months | 2.60% | 0% | 50% | Yes |
| 12 Months and within 24 Months | 2.58% | 0% | 50% | Yes |
| 24 Months and within 5 Years | 9.21% | 0% | 50% | Yes |
| 5 Years and within 10 Years | 14.20% | 0% | 50% | Yes |
| 10 Years and Above - see analysis below | 71.42% | 0% | 50% | No |
| Analysis of 10 Years and Above | | | | |
| 10 Years and within 15 Years | 15.06% | | | |
| 15 Years and within 20 Years | 6.70% | | | |
| 20 Years and within 25 Years | 7.10% | | | |
| 25 Years and within 30 Years | 4.31% | | | |
| 30 Years and within 35 Years | 3.63% | | | |
| 35 Years and within 40 Years | 1.07% | | | |
| 40 Years and within 45 Years | 20.84% | | | |
| 45 Years and within 50 Years | 12.71% | | | |
| Total 10 Years and Above Inc Commercial Property | 71.42% | 0% | 50% | |

Note: Commercial Property Financing 40 Years and within 50 Years

Note: The maturity date of borrowing is the earliest date on which the lender can demand repayment. Time periods start on the first day of each financial year.

7.7 Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The Council recognises the increasing risk and low returns from short-term unsecured bank investments, however, the period for which funds are invested is determined by the cash flow needs of the Council. Funds are invested for as long as possible, in order to maximise the rate of return, while still ensuring that sufficient funds are available to meet the Council's outgoings. The normal maximum period for which funds may prudently be committed is 12 months. If sufficient funds become available, and market conditions are favourable enough to permit secure longer term investment, funds may, from time to time be invested for longer periods which will offer a better rate of return. However, in order to minimise risk and ensure liquidity, no more than 40% of the Council's funds will be held at any one time in investments longer than 12 months. At 31.3.2022 £18 million of funds were invested beyond the yearend, all of the invested funds will mature before the end of financial year 2022/23.

7.8 In conclusion the Section 151 Officer is satisfied that treasury management practices in year have been compliant with the regulatory guidance during financial year 2021/22. The Council has operated in accordance with its approved performance management criteria.

8 Appendices

8.1 Appendix A – Economic Outlook Position – Arlingclose

8.2 Appendix B – Details of Commercial and Investment Properties held

Subject to Call-In:

Yes: No: X

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

Officer details:

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Document Control

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|----------------|--|----------------|--|
| Document Ref: | | Date Created: | |
| Version: | | Date Modified: | |
| Author: | | | |
| Owning Service | | | |

Change History

| Version | Date | Description | Change ID |
|---------|------|-------------|-----------|
| 1 | | | |
| 2 | | | |

Appendix A

Economic Outlook Position – Arlingclose

Economic background: The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.

UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series. Core inflation, which excludes the more volatile components, rose to 5.2% y/y from 4.4%.

The government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.

With the fading of lockdown – and, briefly, the 'pingdemic' – restraints, activity in consumer-facing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. Gross domestic product (GDP) grew by an upwardly revised 1.3% in the fourth calendar quarter of 2021 according to the final estimate (initial estimate 1.0%) and took UK GDP to just 0.1% below where it was before the pandemic. The annual growth rate was revised down slightly to 7.4% (from 7.5%) following a revised 9.3% fall in 2020.

Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase

scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

Financial markets: The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels.

Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10-year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%.

The Sterling Overnight Rate (SONIA) averaged 0.39% over the quarter.

Credit review: In the first half of FY 2021-22 credit default swap (CDS) spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the Authority's counterparty to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.

Fitch also revised the outlook for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable. The agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

The successful vaccine rollout programme was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher over the first calendar quarter, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remains under constant review.

Appendix B

Listing of Commercial and Investment Property held by the Council as at 31.3.2022

Commercial property held at 31 March 2022

| Name and address of property | Property type | Value at 31 Mar |
|--|------------------------|-----------------|
| | | 2022 £'000 |
| Dudley Port Petrol Filling Station, Tipton | Petrol Filling Station | 3,765 |
| 79 Bath Road, Chippenham | Retail Warehouse | 11,775 |
| Lloyds Bank, 104 Terminus Road, Eastbourne | Retail | 1,800 |
| Aldi/Iceland, Cleveland Gate Retail Park, Gainsborough | Retail Warehouse | 6,300 |
| 303 High Street and 2 Waterside South, Lincoln | Retail | 2,950 |
| 3&4 The Sector, Newbury Business Park | Office | 18,010 |
| Sainsbury's, High Street, North Allerton | Retail | 7,185 |
| Ruddington Fields Business Park, Mere Way, Nottingham | Office | 7,200 |
| Total value | | 58,985 |

Investment property held at 31 March 2022

| Name and address of property | Property type | Value at 31 Mar |
|--|-----------------------|-----------------|
| | | 2022 £'000 |
| The Stone Building, The Wharf, Newbury | Café | 31 |
| Pelican Lane Creche, Pelican Lane | Children's Nursery | 0 |
| Rainbow Nursery, Priory Road, Hungerford | Children's Nursery | 40 |
| Clappers Farm/Beech Hill Farm, Grazely | Tenanted Smallholding | 1,800 |
| Bloomfield Hatch Farm, Grazely | Tenanted Smallholding | 1,100 |
| Shaw Social Club, Almond Avenue, Shaw | Community Centre | 70 |
| Swings n Smiles, Lower Way, Thatcham | Children's Day Centre | 400 |
| Units 1 to 7, Kennet Enterprise Centre, Hungerford | Industrial | 565 |
| London Road Industrial Estate, Newbury | Industrial | 9,565 |
| Total value | | 13,571 |

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Going Concern Assessment as at 31 March 2022

| | |
|--|---------------------------------|
| 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 |

1 Purpose of the Report

This report summarises management’s assessment of the Council’s ability to function as a going concern; this determination supporting the preparation of the Statement of Accounts for 2021/22.

2 Recommendation

2.1 The following recommendation is made:

On the basis of the Section 151 Officer’s assessment, it is proposed that this report is provided as a working paper to the external auditor confirming that the going concern assessment has been completed and that the conclusion maintains the assertion that the Council is a going concern as at the Balance Sheet date of 31 March 2022.

3 Implications and Impact Assessment

| Implication | Commentary |
|------------------------|--|
| Financial: | Based on the review undertaken, there is no imminent risk to the going concern assertion. Joseph Holmes, Executive Director for Resources, Section 151 Officer. |
| Human Resource: | Not applicable |

| | | | | |
|--|--|----------------|-----------------|-------------------|
| Legal: | The Council is required to compile its Statement of Accounts in accordance with the Code of Practice for Local Authority Accounting (hereafter referred to as the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code, the Council's Statement of Accounts is prepared assuming that the Council will continue to operate in the foreseeable future and that it is able to do so within the current and anticipated resources available. By this, it is meant that the Council will realise its assets and settle its liabilities in the normal course of business. | | | |
| Risk Management: | Reserve provisions have been earmarked within the General Fund to respond to future risks identified and currently unknown risks. | | | |
| 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, Section 151 Officer | | | |

4 Executive Summary

- 4.1 The Council is required to compile its Statement of Accounts in accordance with the Code of Practice for Local Authority Accounting as published by CIPFA. In accordance with the Code, the Council's Statement of Accounts is prepared assuming that the Council will continue to operate in the foreseeable future and that it is able to do so within current and anticipated resources available. By this, it is meant that the Council will realise its assets and settle its liability obligations in the normal course of business. As part of this process, the Council's appointed external auditor requires the Section 151 Officer to undertake an assessment and determine that the Council is able to operate in the foreseeable future as a going concern.
- 4.2 In order to complete the assessment, the following key financial data for 2021/22 has been reviewed:
- The Council's provisional outturn (subject to change during final approval of the financial statements by Friday 29 July 2022 and any potential amendments required by external audit) for 2021/22 was an under spend of £0.2 million. The under spend was effectively 0.1% of the Council's 2021/22 net revenue budget of £142 million.
 - The provisional outturn for 2021/22 capital is a £10.5 million under spend against a revised capital budget of £43.0 million. £9.4 million of planned expenditure from 2021/22 was agreed to be re-profiled into financial year 2022/23 as a result of projects being delayed.
 - The 2022/23 Revenue Budget approved by Council Committee included a Council Tax increase of 1% and an Adult Social Care precept of 3%.

- (d) The five year capital programme from 2022/23 to 2026/27 allocates £220.4 million (pre additional re-profiling at outturn) of funding sourced through a combination of grants, Section 106 funding, Community Infrastructure Levy and Council Capital resources. £118.4 million of Council funding has been allocated to the programme, sourced from a combination of prudential borrowing and anticipated capital receipts.
 - (e) The Council's net assets for 2021/22 totalled £30.6 million (2020/21 DRAFT: net liabilities of £19.1 million); a key driver being the year-on-year decrease in the defined benefit pension liability by £44.1m. The Council's usable reserves for 2021/22 amounted to £77.5 million (2020/21 DRAFT: £98.9 million).
 - (f) As at 31 March 2022, the Council held £18 million of short-term investments (31 March 2021 DRAFT: £14 million). Short-term borrowings and long-term borrowings were both broadly consistent across 2021/22 and 2020/21. Short-term borrowings decreased year-on-year from £6.4 million to £5.8 million, with long-term borrowings reducing from £191.8 million to £186.9 million. The Council's PFI liability reduced to £11.5 million (2020/21 DRAFT: £12.2 million).
 - (g) The Council has approved and adopted a corporate governance code which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. The governance framework was established at the Council during the year ended 31 March 2022, and in respect of the financial year commencing 1 April 2022. The review and scrutiny process is outlined in the Annual Governance Statement section in the Statement of Accounts, which for 2021/22 was deemed fit-for-purpose and will be reviewed within the scope of the Council's control framework during 2022/23.
- 4.3 Having considered the assessment above and the overall financial strength of the Council, it has been concluded by the Section 151 Officer (Executive Director for Resources) that this assessment does not contain an imminent risk to the going concern assertion. This opinion will be finalised upon completion of the 31 March 2022 Balance Sheet; however it is anticipated that the Section 151 Officer's final conclusion will support the going concern assertion.

5 Supporting Information

Introduction

5.1 As requested by the Council's appointed external auditor Grant Thornton, and as part of the closure of the 2021/22 financial statements, a going concern assessment as at the Balance Sheet date of 31 March 2022 has been completed. The Council acknowledges the end of the Covid-19 pandemic but remains mindful of the importance of sound financial governance; this especially significant due to the substantial Covid-19 related expenditure incurred and income amounts lost, primarily during 2020 and 2021.

5.2 Paragraphs 4 and 6 of ISA (UK) 570 states the following:

4. In other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a

going concern. Nevertheless, where the going concern basis of accounting is a fundamental principle in the preparation of financial statements, as discussed in paragraph 2, the preparation of the financial statements requires management to assess the entity's ability to continue as a going concern even if the financial framework does not include an explicit requirement to do so;

6. The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a 'going concern'.

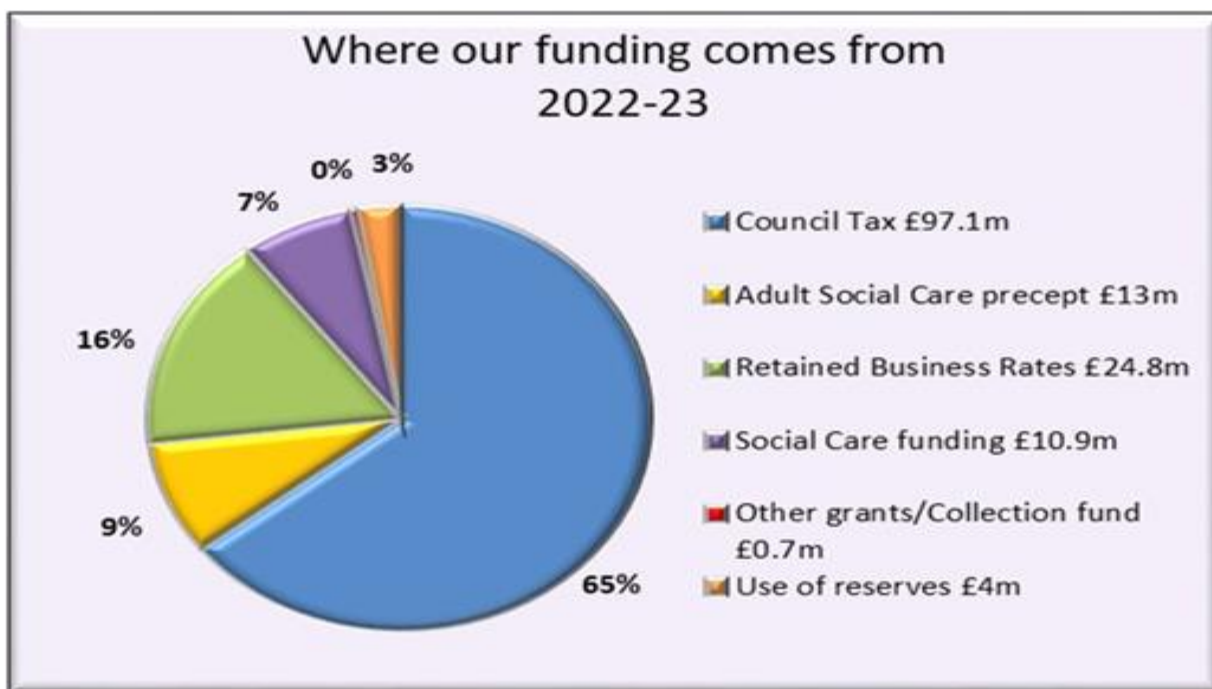
- 5.3 The concept of 'going concern' assumes that a Council, its functions and services, will continue in operational existence for the foreseeable future. This key assumption underpins the financial statements prepared under the Local Authority Code of Accounting Practice, and is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of Central Government). If an Authority was in financial difficulty, the prospects are thus that alternative arrangements may be made by Central Government either for the continuation of the provision of services that the Council supplies, or for assistance with the recovery of a deficit over a period of greater than one financial year.
- 5.4 Where the 'going concern' concept is not appropriate relating to the preparation of the financial statements, particular care would be needed in the valuation of assets, as inventories and property, plant and equipment may not be fully realisable at their book values, and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept would potentially have a fundamental impact upon an Authority's financial statements.
- 5.5 In order to complete the assessment the following critical areas were reviewed:
- (a) The Council's current financial position;
 - (b) The Council's projected financial position;
 - (c) The Council's Balance Sheet;
 - (d) The Council's projected cash flow;
 - (e) The Council's governance arrangements;
 - (f) The regulatory and control environment applicable to the Council as a local authority.

Background

- 5.6 The Council's current financial position is outlined below. The amounts for the 2021/22 financial year are subject to further accounting amendments which may be processed

prior to the point that the financial statements are approved by the Section 151 officer (in accordance with the statutory deadline of 31 July 2022).

- (a) The Council's provisional outturn (subject to any potential amendments required by external audit) is a £0.2 million under spend. The under spend is 0.1% of the Council's 2021/22 net revenue budget of £142.0 million.
- (b) A formal review of reserves and key financial risks is undertaken by the Council as part of the annual budget setting process. Assessment of key financial risks includes allowance for significant risks such as business rates volatility and demand sensitivity of key services. Service-specific risk reserves have been established within the Balance Sheet, the levels of these reserves are informed by the individual risk levels detailed within service risk registers.
- (c) The Council has set a balanced budget for 2022/23 including £5.3 million of savings and income generation proposals. The Medium Term Financial Strategy (MTFS) incorporates the following key assumptions for 2022/23:
 - (i) Council Tax funds 65% of the revenue budget. The MTFS is built on a 1.00% Council Tax increase which will raise £1.1 million. Income from Council Tax is also expected to increase by a further 1.50% as a result of growth in the tax base (the number of properties paying Council Tax). This is based on a collection rate of 99.6%.
 - (ii) The Council is proposing a 3% Adult Social Care precept for 2022/23, which will raise £3.2 million. The maximum allowed is a 4% precept.
 - (iii) Retained business rates represent the Council's share of the actual business rates total collected in West Berkshire. The Government has paused the further retention of business rates to 75% until 2023-24 at the earliest; therefore West Berkshire continues to receive 50% of business rates less a significant tariff to Government meaning that the overall amount of business rates retained by the Council is 25% of the total business rates collected.
 - (iv) The Council received a number of ring-fenced grants, primarily Better Care Fund (Adult Social Care), the Public Health Grant and the Dedicated Schools Grant (DSG). As at 31 March 2022 the DSG has a £3.0 million deficit (31 March 2021 DRAFT: deficit of £1.5 million). A wider long-term strategy to fund this deficit is in the process of formulation.
 - (v) The pie chart immediately below provides a split of the funding underpinning the 2022/23 budget:



- (d) The 2022/23 budget is supported through an estimated £48.0 million of usable revenue reserves. £9.7 million of reserves have been earmarked for future repayment of the Collection Fund deficit as at 31 March 2022.

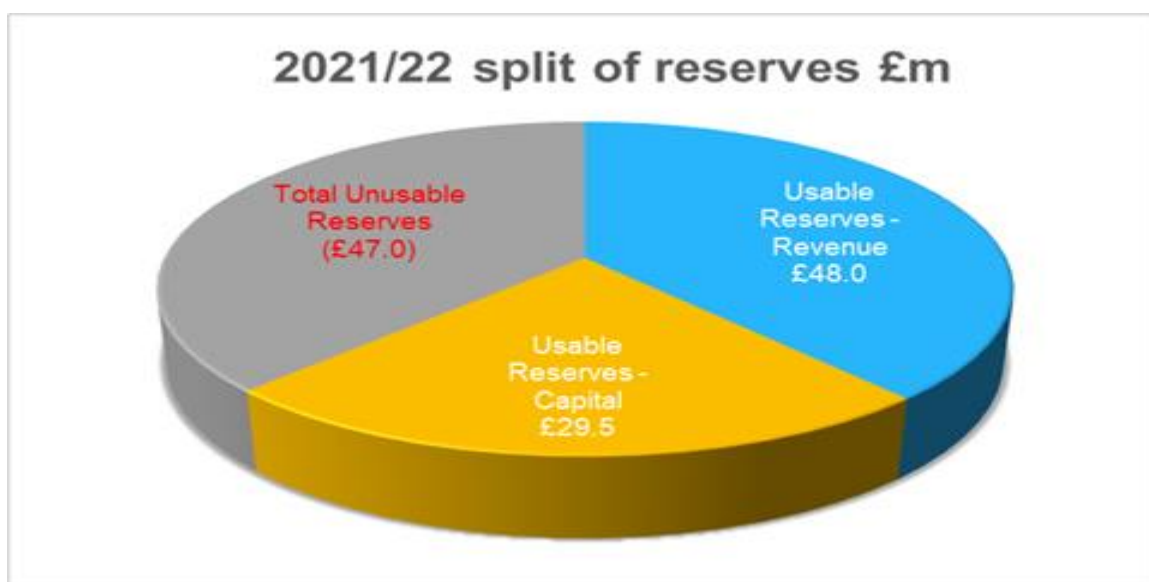
5.7 The Council's Projected Financial Position – Capital

- (a) The provisional outturn for 2021/22 capital is a £10.5 million underspend against a revised capital budget of £43.0 million. £9.4 million of planned expenditure from 2021/22 was agreed to be re-profiled into financial year 2022/23 as a result of projects being delayed.
- (b) The five year capital programme from 2022/23 to 2026/27 allocates £220.4 million (pre additional re-profiling at outturn) of funding sourced through a combination of grants, Section 106 amounts, Community Infrastructure Levy receipts and Council capital resources. £118.4 million of Council funding has been allocated to the programme, sourced from a combination of prudential borrowing and anticipated capital receipts. Operational assets are funded from borrowing financed through the Council's revenue budget for capital financing. Annual increases to the capital financing budget have been built into the revenue capital financing budget and MTFS.
- (c) As at 31 March 2021 (DRAFT) the Council held usable capital reserves of £40.2 million. Current usable capital reserves total £29.5 million as at 31 March 2022.

5.8 The Council's Balance Sheet as at 31 March 2022:

- (a) The Council's net assets summed £30.6 million (31 March 2021 DRAFT: net liabilities of £19.1m). 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.

- (b) 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 £66.3m).
- (c) 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 £24.2m to £19.6m) and council tax and business rates balances (£21.2m reducing to £8.5m in 2021/22).
- (d) Usable reserves have decreased from £98.9 million to £77.5 million at the end of 2021/22. Usable reserves are sub-divided into £48.0 million (revenue) and £29.5 million (capital) at the end of the current financial year. The Collection Fund deficit is held within unusable reserves and reduced between 2020/21 and 2021/22 (moving from £23.1 million to £9.7m). Total unusable reserves as at 31 March 2022 are in a negative position overall at £47.0m.



5.9 The Council's Cash Flow as at 31 March 2022:

- (a) The Council maintains and updates short-term and long-term cash flow projections to support service delivery. The Council maintains long-term borrowing commitments to support the capital programme and the Property Investment Strategy. Borrowing is predominately undertaken from PWLB.
- (b) As defined within the graphic immediately below, the Council held £37.8 million within current assets as at 31 March 2022, this total comprising cash and cash equivalents of £19.8 million and short-term (fixed) investments of £18 million. Consistent with 2020/21, it was notable during the financial year to 31 March 2022 that the Council continued to have access to additional funding via the various reliefs and compensatory grants awarded to local authorities by Central Government, primarily as financial support as the Covid-19 pandemic continued.



- (c) 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. As at 31 March 2022, Public Works and Loan Board (PWLB) borrowing was £191.0 million. Total debt as at 31 March 2022 was £203.3 million, inclusive of a £0.8 million community bond and £11.5 million of PFI liability. The operational boundary for long-term debt was set at £294.0 million for 2021/22 with an authorised limit set £10million higher to allow for any unforeseen borrowing needs. The operational and authorised boundaries have been revised as part of 2022/23 budget setting to support increased spending on the Council’s capital programme as set out here:

| Authorised Limit & Operational Boundary (Borrowing Limits) | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|-----------------|-----------------|-----------------|-----------------|
| | £000s | £000s | £000s | £000s |
| Authorised Limit - Long Term Borrowing | £277,000 | £328,732 | £349,621 | £358,892 |
| Authorised Limit - PFI and Leases | £12,000 | £14,400 | £13,200 | £12,000 |
| Authorised Limit - Short Term Borrowing | £15,000 | £24,000 | £24,000 | £24,000 |
| Authorised Limit - Total External Debt | £304,000 | £367,132 | £386,821 | £394,892 |
| Operational Boundary - Long Term Borrowing | £267,000 | £318,732 | £339,621 | £348,892 |
| Operational Boundary -PFI and Leases | £12,000 | £12,000 | £11,000 | £10,000 |
| Operational Boundary - Short Term Borrowing | £15,000 | £20,000 | £20,000 | £20,000 |
| Operational Boundary - Total External Debt | £294,000 | £350,732 | £370,621 | £378,892 |

5.10 The Council’s Governance Arrangements

- (a) The Council has approved and adopted a code of corporate governance in its Annual Governance Statement, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.
- (b) The governance framework comprises the systems and processes, and culture and values established by the Council. The framework is directed and controlled, with a wide range of service activities delivered to the Authority’s community. The framework enables the Council to monitor the achievement of its strategic

objectives, and to consider whether these objectives have led to the delivery of appropriate, financially cost-effective services.

- (c) The system of internal control is a significant part of that framework, and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives, and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based upon an ongoing process designed to identify and prioritise the risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised, and the impact should they be realised, and to manage them efficiently, effectively and economically.
- (d) The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of all managers within West Berkshire Council who have responsibility for the development and maintenance of the wider governance environment.
- (e) The governance framework was in place at the Council for the year ending 31 March 2022, and at the beginning of the financial year commencing 1 April 2022. The detailed review process is outlined in the Annual Governance Statement pages within the Council's 2021/22 Statement of Accounts. This framework was deemed fit-for-purpose in respect of 2021/22, and will continue to be reviewed as part of the control framework for 2022/23.

5.11 The External and Regulatory Framework

- (a) The Council operates within a highly legislated and controlled environment. The Council is required to set a balanced budget each financial year, taking into account the robustness of budget estimates and the adequacy of financial reserves. In addition to the legal framework established and Central Government control, other factors must be taken into account, these including the oversight role undertaken by external audit and the statutory requirements for compliance with best practice and guidance issued by CIPFA and other relevant bodies.

Proposals

5.12 The following recommendation is made:

- (a) On the basis of the Section 151 Officer's assessment, it is proposed that this report is provided as a working paper to the external auditor confirming that the going concern assessment has been completed and that the conclusion maintains the assertion that the Council remains a going concern at the Balance Sheet date of 31 March 2022.

6 Other options considered

No other options have been considered.

7 Conclusion

- 7.1 Having considered the assessment above, and the overall financial strength of the Council, it is concluded that this assessment does not present an imminent risk to the going concern assertion. The key financial risks relating to the 2021/22 year-end, the Authority's financial performance and any continuing operational impacts of the Covid-19 pandemic have all been considered in making this determination.

8 Appendices

Not applicable

Subject to Call-In:

Yes: No: X

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

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