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Governance and Ethics Committee

Monday, 16th January, 2023 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 6 January 2023

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

West Berkshire COUNCIL

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 and Anne Budd

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Agenda

Part I

Purpose: the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA TM Code) requires the Council to approve both mid-year and annual treasury management reports. This report provides an overview of the treasury management activity for financial year 2022/23 as at 30th September 2022**.**

8 **Exclusion of Press and Public**

RECOMMENDATION: That members of the press and public be excluded from the meeting during consideration of the following items as it is likely that there would be disclosure of exempt information of the description contained in the paragraphs 3, 5 and 6 of Schedule 12A of the Local Government Act 1972 specified in brackets in the heading of each item.

PART II

9 **Risk Management Q2 2022/23 Report (GE4239)** 67 - 122

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

Purpose: to highlight the corporate risks (as at the end of September 2022) that need to be considered by Governance and Ethics Committee and to outline the actions that were being taken to mitigate those risks. Full details regarding the Corporate Risks are provided in Appendix C together with the method used to score risks for the Council which is included in Appendix F.

Sarah Clarke
Service Director: Strategy and Governance

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Governance and Ethics Committee – 16 January 2023

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, 26 SEPTEMBER 2022

Councillors Present: Councillors Jeff Cant (Chairman), Jeremy Cottam (Vice-Chairman), Jeff Beck, Tony Linden, Geoff Mayes, Andy Moore and Biyi Oloko

Also Present: Bill Graham (Parish Council Representative)

Apologies for inability to attend the meeting: Councillors Rick Jones, David Marsh and David Southgate

Officers Present: Sarah Clarke (Service Director, Strategy and Governance), Julie Gillhespey (Audit Manager), Sadie Owen (Principal Democratic Services Officer) and Ben Ryan (Democratic Services Officer)

18 Apologies

Apologies were received from Councillors Rick Jones, David Marsh and Parish Councillor David Southgate.

19 Minutes

The Minutes of the meeting held on 25 July 2022 were approved as a true and correct record and signed by the Chairman.

20 Declarations of Interest

There were no declarations of interest.

21 Forward Plan

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

Julie Gillhespey commented that the Plan should be amended to include the Internal Audit Update Report for Quarter Three.

Councillor Andy Moore noted that he was pleased to see the Constitution Review on the Forward Plan.

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

22 Internal Audit Update Report (GE4227)

Julie Gillhespey, presented the Internal Audit Update Report (Agenda Item 5), which updated the Committee on the outcome of Internal Audit work completed during Quarter One of 2022/23.

Julie Gillhespey acknowledged that at the previous meeting it had been requested that the Committee be provided with an update on the Deprivation of Liberty Safeguards process, which had been found unsatisfactory in a previous audit. Julie Gillhespey reported that the Service Director had confirmed that the situation remained the same, pending a forthcoming change in legislation and implementation of the Care Director system upgrade.

Councillor Andy Moore queried how details in section 5.4 of the report, relating to Covid-19 business grant fraud, compared to equivalent local authorities. Julie Gillhespey responded that the audit was undertaken for the Department of Business, Energy and Industrial Strategy and comparisons had not been made, but commented that the figures were low as a proportion of the £40 million funding allocated.

Councillor Moore queried whether a follow-up audit had been undertaken in relation to the £104,000 paid in error. Julie Gillhespey responded that the Council had taken all appropriate action, but that in some cases funding had been paid to companies which had subsequently gone into liquidation and consequently could not be recovered.

Julie Gillhespey commented that the Audit and Revenue teams undertook a number of pre-checks and post-checks in relation to funding claims. Councillor Linden noted that this appeared a successful approach, and thanked the Audit and Revenue teams.

Councillor Jeffrey Cant reported that he and Julie Gillhespey had attended a Regional Audit Committee Forum the previous week, which had highlighted more vulnerable groups and actions that could be taken to reduce the rise in fraud targeted against them. It was queried whether Julie Gillhespey could investigate whether any additional measures could be taken to protect such groups, and provide an update at the next meeting.

RESOLVED that: Governance and Ethics Committee note the report.

23 Updates to the Constitution (C4260)

Sarah Clarke, presented the Updates to the Constitution Report (Agenda Item 5), which updated the Committee on work undertaken by the Constitution Review Task Group (the Task Group), to date and requested approval of the proposed Constitutional updates.

Sarah Clarke commented that a full-scale review of the Constitution had commenced in 2019 but had been significantly delayed by the Covid-19 pandemic. Sarah Clarke thanked the Task Group, the Democratic Services and Legal teams, for their work, as well as the Members who attended the workshops for their participation in the process.

Sarah Clarke explained that the current Constitution was robust and worked well, but was difficult to navigate and featured a large amount of repetition. The updated Constitution would feature a core set of meeting rules which would set out fundamental operating procedures for all Council meetings, supplemented by a meetings rules table, and a petitions and questions appendix standard for all meetings. It was suggested that this would simplify use of the Constitution.

It was reported that Council and Executive meetings had bespoke sets of rules, along with an Executive appendix setting out individual Member decisions, and a Council bodies rules with a series of appendices for each body. The ultimate aim was to be able to access the Constitution online with relevant hyperlinks and a full glossary of terms.

Sarah Clarke stated that the updates would be presented for approval and adoption at Council in January 2023, once the budget and policy framework, financial rules and contract rules had been approved by the Task Group.

It was noted that Council would additionally be asked to delegate to the Monitoring Officer, in consultation with the Chairman of the Constitution Review Task Group, the ability to make minor alterations to the Constitution to ensure consistency in terminology and presentation.

Councillor Biyi Oloko commented that it was important that the mechanism for continued review was established to ensure consistency, particularly between different formats.

Councillor Jeff Cant thanked Sarah Clarke for the work and commented that he was pleased to see sections 12.3 and 12.4 of the Constitution which set out the process for motions, and provided the Chairman greater control over the process.

Councillor Tony Linden queried why section 10.8 of the Meeting Rules, referred to the end of a meeting as 22:45 rather than 22:30. Sarah Clarke responded that it was decided at a meeting of Council in December 2021 to set the end of Council meetings at 22:00, with the provision that Members could move a motion to extend to 22:30. The revised rules awarded the Chairman some further discretion to go beyond that threshold, should business require it.

Councillor Linden queried whether section 16.3 of the Meeting rules required Members to stand when speaking. Councillor Cant noted that the section stated "may" and so implied a choice.

Councillor Linden queried whether the Task Group had discussed the fact that public questions were occasionally duplicated at various public meetings. Sarah Clarke responded that there were existing rules restricting questions, but that the process wished to avoid inhibiting public participation. It was suggested that if a question duplicated one already asked, it could be rejected or answered with the answer to the previous question.

Councillor Linden commented that the Health Scrutiny Committee had just five members, and queried whether a minor change could be made to increase the number. Sarah Clarke responded that it was within the power of Council to change Committee membership.

Councillor Linden requested confirmation that non-members of Committees be able to attend, and, with permission of the Chairman, speak at Committee meetings. Sarah Clarke responded that the revised rules related to public decision-making meetings of the Council, and extended the discretion of the Chairman to allow non-members to speak, where applicable.

Referring to the revised Executive rules, Councillor Linden queried whether, when the Leader of the Council resigned and ceased to be Leader (which automatically extended to the Deputy), whether this would also extend to the Executive. Sarah Clarke responded that the Executive would continue without a Leader until a new appointment could be made, and that the Chief Executive would be able to make emergency decisions in the interim.

Sarah Clarke commented that the rules followed the statutory framework as laid out in the Local Government Acts 1972 and 2000. Councillor Cant queried whether provisions should be set out detailing the decision making process if the Leadership were vacant. Sarah Clarke responded that the Executive would remain in place and act as an Executive until such time that a new Leader was elected.

Councillor Oloko suggested that section 3.1.1 of the Executive rules appeared to contradict section 3.2.2. Sarah Clarke agreed to review the legislation to determine whether the rules could be more clearly defined.

The Committee approved the report recommendations and referral to Council.

RESOLVED that: Governance and Ethics Committee note the report.

(The meeting commenced at 6.30 pm and closed at 7.15 pm)

CHAIRMAN …………………………………………….

Date of Signature …………………………………………….

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Governance and Ethics Committee – 16 January 2023

Item 3 – Declarations of Interest

Verbal Item

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Governance and Ethics Committee Forward Plan 16 January 2023 – 20 March 2023

20 March 2023						
1.	GE4310	External Audit Plan and Fee Financial Year 2020/21	To inform members of the proposed 2020/2021 external audit fee and proposed external audit plan for 2020/2021.	Shannon Coleman-Slaughter	Councillor Ross Mackinnon, Finance and Economic Development	Audit
2.	GE4285	Review of CIPFA's guidance for Audit Committees	For the Governance Committee to review the latest guidance from CIPFA and how it compares to best practice.	Joseph Holmes	Councillor Tom Marino, Internal Governance and Strategic Partnerships	Audit
3.	GE4322	Internal Audit Update Report Quarter 3 2022/23	To update the Committee on the outcome of Internal Audit work carried out during Quarter 3 of 2022/23.	Julie Gillhespey	Councillor Tom Marino, Internal Governance and Strategic Partnerships	Audit

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Provisional Governance and Ethics Committee Forward Plan 26 June 2023 – 18 March 2024

26 June 2023						
1.		Annual Governance Statement 2022-23		Joseph Holmes		
2.		Annual Monitoring Officer Report		Sarah Clarke		
3.		Strategic Risk Register Update Q4 2022/23		Catalin Bogos		
24 July 2023						
4.		Internal Audit Annual Report 2022/23		Julie Gillhespey		
5.		Financial statements 2023-23		Shannon Coleman-Slaughter		
6.		Treasury Management Annual Report		Shannon Coleman-Slaughter		
25 September 2023						
7.		Internal Audit Update Report Quarter 1		Julie Gillhespey		
8.		Constitutional Update		Sarah Clarke		
20 November 2023						
9.		Strategic Risk Register Update Q2 2023/24		Catalin Bogos		
10.		External Auditor's ISA 260 report		Joseph Holmes		
29 January 2024						
11.		Internal Audit Update Report Quarter 2 2023/24		Julie Gillhespey		

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

12.		2022/23 Year End Preparation		Shannon Coleman-Slaughter		
18 March 2024						
13.		Review of CIPFA's guidance for Audit Committees		Joseph Holmes		
14.		Internal Audit Update Report Quarter 3 2023/24		Julie Gillhespey		
15.		Constitutional Update		Sarah Clarke		

Internal Audit Update Report

Committee considering report:	Governance and Ethics Committee
Date of Committee:	16 January 2023
Portfolio Member:	Councillor Tom Marino
Report Author:	Julie Gillhespey (Audit Manager)
Forward Plan Ref:	GE4228

1 Purpose of the Report

1.1 To update the Committee on the status of Internal Audit work as at the end of quarter two of 2022/23.

1.2 The Public Sector Internal Audit Standards (PSIAS), as adapted by CIPFA's "Local Government Application Note", require the Audit Manager to provide periodic updates to senior officers and members on performance against the Audit Plan. As stated in the Council’s approved Internal Audit Charter, quarterly updates are required to be presented to the Committee.

1.3 The periodic reports aim to provide a progress update against the work in the Audit Plan together with highlighting any emerging significant issues/risks that are of concern.

2 Recommendation

To note the content of the report.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	None
Human Resource:	None
Legal:	None
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:	None			
Policy:	None			
	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:	None			

4 Executive Summary

4.1 To update the Committee on the status of Internal Audit work as at the end of quarter two of 2022/23.

4.2 The Public Sector Internal Audit Standards (PSIAS), as adapted by CIPFA's "Local Government Application Note", require the Audit Manager to provide periodic updates to senior officers and members on performance against the Audit Plan. As stated in the Council's approved Internal Audit Charter quarterly updates are required to be presented to Committee.

4.3 The periodic reports aim to provide a progress update against the work in the Audit Plan together with highlighting any emerging significant issues/risks that are of concern.

4.4 Work completed during the quarter did not identify any audits with a less than satisfactory opinion.

4.5 There are no significant issues of concern identified through audit work during the period that need to be highlighted to senior officers/members.

4.6 The team has a KPI target to achieve 80% of the Audit Plan, as at the end of quarter two the projection is for us to achieve 73%, this is based on the planned work for five people. One post has been vacant since early June, if adjusted for the vacancy the projected productivity percentage for the year is estimated to be 86%.

5 Supporting Information

Introduction/Background

5.1 A list of audit work completed is set out in Appendix A. The following table summarises the results of the audit work where an opinion was given.

Audit Type	Very weak	Weak	Satisfactory	Well Controlled	Very Well Controlled
Key Financial Systems					
Other Systems			2	1	
Schools					1

5.2 For this reporting period there were no completed audits given a less than satisfactory opinion. There was an advisory review completed where no opinion is given, there were no follow-up audits completed during the period.

5.3 Details of the audit work in progress and the stage reached is set out at Appendix B. Progress made against the Anti-Fraud Work Plan is set out at Appendix C.

5.4 One of the Senior Auditor posts has been vacant since early June, a second attempt at recruitment early in November was not successful. The intention is to now change the post to be an Auditor/Senior Auditor post on a career grade to improve the chances of successful recruitment, but envisage it will result in us needing to train an auditor from scratch.

5.5 The team has a KPI target to achieve 80% of the Audit Plan, as at the end of quarter two the projection was for us to achieve 73%, this is based on the planned work for five people, if adjusted for the vacancy the projected productivity percentage is 86%.

Proposals

Members note the outcome of audit work.

6 Other options considered

Not applicable, the report is for information only.

7 Conclusion

There was no work completed for the period which had a less than satisfactory opinion, and no areas of concern which need to be highlighted to Committee.

8 Appendices

8.1 Appendix A – Completed Audit Work.

8.2 Appendix B – Current Audit Work.

8.3 Appendix C – Anti-Fraud Work Plan Update.

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:

Name: Julie Gillhespey
Job Title: Audit Manager
Tel No: 01635 519455
E-mail: julie.gillhespey@westberks.gov.uk

Document Control

Document Ref:		**Date Created:**	4/11/2022
Version:	01	**Date Modified:**	
Author:	Julie Gillhespey (Audit Manager)		
Owning Service	Strategy and Governance		

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Internal Audit Plan Update Report **Appendix A**
(End of September 2022)

1) COMPLETED AUDITS

Directorate/Dept/Service	Audit Title	Overall Opinion
Resources		
Strategy and Governance	Project Management Oversight	N/A Advisory
People		
Education	The Downs School	Very Well Controlled
Children and Families	Adoption Service	Well Controlled
Place		
Development and Regulation	Housing Register	Satisfactory
Development and Regulation	Purchase and Utilisation of Council Properties (Housing)	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

Directorate/ Service	Audit Title	Overall Opinion - Report	Opinion - Implementation progress
Resources			
People			
Place			

3) COMPLETED ADVISORY REVIEWS/OTHER WORK

Directorate/Dept/ Service	Review Title
General Grants sign off work	Work completed on the Highways Grants, Disabled Facilities Grant.
HR	Disciplinary Investigation.

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1) CURRENT AUDITS

Corporate/Directorate/ Service	Audit Title	Current Position of Work	Audit Plan Year
Corporate			
Development & Regulation	Business Continuity	Draft Report Issued	2021/22
Resources			
Finance and Property	General Ledger	Testing	2022/23
Finance and Property	Capital Programme	Testing	2022/23
Finance and Property	CIPFA's Financial Management Code – Compliance Review	Background	2022/23
Finance and Property	Accounts Receivable	Ready for Review	2022/23
Strategy and Governance	Electoral Services – Financial Processes	Draft Report Issued	2021/22
I.T.	Security of Systems	Draft Report Issued	2021/22
People			
Adult Social Care	Purchase of Care – Homecare	Testing	2022/23
Adult Social Care	Hungerford Resource Centre	Draft Report Issued	2022/23
Adult Social Care	Personal Budgets/Direct Payments	Testing	2021/22
Children and Families	Foster Carer Payments	Ready for Review	2021/22
Education	Special Educational Needs and Disabilities (SEND) Assessments	Testing	2021/22
Education	Robert Sandilands School	Report Being Drafted	2022/23
Place			
Environment	Environment Strategy/Delivery Plan	Testing	2022/23

Corporate/Directorate/ Service	**Audit Title**	**Current Position of Work**	**Audit Plan Year**
Environment	Street Works/Traffic Regulation Orders/Section 38 Charges	Background	2022/23
Environment	Parking	Draft Report Issued	2021/22

2) CURRENT ADVISORY REVIEWS/OTHER WORK

Audit/Review Title	**Current position of work**
Covid Grants – payments assurance work	Ongoing
Covid Business Grants – payment assurance work	Ongoing

3) CURRENT FOLLOW-UPS

Directorate/Service	**Audit title**
Resources	
Finance and Property	Fixed Asset Register
People	
Adult Social Care	Carers Payments
Place	
Environment	Waste Management

APPENDIX C

Anti-Fraud Work Plan

(Drawn together from entries in the Audit Plan for 2022/23

Audit Name	**Work Focus**	**Update Position (End of September 2022)**
NFI Investigation Work	Review of data matches to assess whether fraudulent.	New exercise to commence in October.
Covid Grant Assurance Work (Non-business)	Review of appropriateness/accuracy of grant payments made to third parties/use of grants the Council has received.	Ongoing.
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.	Not commenced.
Personal Budgets (Direct Payments/Use of payment cards) (Education Service)	Personal Budgets may be used inappropriately/fraudulent documentation could be provided for expenditure incurred.	Not commenced.
Council Tax Hardship Fund	Check that grants have been awarded accurately/appropriately.	Not commenced.
Appointeeship/Deputyship Arrangements	Check that client financial records are kept up to date/are accurate. Check that expenditure incurred is appropriate and has full supporting documentation. Check that any physical assets are adequately safeguarded.	Background – postponed until later in year at request of service.

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2022/23 Year-End Preparation

Committee considering report:	Governance and Ethics Committee
Date of Committee:	16 January 2023
Portfolio Member:	Councillor Ross Mackinnon
Date Portfolio Member agreed/sent:	8 December 2022
Report Author:	Shannon Coleman-Slaughter
Forward Plan Reference:	GE4307

1 Purpose of the Report

This report is to inform members of the accounting policies to be applied in the production of the Council's 2022/23 Financial Statements. It is also to confirm any amendments to these accounting policies arising from changes in operational activities and/or the impact of any new accounting standards issued.

2 Recommendation

2.1 Members are asked to consider and approve the following recommendation:

(a) To approve the accounting policies which will be applied in the production of the Council's 2022/23 Financial Statements (Appendix A).

2.2 Members are requested to note the following:

(a) Delay to the finalisation of the external audit of the 2020/21 financial statements. The delay has been due to the identification of an accounting treatment concern related to the financial reporting arrangements underpinning Infrastructure Assets, and potential non-compliance with the CIPFA Code. This issue has impacted Local Authorities on a national basis. In order to remedy this issue, a Statutory Instrument incorporating override provisions was published on Tuesday 29 November 2022 (becoming effective on Sunday 25 December 2022).

(b) Delay to the commencement of the external audit of the 2021/22 draft financial statements. Nationally, there are delays across the Local Government sector in respect of financial statements being finalised to publication, and the associated issuance of audit opinions. The Council's external auditors are scheduled to commence the external audit of the 2021/22 financial statements in January 2023.

(c) Forthcoming accounting requirements, issued but not yet adopted, in respect of the reporting requirements relating to IFRS 16 *Leases*;

(d) Potential implications for accounting arrangements in respect of the Council's operational interests in companies and other entities including Joint Ventures;

(e) The year-end timetable which will complement the production of the Draft 2022/23 Statement of Accounts (Appendix B).

3 Implications and Impact Assessment

Implication	**Commentary**
Financial:	Whereby a Council is deemed to have not produced annual financial statements (the Statement of Accounts) in accordance with relevant accounting requirements, this can result in additional detailed review testing by the external auditor and increased audit fees
Human Resource:	Not applicable
Legal:	The Council is required to ensure that the Statement of Accounts is properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code), and meets the requirements of the Accounts and Audit Regulations 2015
Risk Management:	Where an external auditor concludes that the Council's Statement of Accounts is not compliant with the CIPFA Code, and where the financial statements do not provide a true and fair view of the Council's financial position and performance, this may result in the issuance of a qualified audit opinion
Property:	Not applicable
Policy:	Not applicable

	Positive	**Neutral**	**Negative**	**Commentary**
Equalities Impact:				

A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
Environmental Impact:		X		
Health Impact:		X		
ICT 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 At the date of drafting this report, the Council's auditor (Grant Thornton) is in the process of concluding the external audit review of the 2020/21 Statement of Accounts. Nationally, delays across the Local Government sector in respect of financial statements being finalised to publication, and the associated issuance of audit opinions, continue to be noted. These delays have been compounded by the identification of an accounting treatment concern related to the financial reporting arrangements underpinning Infrastructure Assets, and potential non-compliance with the CIPFA Code.

4.2 It is anticipated that Grant Thornton will finalise their remaining audit work by the end of 2022; this dependent upon the resolution of the Infrastructure Assets issue. This issue has impacted Local Authorities on a national basis. In summary, the accounting treatment concern relates to the CIPFA Code requirement for Councils to derecognise infrastructure asset items (namely to adjust gross carrying values and remove any accumulated depreciation amounts in the Balance Sheet) at the point of replacement, and sufficiently disclose this detail within the Statement of Accounts. CIPFA LASAAC (Local Authority (Scotland) Accounts Advisory Committee) intended to solve some of the problem temporarily by suspending the requirement to disclose the gross cost/accumulated depreciation split for infrastructure assets. The Statutory Instrument ("override") has now been enacted and will be applied to open financial years commencing on or before 1 April 2024. In finalising the 2020/21 Statement of Accounts, the Council will not be required to reflect any asset adjustments in respect of prior accounting periods. At the time of publication of this report, the Council is still in the process of working with the external auditor to determine the exact presentation of the relevant accounting disclosures. The full text detailing the override is located at The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 (legislation.gov.uk).

4.3 In respect of the external audit of the draft 2021/22 Statement of Accounts, the audit is anticipated to commence in January 2023.

4.4 In respect of preparation of the 2022/23 Statement of Accounts, Members are asked to note the impact of accounting standards issued, not yet adopted, which will have bearing upon the production of the Financial Statements for future financial reporting periods:

(a) IFRS 16 *Leases* – The 2022/23 CIPFA Code had originally been expected to incorporate the reporting requirements of IFRS 16 *Leases*. The primary impact of this accounting standard would have related to lessee arrangements. Under IFRS 16, with the exception of leases of low value items and short-term leases, where a Local Authority is lessee to a contract, it would need to recognise a 'right of use asset' and corresponding lease liability within the Balance Sheet. This will increase the Local Authority's Capital Financing Requirement (CFR), and require the reporting body to make a Minimum Revenue Provision (MRP) in respect of such capital expenditure yet to be financed. In April 2022, CIPFA issued a formal decision to defer the implementation of IFRS 16 until 1 April 2024, this date within the 2024/25 financial year. The Council is required to define the policies it will use in classifying and accounting for lease arrangements. These are set out in detail in Section 6.2 to this report.

(b) Potential changes to the Council's interests in companies and other entities. The Council is party to a Joint Venture with Sovereign Housing Association for the primary purpose of increasing the local housing supply within the Council's operating boundaries. This Joint Venture, Homes for West Berkshire LLP, was incorporated in December 2019. At the time of writing, it is not anticipated that this Joint Venture will commence operations proper during 2022/23. Depending upon the scale of its operational involvement with the Joint Venture, the Council may be required to prepare consolidated Group Accounts from 2023/24 onwards (see Section 6.4).

4.5 Included in appendix A is the high level timetable of the intended close down of the Council's ledgers and production of the subsequent Statement of Accounts for financial year 2022/23. For financial year 2022/23 the statutory deadline for production and publishing of draft accounts reverts back to 31st May. This deadline was temporarily extended during the Covid pandemic.

5 Supporting Information

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

- Give a true and fair view of the financial position of the Council, incorporating the income and expenditure disclosed for the financial year; and
- Have been prepared in accordance with the CIPFA Code, and comply with the reporting requirements defined in the Accounts and Audit Regulations 2015.

5.2 Whilst the Council achieved the Friday 29 July 2022 publication deadline for the finalisation of the Draft 2021/22 Statement of Accounts, at the time of publication of this report the external auditor's detailed review of this financial year is yet to commence.

5.3 It should be noted that in prior years Audit Findings Reports (including the draft 2020/21 draft Audit Findings Report), the Council's external auditors have raised concerns regarding the functionality and accuracy of the Council's key financial system (Agresso). Grant Thornton (in the draft 2020/21 Audit Findings Report), noted that "substantive testing of transactions identified that the Council has an issue with providing full breakdown of transactions and in reconciling populations to the balances disclosed in the statement of accounts…There is a risk that the balances disclosed in the statement of accounts are either miss-stated or cannot be supported which could lead to a material adjustment within the primary statements". Currently a corporate project is underway to stabilise the technical Agresso platform, however, the Chart of Accounts remains unchanged and the risk still present in the draft 2021/22 and preparation of the 2022/23 financial statements. The functionality of the Agresso system does hamper the manual production of the Statement of Accounts, this paired with recent recruitment issues means there is a risk that the Council will be unable to meet the statutory deadline of 31st May. It should be noted that Grant Thornton recently issued a statutory audit recommendation to Redditch Borough Council due to its ageing financial ledger resulting in the Council missing the statutory deadline of 30th August 2020 for publication of the draft 2019/20 financial statement. The report stressed "This has led to key elements of financial governance not being completed which increase the risk of incorrect, irregular or fraudulent transaction or event occurring".

5.4 The current Agresso system and Chart of Accounts was implemented in 2004 and remains largely unchanged. The current Chart of Accounts is focused on revenue management accounting (i.e. a combination of account codes and cost centre driven), and not driven by financial accounting (i.e. account code) in compliance with the CIPFA Code of Practice.

6 Proposals

6.1 This section of the report provides further detail on the recommendations itemised at Section 2:

6.2 **IFRS 16 *Leases***: On 8 April 2022, CIPFA announced that implementation of this accounting standard had been deferred until 1 April 2024, and will therefore fall within the scope of the 2024/25 CIPFA Code reporting requirements, with Year 1 adoption in the 2024/25 Statement of Accounts. It is anticipated that Councils will be encouraged to provide high-level reference to the future adoption and summarised accounting impacts of implementing IFRS 16 within the 2023/24 Statement of Accounts. The key financial reporting impacts involved in the adoption of this standard concern lessee accounting arrangements.

Prior to the finalisation of IFRS 16, the CIPFA Code maintained a distinction between ‘operating’ and ‘finance’ leases. Under an operating lease, amounts payable were charged as a revenue expense to the Comprehensive Income and Expenditure Statement (CIES) as amounts were due as payable. Under a finance lease, amounts payable under the lease were apportioned into an interest element (charged as revenue expenditure in the CIES) alongside a sum repaying the principal element (capital expenditure).

With the exception of any leases attached to low value items and short-term leases (those with lease expiry periods of less than 12 months), where an Authority now enters into a contract as a lessee, it will be required to re-assess the individual arrangement for compliance with the CIPFA Code’s adaptation of IFRS 16. This will typically involve the accounting recognition of both a right-of-use asset and lease liability of an equivalent value within a Council’s Balance Sheet, with this lease liability being equivalent to the discounted payments due to be expensed over the duration of a lease’s term.

In practical terms, this is likely to raise Local Authorities’ CFRs and trigger the need for Councils to account for an earmarked MRP sum in respect of capital expenditure yet to be financed.

The Council is likely to apply the following accounting practices in relation to leases from 1 April 2024 onwards:

- Low value assets - a low value item will be deemed to be an asset whose value when new was below £10,000. Lease payments on leases of low value items will be recognised as an expense (in the CIES) on a straight-line basis over the duration of the individual lease term;

- Short-term leases - the Council will not apply the requirements of IFRS 16 to existing leases that have a lease term of 12 months or less remaining as at 1 April 2024, or to new leases entered into after that date which have a lease term of below 12 months. Payments made under such leases will be recognised as an expense on a straight-line basis over the lease term;

- Lease term - in determining the term for leases which include extension or break options the Council will consider all facts and circumstances that create an economic incentive to exercise, or not exercise, such options;

- Discount rate - lease liabilities will initially be measured at the present value of lease payments that are due over the remaining lease term, discounted at the Council's incremental borrowing rate. This rate will be based on the prevailing Public Works Loans Board (PWLB) borrowing rates established for a loan of equivalent term to that remaining on the lease. The Council may choose to apply a single discount rate to a portfolio of leases with reasonably similar characteristics;

- Subsequent measurement of right-of-use assets - in the immediate period following the commencement of a lease term to which the Council acts as lessee, the Council will measure the right-of-use asset in accordance with CIPFA Code requirements for property, plant and equipment. As a practical expedient, the Council may opt to use a cost model as a proxy for current value, where the Council considers this to be appropriate, with this review enacted on an individual asset basis.

6.3 **Group Accounts:** The Council has formed a Joint Venture with Sovereign Housing Association; a key operational aim being to increase the supply of local housing within the Council's boundaries. The Council's current interest level in Homes for West Berkshire LLP is currently deemed to be insignificant, and immaterial in terms of the requirement to produce and publish Group Accounts which would consolidate and report the income, expenses, assets and liabilities attached to this interest. Ahead of the close of the 2022/23 financial year, the Council will formally review investment levels in this Joint Venture and re-assess whether there is a need to prepare Group Accounts relating to the current financial year. This investment appraisal exercise will continue on an ongoing basis into the 2023/24 accounting year.

The requirement to prepare Group Accounts is typically assessed against a combination of material thresholds, as determined by the Council's external auditor. It is not possible at this current point to exactly quantify these relevant thresholds as audit planning in respect of the 2022/23 financial year-end has not yet been undertaken. As a guide however, a sum in the region of £5m has been adopted as the key materiality basis in past accounting years.

7 Other options considered

No other options were considered.

8 Conclusion

8.1 At the time of production of this report, the Council's 2020/21 Financial Statements (Draft) and 2021/22 Financial Statements (Draft) are both still subject to external audit finalisation by Grant Thornton;

8.2 The Section 151 Officer is satisfied that the proposed changes within this report will enhance compliance with the CIPFA Code and ensure that the Council minimises the risk of material non-compliance within the Statement of Accounts.

9 Appendices

Appendix A – 2022/23 Draft Accounting Policies

Appendix B – 2022/23 Production of Accounts Year-End Timetable

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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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Appendix A

2022/23 Draft Accounting Policies

General Principles

The Accounts and Audit Regulations 2015 (SI 2015 No 234) require the Council to prepare a Statement of Accounts for each financial year in accordance with proper accounting practices. For 2022/23, these proper accounting practices principally comprise:

- The Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the Code);
- The Service Reporting Code of Practice 2022/23 (SeRCoP);
- The Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 (SI 2003 No 3146, as amended).

The Statement of Accounts will be prepared using the going concern and accruals bases. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Going Concern Concept

The financial statements shall be prepared on a going concern basis; that is, the accounts are prepared on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

Accruals of Income and Expenditure

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

- Revenue from the sale of goods or services is recognised in accordance with the terms and conditions of the contract;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, these amounts are carried as inventory in the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected;
- Accruals are recognised where the value exceeds £5k;
- The Council recognises revenue from contracts with service recipients when it satisfies a performance obligation by transferring promised goods or services to a recipient, measured as the amount of the overall transaction price allocated to that obligation. A key income stream for the Council is Adult Social Care client income, in the region of 35% of total budgeted income for 2022/23. The associated accounting treatment has been reviewed. Other income amounts received by the Council include government grants and contributions, Council Tax and Business Rates and these sums fall outside the scope of this assessment.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable on notice of not more than 24 hours without material penalty. Cash equivalents are highly liquid investments that also are repayable on notice of not more than 24 hours and that are readily convertible to known amounts of cash with low risk of change in value.

Prior period adjustments, changes in accounting policies, estimates and errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes are accounted for retrospectively. The basis for any prior period adjustments in 2022/23 is still to be determined. The Council will not adopt any new accounting standards or amendments in 2022/23 which will have a significant impact upon its financial position.

Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding-capital assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Amortisation of intangible capital assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement equal to a prudent amount determined by the Authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisation (not charged through the Revaluation Reserve) are adjusted by means of a transaction in the Capital Adjustment Account via the Movement in Reserves Statement.

Events after the Balance Sheet date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date of approval of the Statement of Accounts. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; and
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect or impact, disclosure is made in the Notes to the Accounts of the nature of these events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Interests in companies and other entities

Where the Council has material interests in subsidiary and associate companies, these will be consolidated into Group Accounts on a line-by-line basis for subsidiaries, and the equity method for associates, once accounting policies have been aligned with the Council where appropriate, and any intra-group transactions have been eliminated. For 2022/23, the Council will assess whether there is a need to prepare Group Accounts, this requirement determined by the scale of material interests in companies and other entities.

Investment Properties

Investment properties are properties that are held solely to earn rental income and/or for capital appreciation. Investment properties are measured initially at cost and subsequently at fair value. Investment properties are not depreciated, with gains and losses on revaluation being posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The line is also credited/debited with gains/losses on the disposal of properties, measured as the difference between the carrying amount and sale proceeds. Accounting regulations do not permit unrealised gains and losses to impact the General Fund. Therefore, such gains and losses are reversed out of the General Fund (via the Movement in Reserves Statement) and posted to the Capital Adjustment Account.

Overheads

The costs of overheads and support services are managed separately, and therefore these service segments are reported separately and in accordance with the Council's arrangements for accountability and financial performance.

Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Legislation requires defined items of revenue expenditure charged to services within the Comprehensive Income and Expenditure Statement to be treated as capital expenditure. All such expenditure is transferred from the General Fund Total via the Movement in Reserves Statement to the Capital Adjustment Account and is included in the Capital Expenditure Financing disclosure in the Council's Statement of Accounts.

Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

• The Council will comply with any conditions attached to the payments; and
• The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until the Council has satisfied any conditions attached to the grant or contribution that would require repayment if not met.

The grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. The financial impact of receipt of grants is detailed in the Council's outturn and the Statement of Accounts documents.

Following the receipt of a grant, the Council has to assess whether in administering the grant it was acting as an agent or principal.

Where the Council has acted as agent, the following accounting treatment conditions apply:

- It was acting as an intermediary between the recipient and the appropriate Government Department;
- It did not have 'control' of the grant conditions, and there was no flexibility in determining the level of grant payable.

Where the Council acted as principal, it was able to exercise its own discretion when determining the amount of grant payable.

Community Infrastructure Levy

The Authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds with appropriate planning consent. The Authority charges for and collects the levy, and this is a planning charge. The levy income will be used to fund a number of infrastructure projects to support the commencement date of the development of the area. The receipt of CIL is limited by regulations. It is therefore recognised at the commencement date of development in the Comprehensive Income and Expenditure Statement in accordance with the core accounting policy for Grants and Contributions detailed above.

Business Improvement Districts (BID)

A Business Improvement District (BID) scheme applies to a defined area in Newbury Town Centre. The BID is managed and operated by Newbury Business Improvement District Community Interest Company. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Authority acts as principal under the scheme and accounts for income and expenditure, including contributions to the BID project, within the relevant service lines in the Comprehensive Income and Expenditure Statement.

Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Earmarked reserves are identified within the General Fund Total in the Movement in Reserves Statement in the Statement of Accounts. Where expenditure has been incurred which is to be financed from an earmarked reserve, the expenditure is charged to the relevant service area within the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement. An amount is then transferred from the earmarked reserve to the General Fund Total via an entry in the Movement in Reserves Statement.

Schools

Local authority-maintained schools are determined to be under the control of the Council. Consequently, the income, expenditure, assets and liabilities of maintained schools are accounted for within the Statement of Accounts. Other types of school, such as academies and free schools, are outside of the Council's control, and are therefore excluded from the Statement of Accounts.

Value Added Tax

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs (HMRC) and all VAT paid is recoverable.

Joint Operations

Jointly-controlled operations are where the parties involved have joint control of an arrangement and have rights to the asset and obligations relating to the activities undertaken in conjunction with other operators. These activities often involve the utilisation of the assets and resources of the operators rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs, and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure incurred and the share of income earned from the activity of the operation.

Jointly-controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other joint operators, with the assets being used to obtain benefit for the joint operators. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the

jointly-controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

Provisions

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement where an event has taken place that gives the Council a legal or constructive obligation that in all likelihood requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

Contingent Assets

A contingent asset arises whereby an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but are disclosed in a Note to the Statement of Accounts where it is probable that there will be an inflow of economic benefit or service potential.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a Note to the Statement of Accounts.

Revenue Recognition

The Council's various income streams have been assessed and classified in accordance with the Code and revenue has been recognised accordingly. Specific consideration has been given to:

- Implied or stated contractual terms for exchange transactions;
- Obligating events and/or conditions attached to non-exchange transactions, where a party receives something of value without directly giving value in exchange;
- Significance of the income stream to the Council.

Property, Plant and Equipment

Recognition
Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefit or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (such as repairs and maintenance) is charged as an expense when it is incurred.

Property, plant and equipment is recognised where the initial cost or value exceeds £10,000.

Measurement
Assets are initially measured at cost, comprising:

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

Infrastructure, community assets, assets under construction and vehicles, plant and equipment are then carried in the Balance Sheet at depreciated historical cost. Other categories of property, plant and equipment are subsequently re-measured at existing use or fair value. Assets are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end but as a minimum every five years. The Council engages external valuation specialists to determine updated asset valuations.

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

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

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

Impairment

Assets are assessed at each year-end to determine whether there is an indication of impairment. Where indications exist and possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Where impairment losses are identified, these are accounted for in the same way as revaluation losses.

Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of the depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (eg freehold land and certain community assets) and assets that are not yet available for use, such as assets under construction.
Depreciation is calculated on the following bases:

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

Where an asset is material and has major components whose cost is significant to the total cost of the asset, and these elements have markedly different useful lives, such components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals

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

Any disposal receipts in excess of £10,000 are categorised as capital receipts and must be credited to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against Council Tax but is subject to separate arrangements for capital financing. Amounts reflected in the Comprehensive Income and Expenditure Statement are appropriated to the Capital Adjustment Account via the Movement in Reserves Statement.

Asset Reclassification

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

Minimum Revenue Provision (MRP)

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

Componentisation

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

- Equipment – as this is considered immaterial; and
- Asset classes which are not depreciated – such as land, investment properties, heritage assets, community assets, surplus assets and assets held for sale.

The remaining assets, which are housed within the operational portfolio, are often of a specialised nature such as schools and leisure centres. The Council instructs the valuation specialist to provide component information for each individual asset. This is subsequently reviewed to determine whether or not the inclusion of a component value will have a material impact upon depreciation. For 2022/23, a componentisation de minimis of £3million will be in place. This policy will be only be applied to each asset as it falls due to be revalued. Any asset (including acquisitions) that has had capital expenditure added to it during the financial year will also be considered. Where individual assets fall below the de minimis threshold, but are collectively above this level, these assets are assessed for componentisation where generally treated together elsewhere.

Heritage Assets

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

Intangible Assets

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

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

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

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

Leases

Rentals paid by the Council under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased asset. Charges are accounted for on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

Where the Council grants an operating lease over a property or a Property, Plant and Equipment asset, the item is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments made.

Private Finance Initiatives (PFI) and similar contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services, passes to the PFI contractor. As the Authority is deemed to control the services that are provided under such PFI schemes, and as ownership of the property, plant and equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on the Balance Sheet within property, plant and equipment. The original recognition of these assets at fair value (based upon the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. The Authority has one PFI contract, and this is with Veolia ES West Berkshire Limited.

Non-current assets recognised in the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment assets owned by the Authority.

The annual amounts payable to PFI scheme operators are analysed into five elements:

- **fair value of the services received during the year** – debited to the relevant service line in the Comprehensive Income and Expenditure Statement;
- **finance cost** – an interest charge of 6.1% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **contingent rent** – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **payment towards liability** – applied to write down the Balance Sheet liability owed to the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- **lifecycle replacement costs** – a proportion of the amount payable is posted to the Balance Sheet as a prepayment and subsequently recognised as an addition within property, plant and equipment when the relevant works are eventually undertaken. This accounting is in accordance with the CIPFA Code's adaption of IFRIC 12 Service Concession Arrangements.

Financial Instruments

Financial instruments are recognised within the Balance Sheet when the Council becomes a party to their contractual provisions. These instruments are initially measured at fair value.

Financial Liabilities

Financial liabilities are subsequently measured at amortised cost. This means that the amount presented in the Balance Sheet is the outstanding principal sum repayable plus accrued interest. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement are based upon the carrying amount of the liability multiplied by the effective rate of interest for the instrument.

Financial Assets

Financial assets are subsequently measured in one of two ways:

• Amortised cost – assets whose contractual terms are basic lending arrangements in that these assets give rise on specified dates to cash flows that are solely payments of principal or interest on the principal amount outstanding which the Council holds under a business model whose objective is to collect those cash flows;
• Fair value – all other financial assets.

Amortised cost assets are measured in the Balance Sheet at the outstanding principal repayable plus accrued interest. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement are based upon the carrying amount of the asset multiplied by the effective rate of interest for the instrument. Any gains or losses in fair value that might arise are not accounted for until the instrument matures or is sold.

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances (including balances outstanding at the date of derecognition of an asset) are debited/credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Changes in the values of assets carried at fair value are debited/credited to the Financing and Investment Income and Expenditure line as they arise.

Employee Benefits

Short-term employee benefits such as wages and salaries, paid annual leave, sick leave and expenses are paid on a monthly basis and reflected as expenditure in the relevant service line within the Comprehensive Income and Expenditure Statement.

Post-Employment Benefits: Pensions

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

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);
- The Local Government Pension Scheme, administered by the Royal Borough of Windsor and Maidenhead;
- The NHS Pension Scheme, administered by NHS Pensions.

The Local Government Pension Scheme provides defined benefits to members, specifically retirement lump sums and pensions, earned as employees working for the Council, or for related parties. Under IAS 19 and CIPFA Code requirements, the Council recognises the cost of post-employment benefits in the reported cost of services when these amounts are earned by employees rather than when the benefits are eventually paid as pensions. The Council will make an Employer contribution in the region of £xxm in 2023/24 to reduce the scheme liability.

The Teachers' and NHS plans are defined benefit schemes which are accounted for as defined contribution schemes. This is because the arrangements for these schemes mean that future defined benefit liabilities are not readily identifiable, and therefore no liabilities for future payment of benefits are recognised in the Balance Sheet. Services are charged with employer contributions to the Teachers' and NHS schemes in the Comprehensive Income and Expenditure Statement within the appropriate financial year. The Council's 2023/24 Employer contribution level is at xx.xx% in respect of the Teachers' scheme.

Defined Benefit Pension Schemes

Local Government Pension Scheme

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

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

1. Service cost. This comprises current service cost (allocated in the Comprehensive Income and Expenditure Statement) to the services for which the employees worked, and past service cost – debited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement;
2. Net interest on the net defined benefit liability – charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
3. Re-measurements - comprising the return on Plan assets (excluding amounts included in net interest on the net defined benefit liability) charged to the Pension Reserve as Other Comprehensive Income and Expenditure and actuarial gains and losses (changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation date or because the actuary has updated their assumptions). These sums are charged to the Pension Reserve as Other Comprehensive Income and Expenditure;
4. Contributions paid to the Pension Fund are charged to the General Fund via an accounting entry in the Movement in Reserves Statement to replace the service cost items above discretionary benefits.

Discretionary Benefits

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

Curtailments

The cost of curtailments arising as a result of the payment of unreduced pensions on early retirement have been calculated by the Actuary. The amounts calculated are the curtailment costs which affect the Council's Local Government Pension Scheme liabilities.

Collection Fund

The Collection Fund shows the transactions of the billing authority in relation to the collection of Council Tax and Non-Domestic Rates from local taxpayers, and its subsequent distribution to local authorities and Central Government. There is no requirement for a separate Collection Fund Balance Sheet since the assets and liabilities arising from collecting Non-Domestic Rates and Council Tax belong to the bodies concerned, including major preceptors, the billing authority and Central Government. The Council's share of Council Tax and Business Rates income is reflected in the Comprehensive Income and Expenditure

Statement on an accruals basis in line with the CIPFA Code. Income due from Council Tax and ratepayers is recognised in full at 1 April, this date being the start of the financial year.

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

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

Council Tax

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

National Non-Domestic Rates

The Council collects Business Rates for its area based on rateable values (as determined by the Valuation Office Agency) and multiplier indices as determined by Central Government. The total income estimated to be received in the year is notified to related bodies in the immediately preceding January in accordance with statutory regulations.

Termination Benefits

Termination benefits are charged on an accruals basis to the appropriate service or to the specified segment in the appropriate line in the Comprehensive Income and Expenditure Statement (where these sums relate to pensions enhancements) at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Appendix B

2022/23 Production of Accounts Year-End Timetable

Category	Task Description	2022/23 Preparation Date
Pension Fund	Issue email confirmation (to actuary) of data reports to compile to support year-end Pension accounting disclosures	23/02/23
Budget Managers	**KEY DATE** - year-end timetable, closing guidance and accruals instructions/templates issued to Budget Managers	27/02/23
Imprest	**KEY DATE** - **Budget Managers** - final claim for reimbursement of non-schools imprest accounts to be submitted to Service Accountants	20/03/23
Schools	**KEY DATE** - Schools' final imprest claims to be submitted to Schools Finance Team	21/03/23
Accounts Receivable	**KEY DATE** - Process final transactional entries within Bank Income and Clearing Account	22/03/23
Accruals and Prepayments	**KEY DATE** - **Budget Managers** - Orders to be GRN'd in Agresso by 12pm	31/03/23
Bank/Cash	**KEY DATE** - Final Debtors/Accounts Receivable year-end invoices to be raised by 12pm	31/03/23
Bank/Cash	Cashiers' Suspense to be cleared by 5pm	31/03/23
Accounts Payable	**KEY DATE** - No further 2022/23 invoice registrations to be processed after 12pm cut-off	31/03/23
Accruals and Prepayments	**KEY DATE** - Process GRN Accrual by 5pm	31/03/23
Bank/Cash	Year-end write offs to be confirmed (Debtors arrears/Exchequer Services)	31/03/23
Revenue/Capital	**KEY DATE** - Final date for Revenue postings to Capital codes. **Accounting entries processed after this date must be pre-authorised by Chief Financial Accountant**	31/03/23
Accounts Receivable	Aged Debtors Report (from AR) as at 31/03/23 - reconciled to Sales Ledger Control Account	31/03/23

Accounts Payable	Aged Creditors Report (from AP) as at 31/03/23 - reconciled to Purchase Ledger Control Account	31/03/23
Schools	**KEY DATE** - Month 12 Agresso Report issued to schools/central services	03/04/23
Capital/Fixed Assets	**KEY DATE** - Application of funding to Capital cost centres	05/04/23
Capital/Fixed Assets	**KEY DATE** - Capital Accruals deadline	11/04/23
Revenue	**KEY DATE** - Review of year-end GRN Accrual completed (latest point by which individual accountants can confirm any necessary reversals)	11/04/23
Revenue	**KEY DATE** - Action year-end GRN accrual	11/04/23
Revenue	**KEY DATE** - Cut-off for all material accruals to be reflected within year-end position/vouch correct cut-off treatment for April 2023 expense items to this point	11/04/23
Payroll	Payroll Control Account Reconciliations	11/04/23
Related Parties	Follow-up on receipt of Related Party form responses from Senior Officers and Members	11/04/23
Capital/Fixed Assets	**KEY DATE** - Transfer of actuals from cost centres	12/04/23
Revenue/Capital	**KEY DATE** - Closure of General Ledger	13/04/23
Bank/Cash	Year-end Bank/Cash Reconciliation finalised	13/04/23
Revenue	Carry forward balances (post-FAGG) reviewed and journals entered	18/04/23
Capital/Fixed Assets	Reconcile Fixed Assets Register to General Ledger and review appropriateness of accounting treatment in accordance with CIPFA Code	18/04/23
Schools	**KEY DATE** - Final date for closedown of Schools' cost centres and associated upload to Agresso	19/04/23

Capital/Fixed Assets	**KEY DATE** - Agree final Capital Outturn position and confirm reprofiling	19/04/23
Contingencies	Review provisions for Contingent Assets and Contingent Liabilities - send email request to Legal Section	20/04/23
Schools	**KEY DATE** - Review schools' account codes / prepare year-end working paper documenting reconciliation of Delegations to B Codes, B Codes to Z Codes and consolidation of schools' trial balance	24/04/23
Schools	**KEY DATE** - Consolidation of schools' trial balance within year-end Statement of Accounts	25/04/23
Capital/Fixed Assets	**KEY DATE** - Capital Strategy Group - review Capital Outturn position and reprofiling	26/04/23
Capital/Fixed Assets	Reconcile year-on-year movements within Council's Capital Financing Requirement	27/04/23
Capital/Fixed Assets	Calculate MRP/enter journals	27/04/23
Revenue	**KEY DATE** - Closedown of all Revenue cost centres	02/05/23
Revenue/Capital	**KEY DATE** - Revenue and Capital Directorate outturn reports to Chief Accountants	03/05/23
Statement of Accounts	**KEY DATE** - Annual Governance Statement, Going Concern Report and Statement of Responsibilities to Corporate Board and Operations Board. Papers to include Draft Status Report on Statement of Accounts	03/05/23
Revenue	**KEY DATE** - Outturn report/supporting papers to Corporate Board. Papers due date - Wednesday 10 May 2023 (TBC)	10/05/23
Statement of Accounts	**KEY DATE** - Deadline for submissions to Operations Board. Papers due date - Thursday 18 May 2023 (TBC)	18/05/23
Statement of Accounts	**KEY DATE** - finalisation of Draft Statement of Accounts and Inspection Notice for review by S151 Officer and Chief Financial Accountant	19/05/23
Statement of Accounts	**KEY DATE** - publication of Draft Statement of Accounts and Inspection Notice	30/05/23

2022/23 Year-End Preparation

Schools	**KEY DATE** - DSG outturn report and schools' balances to HFG. Papers due date - Wednesday 31 May 2023 (TBC)	01/06/23
Schools	**KEY DATE** - DSG outturn report and schools' balances to Schools' Forum. Papers due date - Tuesday 13 June 2023 (TBC)	14/06/23
Statement of Accounts	**KEY DATE** - Draft Statement of Accounts and Going Concern Report to Governance and Ethics Committee	TBC
Statement of Accounts	**KEY DATE** - Governance and Ethics Committee	TBC

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Financial Year 2022/23 Mid-Year Treasury Report

Committee considering report:	Governance and Ethics Committee
Date of Committee:	16 January 2023
Portfolio Member:	Councillor Ross Mackinnon
Date Portfolio Member agreed/sent report:	16 November 2022
Report Author:	Shannon Coleman-Slaughter
Forward Plan Ref:	GE4308

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 TM Code) requires the Council to approve both mid-year and annual treasury management reports. This report provides an overview of the treasury management activity for financial year 2022/23 as at 30th September 2022.

2 Recommendation

This report is to note only. The Section 151 Officer is satisfied that treasury management practices in year have operated in accordance with the approved performance management criteria.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	The Treasury function is responsible for the daily cash flow management of the Council. Income from investments contributes to the Council's annual budget. Bank Rate increased from 0.75% in April to 2.25% in September, following a series of stepped increases from May. The increase in rates is expected to result in an over achievement of investment income of £703k against budget for the financial year. The Council did not take on new external borrowing in the period to end September 2022.

Human Resource:	Not applicable
Legal:	Not applicable
Risk Management:	The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA TM Code) requires the Council to approve an annual treasury management strategy and mid-year review. 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. Key treasury indicators are adopted as part of the annual strategy and compliance with these indicators is detailed in sections 7.3 and 7.4 of this report.
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			The treasury function supports the delivery of the Council Strategy through the financing of the Council's approved Capital Programme and monitoring of Council cash flows.
Core Business:		X		
Data Impact:		X		
Consultation and Engagement:	Joseph Holmes – Director of Resources Cllr Ross Mackinnon – Portfolio Holder for Finance Treasury Management Group			

4 Executive Summary

4.1 The Council's Investment and Borrowing Strategy for 2022/23 was approved by Council on 3 March 2022. 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 31 March 2022, the Council had a Capital Financing Requirement (CFR) of £278.4 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, whilst short-term interest rates remained much lower than long-term rates and temporary investments earning Bank Rate or lower, it has been considered to be more cost effective in the near term to use borrowed rolling temporary / short-term loans. At 30 September 2022 the Council held £189.4 million of loans, 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 Position as at 30 September 2022	31.03.22 Balance £m	Net Movement £m	30.09.22 Balance £m
Public Works Loan Board	(191.0)	2.4	(188.6)
Community Bond	(0.8)	0.1	(0.7)
Total Borrowing	**(191.8)**	**2.5**	**(189.3)**

4.3 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year to 30 September 2022, the Council's investment balances have ranged between £34.3m and £64.0 million due to timing differences between income and expenditure. The investment position as at 30 September 2022 compared to 31 March 2022 is shown in the table below.

Investment Summary	31.03.22 Balance £m	Net Movement £m	30.09.22 Balance £m
Banks & Building Societies (Unsecured)	5.0	(2.8)	2.2
Government (incl. Local Authorities)	18.0	12.0	30.0
Money Market Funds	14.8	(2.8)	12.0
Total Unvestments	**37.8**	**6.4**	**44.2**

4.4 The economic backdrop during the period April to September has been characterised by high oil, gas and commodity prices and inflationary pressures. The Bank of England increased the official Bank Rate to 2.25% over this period, rising from 0.75% in March as a result of 0.25% rises in both May and June and 0.50% rises in the August and September. As a result of the rise in Bank Rate, investment income is forecast to be £703k over achieved for the year. The Council's existing external borrowings are fixed rates and no new long term borrowing has been undertaken in the six month period to September 2022. The Council has financed its capital programme during 2022/23 through undertaking short term borrowing with other Local Authorities (i.e. loans with other Local Authorities for a duration of under one year). Treasury Management Group maintains and scrutinises a listing of other Local Authorities deemed to be appropriate from a risk perspective with which to undertake short term borrowing activities.

4.5 In respect of non-treasury investment assets, at the 31st March 2021 the Council held £72.5m of investments in directly owned property categorised as follows:

(a) Directly owned property (commercial property) £58.9 million, details in appendix C. This is property that the Council has borrowed specifically to fund the purchase.

(b) Directly owned property (investment property) £13.6 million, details included in appendix D. This is property that the Council holds as an investment property but the purchase has not been funded by borrowing. In most cases the property has been inherited from Berkshire County Council or Newbury District Council upon the formation of West Berkshire Council in 1998.

4.6 Due to the nature of direct investment in property there is additional risk that the value of the investment may change. In respect of commercial property, this risk is carried alongside the risk of voids and no rental income being recovered adversely impacting on achievable rates of return. These risks are managed through allocation of General Fund Reserve to Earmarked Reserves as part of annual budget setting processes.

These earmarked funds are released against the General Fund at year end to compensate for any voids and reductions in income achieved. For financial year 2022/23 the forecast revenue budget monitoring position at Quarter Two is for a net favourable variance of £148k in respect of commercial and investment property holdings.

5 Supporting Information

Introduction

5.1 The CIPFA TM Code requires the Council to approve semi-annual and annual treasury management reports. This report provides an overview of the treasury management activity for financial year 2022/23 as at 30 September 2022.

5.2 The Council's treasury management strategy for 2022/23 was approved by Council on 3 March 2022. 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 Investment and Borrowing Strategy.

Background

5.3 **Economic background**: The ongoing conflict in the Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. High energy and commodity prices during the first two quarters of 2022/23 have impacted on consumer's cost of living. Annual headline CPI peaked at 10.1% in July, the highest rate for 40 years and RPI registered 12.3% in both July and August. Quarterly GDP fell 0.1% in the quarter to end June 2022 driven by a decline in services output. The Bank of England has increased interest rates from 0.75% in March to 2.25% at the time of writing. A full appraisal of the economic position from the Council's external treasury advisors Arlingclose is contained in appendix A.

5.4 **Local Context**: On 31st March 2021, the Council had net borrowing (i.e. gross external borrowing less net investments) of £154m arising from its revenue and capital income and expenditure. 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. These factors are summarised in the table below which is based on the Council's 2021/22 draft financial statements.

Investment Summary	**31.03.22 Actual £m**
General Fund CFR	278.40
Less: Other debt liabilities: Waste Private Finance Initative	(11.50)
Loans CFR	266.90
External borrowing	(191.80)
Internal borrowing	75.10
Less: Usable reserves	(77.30)
Less: working capital	(35.60)
Net Investments	**(37.80)**

5.5 The Council has not needed to undertake new external borrowing during the period April to September 2022 and instead has continued to pursue a strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk. The treasury management position on 30 September 2022 and the change over the six months is shown in the table below in section 5.7.

5.6 **Borrowing Update**: Local authorities can borrow from the Public Works and Loan Board (PWLB) provided they can confirm they are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of capital expenditure from the Section 151 Officer. Council's 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. Acceptable use of PWLB borrowing includes servicing expenditure on operational assets, housing, regeneration, preventative action, and treasury management e.g. refinancing of existing debt. The CIPFA Prudential Code notes that since access to the PWLB is important to ensure local authorities' liquidity in the long term and that leveraged (i.e. debt driven) investment always increases downside risks, that local authorities must not borrow to fund acquisitions where obtaining financial returns is the primary aim. The Council is not planning to purchase any investment assets primarily for yield within the next three years and so is able fully access the PWLB. Details of the PWLB guidance is included in appendix B.

Borrowing Position as at 30 September 2022:

5.7 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 these objectives no new borrowing was undertaken. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. At 30 September 2022 the Council held £189.3m of loans, a decrease of £2.5m from 31 March 2022 due to annuity payments made in the period. Outstanding loans on 30 September are summarised in the table below.

Borrowing Position as at 30 September 2022	31.03.22		30.09.22	30.09.22	30.09.22
	Balance	Net Movement	Balance	Weighted Average Rate	Weighted Average Maturity
	£m	£m	£m	%	Years
Public Works Loan Board	(191.0)	2.4	(188.6)	3.35	30.48
Community Bond	(0.8)	0.1	(0.7)	1.20	3.04
Total Borrowing	**(191.8)**	**2.5**	**(189.3)**	**3.35**	**30.38**

5.8 **Other Debt Activity**: Although not classified as borrowing, the Council also has a Private Finance Initiative (PFI) liability in respect of the Padworth Waste Recycling Facility. This debt, which is included in the total borrowing shown on the Council's balance sheet, stood at £11.1 million at end of September 2022. (Repayments of this debt are included in the monthly waste contract charges, which are paid from the revenue budget for waste management).

Treasury Management Activity 1 April 2022 – 30 September 2022:

5.9 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year to date, the Council's investment balances ranged between £34.3m and £64.0 million due to timing differences between income and expenditure, as detailed in the table below.

Investment Summary	31.03.22 Balance	Net Movement	30.09.22 Balance	30.09.22 Income Return	30.09.22 Weighted Average Maturity
	£m	£m	£m	%	Days
Banks & Building Societies (Unsecured)	5.0	(2.8)	2.2	0.11	1
Government (incl. Local Authorities)	18.0	12.0	30.0	1.13	79
Money Market Funds	14.8	(2.8)	12.0	1.1	1
Total Unvestments	**37.8**	**6.4**	**44.2**	**1.07**	**54**

5.10 Both the CIPFA TM 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.

Non Treasury Investments:

5.11 The definition of investments in the CIPFA TM Code covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the Investment Guidance issued by the Department for Levelling Up, Housing and Communities, in which the definition of investments is further broadened to also include all such assets held partially for financial return. At the 31 March 2022 the Council held £72.5m of such investments in directly owned property categorised as follows:

(a) Directly owned property (commercial property) £58.9 million, details in appendix C. This is property that the Council has borrowed specifically to fund the purchase.

(b) Directly owned property (investment property) £13.6 million, details included in appendix D. This is property that the Council holds as an investment property but the purchase has not been funding by borrowing. In most cases the property has been inherited from Berkshire County Council or Newbury District Council upon the formation of West Berkshire Council in 1998.

5.12 The estimated rate of return on these investments for 2022/23 is summarised in the table below. The rate of return is based on the latest valuation of the properties at the 31 March 2022. The estimated net income for 2022/23 is based on budget monitoring as at the 30 September 2022. The rate of return does not include the change in value of the properties during the period.

Directly Owned Property: 'Commercial Property'	£'000
Valuation at 31 March 2022	58,985
Estimated 22/23 net income	(3,235)
Rate of return, excluding MRP and interest	**5.48%**
MRP costs 22/23	666
Interest costs 22/23	1,529
Estimated outturn, net of MRP and interest	(1,040)
Rate of return, after MRP and interest	**1.76%**

Directly Owned Property: 'Investment Property'	£'000
Valuation at 31 March 2022	13,571
Estimated 22/23 net income	(465)
Rate of return, excluding MRP and interest	**3.43%**

Directly Owned Property: 'Commercial' and 'Investment' Property, Combined	£'000
Valuation at 31 March 2022	72,556
Estimated 22/23 net income	(3,700)
Rate of return, excluding MRP and interest	**5.10%**
MRP costs 22/23	666
Interest costs 22/23	1,529
Estimated outturn, net of MRP and interest	(1,505)
Rate of return, after MRP and interest	**2.07%**

5.13 The rate of return shown in table above does not include any change in value of the properties during the period. Due to the nature of direct investment in property there is additional risk (upside and downside) that the value of the investment may change. In respect of commercial property, this risk is carried alongside the risk of voids and no rental income being recovered adversely impacting on achievable rates of return. These risks are managed through allocation of General Fund Reserve to Earmarked Reserves as part of annual budget setting processes. These earmarked funds are released against the General Fund at year end to compensate for any voids and reductions in income achieved. For financial year 2022/23 the forecast revenue budget monitoring position at Quarter Two is for a net favourable variance of £148k in respect of commercial and investment property holdings.

Proposals

There are no proposals within this report.

6 Other options considered

Not applicable

7 Conclusion

7.1 The economic backdrop is affected by inflationary pressures and a squeeze on consumer income. The Bank of England has increased interest rates from 0.75% to 2.25% at the time of writing. The Council, with the support of its Treasury Advisors, Arlingclose, will continue to monitor the situation and adjust planned borrowing and investment opportunity accordingly.

7.2 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 benchmark interest rates, as shown in the table below:

Total Council Debt	Actual Interest Cost 01.04.22-30.09.22	Forecast Interest Cost 01.04.22-31.03.23	Budgeted Interest Cost 01.04.22-31.03.23	Costs (Over) / Under Budget	Actual Interest Rate at 30.09.22
	£'000	£'000	£'000	£'000	%
Short-Term borrowing	0	0	(9)	9	-
Public Works Loan Board	(3,715)	(6,366)	(6,198)	(168)	3.35
Community Bond	(5)	(9)	0	(9)	1.20
Total Borrowing	**(3,720)**	**(6,375)**	**(6,207)**	**(168)**	**3.35**
PFI Debt	(292)	(701)	(731)	30	6.10
Total Debt	**(4,012)**	**(7,076)**	**(6,937)**	(139)	**3.49**

Total Council Investments	Actual Interest Received 01.04.22-30.09.22	Forecast Interest Income 01.04.22-31.03.23	Budgeted Interest Income 01.04.22-31.03.23	Income Over / (Under) Budget	Actual Interest Rate Year To Date	Benchmark Interest Rate	Over / (Under) Achievement
	£'000	£'000	£'000	£'000	%	%	Basis Points
Short-Term Investments	172	467	113	354	1.13	n/a	n/a
Cash and Cash Equivalents	92	210	5	205	0.97	n/a	n/a
Total Treasury Investments	**264**	**677**	**118**	**559**	**1.07**	**1.74**	**(67)**
Pre-paid pension contributions	72	144	0	144	2.55	n/a	n/a
Total Treasury Investments (inc. Pre-paid pension contributions)	**336**	**821**	**118**	**703**	**n/a**	**n/a**	**n/a**

NB: "Basis point" means one hundreth of one percentage point

7.3 Compliance: The S151 Officer is required to report on compliance against the adopted CIPFA TM Code and the Council's approved Investment and Borrowing Strategy. The Council's performance against adopted benchmarks is as follows:

(a) Compliance with the authorised limit and operational boundary for external debt.

Authorised Limit & Operational Boundary for Debt	Maximum debt during Reporting Period	Balances as at 30.09.22	2022/23 Operational Boundary	2022/23 Authorised Limit	Complied?
	£m	£m	£m	£m	
Borrowing	(191.8)	(189.4)	(338.7)	(352.7)	Yes
Private Finance Initiative and Finance Leases	(11.5)	(11.1)	(12.0)	(14.4)	Yes
Total Debt	**(203.3)**	**(200.5)**	**(350.7)**	**(367.1)**	**Yes**

The operational boundary is a management tool for in-year monitoring. Main debt levels (both long and short term debt) have remained within the approved boundaries during the reporting period.

(b) Compliance with approved Investment Counter Party Limits

Investment Limits	Maximum Invested during Reporting Period	Balances as at 30.09.22	2022/23 Individual Counterparty Limit	Complied?
	£m	£m	£m	
Debt Management Office	41.0	22.0	Unlimited	Yes
UK Local Authorities (incl. Police, Fire & similar)	10.0	8.0	8.0	Yes - Individual limit per counterparty has not been exceeded
UK Building Societies (ranked 1-11 by asset size)	0.0	0.0	8.0	Yes
UK Building Societies (ranked 12-21 by asset size)	0.0	0.0	6.5	Yes
UK Building Societies (ranked 22-25 by asset size)	0.0	0.0	5.0	Yes
UK Banks & other financial institutions with Moody's short term rating P1 or equivalent	5.3	2.0	8.0	Yes
UK Banks & other financial institutions with Moody's short term rating P2 or equivalent	0.0	0.0	6.5	Yes
UK Banks & other financial institutions with Moody's short term rating P3 or equivalent	0.0	0.0	5.0	Yes
UK based Money Market Funds rated AAAmf	23.0	12.1	8.0	Yes - Individual limit per counterparty has not been exceeded
Registered Charities, Public Sector Bodies & Council owned Companies, Joint Ventures	0.0	0.0	8.0	Yes

7.4 During the reporting period the Council has not breached the approved counter party limits. Should a limit be breached it is reported to the Council's Treasury Management Group as part of monthly performance reporting.

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

(a) Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates. The current one-year revenue impact of a 1% rise in interest rates would be £600k.

(b) Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Maturity Structure	30.09.22 Actual %	Upper Limit %	Lower Limit %	Complied?
Under 12 months	2.61	30	0	Yes
12 months and within 24 months	2.55	30	0	Yes
24 months and within 5 years	6.99	30	0	Yes
5 years and within 10 years	14.32	30	0	Yes
10 years and within 15 years	15.79	30	0	Yes
15 years and within 20 years	6.71	30	0	Yes
20 years and within 25 years	7.23	30	0	Yes
25 years and within 30 years	4.73	30	0	Yes
30 years and within 35 years	3.99	30	0	Yes
35 years and within 40 years	1.07	30	0	Yes
40 years and within 45 years	1.01	30	0	Yes
45 years and within 50 years	33.00	30	0	No

7.6 The actual maturity position for the 45 year to 50 year banding of 33.0% is marginally over the 30% intended limit. This was due to an error in calculation of the bandings as originally set, which will be corrected when the limits are revised for 2023/24.

7.7 In conclusion the Section 151 Officer is satisfied that treasury management practices in year have operated in accordance with the approved performance management criteria.

8 Appendices

8.1 Appendix A – Arlingclose Economic Outlook

8.2 Appendix B – Revised PWLB Guidance

8.3 Appendix C - Directly Owned Property – Purchase Funded via Borrowing

8.4 Appendix D - Directly owned Property – Purchase not Funded by Borrowing

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

Officer details:

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Appendix A

Arlingclose Economic Assessment
Performance to 30 September 2022

Economic background: The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.

The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were in all likelihood recessions in those regions.

UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £150 billion of support to limit bills to £2,500 annually until 2024.

The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate 3m/year for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and –2.8% for regular pay.

With disposable income squeezed and higher energy bills still to come, consumer confidence fell to a record low of –44 in August, down –41 in the previous month. Quarterly GDP fell -0.1% in the April-June quarter driven by a decline in services output, but slightly better than the 0.3% fall expected by the Bank of England.

The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August's rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. the September vote was 5-4, with five votes for an 0.5% increase, three for an

0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.

On 23rd September the UK government, following a change of leadership, announced a raft of measures in a 'mini budget', loosening fiscal policy with a view to boosting the UK's trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day.

Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

After hitting 9.1% in June, annual US inflation eased in July and August to 8.5% and 8.3% respectively. The Federal Reserve continued its fight against inflation over the period with a 0.5% hike in May followed by three increases of 0.75% in June, July and September, taking policy rates to a range of 3% - 3.25%.

Eurozone CPI inflation reached 9.1% y/y in August, with energy prices the main contributor but also strong upward pressure from food prices. Inflation has increased steadily since April from 7.4%. In July the European Central Bank increased interest rates for the first time since 2011, pushing its deposit rate from –0.5% to 0% and its main refinancing rate from 0.0% to 0.5%. This was followed in September by further hikes of 0.75% to both policy rates, taking the deposit rate to 0.75% and refinancing rate to 1.25%.

Financial markets: Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling.

Due to pressure on pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%. The Sterling Overnight Rate (SONIA) averaged 1.22% over the period.

Arlingclose's Economic Outlook for the remainder of 2022/23

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	2.25	4.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.75	4.25	3.75	3.25
Downside risk	0.00	-1.00	-1.00	-0.75	-0.50	-0.50	-0.50	-0.75	-1.25	-1.50	-1.75	-1.75	-1.75

Arlingclose expects Bank Rate to rise further during 2022/23 to reach 5% by the end of the year.

The MPC is particularly concerned about the demand implications of fiscal loosening, the tight labour market, sterling weakness and the willingness of firms to raise prices and wages.

The MPC may therefore raise Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation. Arlingclose now expects Bank Rate to peak at 5.0%, with 200bps [i.e. 2%] of increases this calendar year.

This action by the MPC will slow the economy, necessitating cuts in Bank Rate later in 2024.

Gilt yields will face further upward pressure in the short term due to lower confidence in UK fiscal policy, higher inflation expectations and asset sales by the BoE. Given the recent sharp rises in gilt yields, the risks are now broadly balanced to either side. Over the longer term, gilt yields are forecast to fall slightly over the forecast period.

Appendix B

Revised PWLB Guidance

HM Treasury published further guidance on PWLB borrowing in August 2021 providing additional detail and clarifications predominantly around the definition of an ‘investment asset primarily for yield’. The principal aspects of the new guidance are:

- Capital expenditure incurred or committed to before 26th November 2020 is allowable even for an ‘investment asset primarily for yield’.
- Capital plans should be submitted by local authorities via a DELTA return. These open for the new financial year on 1st March and remain open all year. Returns must be updated if there is a change of more than 10%.
- An asset held primarily to generate yield that serves no direct policy purpose should not be categorised as service delivery.
- Further detail on how local authorities purchasing investment assets primarily for yield can access the PWLB for the purposes of refinancing existing loans or externalising internal borrowing.
- Additional detail on the sanctions which can be imposed for inappropriate use of the PWLB loan. These can include a request to cancel projects, restrictions to accessing the PLWB and requests for information on further plans.

<u>Changes to PWLB Terms and Conditions from 8th September 2021</u>

The settlement time for a PWLB loan has been extended from two workings days (T+2) to five working days (T+5). In a move to protect the PWLB against negative interest rates, the minimum interest rate for PWLB loans has also been set at 0.01% and the interest charged on late repayments will be the higher of Bank of England Base Rate or 0.1%.

Appendix C

Directly Owned Property – Purchase Funded via Borrowing

Directly owned property (commercial property) held at 31 March 2022

Name and address of property	Property type	Valuation at 31 March 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
Valuation total per draft 2021/22 Statement of Accounts		**58,985**

Appendix D

Directly owned Property – Purchase not Funded by Borrowing

Directly owned property (investment property) held at 31st March 2022

Name and address of property	Property type	Valuation at 31 March 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
Valuation total per draft 2021/22 Statement of Accounts		**13,571**

Agenda Item 9

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