



## **WOKINGHAM BOROUGH COUNCIL**

A Meeting of the **AUDIT COMMITTEE** will be held in David Hicks 1 - Civic Offices, Shute End, Wokingham RG40 1BN on **WEDNESDAY 5 FEBRUARY 2020 AT 6.30 PM**

A handwritten signature in black ink, appearing to read 'Susan Parsonage', written in a cursive style.

Susan Parsonage  
Chief Executive

Published on 28 January 2020

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## **WOKINGHAM BOROUGH COUNCIL**

### **Our Vision**

A great place to live, an even better place to do business

### **Our Priorities**

Improve educational attainment and focus on every child achieving their potential

Invest in regenerating towns and villages, support social and economic prosperity, whilst encouraging business growth

Ensure strong sustainable communities that are vibrant and supported by well designed development

Tackle traffic congestion in specific areas of the Borough

Improve the customer experience when accessing Council services

### **The Underpinning Principles**

Offer excellent value for your Council Tax

Provide affordable homes

Look after the vulnerable

Improve health, wellbeing and quality of life

Maintain and improve the waste collection, recycling and fuel efficiency

Deliver quality in all that we do

## MEMBERSHIP OF THE AUDIT COMMITTEE

### Councillors

Dianne King (Vice-Chairman)	Rachel Burgess	Maria Gee
Barrie Patman	Angus Ross	Daniel Sargeant
Imogen Shepherd-DuBey		

ITEM NO.	WARD	SUBJECT	PAGE NO.
52.		<b>APOLOGIES</b> To receive any apologies for absence	
53.	None Specific	<b>MINUTES OF PREVIOUS MEETING</b> To confirm the Minutes of the Meeting held on 6 November 2019.	7 - 12
54.		<b>DECLARATION OF INTEREST</b> To receive any declarations of interest	
55.		<b>PUBLIC QUESTION TIME</b> To answer any public questions  A period of 30 minutes will be allowed for members of the public to ask questions submitted under notice.  The Council welcomes questions from members of the public about the work of this committee.  Subject to meeting certain timescales, questions can relate to general issues concerned with the work of the Committee or an item which is on the Agenda for this meeting. For full details of the procedure for submitting questions please contact the Democratic Services Section on the numbers given below or go to <a href="http://www.wokingham.gov.uk/publicquestions">www.wokingham.gov.uk/publicquestions</a>	
55.1	None Specific	<b>Chris Wallace asked the Chairman of the Audit Committee the following question:</b> At the November 2018 Audit Committee meeting, I asked when the recommendations of the 2016 WBC Report on Rent Arrears Management would be implemented. In that report, it stated at 1.1.1 that "WBC offers a range of payment options. DD is promoted as the preferred method." With the recommendation at 6a.13 Implement operational improvements – arrears prevention: Action - Ensure that DD can be set up for payment on any day and at any frequency. Benefit – Increased take-up of DD & Reduced transaction costs. This change has yet to be implemented, meaning that Tenants wishing to pay by	

DD are forced to pay monthly in advance, (the Tenancy Agreement only requires a week's rent in advance) and leads to erroneous statements showing either false arrears or false credits. If it has been agreed to charge monthly then the charges to the rent account should reflect that contract and not the weekly charges that are currently applied. Tenants no longer have any trust that their statements are correct so are unlikely to bother if it shows an unusual amount of arrears. If the Tenant's statements are incorrect then the reports generated by the system must also be incorrect. Given the above could you tell me when this recommendation, made 4 years ago, is going to be implemented?

<b>56.</b>		<b>MEMBER QUESTION TIME</b> To answer any member questions	
<b>57.</b>	None Specific	<b>STATEMENT OF ACCOUNTS</b> To consider the Statement of Accounts.	<b>13 - 156</b>
<b>58.</b>	None Specific	<b>2018/19 AUDIT RESULTS REPORT</b> To receive the 2018/19 Audit results report.	<b>To Follow</b>
<b>59.</b>	None Specific	<b>WBC AUDIT PROGRESS REPORT JANUARY 2020</b> To receive the WBC Audit Progress Report January 2020.	<b>157 - 164</b>
<b>60.</b>	None Specific	<b>TREASURY MANAGEMENT STRATEGY 2020/21</b> To consider the Treasury Management Strategy 2020/21.	<b>165 - 218</b>
<b>61.</b>	None Specific	<b>TREASURY MANAGEMENT - MID YEAR REPORT</b> To consider the Treasury Management – Mid Year Report.	<b>219 - 222</b>
<b>62.</b>	None Specific	<b>CORPORATE RISK REGISTER</b> To consider the Corporate Risk Register.	<b>223 - 242</b>
<b>63.</b>	None Specific	<b>2019/20 INTERNAL AUDIT AND INVESTIGATION Q3 PROGRESS REPORT</b> To consider 2019/20 the Internal Audit and Investigation Q3 Progress Report.	<b>243 - 250</b>
<b>64.</b>	None Specific	<b>2020/21 INTERNAL AUDIT AND INVESTIGATION PLAN AND INTERNAL AUDIT CHARTER</b> To consider the 2020/21 Internal Audit and Investigation Plan and Internal Audit Charter.	<b>251 - 278</b>



**65.** None Specific

**CERTIFICATION OF CLAIMS AND RETURNS –  
CLAIMS AND RETURNS ORGANISED BY LOCAL  
AUTHORITIES**

**279 - 282**

To consider the Certification of Claims and Returns –  
Claims and Returns Organised by Local Authorities.

**Any other items which the Chairman decides are urgent**

A Supplementary Agenda will be issued by the Chief Executive if there are any  
other items to consider under this heading

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**MINUTES OF A MEETING OF THE  
AUDIT COMMITTEE  
HELD ON 6 NOVEMBER 2019 FROM 7.00 PM TO 8.20 PM**

**Committee Members Present**

Councillors: Chris Smith (Chairman), Dianne King (Vice-Chairman), Rachel Burgess, Maria Gee, Angus Ross, Daniel Sargeant and Imogen Shepherd-DuBey

**Also Present**

Simon Broad, Assistant Director Adult Social Care

Andrew Moulton, Assistant Director Governance

Madeleine Shopland, Democratic & Electoral Services Specialist

Bob Watson, Head of Finance

**43. APOLOGIES**

There were no apologies for absence received.

**44. MINUTES OF PREVIOUS MEETING**

The Minutes of the meeting of the Committee held on 25 September 2019 were confirmed as a correct record and signed by the Chairman subject to the following amendments.

With regards to the corporate risk register, Councillor Gee commented that she had asked a question about the repayment of loans and the repayment schedule.

Councillor Gee commented that it been suggested that future annual complaints and compliments reports follow a different format and that more general information be included in a summary, followed by information relating to the specific areas.

At the last meeting, Councillor Gee commented that she noted the difference in the pension fund account and that it would have a 1.8-1.9% decrease in the value of assets. She had questioned what the monetary value would be of the reduction in value of the assets and also asked where the impact would be seen on the Council's accounts. She requested that a written answer be provided to these questions.

**45. DECLARATION OF INTEREST**

Councillor Chris Smith declared a Personal interest regarding item 48 Update on Financial Statements 2018/19 on the grounds that his employer had been engaged by the management of the Council's pension scheme to value one of their assets, a share of which appeared in the Council's accounts.

Councillor Smith left the meeting during the consideration of this item.

**46. PUBLIC QUESTION TIME**

There were no Public questions.

**47. MEMBER QUESTION TIME**

There were no Member questions.

**48. STATEMENT BY CHAIRMAN OF THE AUDIT COMMITTEE**

The Chairman of the Audit Committee gave the following speech.

As previously noted my employer has been engaged by the management of our pension scheme to value one of their assets, a share of which appears in our accounts.

Due to this, I consulted both internally within the Council and with my employer's Risk Management and Independence functions to identify and manage any issues arising from my Chairmanship of the Audit Committee.

While within the Council no threat was identified provided I disclosed the potential issue, my employer had a different view.

The Financial Reporting Council's Ethical Standard issues in June 2016 identifies 6 threats to Integrity, Objectivity and Independence. The most pertinent of these 6 threats are self-review and interest:

*A self-review threat is when a firm or employee may be in a position where they are reviewing the results of work previously performed by themselves or elsewhere within the firm.*

*A self-interest threat is when any persons, has financial or other interests which might cause, or perceive to cause, persons to be reluctant to take actions in connection with the engagement that would be adverse to such interests of the firm or any such person.*

It was agreed that no breach of independence had occurred so far in the preparation and approval of the annual accounts. However, it was noted that I would have to sign off the accounts and the annual representation letter and that a key task of the Chairman is to manage the annual accounts process. As such, there is both the potential for a perception of a breach occurring and actual potential for a future breach. To manage these threats, both actual and perceived, it was agreed that I would take the following actions:

A. Recluse myself from any further discussions of the annual accounts and any discussions directly or indirectly related to the pensions balances.

B. Resign as Chairman of the Audit Committee for the duration of the municipal year.

It is vital that the approval of the annual accounts of the Council is above reproach both in perception and actuality and actions such as I have taken tonight are designed to strengthen this.

I have found the last two years to be both a personal and professional challenge and one which I have immensely enjoyed and I would like to extend my thanks to Andrew, Bob, Madeleine and all others for their support.

I would also like to thank committee members over the last two years for their support and assistance in holding ourselves as a Council to account.

As a reminder, no breach has so far occurred and the actions taken are designed to eliminate any future risks, but the public trusts accountants and politicians to do the right thing and proactively manage risks such as those that have arisen and that is why I have taken these actions.

#### **49. CORPORATE RISK REGISTER**

The Committee considered the Corporate Risk Register.

During the discussion of this item, the following points were made:

- Since the last report to the Committee on 25 September 2019, an additional risk had been added on Climate Emergency.
- Councillor Burgess asked what ideas had come out of the climate emergency action plan and in particular, what ideas were there for big changes in the Borough. The Assistant Director Governance referred to staff workshops and brainstorming sessions.
- Risk 11 around Brexit, had been updated.
- With regards to Risk 3 about Workforce, the Assistant Director Governance informed Member that the Employee Engagement Survey had been launched and was due to run until 11 November. In response to a question from Councillor Burgess, he indicated that this survey was likely to be run every 2 years in future. Personnel Board would receive an overview of the results whilst the Overview and Scrutiny Management Committee considered key performance indicators around performance.
- Councillor Gee referred to the Risk regarding Corporate Governance and questioned whether consideration had been given to the risk of councillors, particularly female councillors, suffering abuse through different media platforms. The Assistant Director Governance commented that this was a national issue and had not specifically been brought to his attention as a local issue. However, he would take this matter away for further consideration. Councillor Smith questioned whether guidance could be sought from the Local Government Association and whether an anonymised survey could be produced.
- Simon Broad, Assistant Director Adult Social Care Sarah, highlighted some of the risks in adult social care.
- The Assistant Director Adult Social Care emphasised that ensuring that arrangements to safeguard vulnerable adults were reviewed regularly, was vital. Vulnerable people slipping through the net was a concern and it was therefore important that checks and controls were robust.
- Councillor Burgess commented that the current score for the safeguarding risk (Risk 7 – Risk of avoidable serious harm or death of a vulnerable adult for whom the Council has a responsibility) was Very High whilst the appetite/target was Low. She asked when the Committee would see a reduction in the current score. The Assistant Director commented that this would always be a high risk as it was impossible to predict all who would abuse. Councillor Smith stated that the appetite/target reflected the Council's desire that abuse of vulnerable adults never took place.
- With regards to Risk 7, Councillor Gee stated it could be clarified that the Council would aim to reduce 'avoidable serious harm' to vulnerable adults. The Assistant Director Governance agreed to update the risk register to reflect this.
- Councillor Ross asked what was meant by 'vulnerable adults for whom the Council has a responsibility.' The Assistant Director Adult Social Care clarified that it related to vulnerable adults for whom the Council commissioned care for.
- Councillor Ross referred to reciprocal information sharing relationship between the Council and partners such as the Fire Authority.
- The Assistant Director Adult Social Care also discussed Risk 12, which related to the sustainability of the Adult Social Care provider market.

- Councillor Gee asked about the risk to the Council of its Council owned companies such as Optalis, not being able to deliver what it was intended to. She referred to the transfer of some of the adult social care service functions from Optalis, back to the Council, and the risk of disruption that this process may cause. Councillor Smith proposed that the Council's local authority trading companies and the risks around them could be added to the forward programme. Councillor Sargeant suggested that this issue formed part of Risk 1 – Budgeting and Financial Management (including forecasting demand and investment and commercial strategy).
- Councillor Shepherd-DuBey asked a question regarding the monitoring of a provider of a care home within her Ward. The Assistant Director Adult Social Care agreed to look into the matter.

**RESOLVED:** That the report be noted.

## **50. INTERNAL AUDIT AND INVESTIGATION Q2 PROGRESS REPORT 2019/20**

The Committee considered the Internal Audit and Investigation Q2 Progress Report 2019/20.

During the discussion of this item, the following points were made:

- The Assistant Director Governance drew Members' attention to those audits which had received the audit opinion of 3.
- The equalities audit had been recently completed in draft and had received an audit opinion of 3. The actions coming out of this audit were under consideration. The Assistant Director Governance indicated that an update would be provided at the Committee's February meeting and it was likely that an improvement would be seen.
- With regards to the Corporate Governance audit, it was clarified that the audit opinion for the final report was now 2.
- Follow up work was being undertaken on the Public Health audit. An update would be provided at the Committee's February meeting.
- It was clarified that BSOG and LTP grants related to the Bus Services Operator Grant and the Local Transport Plan.
- The debtor and housing rents continued to be monitored. Members asked for information about the level of outstanding housing rents debt, the original levels of debt and how this had been reduced.
- Councillor Burgess commented that number of draft and final audits which had received the audit opinion of 3 seemed high. She requested that the Committee receive additional information, such as the recommendations, for audits which received the audit opinion of 3. The Assistant Director Governance indicated that the quarterly progress report could include a summary of recommendations for those audits.
- Members requested Internal Audit audit CIL, including what was due or had been paid. Councillor Shepherd-Dubey asked that this audit include how CIL was calculated and issued to the Town and Parish Councils.
- The Committee would be considering the annual Internal Audit Plan at its next meeting. Members were asked to consider if there were any other areas, which they felt should be audited.
- Councillor Burgess asked if Members had a role in the corporate investigations process. The Assistant Director Governance referred to the Whistleblowing Policy

which could be found online. The Investigations Team carried out investigations but Members could be informed of any trends and patterns should they be identified.

**RESOLVED:** That the 2019/20 Internal Audit and Investigation Q2 Progress Report be noted.

#### **51. FORWARD PROGRAMME 2019-2020**

The Committee considered the forward programme for the remainder of the municipal year.

During the discussion of this item, the following points were made:

- It was agreed that Members would be sent possible dates for an extraordinary meeting to consider the statement of accounts and other items.
- An update on compliments and complaints would be provided at the February meeting.

**RESOLVED:** That the forward programme be noted.

#### **52. UPDATE ON FINANCIAL STATEMENTS 2018/19**

*Councillor Smith declared a Personal Interest and left the meeting during the discussion of this item. Councillor King assumed the Chair for this item.*

The Head of Finance updated the Committee on the financial statements 2018/19.

During the discussion of this item, the following points were made:

- The Head of Finance referred to the audit valuation and report on the two outstanding items. Further information would be provided to the Council once it had been considered by the Royal Borough of Windsor and Maidenhead Council Overview and Scrutiny Committee. Officers could then assess what the impact would be on the Council's accounts. Members were informed that an adjustment may need to be made for the McCloud judgement.
- Ernst and Young would then audit the relevant part of the accounts. An unqualified opinion had given on the other part of the accounts.
- In response to a question from Councillor Burgess, the Head of Finance confirmed that there would not be reputational damage as the situation was outside of the Council's control. All other Berkshire local authorities would be also effected.
- Councillor Sargeant asked if the Committee could be briefed on the situation once it had been resolved.

**RESOLVED:** That the update on financial statements 2018/19 be noted.

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# **WOKINGHAM Borough Council**

## **Statement of Accounts**

**For the Year Ended 31 March, 2019**

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# 1. NARRATIVE REPORT

## Organisational structure

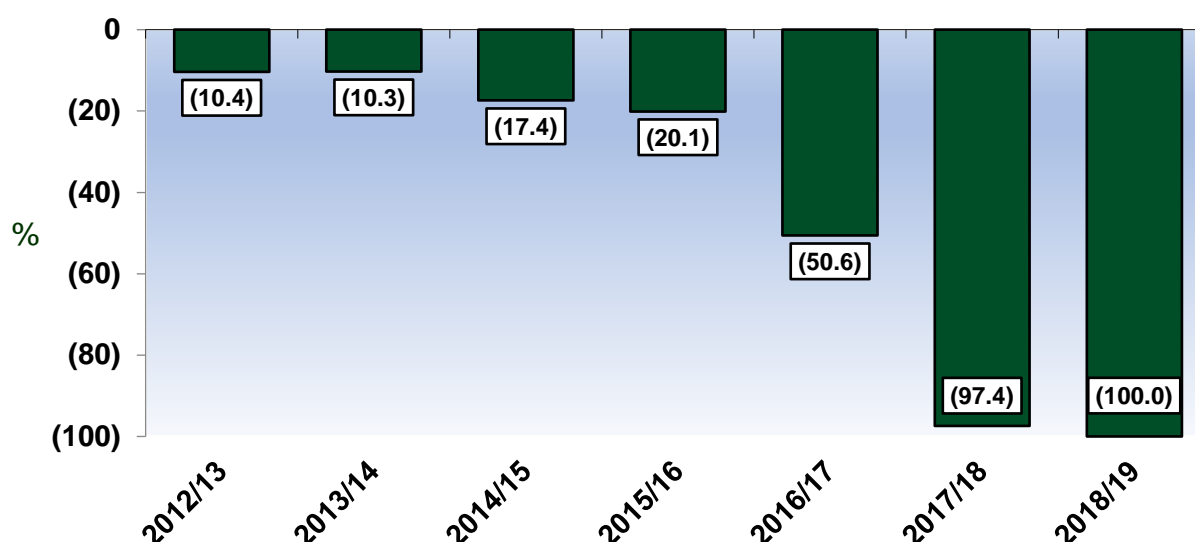
Wokingham Borough Council delivers a wider range of services for the residents and businesses in Wokingham including education, environmental health, highways, housing, leisure, libraries, planning, social care, transport and waste collection and disposal. The Council is made up of 54 elected Councillors representing 25 wards across the borough, one of whom is elected as Leader. The Leader appoints up to 9 Councillors who make up the Executive which is responsible for the development and implementation of policy on behalf of the Council. Decisions made by the Executive are scrutinised by a number of Overview and Scrutiny Committees.

Officers are employees of the Council, and give advice to elected Councillors, implement decisions and manage the day to day delivery of services. The Corporate Leadership Team is made up of the Chief Executive, and other senior employees, as shown in note 14. The Directors report to the Chief Executive and have responsibility for delivering services.

## Financial context

The 2018/19 financial year has been the latest in a series of tight funding settlements the Council has received. Following the Local Government Finance Settlement in January 2018, Wokingham Borough Council suffered further reductions in formula grant which has now resulted in reductions of 100% in 2018/19 since 2011/12.

**Percentage Change in Revenue Support Grant  
(now within the SFA)**



The financial climate remains difficult with returns on investments being low. The Council has continued to fund an appropriate element of its capital expenditure from its cash balances, rather than investing with minimal returns.

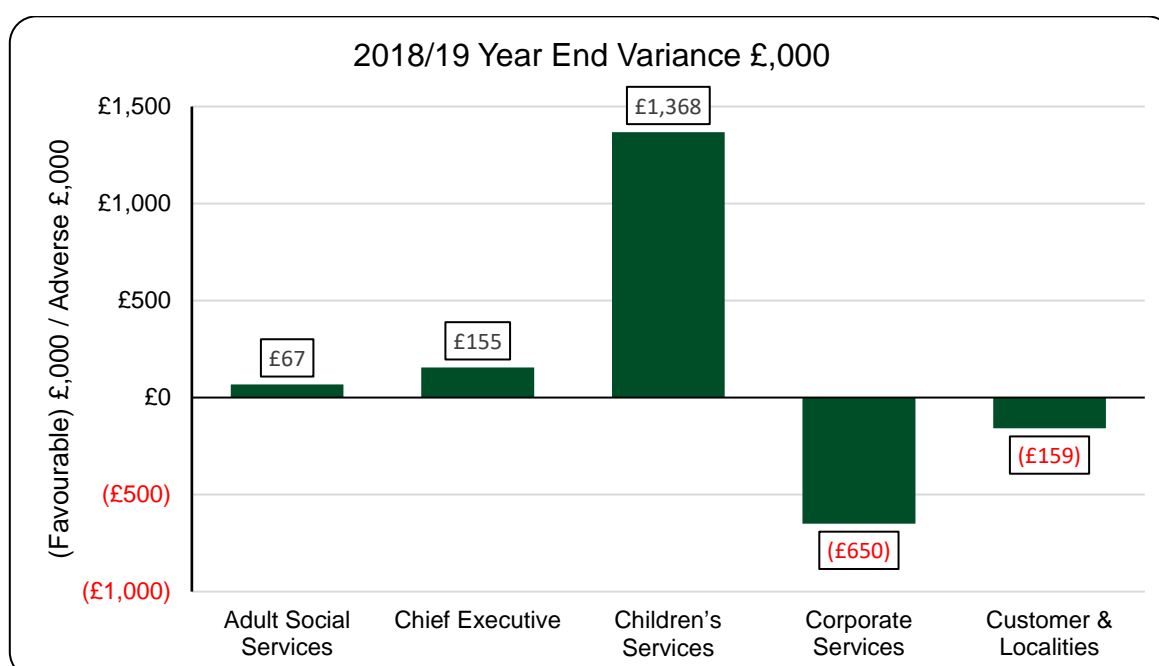
### General fund service expenditure 2018/19

The Council approved a revenue budget of £128.3m (£112.0m expenditure plus £16.3m depreciation) at its meeting on 22 February 2018. The following table analyses Wokingham Borough Council's actual outturn compared to its budgeted net expenditure by directorate, as at 31 March 2019, and reported to the Council's Executive on 30 May 2019 (see link below). The approved budget figures shown below include agreed carry forwards from 2017/18 as well as supplementary estimates totalling £250k approved during 2018/19.

For more information, see the Council's revenue monitoring outturn report:

<https://wokingham.moderngov.co.uk/ieListDocuments.aspx?CId=129&MId=2934&Ver=4>

Directorate	End of year position		
	Approved budget	Actual spend	(Favourable) / adverse variance
	£,000	£,000	£,000
Adult Social Services	47,483	47,550	67
Chief Executive	5,763	5,918	155
Children's Services	30,795	32,163	1,368
Corporate Services	10,255	9,605	(650)
Customer & Localities	33,956	33,797	(159)
<b>Net Expenditure (including carry forwards to 2019/20)</b>	<b>128,252</b>	<b>129,033</b>	<b>781</b>



The end of year position represents an adverse variance of £781k on the General Fund, however this is a favourable movement of £1.058m from the forecast position reported to Executive in January 2019. For more information see the Council's revenue monitoring as at the end of December 2018, see:

<https://wokingham.moderngov.co.uk/ieListDocuments.aspx?CId=129&MId=2874&Ver=4>

Material areas of favourable / adverse variances include:

- Adult Social Services – net adverse variance of £67k. Significant pressure was identified earlier in the financial year, in particular around commissioned care and support for those individuals with a learning disability. While there has been significant investment in Learning Disability budgets in recent years, the number of individuals living longer, and being supported to live independently in the community, has continued to exert budget pressure.
- Chief Executives – net adverse variance of £155k. Unbudgeted costs due to recruitment costs for vacant Chief Executive and Director posts, severance pay and other specialist / consultancy services spend.
- Children's Services – net adverse variance of £1.37m. This reflects demand led pressures in Children's social care staffing budgets (£1.7m), with significant pressures also experienced in Home to School Transport particularly in relation to children and young people with special educational needs and disabilities (£0.5m). Additional pressures across the service (£0.4m). Pressures in part offset by underspends in placement budgets (£1.2m).
- Corporate Services – net favourable variance of £650k. This reflects cost pressures from increased business rates at Shute End and other corporate properties. These pressures will be offset by underspends in debt management costs as a result of delayed external borrowing, additional income from traded legal services and staffing efficiencies across the service. In addition, £0.2m of additional levy was returned by Government in January '19.
- Customer and Localities – favourable variance of £159k. Having identified budget pressures earlier in the year, the management team working with their finance specialists have strengthened up the financial management arrangements and have delivered cost reductions where possible to keep within overall budget. This includes a drive on permanent recruitment to reduce expenditure on agency costs and realising efficiencies to deliver a favourable variance.

## Capital expenditure in 2018/19

The Council continues to invest in its asset base in order to improve services to residents and to support the financial sustainability of the organisation. Capital expenditure in the year totalled £132.2m (2017/18 £88.6m) as set out in report to the Council's Executive on 30 May 2019.

See the capital programme outturn report for more information:

<https://wokingham.moderngov.co.uk/ieListDocuments.aspx?CId=129&MId=2934&Ver=4>

The major schemes in 2018/19 were:

Asset type	£,000
Town centre regeneration	34,704
Commercial investment	28,091
Road & Highways infrastructure improvement scheme	25,294
Social housing	12,572
Schools	7,457
Wokingham Housing Limited	5,608
Leisure facilities	5,583
Highways and maintenance	4,682
Foot/bridle/cycle ways enhancements/new build	1,964
IT systems (including hardware/software)	1,620
Country parks & play areas	1,050
Strategic asset enhancement/New build	613
Mandatory Disabled Facility Grants	612
Other capital projects individually less than £0.5m	2,336

The Council's capital expenditure was financed through a mixture of capital receipts (£5.8m), developer contributions, third party contributions and grant income (£47.4m), contributions from revenue (£6.5m), a mix of internal and external borrowing (£73.8m). In addition, the Council also financed previous year's capital expenditure through minimum revenue provision (£5.9m) and HRA debt repayment (£2.3m). See Note 27 for further analysis of capital expenditure.

## Wider Council performance

The Council's wider performance can be read about in the quarterly performance management report, appendix A. A selection of information from the report is provided below.

- 90% of primary schools have a current Ofsted rating of good or better.
- 97% of early year's settings have a current Ofsted rating of good or better.
- The percentage of housing stock that meets the decent homes standard has remains at 99.9% (Gorse Ride South and Tape Lane properties excluded).
- The council tax collection rate was 99.4%.
- 86% of residents were satisfied with their new homes.

Further information can be found on the Council's website.

## Pension fund

The Council records costs related to its pension schemes when they are earned by employees. However, the charge that the Council is required to make to the General Fund is based on the cash payable in the year. In accordance with International Accounting Standard (IAS) 19, the Council's balance sheet recognises a liability of £291.3m at 31 March 2019 (£279.5m at 31 March 2018). This represents liabilities of £240.4m (£228.6m at 31 March 2018) for the Wokingham Borough Council Pension Fund, and £50.9m for the Council's share of the Royal County of Berkshire's Pension Fund (£50.9m at 31 March 2018). More information about the costs and accounting treatment for the Council's pension schemes is set out below and in Note 19.

## Treasury management

Long term borrowing increased from £142.2m to £199.5m during the year. This is used to fund additional capital expenditure to support development in the borough.

The Council maintains cash reserves arising from grants received in advance, general fund and other reserves, and from cash flow management. The total investments at 31 March 2019 were £99.6m (£60.5m at 31 March 2018). Year-end investments are broken down as follows; £91.6m with approved institutions (e.g. banks, building societies, other councils, etc.) and £8m with money market funds and fund managers. Further information can be found in the Treasury Management outturn report:

<https://wokingham.moderngov.co.uk/ieListDocuments.aspx?CId=129&MId=3270&Ver=4>

## Balance sheet

The Council's balance sheet at 31 March 2019 had long term assets of £908m, current assets (including cash and short term investments) of £179m, current liabilities of £97m, long term liabilities of £590m (which includes net pension liabilities of £291m, and the Council's long term borrowing of £200m). In addition, the Council had usable reserves of £122m.

The net assets of the Council have increased by £45m, to £400m at 31 March 2019 from £355m at 31 March 2018. This is largely due to an increase in the value of the council's long term assets.

## Housing revenue account (HRA)

The Council's Housing Revenue Account (HRA) achieved an operating surplus of £0.8m compared to an operating surplus of £3.7m in 2017/18. There was a reduction in the surplus in 2018/19 due to a reduction in rental income, losses on disposal of HRA assets and general inflation pressures across the service. The surplus was used to fund capital expenditure and to repay debt, resulting in an overall decrease in the HRA balance of £1.3m.

HRA rental income was £14.6m in 2018/19, a decrease on the £14.8m achieved in 2017/18 attributable to the 1% reduction in rent in line with Central Government's compulsory 1% reduction in Social and Affordable rents. Expenditure on repairs and maintenance and housing management totalled £6.3m compared to £5.9m in 2017/18. Capital expenditure totalled £9.7m in 2018/19, largely on refurbishment and improvement works, compared to £7.5m in 2017/18.

## Group accounts

The Council are in the second year of joint working with the Royal Borough of Windsor and Maidenhead (RBWM) through our company, Optalis. Jointly with the Royal Borough, WBC is able to control the operating, governance and financial policies of the organisation, and also able to appoint the board of directors of the company.

The Council's housing companies have continued to grow, with further development work increasing their net assets. Berry Brook Homes Ltd provides affordable, subsidised housing to rent in Wokingham Borough and it has grown substantially this year. Loddon Homes Ltd also provides social and affordable housing and is a for-profit registered provider. Wokingham Housing Limited is a housing developer providing high quality affordable, social and market homes for local people in Wokingham.

## Key risks and opportunities

The Council's corporate leadership team (CLT) is responsible for identifying and managing the Council's risks and opportunities. CLT is also responsible for identifying, analysing and profiling high-level strategic and cross-cutting risks on a regular basis. The Council's corporate risk register is considered by the audit committee. The most significant risks identified in the report to audit committee in February 2019 include the safeguarding risks to vulnerable children, young people and adults for with whom the council is working or has a responsibility for. Delivering the Councils special education needs role and working within Ofsted guidelines are also highlighted on the risk register. A wide range of policies, procedures, training and governance help control this risk, with further detail available in the documentation discussed at that meeting (link below). The other key risk is that the Council fails to deliver key investment priorities. The Council reviews its capital programme to reduce spend in line with receipts, closely monitor schemes, with regular updates on the capital programme reported to the Executive quarterly.

Link to report –

<https://wokingham.moderngov.co.uk/ieListDocuments.aspx?CId=129&MId=3270&Ver=4>

Risks are reviewed and quantified as part of the financial planning processes. This analysis is available within the Council's medium term financial plan (MTFP) approved at annual budget-setting Council in February each year and is available at

<http://www.wokingham.gov.uk/council-and-meetings/open-data/plans-policies-and-strategies/?categoryesctl91f252ff-550d-4cfa-a838-92ef2cb5f83c=7742>

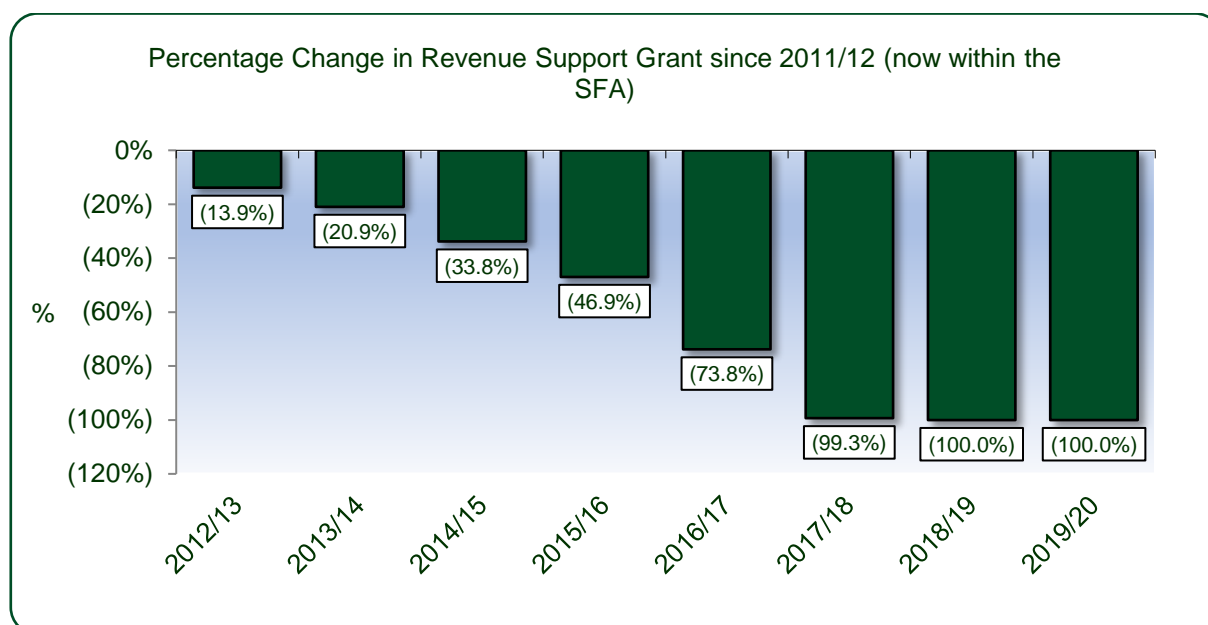
The Council continues to review opportunities for improvement and service development, most recently including the 21st Century council programme, looking to transform the way the Council operates and improve the availability of Council services through digital channels, enable residents to track the progress of their issue as it is resolved more efficiently by the Council, a greater focus on problem-solving and customer responsiveness, and a leaner, more effective and efficient Council costing significantly less to run.



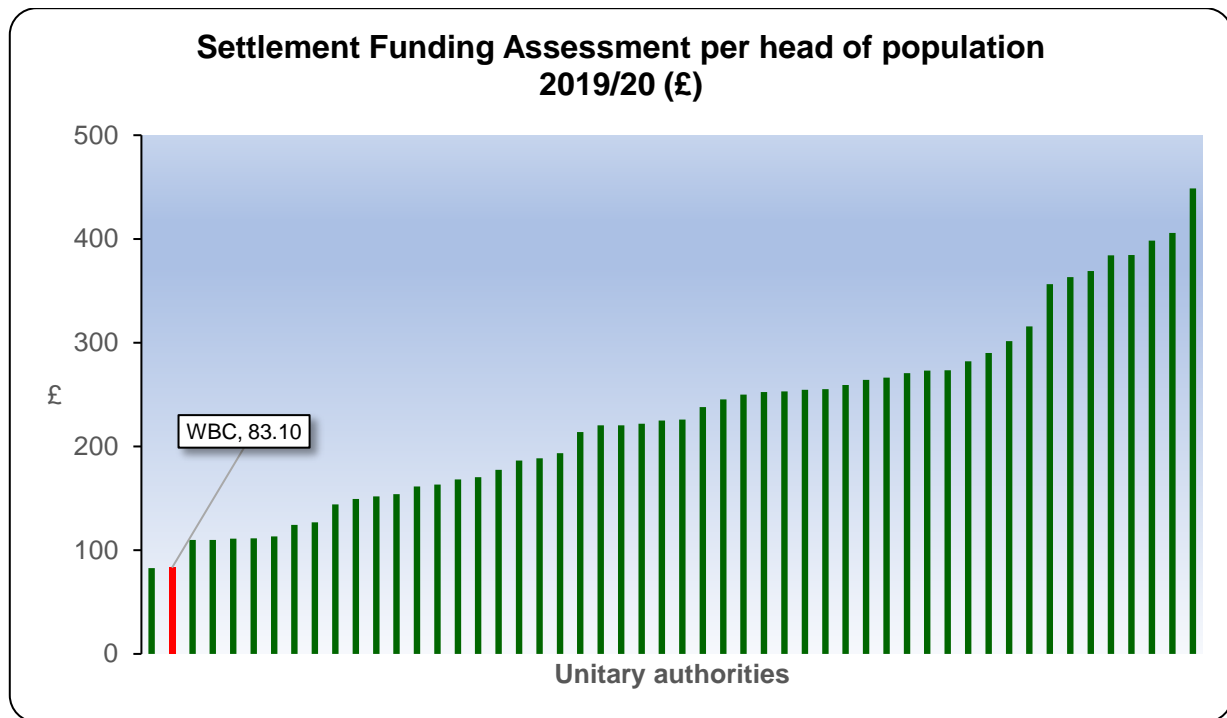
## Future financial outlook

The overall financial climate continues to be uncertain and is expected to remain so for a number of years. Wokingham, as one of the lowest funded English unitary authority, will face a particularly difficult challenge. The Council have pressures arising from reductions in revenue support grant which were forecast to be negative in 2019/20 (i.e.: the Council has to contribute funds back to Central Government), however it was announced during the finance settlement in December 2018 that there would be no negative grant payments for Councils. 2019/20 is the final year of an agreed four-year settlement. This means that there is much uncertainty around future settlements in terms of duration and the actual amount of funding Wokingham will receive. This uncertainty in funding comes at the same time as needing to meet the cost of extra pressures on statutory services such as adult social care, waste collection and disposal, highways and overall population and demographic growth.

The graph below shows the cumulative impact of reductions in grant funding for Wokingham.



In addition to the grant received, the Council also receives business rates income, which together forms the settlement funding assessment. The chart below compares Wokingham's settlement funding assessment per head of population in 2019/20 to all other unitary authorities, illustrating the low level of funding received by Wokingham. More detailed analysis of the financial context is available in the latest medium term financial plan (MTFP) which is available at <http://www.wokingham.gov.uk/council-and-meetings/open-data/plans-policies-and-strategies/?assetdet91f252ff-550d-4cfa-a838-92ef2cb5f83c=474134&categoryesctl91f252ff-550d-4cfa-a838-92ef2cb5f83c=7742>



### Regeneration, investment and strategic developments

Although the Council faces significant financial pressures, it is continuing the development of Wokingham Town Centre to ensure that it remains an attractive location for businesses to locate, and for people to live in and visit for shopping and recreational purposes. In addition, the Council has identified four Strategic Development Locations (SDLs) where new housing and employment opportunities will be located. More recently, the Council has invested in commercial assets which generate much needed revenue income for the Council. The Council's Medium Term Financial Plan (MTFP) provides for considerable investment in these areas in 2019/20 and beyond.

### Accounting developments for 2018/19

The most significant accounting developments for 2018/19 are the introduction of new accounting standards, IFRS 9 - Financial Instruments and IFRS 15 - Revenue from contracts with customers. The Council have adopted these standards resulting in no material impact on our accounts.

There are no other significant accounting developments for 2018/19. A full list of the Council's accounting policies is at chapter 11 of these accounts.

## 2. ANNUAL GOVERNANCE STATEMENT 2018/19

The Accounting and Audit Regulations 2015 (at section 6.1 a) require a local authority to prepare an Annual Governance Statement.

At Wokingham Borough Council, good governance is everyone's responsibility. However, the Leader of the Council and Chief Executive acknowledge their leadership role in relation to good governance.

The Council has defined its governance arrangements in its Local Code of Governance: Delivering Good Governance in Wokingham Borough Council. This details how the Council has operated its governance arrangements in the past year. The Council has undertaken a review of its governance arrangements via management assurance statements completed by Directors (including statutory officers), Internal Audit and external agencies.

This process has identified the following improvements:

### Corporate Services

- Updating the Constitution regularly through the year by Council to ensure it remains fit for purpose.
- Strengthening Overview & Scrutiny processes.
- Responding to Data Protection Act Subject Access requests and Freedom of Information Act requests more efficiently through the allocation of additional resource.
- Improving governance to manage technical change and decision making by the strengthening of the IT Boards and Technical Working Group.
- Reinvigorating the Change Board through weekly 'Core Group' sessions, reporting templates and clear escalation mechanisms.
- Strengthening Human Resource management through the creation of a Corporate People Dashboard and improved guidance for managers on the Intranet.
- Establishing a Contract and Commissioning Board; introducing additional governance arrangements aligned to the Council's procurement contracts rules and procedures.
- Reviewing control mechanisms for the Public Health Grant and agreeing improved governance arrangements for 2020/21. This will address the accountability issues and rebalancing the contribution to reflect the reduction in the grant.
- Reviewing contract and quality assurance functions, commissioned activity within Children's and Adults services.
- Introducing through the Strategy & Commissioning function a Quality Assurance Framework for Adult Services.
- Reviewing Care Governance Arrangements.
- Implementing strong governance arrangements for the Continuous Improvement Programme (new 21st Century Council programme).
- Refreshing the Corporate Risk Register in 2018 with strong oversight by the Audit Committee.

## Customer & Localities Services

- Fine-tuning SDL (Strategic Development Locations) governance and management arrangements to ensure that they are working effectively.
- Strengthening the terms of reference for the Tenant Landlord Improvement Panel in light of data protection breach and complaints received.
- Establishing strong Highways Alliance governance arrangements with the Council's new Highways Partnership Alliance.
- Monitoring the Grounds Maintenance contract through the grass-cutting season through fortnightly contractor meetings.
- Regular partnership meetings with the Council's parking management contractor.

## Children's Services

- Revised and refreshed the Supervision Framework including learning from Practice Weeks.
- Review of Quality Assurance Board and Quality Assurance Framework.

## Adult Services

- Action Plan in place following ADASS (Association of Directors of Adult Social Services) Peer Review, monitored monthly.
- Monthly Continuous Improvement Board with action log.
- Regular attendance at the SAB (Safeguarding Adults Board) with active participation.

This process has also identified the following exceptions:

- Internal Audits of the following areas concluding a third level of assurance indicating that a range of risk mitigation controls were incomplete and risks not effectively managed. Action plans are in place to improve these areas-
  - Housing Rent
  - Debtors
  - Shared Building Services
- A delay in the implementation of the finance module for Technology Forge has limited the information of rental payments due impacting the effective management of the property portfolio. This will be addressed in 2019-20.
- In Children's Services, staffing turnover and the use of agency staff has adversely impacted the service.

- In Adult Social Care, the fragmented statutory pathway has meant a less effective service for residents. The Executive decision in June 2019 to transfer some functions from Optalis to the Council is designed to address this.
- During the last year, the Council's senior leadership team has seen significant turnover and positions occupied by interim staff. However, all posts (Chief Executive and Director Level) are now filled by permanent appointments.

The Chief Executive has identified the actions required to strengthen these areas of governance and will monitor their implementation.

Overall, the governance arrangements are substantially complete and generally effective but with some improvements required. This is a reflection of the Council's governance framework and the management assurance statements, together with assurances from Internal Audit work and external agencies, and supported by the systems and procedural controls in place against identified risks and mitigating treatment measures.

The Council, therefore, concludes that its governance arrangements are fit for purpose.

Signed:

Leader of the Council:

Date:

Chief Executive:

Date:

## 3. STATEMENT OF RESPONSIBILITIES

### The Council's responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Deputy Chief Executive.
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To approve the statement of accounts.

### The Responsibilities of the Deputy Chief Executive

The Deputy Chief Executive, in his capacity as the S151 Officer, is responsible for the preparation of the Council's Statement of Accounts for the year ended 31 March 2019 in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) 2018/19 Code of Practice on Local Authority Accounting in United Kingdom (the Code).

In preparing this Statement of Accounts, the Deputy Chief Executive has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- complied with the Code of Practice.

I hereby certify that the Statement of Accounts presents a true and fair view of the financial position of Wokingham Borough Council at the accounting date and its income and expenditure for the year ended 31 March 2019.

**Signature:**

**Signature:**

**Graham Ebers**  
**Deputy Chief Executive &**  
**s.151 officer**

**Vice-Chairman of the Audit**  
**Committee**

**Date:**

**Date:**

## 4. DRAFT AUDIT OPINION

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WOKINGHAM BOROUGH COUNCIL

#### Opinion

We have audited the financial statements of Wokingham Borough Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Group Movement in Reserves Statement,
- Group Comprehensive Income and Expenditure Statement,
- Group Balance Sheet,
- Group Cash Flow Statement and the related notes 38 to 41,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 13,
- Collection Fund and the related notes 1 to 3,
- Financial statements notes 1 to 46.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Wokingham Borough Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Deputy Chief Executive's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Deputy Chief Executive has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## **Other information**

The other information comprises the information included in the Narrative Report set out on pages 3 to 10, other than the financial statements and our auditor's report thereon. The Deputy Chief Executive is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## **Opinion on other matters prescribed by the Local Audit and Accountability Act 2014**

### **Arrangements to secure economy, efficiency and effectiveness in the use of resources**

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, Wokingham Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### **Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

## **Responsibility of the Deputy Chief Executive**

As explained more fully in the Statement of Responsibilities set out on page 12, the Deputy Chief Executive is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.



In preparing the financial statements, the Deputy Chief Executive is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Certificate**

We certify that we have completed the audit of the accounts of Wokingham Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

## Use of our report

This report is made solely to the members of Wokingham Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature (should be signed John Smith Ernst & Young LLP)  
John Smith (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
City  
Date

**[The following foot note should be added to the audit report when it is published or distributed electronically:**

The maintenance and integrity of the Wokingham Borough Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## 5. FINANCIAL STATEMENTS

The following financial statements include the Movement in Reserves Statement (MIRS), the Comprehensive Income and Expenditure Statement (CIES), the Balance Sheet (BS) and the Cash Flow Statement (CFS).

# MOVEMENT IN RESERVES STATEMENT

	General Fund (GF) Balance	Earmarked GF Reserves	Housing Revenue Account (HRA)	Schools & Dedicated Schools Grant Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total WBC Usable Reserves	WBC Unusable Reserves	Total WBC Reserves	Total Group Usable Reserves	Unusable Group Reserves	Total Group Reserves
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
<b>Balance at 31st March, 2018 brought forward</b>	(9,124)	(48,946)	(4,057)	(2,254)	(5,567)	(3,454)	(26,397)	(99,799)	(255,598)	(355,397)	(97,160)	(249,493)	(346,653)
<b>Movement in Reserves during 2018/19:</b>													
(Surplus) or Deficit on the Provision of Services	(40,055)	0	(798)	0	0	0	0	(40,853)	0	(40,853)	(39,569)	(430)	(39,999)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	(3,613)	(3,613)	0	(4,571)	(4,571)
<b>Total Comprehensive Income and Expenditure</b>	<b>(40,055)</b>	<b>0</b>	<b>(798)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(40,853)</b>	<b>(3,613)</b>	<b>(44,466)</b>	<b>(39,569)</b>	<b>(5,001)</b>	<b>(44,570)</b>
Adjustments between Accounting Basis & Funding Basis under Regulations (note 5)	18,218	52	3,298	0	188	1	(3,217)	18,540	(18,540)	0	17,666	(17,666)	0
<b>Net (Increase) / Decrease before Transfers to Earmarked Reserves</b>	<b>(21,837)</b>	<b>52</b>	<b>2,500</b>	<b>0</b>	<b>188</b>	<b>1</b>	<b>(3,217)</b>	<b>(22,313)</b>	<b>(22,153)</b>	<b>(44,466)</b>	<b>(21,903)</b>	<b>(22,667)</b>	<b>(44,570)</b>
Transfers to/from Earmarked Reserves (Note 6)	22,133	(22,130)	(1,226)	(3)	0	1,226	0	0	0	0	0	0	0
<b>(Increase) / Decrease in 2018/19</b>	<b>296</b>	<b>(22,078)</b>	<b>1,274</b>	<b>(3)</b>	<b>188</b>	<b>1,227</b>	<b>(3,217)</b>	<b>(22,313)</b>	<b>(22,153)</b>	<b>(44,466)</b>	<b>(21,903)</b>	<b>(22,667)</b>	<b>(44,570)</b>
<b>Balance at 31st March 2019 carried forward</b>	<b>(8,828)</b>	<b>(71,024)</b>	<b>(2,783)</b>	<b>(2,257)</b>	<b>(5,379)</b>	<b>(2,227)</b>	<b>(29,614)</b>	<b>(122,112)</b>	<b>(277,751)</b>	<b>(399,863)</b>	<b>(119,063)</b>	<b>(272,160)</b>	<b>(391,223)</b>

2017/18

	General Fund (GF) Balance	Earmarked GF Reserves	Housing Revenue Account (HRA)	Schools & Dedicated Schools Grant Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total WBC Usable Reserves	WBC Unusable Reserves	Total WBC Reserves	Total Group Usable Reserves	Unusable Group Reserves	Total Group Reserves
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
<b>Balance at 31st March, 2017 brought forward</b>	(10,036)	(44,092)	(4,923)	(4,163)	(7,994)	(3,622)	(20,702)	(95,532)	(308,376)	(403,908)	(93,323)	(301,952)	(395,275)
<b>Movement in Reserves during 2017/18:</b>													
(Surplus) or Deficit on the Provision of Services	83,412	0	(3,697)	0	0	0	0	79,715	0	79,715	80,146	453	80,599
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	(31,205)	(31,205)	0	(31,977)	(31,977)
<b>Total Comprehensive Income and Expenditure</b>	<b>83,412</b>	<b>0</b>	<b>(3,697)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>79,715</b>	<b>(31,205)</b>	<b>48,510</b>	<b>80,146</b>	<b>(31,524)</b>	<b>48,622</b>
Adjustments between Accounting Basis & Funding Basis under Regulations (note 5)	(85,918)	0	4,731	0	2,427	0	(5,695)	(84,455)	84,455	0	(84,455)	84,455	0
<b>Net (Increase) / Decrease before Transfers to Earmarked Reserves</b>	<b>(2,506)</b>	<b>0</b>	<b>1,034</b>	<b>0</b>	<b>2,427</b>	<b>0</b>	<b>(5,695)</b>	<b>(4,740)</b>	<b>53,250</b>	<b>48,510</b>	<b>(4,309)</b>	<b>52,931</b>	<b>48,622</b>
Transfers to/from Earmarked Reserves (Note 6)	3,417	(4,854)	(168)	1,910	0	168	0	472	(472)	0	472	(472)	0
<b>(Increase) / Decrease in 2017/18</b>	<b>912</b>	<b>(4,854)</b>	<b>866</b>	<b>1,910</b>	<b>2,427</b>	<b>168</b>	<b>(5,695)</b>	<b>(4,267)</b>	<b>52,778</b>	<b>48,511</b>	<b>(3,837)</b>	<b>52,459</b>	<b>48,622</b>
<b>Balance at 31st March 2018 carried forward</b>	<b>(9,124)</b>	<b>(48,946)</b>	<b>(4,057)</b>	<b>(2,254)</b>	<b>(5,567)</b>	<b>(3,454)</b>	<b>(26,397)</b>	<b>(99,799)</b>	<b>(255,598)</b>	<b>(355,397)</b>	<b>(97,160)</b>	<b>(249,493)</b>	<b>(346,653)</b>

# COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Restated 2017/18			2018/19		
Gross Expenditure £,000	Gross Income £,000	Net Expenditure £,000	Gross Expenditure £,000	Gross Income £,000	Net Expenditure £,000
6,238	(3,178)	3,060	4,706	(3,376)	1,330
78,064	(44,945)	33,119	49,224	(31,182)	18,042
46,647	(15,332)	31,315	46,783	(23,201)	23,582
11,128	(15,274)	(4,146)	10,403	(15,242)	(4,839)
56,010	(11,866)	44,144	51,536	(6,811)	44,725
27,973	(2,612)	25,361	31,852	(4,024)	27,828
105,169	(103,726)	1,443	103,978	(102,297)	1,681
<b>331,229</b>	<b>(196,933)</b>	<b>134,296</b>	<b>298,482</b>	<b>(186,133)</b>	<b>112,349</b>
		97,733			3,411
		11,097			12,965
		(163,411)			(169,578)
		<b>79,715</b>			<b>(40,853)</b>
		(15,126)			(2,455)
		(16,079)			(1,158)
		<b>(31,205)</b>			<b>(3,613)</b>
		<b>48,510</b>			<b>(44,466)</b>

Chief Executive

Corporate Services

Customer and Localities Services

Housing Revenue Account

Adult Social Care

Children's Services

Children's Services - Schools Block

**Cost of Services**

Other Operating Expenditure (Note 8)

Financing and Investment Income and Expenditure (Note 9)

Taxation and Non-specific Grant Income (Note 10)

**(Surplus) or Deficit on Provision of Services**

(Surplus) or Deficit on Revaluation of Property, Plant and Equipment Assets charged to the revaluation reserve

Actuarial (Gains) / Losses on Pension Assets / Liabilities

**Other Comprehensive Income and Expenditure**

**Total Comprehensive Income and Expenditure**

# GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Restated 2017/18			2018/19		
Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
£,000	£,000	£,000	£,000	£,000	£,000
6,238	(3,178)	3,060	4,706	(3,376)	1,330
123,267	(90,463)	32,804	84,934	(66,093)	18,841
46,647	(15,332)	31,315	46,783	(23,201)	23,582
11,128	(15,274)	(4,146)	10,403	(15,242)	(4,839)
56,010	(11,866)	44,144	51,536	(6,811)	44,725
27,973	(2,612)	25,361	31,852	(4,024)	27,828
105,169	(103,726)	1,443	103,978	(102,297)	1,681
<b>376,432</b>	<b>(242,451)</b>	<b>133,981</b>	<b>334,192</b>	<b>(221,042)</b>	<b>113,148</b>
		97,733			3,267
		11,321			13,164
		(162,436)			(169,578)
		<b>80,599</b>			<b>(39,999)</b>
		(15,126)			(2,455)
		(16,851)			(2,116)
		<b>(31,977)</b>			<b>(4,571)</b>
		<b>48,522</b>			<b>(44,570)</b>

# BALANCE SHEET

WBC 31st March, 2018 £,000	Group 31st March, 2018 £,000		Notes	WBC 31st March, 2019 £,000	Group 31st March, 2019 £,000
776,075	808,743	Property, Plant & Equipment	24	871,405	909,416
6,121	6,121	Investment Property	25	17,077	17,077
3,677	3,677	Intangible Assets	26	7,069	7,069
35	35	Long Term Investments	36	35	35
12,813	0	Long Term Debtors	30,36	12,477	40
<b>798,721</b>	<b>818,576</b>	<b>Long Term Assets</b>		<b>908,063</b>	<b>933,637</b>
51,403	51,403	Short Term Investments	36	53,410	51,996
1,847	1,847	Assets Held for Sale	35	258	258
37,963	43,481	Short Term Debtors	30,36	73,156	80,488
13,739	16,214	Cash and Cash Equivalents	41	51,967	53,235
<b>104,952</b>	<b>112,945</b>	<b>Current Assets</b>		<b>178,791</b>	<b>185,977</b>
(2,580)	(2,580)	Cash and Cash Equivalents	41	(2,125)	(2,125)
(6,010)	(6,010)	Short Term Borrowing	36	(28,045)	(28,045)
(50,083)	(55,603)	Short Term Creditors	31,36	(58,460)	(68,386)
(5,713)	(5,713)	Provisions	32	(8,096)	(8,096)
<b>(64,386)</b>	<b>(69,906)</b>	<b>Current Liabilities</b>		<b>(96,726)</b>	<b>(106,652)</b>
(142,246)	(150,731)	Long Term Borrowing	36	(199,505)	(203,374)
(71)	(14,668)	Long Term Creditors	31,36	(71)	(20,184)
(8,127)	(8,127)	PFI and Finance Lease Liabilities	36	(8,759)	(8,759)
(279,506)	(287,373)	Pensions Liability	19	(291,272)	(298,618)
(53,940)	(53,940)	Capital Grants and Contributions Receipts in Advance	20	(90,658)	(90,658)
<b>(483,890)</b>	<b>(514,839)</b>	<b>Long Term Liabilities</b>		<b>(590,265)</b>	<b>(621,593)</b>
<b>355,397</b>	<b>346,776</b>	<b>Net Assets</b>		<b>399,863</b>	<b>391,370</b>
(99,799)	(97,160)	Usable Reserves	22	(122,112)	(119,063)
(255,598)	(249,493)	Unusable Reserves	23	(277,751)	(272,160)
<b>(355,397)</b>	<b>(346,653)</b>	<b>Total Reserves</b>		<b>(399,863)</b>	<b>(391,223)</b>
0	(123)	Minority Interest		0	(147)
<b>(355,397)</b>	<b>(346,776)</b>	<b>Total Reserves Excluding Minority Interest</b>		<b>(399,863)</b>	<b>(391,370)</b>

These Financial Statements replace the unaudited Financial Statements



# CASH FLOW STATEMENT

	Notes	WBC 2017/18 £,000	Group 2017/18 £,000	WBC 2018/19 £,000	Group 2018/19 £,000
Net Surplus or (Deficit) on the Provision of Services		(79,715)	(80,599)	40,853	39,999
Adjustments to Net Surplus or Deficit on the Provision of Services for Non-cash Movements	38	133,209	139,614	29,639	39,260
Adjustments for Items Included in the Net Surplus or Deficit on the Provision Of Services that are Investing or Financing Activities					
- Proceeds from disposal of property, plant and equipment, investment property and intangible assets and other capital receipts		(2,966)	(7,086)	(2,173)	(2,789)
- Capital grants and contributions		(43,783)	(49,040)	(47,153)	(47,153)
<b>Net Cash Flows from Operating Activities</b>		<b>6,745</b>	<b>6,889</b>	<b>21,166</b>	<b>29,317</b>
Investing Activities	39	(17,602)	(14,186)	(55,874)	(60,618)
Financing Activities	40	6,039	3,478	73,391	68,777
<b>Net Increase or (Decrease) in Cash and Cash Equivalents</b>		<b>(4,818)</b>	<b>(3,821)</b>	<b>38,683</b>	<b>37,476</b>
Cash and Cash Equivalents at the Beginning of the Reporting Period		15,977	17,455	11,159	13,634
<b>Cash and Cash Equivalents at the End of the Reporting Period</b>	<b>41</b>	<b>11,159</b>	<b>13,634</b>	<b>49,842</b>	<b>51,110</b>

## 6. NOTES TO THE ACCOUNTS

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	Restated 2017/18		
	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£,000	£,000	£,000
40	(43)	3,103	3,060
	38,269	(5,150)	33,119
	35,671	(4,356)	31,315
	(810)	(3,336)	(4,146)
	43,486	658	44,144
	21,094	4,268	25,362
	(2,445)	3,887	1,442
	<b>135,222</b>	<b>(926)</b>	<b>134,296</b>
	(133,445)	78,864	(54,581)
	<b>1,777</b>	<b>77,938</b>	<b>79,715</b>
(14,958)			
1,777			
(13,181)			

2018/19		
Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£,000	£,000	£,000
1,789	(459)	1,330
18,070	(28)	18,042
46,931	(23,349)	23,582
(2,158)	(2,681)	(4,839)
44,593	132	44,725
24,197	3,631	27,828
(116)	1,797	1,681
<b>133,306</b>	<b>(20,957)</b>	<b>112,349</b>
(131,736)	(21,466)	(153,202)
<b>1,570</b>	<b>(42,423)</b>	<b>(40,853)</b>
(13,181)		
(1,570)		
(11,611)		

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The adjustments between accounting and funding basis column in the table above is analysed further on the table below.

<b>2017/18</b>				<b><u>Expenditure and Funding Analysis Detail</u></b>
<b>Adjustment for Capital Purposes</b>	<b>Net Change for Pensions Adjustments</b>	<b>Other Differences</b>	<b>Total Adjustments</b>	
<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	
2,368	138	597	3,103	Chief Executive
(1,024)	1,336	(5,462)	(5,150)	Corporate Services
(3,446)	851	(1,761)	(4,356)	Customer and Localities Services
(3,676)	176	165	(3,335)	Housing Revenue Account
413	317	(72)	658	Adult Social Care
3,847	1,162	(741)	4,268	Children's Services
0	2,946	941	3,887	Children's Services - Schools Block
<b>£</b> (1,518)	<b>6,926</b>	<b>(6,333)</b>	<b>(925)</b>	<b>Net Cost of Services</b>
93,801	0	0	93,801	Other Operating Expenditure
(27)	7,366	0	7,339	Financing and Investment Income and Expenditure
(19,053)	0	(3,224)	(22,277)	Taxation and Non-specific Grant Income
<b>74,721</b>	<b>7,366</b>	<b>(3,224)</b>	<b>78,863</b>	<b>Other Income &amp; Expenditure</b>
73,203	14,292	(9,557)	77,938	Difference between General Fund surplus and deficit and Comprehensive Income and Expenditure Statement Surplus or deficit on the Provision of services

<b>2018/19</b>			
<b>Adjustment for Capital Purposes</b>	<b>Net Change for Pensions Adjustments</b>	<b>Other Differences</b>	<b>Total Adjustments</b>
<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>
(144)	46	(361)	(459)
(262)	1,112	(878)	(28)
(15,845)	1,090	(8,593)	(23,349)
(4,049)	144	1,224	(2,681)
354	313	(535)	132
2,007	1,918	(295)	3,631
0	1,540	257	1,297
<b>(17,939)</b>	<b>6,163</b>	<b>(9,181)</b>	<b>(20,957)</b>
781	0	0	781
155	6,761	0	6,916
(24,617)	0	(4,546)	(29,163)
<b>(23,681)</b>	<b>6,761</b>	<b>(4,546)</b>	<b>(21,466)</b>
(41,620)	12,924	(13,727)	(42,423)

## **NOTE 02      ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED, AND DISCLOSURE OF A CHANGE IN ACCOUNTING POLICY**

The Council should apply changes in accounting policy retrospectively unless transitional arrangements allow for alternative treatments, as well as disclosing accounting standards which have been issued, but not yet adopted in this year's accounts.

At the balance sheet date the following amendments to existing accounting standards or new interpretations have been published but not included in the 2018/19 Code of Practice of Local Authority Accounting in the United Kingdom:

- Amendments to IAS 40 Investment Property: Transfers of Investment Property.
- Annual Improvements to IFRS Standards 2014-2016 Cycle
  - o IFRS 12 Disclosure of Interests in Other Entities: Clarification of the Scope of the Standard
  - o IAS 28 Investments in Associates and Joint Ventures: Measuring an Associate or Joint Venture at Fair Value.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation.

All of these amendments to existing standards or new interpretations are unlikely to have a material impact on the Council's 2019/20 financial statements.

## **NOTE 03      CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

In applying the accounting policies set out in chapter 11, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are set out in the following paragraphs.

There is a high degree of uncertainty about future levels of funding for local government. However the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

The Council had interests in nine companies at 31 March 2019, and at 31 March 2018. Depending on the Council's ability to influence control different accounting treatments are applied. Details regarding these companies and their assessments are disclosed in note 46 to the financial statements.

The Council is deemed to jointly control the services provided under the Private Finance Initiative (PFI) contract with WRG (RE3 Ltd) for the disposal of waste. Control of the services is shared with Reading and Bracknell Forest Borough Councils. Wokingham Borough Council has reviewed the application of the control tests within IFRIC 12 to determine whether the assets within the contract should be on-balance sheet. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the assets (valued

at approximately £8.5m) are recognised as Property, Plant and Equipment in the Council's Balance Sheet which amounts to a 37.2% share of the total value of the assets that will revert to the ownership of the RE3 partnership between the three council's at the end of the contract.

In producing the financial statements the Council makes an assessment of the materiality of transactions and balances when applying its accounting policies. For the purposes of the 2018/19 financial statements the Council has applied a materiality level of £200,000 when recognising assets and liabilities to be disclosed within the financial statements.

## **NOTE 04      ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if Actual Results Differ from Assumptions</b>
<b>Property, Plant and Equipment</b>	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by approximately £1.0m for every year that useful lives had to be reduced.</p>
<b>Provisions</b>	The Council has made provision for holiday and flexi leave entitlement owing to staff at the end of the financial year. The estimate within the accounts has been based on an assumption of approximately 1.6% of payroll costs. For staff based in schools a formula based on CIPFA guidance has been used.	A 1% change (i.e. using 0.6% or 2.6%) in the estimate of accumulating absences would result in approximately a £800k increase or decrease in the provision required for accumulating absences in relation to non-school staff.
	The Council has made a provision for dilapidation costs for buildings the Council lease, to return them to their original condition at the end of the lease, and to fund any outstanding leasing costs.	There may be other buildings which the Council lease that have been altered, needing significant work to return them to their original condition, which are not presently known.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<b>Provisions</b>	The Collection Fund includes provision of £4.24m for appeals against business rates valuations as advised by DCLG guidance.	The provision at 31 March 2019 has been calculated using information provided by a company specialising in business rate calculations including provisions for appeals. Their calculation has been reviewed and is estimated to be reasonable. Under the new Business Rates Retention Pilot Scheme, the Council's share of this provision is 99%, i.e. £4.19m.
<b>Pension Liability</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The actuaries Barnett Waddingham LLP provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension's liability of changes in individual assumptions can be measured and seen in note 19. For example, a 0.1% decrease or increase in the discount rate assumption would result in an increase or decrease in the pension liability of £9.6m.
<b>PFI Liabilities</b>	The value of PFI service charge payable under the contract disclosed in note 29 of the accounts is dependent upon assumptions regarding future inflation and tonnage rates.	A 1% increase in RPI would increase Wokingham's contract charge by £1.1m. Similarly a 1% increase in tonnages would increase the service charge by £234k per annum.
<b>Arrears</b>	At 31 March 2019, the Council had a balance of total debtors of £73.2m, of which Council tax debt was £1.9m, and Government and other public sector debtors were £16.2m.	The provision set aside for bad debt increases according to the age of the debt. If collection rates for debtors (excluding public sector debtors) were to deteriorate, a 1% increase in the amount of the impairment of doubtful debts would require an additional allowance for sundry debts from the revenue account of £16k and from the collection fund of £27k.



## **NOTE 05      ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS**

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

Please see tables on following pages.

2018/19	Useable Reserves						Total Movement in Usable Reserves £,000	Movement in Unusable Reserves £,000
	General Fund (GF) Balance	Earmarked Reserves	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied		
	£,000	£,000	£,000	£,000	£,000	£,000		
<b>Adjustments primarily involving the Capital Adjustment Account:</b>								
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>								
Charges for Depreciation of Non-Current Assets	(12,293)	0	(3,644)	0	0	0	(15,937)	15,937
Charges for Impairment of Non-Current Assets	(2,119)	0	0	0	0	0	(2,119)	2,119
Charges for Amortisation of Intangible Assets	(285)	0	0	0	0	0	(285)	285
Revaluation losses on Property, Plant and Equipment	256	0	0	0	0	0	256	(256)
Movements in the Market Value of Investment properties	(155)	0	0	0	0	0	(155)	155
HRA Voluntary Debt Repayment	0	0	2,284	0	0	0	2,284	(2,284)
Capital Grants and Contributions Applied	22,527	0	0	0	0	19,527	42,054	(42,054)
Revenue Expenditure funded from Capital under Statute	(2,315)	0	0	2	0	1,873	(440)	440
Capital Expenditure Charged against the General Fund	382	52	0	0	0	0	434	(434)
Amounts of Non-Current Assets Written Off on Disposal or Sale as part of the Gain/ Loss on Disposal to the Comprehensive Income and Expenditure Statement	1,608	0	(2,745)	0	0	0	(1,137)	1,137
Use of capital receipts reserve to finance capital expenditure	10	0	0	5,800	0	0	5,810	(5,810)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>								
Statutory Provision for the Financing of Capital Investment	5,937	0	0	0	0	0	5,937	(5,937)
<b>Adjustments Primarily Involving the Capital Grants Unapplied Account:</b>								
Capital Grants and Contributions Unapplied credited to the Comprehensive Income and Expenditure Statement	24,617	0	0	0	0	(24,617)	0	0

2018/19	General Fund (GF) Balance	Earmarked Reserves	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Movement in Usable Reserves	Movement in Unusable Reserves
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
<b>Adjustments Primarily involving the Capital Receipts Reserve:</b>								
Contribution from the Capital Receipts Reserve to Finance the Payments to the Government Capital Receipts Pool	0	0	(292)	292	0	0	0	0
Transfer of non-Current asset sale proceeds from revenue to the Capital Receipts Reserve	391	0	1,781	(2,172)	0	0	0	0
Repayment of long-term loans	0	0	0	(3,734)	0	0	(3,734)	3,734
<b>Adjustment Primarily Involving the Major Repairs Reserve:</b>								
Use of the Major Repairs Reserve to Finance New Capital Expenditure	0	0	0	0	6,057	0	6,057	(6,057)
Transfer (to) or from HRA	0	0	6,056	0	(6,056)	0	0	0
<b>Adjustment Primarily Involving the Financial Instruments Adjustment Account:</b>								
Amount by which Finance Costs Charged to the Comprehensive Income and Expenditure Statement are Different from Finance Costs Chargeable in the Year in Accordance with Statutory Requirements	135	0	1	0	0	0	136	(136)
<b>Adjustments Primarily Involving the Pensions Reserve:</b>								
Reversal of Items Relating to Retirement Benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 19)	(22,696)	0	(144)	0	0	0	(22,840)	22,840
Employer's Pensions Contributions and Direct Payments to Pensioners payable in the Year	9,916	0	0	0	0	0	9,916	(9,916)
<b>Adjustments Primarily Involving the Collection Fund Adjustment Account:</b>								
Amount by which Council Tax and Business Rates Income credited to the Comprehensive Income and Expenditure Statement is Different from Council Tax Income Calculated for the Year in Accordance with Statutory Requirements	(7,334)	0	0	0	0	0	(7,334)	7,334
<b>Adjustment Primarily Involving the Accumulated Absences Account:</b>								
Amount by which Officer Remuneration Charged to the Comprehensive Income and Expenditure Statement on an Accruals Basis is Different from Remuneration Chargeable in the Year in Accordance with Statutory Requirements	(364)	0	1	0	0	0	(363)	363
<b>Total Adjustments 2018/19</b>	<b>18,218</b>	<b>52</b>	<b>3,298</b>	<b>188</b>	<b>1</b>	<b>(3,217)</b>	<b>18,540</b>	<b>(18,540)</b>

2017/18	General Fund (GF) Balance	Earmarked Reserves	Usable Reserves				Capital Grants Unapplied	Total Movement in Usable Reserves	Movement in Unusable Reserves
			Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve				
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>									
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>									
Charges for Depreciation of Non-Current Assets	(12,456)	0	(3,585)	0	0	0		(16,041)	16,041
Charges for Amortisation of Intangible Assets	(405)	0	0	0	0	0		(405)	405
Revaluation losses on Property, Plant and Equipment	(4,499)	0	(82)	0	0	0		(4,582)	4,582
Movements in the Market Value of Investment properties	27	0	0	0	0	0		27	(27)
HRA Voluntary Debt Repayment	0	0	1,828	0	0	0		1,828	(1,828)
Capital Grants and Contributions Applied	13,796	0	0	0	0	11,642		25,438	(25,438)
Revenue Expenditure funded from Capital under Statute	(2,070)	0	0	2	130	1,628		(309)	309
Amounts of Non-Current Assets Written Off on Disposal or Sale as part of the Gain/ Loss on Disposal to the Comprehensive Income and Expenditure Statement	(95,028)	0	1,519	(2,958)	0	0		(96,466)	96,466
Use of capital receipts reserve to finance capital expenditure	0	0	0	16,899	0	0		16,899	16,899
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>									
Statutory Provision for the Financing of Capital Investment	3,363	0	0	0	0	0		3,363	(3,363)
<b>Adjustments Primarily Involving the Capital Grants Unapplied Account:</b>									
Capital Grants and Contributions Unapplied credited to the Comprehensive Income and Expenditure Statement	18,965	0	0	0	0	(18,965)		0	0

2017/18	General Fund (GF) Balance	Earmarked Reserves	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Movement in Usable Reserves	Movement in Unusable Reserves
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
<b>Adjustments Primarily Involving the Capital Receipts Reserve:</b>								
Contribution from the Capital Receipts Reserve to Finance the Payments to the Government Capital Receipts Pool	0	0	(292)	292	0	0	0	0
Transfer of non-Current asset sale proceeds from revenue to Capital Receipts Reserve	204	0	0	(11,809)	0	0	(11,605)	11,605
<b>Adjustment Primarily Involving the Major Repairs Reserve:</b>								
Use of the Major Repairs Reserve to Finance New Capital Expenditure	0	0	0	0	5,386	0	5,386	(5,386)
Transfer (to) or from HRA	0	0	5,516	0	(5,516)	0	0	0
<b>Adjustment Primarily Involving the Financial Instruments Adjustment Account:</b>								
Amount by which Finance Costs Charged to the Comprehensive Income and Expenditure Statement are Different from Finance Costs Chargeable in the Year in Accordance with Statutory Requirements	135	0	1	0	0	0	136	(136)
<b>Adjustments Primarily Involving the Pensions Reserve:</b>								
Reversal of Items Relating to Retirement Benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 19)	(23,253)	0	(176)	0	0	0	(23,429)	23,429
Employer's Pensions Contributions and Direct Payments to Pensioners payable in the Year	9,135	0	0	0	0	0	9,135	(9,135)
<b>Adjustments Primarily Involving the Collection Fund Adjustment Account:</b>								
Amount by which Council Tax and Business Rates Income credited to the Comprehensive Income and expenditure Statement is Different from Council Tax Income Calculated for the Year in Accordance with statutory Requirement	5,401	0	0	0	0	0	5,401	(5,401)
<b>Adjustment Primarily Involving the Accumulated Absences Account:</b>								
Amount by which Officer Remuneration Charged to the Comprehensive Income and Expenditure Statement on an Accruals Basis is Different from Remuneration Chargeable in the Year in Accordance with Statutory Requirements	768	0	2	0	0	0	770	(770)
<b>Total Adjustments 2017/18</b>	<b>(85,918)</b>	<b>0</b>	<b>4,731</b>	<b>2,427</b>	<b>0</b>	<b>(5,695)</b>	<b>(84,455)</b>	<b>84,455</b>

## NOTE 06 TRANSFERS TO/FROM EARMARKED RESERVES

This note details the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2018/19

	Balance at 31st March, 2017	Transfers Out 2017/18	Transfers In 2017/18	Balance at 31st March, 2018	Transfers Out 2018/19	Transfers In 2018/19	Balance at 31st March, 2019
	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Balances held by Schools under a Scheme of Delegation	(2,808)	2,126	(2,155)	(2,837)	1,032	(1,704)	(3,509)
Dedicated Schools Grant Reserve	(1,356)	2,122	(184)	583	1,296	(627)	1,252
Earmarked General Fund Reserves	(44,092)	7,440	(12,293)	(48,946)	6,883	(28,961)	(71,024)
<b>Total</b>	<b>(48,256)</b>	<b>11,688</b>	<b>(14,632)</b>	<b>(51,200)</b>	<b>9,211</b>	<b>(31,292)</b>	<b>(73,281)</b>

See note 21, dedicated schools grant, for more on schools expenditure in year.

## NOTE 07 MATERIAL ITEMS OF INCOME AND EXPENSE AND PRIOR YEAR ADJUSTMENTS

Material Items of Income and Expense during 2018/19, which are outside of the normal councils business are followings:

- The Council received repayments of £3.8m (compared to £11.6m in 2017/18) loans from its subsidiary company (Wokingham Holdings Ltd) in 2018/19. The repayments were treated as a capital receipt and were used to fund additional loans to Wokingham Holdings Ltd (thereby reducing the Council's borrowing requirements). This explains the continued use of the capital receipts reserve to finance new capital expenditure. In 2018/19 this was £4.3m compared to £16.9m in 2017/18.
- The Council also paid £3.0m section 106 receipt to our housing companies in 2018/19, on completion of affordable housing developments, including Norton Road, Grovelands Park and Barret Crescent (£10.6m in 2017/18). Revenue expenditure funded from capital under statute was £5.7m (compared to £14.4m in 2017/18).
- New long term loans of £60m were taken in 2018/19 compared to nil taken in 2017/18.
- The Council advanced loans to and received repayments from WBC Holdings Ltd to be used to fund housing developments by one of the Council's group companies. The net increase in loans over the year was £1.1m (£11.9m of loans were made in 2017/18). The HRA repaid one loan of £3.1m compared to £1.8m in 2017/18.

During the year under review, adjustments were made in the current year relating to prior year balances as follows:

- The accounting for the waste PFI was amended following a revision to the accounting model to determine the accounting entries. This resulted in a revision, primarily, to the initial recognition of the assets and lease liability as well as the recognition of a deferred income liability in respect of the income stream from third party income over the life of the contract. This resulted in a reduction in the lease liability at 31 March 2018 of £362k and the recognition of a deferred income asset at 31 March 2018 of £1,565m. The increase in the initial recognition of the assets was offset by increased depreciation and, as the assets, have been subsequently revalued, increased revaluation losses with the result that the asset carrying values at 31 March 2018 were unchanged. In view of the fact that the impact of these changes arising are not material the prior year amounts have not been restated. Any changes have been included within the current year amounts. (Refer to notes 24 and 29)
- During the 2017-18 financial year a property asset with a book value of £3.6m was erroneously treated as a disposal. This error was corrected in the current year with a resultant increase in the opening carrying value of other land and buildings of £3.6m and an increase in the capital adjustment account of £2.0m and the revaluation reserve by £1.6m. As the overall impact on this correction is not material this has not been treated as a prior year adjustment and the prior year amounts have not been restated with any change being included in the current year amounts.(Refer to notes 23 and 24)
- Following a restructure in 2018-19 the People's Services directorate was separated into separate directorates for Adult Social Care and Children's Services. In order to provide comparability of the amounts reflected in the Comprehensive Income and Expenditure Statement prior year amounts have been restated to reflect the new structure in 2018-19. The comparative amounts for the Expenditure and Funding Analysis in Note 1 to the Statement of Accounts have also been restated in line with the new structure The main changes in the Comprehensive Income and Expenditure Statement are to reflect the new directorates. In addition there were some costs and revenues reallocated between the new directorates and the existing Corporate Services and Customer and Localities Services directorates with an insignificant impact. These restatements only impact on the individual elements of the Net Cost of Services section of the Comprehensive Income and Expenditure Statement with the total Net Cost of Services remaining unchanged. (Refer to the CIES and Note 1)
- The surplus carried forward at 31 March 2018 in respect of Business Rates included in the Collection Fund was overstated by £3.5m when compared to the final NNDR3 return submitted in August 2018 of which the Council's share was £1.7m. As this is not material this has been adjusted for in the current year's Collection Fund Statement. (Refer to the Collection Fund Statement and Note 3 to the Collection Fund)

## NOTE 08 OTHER OPERATING EXPENDITURE

	2017/18 £,000	2018/19 £,000
Parish Council Precepts	3,932	4,154
Payments to the Government Housing Capital Receipts Pool	292	292
(Gains) / Losses on the Disposal of Non-current Assets	93,509	(1,035)
<b>Total</b>	<b>97,733</b>	<b>3,411</b>

The decrease in 2018/19 is mainly due to 2017/18 including a large number of asset disposals where schools were transferred to academies and in 2018/19, the number of school disposals were zero.

## NOTE 09 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2017/18 £,000	2018/19 £,000
Interest Payable and Similar Charges on Debt (note 36)	5,163	5,077
Interest Payable and Similar Charges on Finance Leases (note 36)	107	107
Interest Payable and Similar Charges on Private Finance Initiatives (note 36)	483	2,704
Pensions Interest Cost and Expected Return on Pensions (note 19)	7,542	6,816
Interest Receivable and Similar Income (note 36)	(1,831)	(1,549)
Income and Expenditure in Relation to Investment Properties and Changes in their Fair Value (note 25)	(367)	(190)
<b>Total</b>	<b>11,097</b>	<b>12,965</b>

See note reference for further information.



## NOTE 10 TAXATION AND NON-SPECIFIC GRANT INCOME

	2017/18 £,000	2018/19 £,000
Council Tax Income	(96,292)	(104,512)
Retained Business Rates	(35,592)	(68,348)
Retained Business Rates tariff	18,192	55,970
Business Rates Levy	2,770	(815)
Revenue Support Grant	(158)	0
Other Non-ring fenced Government Grants	(7,718)	(4,720)
Capital Grants and Contributions	(44,613)	(47,153)
<b>Total</b>	<b>(163,411)</b>	<b>(169,578)</b>

## NOTE 11 EXPENDITURE AND INCOME ANALYSED BY NATURE

This note provides a subjective analysis of the Council's main income and expenditure statement.

	Restated 2017/18 £,000	2018/19 £,000
<b>Expenditure</b>		
Employee benefits expenses	116,433	107,359
Other service expenses	194,535	175,085
Support service recharges	(399)	(1,814)
Depreciation, amortisation, impairment	20,661	17,851
Interest payments	13,294	14,704
Precepts & Levies	3,932	4,154
Payments to Housing Capital Receipts Pool	292	292
Gain or Loss on Disposal of Non-Current Assets	93,509	(1,035)
<b>Total Expenditure</b>	<b>442,257</b>	<b>316,596</b>
<b>Income</b>		
Fees, charges & other service income	(69,638)	(65,122)
Interest and investment income	(1,831)	(1,549)
Income from council tax, NDR, district rate income	(110,922)	(117,705)
Government grants and contributions	(180,151)	(173,073)
<b>Total Income</b>	<b>(362,542)</b>	<b>(357,449)</b>
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>79,715</b>	<b>(40,853)</b>

The amounts for 2017-18 have been restated in order to ensure consistency with the amounts reflected in the Comprehensive Income and Expenditure Statement, primarily, in respect of other service expenses and fees, charges and other service income. The deficit for the year has remained unchanged

## NOTE 11B REVENUE FROM CONTRACTS WITH SERVICE RECIPIENTS

Amounts in the Comprehensive Income and Expenditure Statement

	Restated 2017/18 £,000	2018/19 £,000
Fees, charges and other service income includes the following revenues from contracts with service recipients;		
Rents	(18,072)	(18,130)
Fees	(7,508)	(7,225)
Charges	(2,346)	(2,698)
Customer/client income	(5,634)	(5,031)
Car Parking income	(2,098)	(2,216)
Sales	(2,209)	(2,664)
Other	(1,104)	292
<b>Total included in Fees, Charges and Other Service Income</b>	<b>(38,975)</b>	<b>(39,478)</b>

## NOTE 12 TRADING OPERATIONS

The Council has established one trading unit where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. Details of this unit are as follows:

### Building Control Trading Account

The Building (Local Authority Charges) Regulations 2010 require the disclosure of information regarding the setting of charges for the administration of the building control function. Wokingham Borough Council sets charges for work carried out in relation to building regulations with the aim of covering all costs incurred. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The chargeable activities are summarised below:

	2017/18 £,000	2018/19 £,000
<b>Building Control Trading Account</b>		
Turnover	(476)	(537)
Expenditure	502	531
<b>(Surplus) / Deficit on Trading Account</b>	<b>26</b>	<b>(6)</b>

The chargeable account, made a surplus of £6k in 2018/19 compared to a £26k deficit in 2017/18. The account should take one financial year with another, and should achieve break-even over a rolling period of three years ending March 2022. The reserves will be used to replace funding gaps over the 3 year period. The balance on the reserve at 31 March 2019 is a surplus of £161,197.

## NOTE 13 MEMBERS' ALLOWANCES

The Council paid the following amounts to Members of the Council during the year:

	2017/18 £,000	2018/19 £,000
Members Remuneration	582	575
	<b>582</b>	<b>575</b>

The amount paid to Members includes allowances, expenses and other remuneration.

## NOTE 14 OFFICERS' REMUNERATION

The Council paid the following amounts to its senior employees:

Post Title	Year	Salary, Fees & Allowances	Performance Related Pay	Expenses	Compensation for Loss of Office	Pension Contribution	Total
		£	£	£	£	£	£
Chief Executive Susan Parsonage (from 25 Mar 19)	2018/19	2,823	0	0	0	522	3,345
Acting Chief Executive (from 10 Oct 18) *	2018/19	55,194	0	0	0	0	55,194
Acting Chief Executive Manjeet Gill (up to 31 Oct 18) *	2018/19	85,167	0	384	60,833	0	146,384
Chief Executive (from 8 March 18)	2017/18	9,419	0	0	0	0	9,419
Chief Executive (from 7 Sept 2017 - 7 March 18) <sup>1</sup>	2017/18	91,172	0	343	0	0	91,515
Chief Executive (up to 13 Aug 17)	2017/18	47,876	10,400	302	0	10,146	68,725
Director, Locality and Customer Services (from 1 Oct 18)	2018/19	56,348	0	0	0	10,424	66,772
Director, Locality and Customer Services (up to 30 Sept 18)	2018/19	56,348	7,889	113	0	11,805	76,154
Director of Localities and Customer Service (previously Director of Environment) <sup>3</sup>	2017/18	101,426	9,016	0	0	11,439	121,880
Director of People Services Paul Senior (up to 29 Jun 18) **	2018/19	70,482	0	0	0	0	70,482
Director of People Services (prev. Director of Children's Services) (from 7 Nov 17) <sup>4</sup>	2017/18	100,844	0	0	0	0	100,844
Director of People Services (prev. Director of Children's Services) (from 1 Nov 17 - 30 Nov 17) <sup>4</sup>	2017/18	10,620	0	0	0	0	10,620
Director of People Services (prev. Director of Children's Services) (up to 3 Nov 17)	2017/18	66,678	10,988	985	49,508	13,537	141,695
Director of Corporate Services and Deputy Chief Executive <sup>2</sup>	2018/19	114,796	7,889	637	0	22,618	145,940
Director of Corporate Services and Deputy Chief Executive	2017/18	112,695	9,016	381	0	21,254	143,346
Assistant Director, Governance	2018/19	97,341	0	30	0	17,529	114,900
Assistant Director, Governance (prev. Head of Governance and Improvement Services)	2017/18	90,544	6,473	341	0	17,422	114,780
Assistant Director, Commercial Property	2018/19	91,620	0	1,358	0	16,950	109,927
Assistant Director, Commercial Property (prev. Head of town centre regeneration)	2017/18	90,020	0	46	0	15,753	105,819
Director, 21 <sup>st</sup> Century Council Programme (up to 9 Oct 18) *	2018/19	47,259	7,100	0	0	0	54,359
Director of Adult Services (from 1 Aug 18) ***	2018/19						
Interim Director of Adult Services (from June 18 to Oct 18) ****	2018/19	55,291	0	0	0	0	55,291
Director Children's Services (from 1 Nov 18)	2018/19	46,956	0	146	0	8,687	55,789
Interim Director, Children's Services Jim Leivers (from 13 Aug 18 to 26 Oct 18) ****	2018/19	61,807	0	0	0	0	61,807
Acting Director, Children's Services (from 29 May 18 to 18 Sept 18)	2018/19	34,717	0	207	0	6,423	41,347

2018/19

0.80 FTE

\*\* £70,482 total amount paid inclusive of agency costs. Director of People Services position replaced with Director of Adult Services & Director of Children Services posts

2017/18

<sup>1</sup> £91,515 total amount including expenses claimed and inclusive of agency costs

<sup>2</sup> Acting Chief Executive (14 Aug 17 - 6 Sept 17) payments included within Director of Corporate Services and Deputy Chief Executive

\*\*\* Shared arrangement with Royal Borough of Windsor & Maidenhead where full costs are shown in accounts

\*\*\*\* Total amount paid inclusive of agency costs

<sup>3</sup> Seconded to Director of 21<sup>st</sup> Century Council, 0. FTE from 1 Oct 17

<sup>4</sup> Total amount paid inclusive of agency costs

The Council's other employees (including those employed in schools) receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration Band	2017/18 No of Employees				2018/19 No of Employees			
	Council	School	VA School	Total	Council	School	VA School	Total
£50,000 - £54,999	27	20	2	49	29	24	3	56
£55,000 - £59,999	21	10	1	32	22	12	0	34
£60,000 - £64,999	5	11	1	17	9	10	1	20
£65,000 - £69,999	5	10	1	16	8	9	2	19
£70,000 - £74,999	8	4	0	12	7	3	0	10
£75,000 - £79,999	0	2	0	2	4	3	0	7
£80,000 - £84,999	1	2	0	3	1	2	0	3
£85,000 - £89,999	4	1	0	5	0	2	0	2
£90,000 - £94,999	0	0	0	0	0	0	0	0
£95,000 - £99,999	0	2	0	2	0	1	0	1
Over £100,000	0	0	0	0	1	0	0	1
<b>Total</b>	<b>71</b>	<b>62</b>	<b>5</b>	<b>138</b>	<b>81</b>	<b>66</b>	<b>6</b>	<b>153</b>

## NOTE 15 TERMINATION BENEFITS

The Council terminated the contracts of a number of employees in 2018/19. These were mainly due to officers who were made redundant as part of the reorganisation of services at the Council.

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below.

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COUNCIL	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages		Total cost of exit packages in each band	
Exit package cost	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
£0 - £20,000	21	7	5	1	26	8	£148,567	£43,283
£20,001 - £40,000	8	1	1	1	9	2	£236,770	£60,050
£40,001 - £60,000	2	4	1	0	3	4	£143,244	£182,196
£60,001 - £80,000	1	0	0	1	1	1	£75,107	£60,833
£80,001 - £100,000	0	0	0	0	0	0	£0	£0
£100,001 - £150,000	0	0	0	0	0	0	£0	£0
Above £150,000	0	0	0	0	0	0	£0	£0

SCHOOLS	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages		Total cost of exit packages in each band	
Exit package cost	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
£0 - £20,000	6	7	4	5	10	12	£71,528	£96,519
£20,001 - £40,000	0	0	1	0	1	0	£24,000	£0
£40,001 - £60,000	0	0	0	0	0	0	£0	£0
£60,001 - £80,000	0	0	0	0	0	0	£0	£0
£80,001 - £100,000	0	0	0	0	0	0	£0	£0

## **NOTE 16**      **RELATED PARTIES**

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

All Councillors, officers on the Corporate Leadership Team, budget managers (including financial approvers and project managers), shared audit & investigations, shared legal solutions, operational property, strategic assets, group finance, housing assets & maintenance and commercial and procurement were asked to complete a disclosure statement in respect of themselves and their family members / close relatives, detailing any material transactions with related parties.

### **Central Government**

Central government has a direct influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides a large amount of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in note 20.

### **Members**

Members of the Council have direct control over the Council's financial and operating policies. The total of member's allowances paid in 2018/19 is shown in Note 13. During 2018/19, works and services to the value of £11.843m (£24.396m in 2017/18) were commissioned from companies in which 14 members had an interest (14 in 2017/18). Contracts were entered into in full compliance with the Council's standing orders. In addition, grants and payments totalling £4.027m (£454k in 2017/18) were paid to voluntary organisations and charities in which 14 members declared an interest (10 in 2017/18). Payments of £1.225m (£849k in 2017/18) were made to education establishments in which 8 members declared an interest (4 in 2017/18). Payments of £2.189m were made to local council bodies (£20.433m in 2017/18) in which 13 members had interests (15 in 2017/18) mainly relating to the Council's pension arrangements. The payment to the Berkshire pension fund is in respect of pensions as outlined in note 19; the Council appoints a Councillor as a representative on the Berkshire Pension Fund advisory Panel. The Council owed £24k to these organisations at 31 March 2019 (£305k at 31 March 2018), while £14.682m was owed to Wokingham Borough Council by the relevant organisations at 31 March 2019 (£19.748m at 31 March 2018).

The relevant members did not take part in any discussion or decision relating to the grants and payments. Details of all these transactions are recorded in the Register of Members Interest, open to public inspection at the Council Offices during office hours.

### **Officers**

During 2018/19, works and services to the value of £100 (£6.973m in 2017/18) were commissioned from companies in which 11 officers had an interest (13 in 2017/18). The Council owed the relevant organisations £2.99k at 31 March 2019 (£396k at 31 March 2018), while £3k was owed to Wokingham Borough Council at 31 March 2019 (£13k at 31 March 2018). Payments of £186k (£107k in 17/18) were made to education establishments in which 2 officers declared an interest (1 in 17/18). There were no payments to Local Council Bodies (None in 17/18), 3 officers declared an interest (2 in 17/18). Contracts were entered into in full compliance with the Council's standing orders. No grants or payments were made in the year (None in 2017/18) to voluntary organisations and charities in which 3 officers declared an

interest (6 in 2017/18). The relevant officers did not take part in any discussion or decision relating to the grants and payments.

### **Town and Parish Councils**

Certain Members of Wokingham Borough Council are also councillors of the 17 Town and Parish Councils within the Borough. Each Town or Parish Council has the ability to levy a precept upon Wokingham Borough Council for the collection of council tax on behalf of the Town or Parish Councils. In 2018/19 Wokingham Borough Council collected and paid over £4.154m (£3.992m in 2017/18) in precepts and grants to the Town or Parish Councils.

### **Other Public Bodies**

The Council entered into a PFI contract with Waste Recycling Group (re3 Ltd) in 2006/07 for the disposal of waste together with Reading and Bracknell Forest Borough Councils, see note 29 for further details. The Council's contribution for 2018/19 was £9.773m (£9.5m in 2017/18). The Council also operates a number of shared services with other local authorities details of which are set out in note 44.

### **Local Enterprise Partnership**

No long term loans were raised from the Local Enterprise Partnership (LEP) in 2018/19 (none in 2017/18). During 2018/19 no loan was repaid (2017/18: £0.38m was repaid).

### **Entities Controlled or Significantly Influenced by the Council**

The Council had seven subsidiary companies at 31 March 2019 (seven at 31 March 2018), which are owned in full either directly or through existing subsidiaries apart from Optalis which has a shared ownership with the Royal Borough of Windsor and Maidenhead (see note 46 for more details), and each had a Board of Directors on which council members serve. Their accounts are incorporated in the main body of the Council's accounts with separate disclosures where material differences occur. See note 46 for more information on the Council's companies.

## **NOTE 17 EXTERNAL AUDIT COSTS**

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections provided by the Council's auditors, Ernst & Young LLP:

	2017/18 £,000	2018/19 £,000
External Audit Services	108	81
Certification of Grants and Returns	10	4
	118	85

## **NOTE 18 PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES**

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education. The scheme provides teachers with specified benefits upon retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. However, the scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the



employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and the performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2018/19, the Council paid £4.620m to the Teachers' Pension Scheme in respect of teachers' retirement benefits. The figures for 2017/18 were £5.317m

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 19.

## **NOTE 19      DEFINED BENEFIT PENSION SCHEMES**

### **Participation in Pension Schemes**

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 the employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose them at the time the employees earn their future entitlement.

The Council participates in two schemes:

- The Local Government Pension Scheme (LGPS), administered by the Royal Borough of Windsor and Maidenhead – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into the fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Wokingham Borough Council is also responsible for a share (19.0561%) of the former Berkshire County Council (BCC) Local Government Pension Scheme. The scheme is also administered by the Royal Borough of Windsor and Maidenhead. Although now closed, a liability remains amongst the six Berkshire Councils for the pensioners that were in the scheme when BCC ceased to exist.
- Optalis Ltd (a Group company) is an admitted member of the Local Government Pensions Scheme (LGPS).

The principal risks to the Council of the schemes are the longevity assumptions, statutory changes to the scheme and structural changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and the Housing Revenue Account the amounts required by statute as described in the accounting policies note.

### **Transactions Relating to Post-Employment Benefits**

The Council recognises the cost of post-employment benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. During the year the following transactions for the Wokingham scheme (WBC) and those for Berkshire County Council (BCC), which represents Wokingham's share of the Berkshire scheme of 19.0561%, have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement. The Optalis Ltd figures which related to Wokingham Borough Council have been added to the total of Wokingham and its portion of the Berkshire scheme to give the overall Group figures.

Comprehensive Income and Expenditure Statement	2017/18					2018/19				
	WBC	BCC	WBC & BCC	Optalis	Total Group	WBC	BCC	WBC & BCC	Optalis	Total Group
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
<b>Service cost comprising:</b>										
Current service costs	15,760	0	15,760	473	16,233	15,878	0	15,878	411	16,289
Administration costs	125	2	127	8	135	146	0	146	8	154
<b>Financing and investment income and expenditure:</b>										
Net interest on the defined liability	6,405	1,137	7,542	224	7,766	5,575	1,241	6,816	199	7,015
<b>Total post-employment benefit charged to the surplus or deficit on the provision of services</b>	<b>22,290</b>	<b>1,139</b>	<b>23,429</b>	<b>705</b>	<b>24,134</b>	<b>21,599</b>	<b>1,241</b>	<b>22,840</b>	<b>618</b>	<b>23,458</b>

**Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement:**

**Re-measurement of the net assets/(defined liability) :**

Return on fund assets in excess of interest	1,022	15	1,037	66	1,103	3,035	(14)	3021	857	3,878
Change in financial assumptions	13,305	1,740	15,045	707	15,752	(28,603)	(1,835)	(30,438)	(1,128)	(31,566)
Change in demographic assumptions	0	0	0	0	0	25,930	2,645	28,575	1,229	29,804
<b>Re-measurements on scheme assets</b>	<b>14,327</b>	<b>1,755</b>	<b>16,082</b>	<b>773</b>	<b>16,855</b>	<b>362</b>	<b>796</b>	<b>1,158</b>	<b>958</b>	<b>2,116</b>
<b>Total post-employment benefits charged to the Comprehensive Income and Expenditure statement</b>	<b>7,963</b>	<b>(616)</b>	<b>7,347</b>	<b>(68)</b>	<b>7,455</b>	<b>21,237</b>	<b>445</b>	<b>21,682</b>	<b>(340)</b>	<b>21,342</b>

Current service costs represent the cost to the employer of benefits earned by active members in the accounting year and added to the liabilities. It is calculated using assumptions at the start of the year which is not a fixed percentage of payroll and is expected to vary from year to year as assumptions change.

## Movement in Reserves Statement

Reversal of net charges made to the surplus or deficit for the provision of services for post-employment benefits in accordance with the Code

Actual amount charged against the general fund balance for pensions in the year for the employer's contributions payable to scheme

	2017/18					2018/19				
	WBC £,000	BCC £,000	WBC & BCC £,000	Optalis £,000	Total Group £,000	WBC £,000	BCC £,000	WBC & BCC £,000	Optalis £,000	Total Group £,000
Reversal of net charges made to the surplus or deficit for the provision of services for post-employment benefits in accordance with the Code	(22,466)	(1,139)	(23,605)	(705)	(24,310)	(21,599)	(1,241)	(22,840)	(618)	(23,458)
Actual amount charged against the general fund balance for pensions in the year for the employer's contributions payable to scheme	8,715	420	9,135	159	9,294	9,490	426	9,916	181	10,097
	<b>(13,751)</b>	<b>(719)</b>	<b>(14,470)</b>	<b>(546)</b>	<b>(15,016)</b>	<b>(12,109)</b>	<b>(815)</b>	<b>(12,924)</b>	<b>(437)</b>	<b>(13,361)</b>

The amount included in the balance sheet arising from the Council's obligation in respect of its defined benefit scheme is as follows:

## Pension assets and liabilities recognised in the balance sheet

Present value of the defined benefit obligation

Fair value of plan assets

### Sub-total

Present value of unfunded obligation

Net liability arising from defined benefit obligations

	2017/18					2018/19				
	WBC £,000	BCC £,000	WBC & BCC £,000	Optalis £,000	Total Group £,000	WBC £,000	BCC £,000	WBC & BCC £,000	Optalis £,000	Total Group £,000
Present value of the defined benefit obligation	(436,469)	(45,961)	(482,430)	(21,422)	(503,852)	(459,323)	(43,525)	(502,848)	(21,843)	(524,691)
Fair value of plan assets	209,768	384	210,152	13,555	223,707	220,708	(2,544)	218,164	14,497	232,661
<b>Sub-total</b>	<b>(226,701)</b>	<b>(45,577)</b>	<b>(272,278)</b>	<b>(7,867)</b>	<b>(280,145)</b>	<b>(238,615)</b>	<b>(46,069)</b>	<b>(284,684)</b>	<b>(7,346)</b>	<b>(292,030)</b>
Present value of unfunded obligation	(1,942)	(5,286)	(7,228)	0	(7,228)	(1,775)	(4,813)	(6,588)	0	(6,588)
<b>Net liability arising from defined benefit obligations</b>	<b>(228,643)</b>	<b>(50,863)</b>	<b>(279,506)</b>	<b>(7,867)</b>	<b>(287,373)</b>	<b>(240,390)</b>	<b>(50,882)</b>	<b>(291,272)</b>	<b>(7,346)</b>	<b>(298,618)</b>

Reconciliation of Opening and Closing Balances of the Fair Value of Scheme assets:	2017/18					2018/19				
	WBC £,000	BCC £,000	WBC & BCC £,000	Optalis £,000	Total Group £,000	WBC £,000	BCC £,000	WBC & BCC £,000	Optalis £,000	Total Group £,000
<b>Opening Fair Value of Scheme Assets</b>	<b>201,705</b>	<b>3,070</b>	<b>204,775</b>	<b>13,161</b>	<b>217,936</b>	<b>209,768</b>	<b>384</b>	<b>210,152</b>	<b>13,555</b>	<b>223,707</b>
Interest on Assets	5,668	38	5,706	368	6,074	5,377	(26)	5,351	342	5,693
Return on Assets less Interest	1,022	13	1,035	66	1,101	3,035	(14)	3,021	856	3,877
Administration Expenses	(125)	(2)	(127)	(8)	(135)	(146)	(0)	(146)	(8)	(154)
Contributions by Employer including Unfunded	8,715	420	9,135	159	9,294	9,490	426	9,916	181	10,097
Contributions by Scheme Participants and other Employers	3,086	0	3,086	74	3,160	3,121	0	3,121	64	3,185
Estimated Benefits Paid plus Unfunded Net of Transfers	(10,266)	(3,155)	(13,421)	(265)	(13,686)	(9,660)	(3,314)	(12,974)	(493)	(13,467)
Settlement prices received / (paid)	(37)	0	(37)	0	(37)	(277)	0	(277)	0	(277)
<b>Closing Fair Value of Scheme Assets</b>	<b>209,768</b>	<b>384</b>	<b>210,152</b>	<b>13,555</b>	<b>223,707</b>	<b>220,708</b>	<b>(2,544)</b>	<b>218,164</b>	<b>14,497</b>	<b>232,661</b>

Reconciliation of The Opening and Closing Balances of the present value of the Defined Benefit Obligation:	2017/18					2018/19				
	WBC	BCC	WBC & BCC	Optalis	Total Group	WBC	BCC	WBC & BCC	Optalis	Total Group
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
<b>Opening balance at 1 April</b>	<b>431,100</b>	<b>54,967</b>	<b>486,067</b>	<b>21,255</b>	<b>507,322</b>	<b>438,411</b>	<b>51,247</b>	<b>489,658</b>	<b>21,422</b>	<b>511,080</b>
Current service cost	18,555	0	18,555	473	19,028	17,670	0	17,670	411	18,081
Interest cost	11,897	1,175	13,072	592	13,664	10,897	1,215	12,112	541	12,653
Change in financial assumptions	(13,305)	(1,740)	(15,045)	(707)	(15,752)	28,604	1,835	30,439	1,128	31,567
Change in demographic assumptions	0	0	0	0	0	(25,930)	(2,645)	(28,575)	(1,229)	(29,804)
Liabilities assumed/(extinguished) on settlements	(2,777)	0	(2,777)	0	(2,777)	(6,178)	0	(6,178)	0	(6,178)
Estimated benefits paid net of transfers in	(10,113)	(2,735)	(12,848)	(265)	(13,113)	(9,510)	(2,888)	(12,398)	(494)	(12,892)
Past service costs including curtailments	121	0	121	0	121	4,163	0	4,163	0	4,163
Contribution by scheme participants and other employers	3,086	0	3,086	74	3,160	3,121	0	3,121	64	3,185
Unfunded pension payments	(153)	(420)	(573)	0	(573)	(150)	(426)	(576)	0	(576)
<b>Closing balance at 31 March</b>	<b>438,411</b>	<b>51,247</b>	<b>489,658</b>	<b>21,422</b>	<b>511,080</b>	<b>461,098</b>	<b>48,338</b>	<b>509,436</b>	<b>21,843</b>	<b>531,279</b>

**Local Government Pension Scheme assets comprised:**

2017/18					2018/19				
WBC	BCC	WBC & BCC	Optalis	Total Group	WBC	BCC	WBC & BCC	Optalis	Total Group
£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
100,539	186	100,725	6,496	107,221	118,535	(1,368)	117,167	7,354	124,521
31,504	58	31,562	2,036	33,598	30,453	(351)	30,102	2,176	32,278
26,975	50	27,025	1,743	28,768	31,168	(359)	30,809	2,013	32,822
30,892	57	30,949	1,996	32,945	18,158	(209)	17,949	1,151	19,100
9,110	17	9,127	589	9,716	10,582	(122)	10,460	754	11,214
3,708	7	3,715	240	3,955	1,715	(20)	1,695	111	1,806
10,817	20	10,837	699	11,536	21,101	(243)	20,858	1,366	22,224
(3,781)	(7)	(3,788)	(244)	(4,032)	(11,004)	128	(10,876)	(428)	(11,304)
209,764	388	210,152	13,555	223,707	220,708	(2,544)	218,164	14,497	232,661

All scheme assets have quoted prices in active markets.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

**Basis for Estimating Assets and Liabilities**

For the year to 31 March 2019, the expected return is based on the discount rate, which was 2.40% and this rate has been used to determine the profit and loss charge for the year ended 31 March 2019, compared to a rate of 2.55% in the year 31 March 2018. The equivalent figures for the former Berkshire scheme are 2.25% for 31 March 2019 and 2.45% for 31 March 2018 and for Optalis Ltd 2.40% for 31 March 2019 and 2.55% for 31 March 2018. The discount rate is the annualised yield at the 20 year point. The 12 year point is used for Berkshire scheme due to shorter estimated scheme duration and for Optalis Ltd the annualised yield used is 22 years. The Merrill Lynch AA rated corporate bond yield curve has been chosen to meet the requirements of IAS 19 and with consideration of the duration of the employer's liabilities.

Barnett Waddingham LLP, an independent firm of actuaries, assessed the liabilities as at 31 March 2019. The principal assumptions used by the actuary for the Wokingham scheme are:

	2017/18	2018/19
Expected Return on Assets (Equal to the discount rate)	2.55%	2.40%
<b>Life Expectancy from age 65 if retiring now:</b>		
Men	23.1	22.0
Women	25.2	24.0
<b>Life expectancy at age 65 retiring in 20 years:</b>		
Men	25.3	23.7
Women	27.5	25.8
Rate of Inflation-RPI	3.30%	3.40%
Rate of Inflation-CPI	2.30%	2.40%
Rate of Increase in Salaries	3.80%	3.90%
Rate of Increase in Pensions	2.30%	2.40%
Rate for Discounting Scheme Liabilities	2.55%	2.40%
Take-up Option to Convert Annual Pension into Retirement Lump Sum	50%	50%
Take-up Option to pay 50% contributions for 50% of benefits	10%	10%

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	2017/18	2018/19
Equity Investments	48%	54%
Other Bonds	15%	14%
Property	13%	14%
Cash	15%	8%
Target Return	4%	5%
Commodities	2%	1%
Infrastructure	5%	9%
Longevity Insurance	-2%	-5%
<b>Total</b>	<b>100%</b>	<b>100%</b>

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below for the Wokingham scheme did not change from those used in the previous period. The figures include the Berkshire scheme share of 19.0561%.

## Impact on the Defined Benefit Obligation in the Scheme

	Increase £,000	Current £,000	Decrease £,000
Adjustment to discount rate	0.10%	0.00%	(0.10%)
Present value of total obligation	499,861	509,436	519,166
Projected service cost	17,642	18,082	18,534
Adjustment to long term salary increase	0.10%	0.00%	(0.10%)
Present value of total obligation	510,275	509,436	508,602
Projected service cost	18,082	18,082	18,082
Adjustment to pension increases and deferred revaluation	0.10%	0.00%	(0.10%)
Present value of total obligation	518,316	509,436	500,725
Projected service cost	18,533	18,082	17,641
Adjustment to life expectancy assumption	+ 1 Year	None	-1 Year
Present value of total obligation	527,663	509,436	491,840
Projected service cost	18,703	18,082	17,482

## Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. Funding levels are monitored on an annual basis. A fund valuation was carried out on the 31 March 2019 to set contributions for the period 1 April 2020 to 31 March 2023, and is a triennial event, the next valuation being due to be completed on 31 March 2022.

The total contributions expected to be made on the Local Government Pension Scheme by the Council in the year to 31 March 2020 is £9.323m (£8.383m at 31 March 2019).

The estimated employer's past service duration for Wokingham Borough Council is 20 years at 31 March 2019 (20 years 31 March 2018) and for the Berkshire scheme is 12 years at 31 March 2019 (12 years at 31 March 2018). In Optalis Ltd the estimated employer's past service duration is 22 years at 31 March 2019 (22 years at 31 March 2018).



## NOTE 20 GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2018/19:

### Credited to Taxation and Non-specific Grant Income:

	2017/18 £,000	2018/19 £,000
Revenue Support Grant	(158)	0
New Homes Bonus	(4,757)	(4,201)
Transitional Grant	(2,104)	0
Capital Grants	(14,844)	(12,809)
Capital Contributions	(29,759)	(34,344)
<b>Sub Total</b>	<b>(51,621)</b>	<b>(51,354)</b>

### Credited to Services:

	2017/18 £,000	2018/19 £,000
Dedicated Schools Grant	(86,581)	(81,811)
Mandatory Rent Allowances: subsidy	(15,871)	(13,384)
Rent Rebates Granted to HRA Tenants: subsidy	(7,154)	(6,160)
Public Health Grant	(5,495)	(5,354)
Small Business Rate Relief	(643)	(2,242)
Pupil Premium	(2,376)	(2,175)
EFA 6 <sup>th</sup> Form Funding	(2,870)	(2,109)
Universal Infant Free School Meals	(2,241)	(1,909)
Private Finance Initiative (PFI)	(615)	(1,109)
Additional Grant for Schools	(747)	(823)
Winter Pressures	0	(402)
UASC UK Border Agency	(296)	(399)
Flexible Homelessness Support Grant	0	(307)
Teachers Pay Grant	0	(300)
Families First	(258)	(290)
Independent Living Fund	(282)	(273)
Adult and Community Learning from Learning and Skills Council	(263)	(261)
Adult Social Care Grant	(403)	(251)
Distribution of Levy Account Surplus	0	(213)
Housing Benefit and Council Tax Benefit Administration	(207)	(188)
Education Services Grant	(497)	0
Other Grants	(1,731)	(1,759)
<b>Sub Total</b>	<b>(128,530)</b>	<b>(121,719)</b>

<b>Total</b>	<b>(180,151)</b>	<b>(173,073)</b>
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There have been some significant changes between 2017/18 and 2018/19 in grants credited to taxation and non-specific grant income. The cause of this was the removal of the Transitional Grant (£2.104m in 17/18) and the Revenue Support Grant (£0.158m in 17/18). Capital grants and contributions have increased from 2017/18.

The main changes in revenue grants to services are a reduction in Designated Schools Grant (DSG) from £86.5m in 2017/18 to £81.8m in 2018/19 largely due to schools moving to academy status and a reduction in rent allowances due to a drop in caseload because most new claimants now claim Universal Credit and other existing claimants moving onto it. The Council also received a number of new grants in 2018/19.

#### Revenue Receipts in Advance:

Other Grants

**Total**

31st March, 2018 £,000	31st March, 2019 £,000
0	(56)
<b>0</b>	<b>(56)</b>

The Council received a number of grants and contributions that have yet to be recognised as income because they have conditions attached to them that may require the monies or property to be returned to the grantor. The balances at 31 March 2019 are:

#### Capital Grants and Contributions Receipts in Advance:

Thames Valley Berkshire Growth Deal – Winnersh Relief Road Phase 2:

Thames Valley Berkshire Growth Deal – Thames Valley Park and Ride:

Thames Valley Berkshire Growth Deal – Sustainable Transport National Cycle Network:

Devolved Formula Grant

Other Grants

S106 Contributions

**Total**

31st March, 2018 £,000	31st March, 2019 £,000
0	(2,521)
0	(1,962)
(3,600)	(1,411)
(776)	(1,400)
(4)	(182)
(49,560)	(83,182)
<b>(53,940)</b>	<b>(90,658)</b>

In addition to the S106 contributions receipts in advance of £83.182m as at 31 March 2019, the Council have £8.216m S106 contributions in earmarked reserves, which relate to S106 commuted sums and SANG (Suitable Alternative Natural Greenspace) contributions to maintain green spaces around developments.

## NOTE 21 DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Council's area. DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of the DSG receivable for 2018/19 are as follows and comprise the DSG figure as issued by the Department for Education:

	<b>Central Expenditure £,000</b>	<b>ISB £,000</b>	<b>Total £,000</b>
Final DSG for 2018/19 before academy recoupment	(23,591)	(105,575)	(129,166)
Less academy figure recouped for 2018/19	0	47,355	47,355
<b>Total DSG after academy recoupment for 2019/20</b>	<b>(23,591)</b>	<b>(58,220)</b>	<b>(81,811)</b>
Brought forward from 2017/18	762	0	762
Carry-forward to 2018/19 agreed in advance	0	0	0
<b>Agreed initial budget distribution in 2018/19</b>	<b>(22,829)</b>	<b>(58,220)</b>	<b>(81,049)</b>
In year adjustments	0	0	0
<b>Final budgeted distribution for 2018/19</b>	<b>(22,829)</b>	<b>(58,220)</b>	<b>(81,049)</b>
Less actual central expenditure	24,401	0	24,401
Less actual ISB deployed to schools	0	58,220	58,220
Plus local authority contribution for 2018/19	0	0	0
<b>Carry forward to 2019/20</b>	<b>1,572</b>	<b>0</b>	<b>1,572</b>

The £1,572 deficit is mainly due to the growth in demand for children with special needs in addition to the brought forward deficit.

## NOTE 22 USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement. The usable reserves are:

- General Fund Balance – the general reserves of the Council can be used to finance the day to day operations of the Council and its capital activities
- Earmarked Reserves – held for specific accounting / policy purposes and are ring fenced funds that cannot be used for other purposes
- Housing Revenue Account (HRA) – resources available to meet future running costs for council houses
- Schools & Dedicated Schools Grant – to resource expenditure directly/ not directly delegated to schools
- Capital Receipts – proceeds of asset sales available to meet future capital requirements and to act as a contingency
- Capital Grants Unapplied – holds the grants and contributions received towards capital projects which have not yet been used to finance specific capital schemes

## NOTE 23 UNUSABLE RESERVES

	31st March, 2018	31st March, 2019
	£,000	£,000
Revaluation Reserve	(170,522)	(172,568)
Capital Adjustment Account	(359,581)	(399,015)
Financial Instruments Adjustment Account	1,629	1,493
Pensions Reserve	279,506	291,272
Collection Fund Adjustment Account	(9,338)	(2,004)
Accumulated Absences Account	2,708	3,071
<b>Total Unusable Reserves</b>	<b>(255,599)</b>	<b>(277,751)</b>
Group unusable reserves	6,118	5,591
Minority interest	(123)	(147)
<b>Total Group Unusable Reserves</b>	<b>(249,604)</b>	<b>(272,307)</b>

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant, Equipment and Intangible Assets since 1 April, 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on Capital Adjustment Account.

	2017/18 £,000	2018/19 £,000
<b>Balance at 1st April</b>	<b>(176,221)</b>	<b>(170,522)</b>
Upward Revaluation of Assets	(15,703)	(18,605)
Downward Revaluation of Assets and Impairment Losses not Charged to the Surplus or Deficit on the Provision of Services	577	16,149
<b>Surplus or Deficit on Revaluation of Non-current Assets not Posted to the Surplus or Deficit on the Provision of Services</b>	<b>(15,126)</b>	<b>(2,456)</b>
Difference Between Fair Value Depreciation and Historical Cost Depreciation	1,447	963
Accumulated Gains on Assets Sold or Disposed	19,378	(553)
<b>Amount Written Off to the Capital Adjustment Account</b>	<b>20,825</b>	<b>410</b>
<b>Balance at 31st March</b>	<b>(170,522)</b>	<b>(172,568)</b>

The estimated increased value of the Council's assets on revaluation was (£0.2m) in 2018/19 (compared to £15.1m in 2017/18). This is an immaterial movement in the revaluation reserve as there were only a small number of assets revalued in the rolling programme (mainly car parks, with little valuation change).

The £19.4m accumulated revaluation gain written off on assets sold or disposed in 2017/18 consists mainly of the disposal of 8 primary schools and 1 secondary school (St Crispin's) which converted to academy status. In comparison in 2018/19 there were no schools converting to academies, therefore the figure was considerably lower.

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains. Note 5 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

	2017/18 £,000	2018/19 £,000
<b>Balance at 1st April</b>	<b>(414,753)</b>	<b>(359,581)</b>
<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>		
• Charges for depreciation of non-current assets	16,041	15,937
• Charges for impairment of non-current assets	0	2,119
• Revaluation losses on property, plant and equipment	4,582	(256)
• Amortisation of intangible assets	405	285
• Revenue expenditure funded from capital under statute	14,353	5,732
• Amounts of non-current assets written-off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	96,466	1,137
	<b>131,847</b>	<b>24,954</b>
Adjusting amounts written out of the revaluation reserve	(20,825)	(410)
<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>111,022</b>	<b>24,544</b>
Capital financing applied in the year:		
• Use of capital receipts reserve to finance new capital expenditure	(16,899)	(5,812)
• Use of major repairs reserve to finance new capital expenditure	(5,516)	(6,057)
• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(26,076)	(25,996)
• Application of grants to capital financing from the capital grants unapplied account	(13,360)	(21,384)
• Statutory provision for the financing of capital investment charged against the general fund and HRA balances	(3,363)	(5,937)
Capital expenditure charged against the general fund and HRA Balances	(499)	(434)
Increase in fair value of investment property	(27)	155
Voluntary debt repayment - HRA	(1,828)	(2,284)
Equity loan redemption	112	36
Wokingham Housing Ltd loan repayment	11,606	3,735
	<b>(55,850)</b>	<b>(63,978)</b>
<b>Balance at 31st March</b>	<b>(359,581)</b>	<b>(399,015)</b>

The amount of non-current assets to be written off on disposal dropped by £96m in 2018/19 from the previous year when 9 schools were written out of the books when they became Academies (there were none in 2018/19).

### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

	2017/18 £,000	2018/19 £,000
<b>Balance at 1st April</b>	1,765	1,629
Proportion of Premiums Incurred in Previous Financial Years Charged against the General Fund Balance in Accordance with Statutory Requirements	(136)	(136)
<b>Balance at 31st March</b>	1,629	1,493

### Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The debit balance on the Pensions Reserve shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2017/18 £,000	2018/19 £,000
<b>Balance at 1st April</b>	281,292	279,506
Actuarial (Gains) or Losses on Pensions Assets and Liabilities	(16,080)	(1,158)
Reversal of Items Relating to Retirement Benefits Debited or Credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	23,429	22,840
Employer's Pensions Contributions and Direct Payments to Pensioners Payable in the Year	(9,135)	(9,916)
<b>Balance at 31st March</b>	279,506	291,272

### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income and retained business rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2017/18 £,000	2018/19 £,000
<b>Balance at 1st April</b>	(3,937)	(9,338)
Amount by which Council Tax and Retained Business Rates Income Credited to the Comprehensive Income and Expenditure Statement is Different from Council Tax and Retained Business Rates Income Calculated for the Year in Accordance with Statutory Requirements	(5,401)	7,334
<b>Balance at 31st March</b>	(9,338)	(2,004)

## Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account. The movement between years is due to a decrease largely related to the number of staff being reduced in 2017/18 due to council restructure, transfer of nine schools to academies and the date of Easter in 2017/18 which reduces the term-time only absence calculation.

	2017/18 £,000	2018/19 £,000
<b>Balance at 1st April</b>	<b>3,478</b>	<b>2,708</b>
Settlement or cancellation of accrual made at the end of preceding Year	(3,478)	(2,708)
Amounts accrued at the end of the current year	2,708	3,071
<b>Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements</b>	<b>(770)</b>	<b>363</b>
<b>Balance at 31st March</b>	<b>2,708</b>	<b>3,071</b>

## Group unusable reserves

The group unusable reserves are calculated based on the consolidation of the subsidiary accounts on a consistent financial reporting basis to the main accounts.

## Minority interest

Accounting standards require the Council to consolidate Optalis at 100% and declare a minority interest for the proportion for which it is not the sole shareholder, 45%. This represents the share of Optalis owned by RBWM. See also note 46.



## NOTE 24 PROPERTY, PLANT AND EQUIPMENT

Movements in 2018/19:	Council Dwellings	Other Land and Buildings (Inc. HRA)	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
<b>Cost or Valuation</b>									
<b>At 1st April, 2018</b>	<b>252,121</b>	<b>433,692</b>	<b>20,787</b>	<b>146,816</b>	<b>3,139</b>	<b>5,427</b>	<b>40,223</b>	<b>902,205</b>	<b>9,799</b>
Additions	8,779	30,663	1,274	11,986	10	341	57,904	110,958	3,402
Revaluation Increases / (Decreases) Recognised in the Revaluation Reserve	(7,535)	5,998	(705)	0	0	0	0	(2,243)	(1,097)
Revaluation Increases / (Decreases) Recognised in the Surplus / Deficit on the Provision of Services	0	(3,338)	0	0	0	11	0	(3,327)	(1,914)
De-recognition - Disposals	(2,788)	2,905	235	0	0	0	(1,027)	(674)	0
Assets reclassified (to) / from Held for Sale	1,590	7,300	486	0	0	(1,521)	(7,001)	855	0
<b>At 31st March, 2019</b>	<b>252,167</b>	<b>477,220</b>	<b>22,077</b>	<b>158,802</b>	<b>3,149</b>	<b>4,258</b>	<b>90,100</b>	<b>1,007,773</b>	<b>10,190</b>



Movements in 2018/19:	Council Dwellings	Other Land and Buildings (Inc. HRA)	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
<b>Accumulated Depreciation and Impairment</b>									
<b>At 1st April, 2018</b>	<b>53,471</b>	<b>25,884</b>	<b>11,415</b>	<b>35,358</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>126,131</b>	<b>851</b>
Depreciation Charge	3,313	7,098	1,425	4,092	0	9	0	15,937	817
Depreciation written out to the Revaluation Reserve	(6,515)	(315)	(234)	0	0	(1)	0	(7,065)	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	(3,576)	0	0	0	(7)	0	(3,583)	0
Impairment Losses / (Reversals) Recognised in the Revaluation Reserve	0	2,367	0	0	0	0	0	2,367	0
Impairment Losses / (Reversals) Recognised in the Surplus / Deficit on the Provision of Services	0	2,119	0	0	0	0	0	2,119	0
De-recognition – Disposals	(43)	271	235	0	0	0	0	462	0
Assets reclassified (to) / from Held for Sale	1	0	0	0	0	0	0	1	0
<b>At 31st March, 2019</b>	<b>50,227</b>	<b>33,848</b>	<b>12,841</b>	<b>39,450</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>136,368</b>	<b>1,668</b>
<b>Net Book Value</b>									
<b>At 31st March, 2019</b>	<b>201,941</b>	<b>443,374</b>	<b>9,236</b>	<b>119,352</b>	<b>3,149</b>	<b>4,254</b>	<b>90,100</b>	<b>871,405</b>	<b>8,522</b>
<b>At 31<sup>st</sup> March, 2018</b>	<b>198,650</b>	<b>407,808</b>	<b>9,373</b>	<b>111,458</b>	<b>3,139</b>	<b>5,424</b>	<b>40,223</b>	<b>776,075</b>	<b>8,948</b>

Comparative Movements in 2017/18	Council Dwellings	Other Land and Buildings (Inc. HRA)	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
Cost or Valuation	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
<b>At 1st April , 2017</b>	<b>248,291</b>	<b>458,433</b>	<b>19,987</b>	<b>136,749</b>	<b>3,124</b>	<b>5,853</b>	<b>66,215</b>	<b>938,652</b>	<b>9,799</b>
Additions	7,270	17,535	855	10,085	70	919	23,862	60,596	0
Revaluation Increases / (Decreases) Recognised in the Revaluation Reserve	(965)	10,437	0	0	0	785	0	10,257	0
Revaluation Increases / (Decreases) Recognised in the Surplus / Deficit on the Provision of Services	0	(4,866)	0	0	0	(760)	0	(5,626)	0
De-recognition - Disposals	(626)	(58,030)	(130)	(18)	0	(1,301)	(39,585)	(99,690)	0
Assets reclassified (to) / from Held for Sale	(1,849)	0	0	0	0	0	0	(1,849)	0
Other Movements in Cost or Valuation	0	10,183	75	0	(55)	(69)	(10,269)	(135)	0
<b>At 31st March, 2018</b>	<b>252,121</b>	<b>433,692</b>	<b>20,787</b>	<b>146,816</b>	<b>3,139</b>	<b>5,427</b>	<b>40,223</b>	<b>902,205</b>	<b>9,799</b>

Comparative Movements in 2017/18	Council Dwellings	Other Land and Buildings (Inc. HRA)	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
<b>Accumulated Depreciation and Impairment At 1st April , 2017</b>	<b>53,451</b>	<b>23,871</b>	<b>10,161</b>	<b>31,374</b>	<b>0</b>	<b>540</b>	<b>0</b>	<b>119,397</b>	<b>425</b>
Depreciation Charge	3,254	7,458	1,309	4,002	0	19	0	16,042	426
Depreciation written out to the Revaluation Reserve	(3,224)	(1,642)	0	0	0	(1)	0	(4,867)	0
Depreciation written out to the Surplus / Deficit on the provision of Services	0	(553)	0	0	0	(492)	0	(1,045)	0
Impairment Losses / (Reversals) Recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0	0
Impairment Losses / (Reversals) Recognised in the Surplus / Deficit on the Provision of Services	0	0	0	0	0	0	0	0	0
De-recognition - Disposals	(10)	(3,249)	(57)	(18)	0	(63)	0	(3,397)	0
Assets Reclassified (to) / from Held for Sale	0	0	0	0	0	0	0	0	0
Other Movements in Depreciation and Impairment	0	(1)	1	0	0	0	0	0	0
<b>At 31st March, 2018</b>	<b>53,471</b>	<b>25,884</b>	<b>11,414</b>	<b>35,358</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>126,130</b>	<b>851</b>

## Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings 1-44 years
- Other, Land and Buildings 1-80 years
- Surplus Assets 1-30 years
- Vehicles, Plant, Furniture & Equipment 1-27 years
- Infrastructure, Roads & Highways 1-60 years

## Capital Commitments

The estimated commitments for capital expenditure for schemes where orders had been placed, or legal contracts entered into, at 31 March 2019 are listed below:

	2018/19 £,000
• Property Investment Fund - Stapletons Peterborough	18,435
• Wokingham Town Centre Regeneration - Elms Field (Construction)	17,220
• Bulmershe Leisure Centre Redevelopment	9,361
• Major Road Schemes - Road infrastructure - initial costs	6,506
• Thames Valley Park P&R	3,443
• Shinfield SDL Community Centre	2,036
• Land Acquisition for Major Road Schemes	1,150
• California Country Park, Car park & Infrastructure	1,149
• Bohunt (Changing Rooms)	400
• Car Parks - Pay & Display Machines	360
• Tape Lane, Hurst redevelopment	255
• Wokingham Borough Cycle Network - Bader Way phase 1&2	230
• Peach Place New Development - Completion works	213
• Other Contractual Commitments individually below £0.2m	3,446
<b>Total</b>	<b>64,203</b>

## Revaluations

The Council carries out a rolling programme which ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on depreciated historic cost.

There were no significant changes to assumptions or changes in estimated market values, applied in estimating the fair values in 2018/19.

	<b>Council Dwellings</b>	<b>Other, Land and Buildings (Inc. HRA)</b>	<b>Vehicles, Plant, Furniture &amp; Equipment</b>	<b>Infra-structure Assets</b>	<b>Community Assets</b>	<b>Surplus Assets</b>	<b>Total</b>
	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>
Carried at Historical Cost	0	46	9,236	119,352	3,149	0	<b>131,783</b>
Valued at Fair Value as at: 31 <sup>st</sup> March							
2019	201,941	50,654	0	0	0	4,001	<b>256,595</b>
2018	0	54,147	0	0	0	253	<b>54,400</b>
2017	0	91,435	0	0	0	0	<b>91,435</b>
2016	0	29,188	0	0	0	0	<b>29,188</b>
2015	0	220,329	0	0	0	0	<b>220,329</b>
<b>Total Cost or Valuation</b>	<b>201,941</b>	<b>445,799</b>	<b>9,236</b>	<b>119,352</b>	<b>3,149</b>	<b>4,254</b>	<b>783,730</b>

The difference between years are due to the number and types of assets revalued as per the rolling programme i.e. at 31 March 2018 there was one special school revalued while at 31 March 2017 all secondary schools and corporate buildings were revalued.

## NOTE 25 OTHER NON CURRENT ASSETS

### Investment Properties

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2017/18	2018/19
	£,000	£,000
Rental Income from Investment Property	352	427
Direct Operating Expenses arising from Investment Property	(12)	(82)
<b>Net Gain / (Loss)</b>	<b>340</b>	<b>345</b>

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	2017/18	2018/19
	£,000	£,000
<b>Balance at the Start of the Year</b>	<b>4,567</b>	<b>6,121</b>
Additions:		
Purchases	1,527	12,638
Net Gains / (Losses) from Fair Value Adjustments	27	(155)
Transfers:		
(To) / from Property, Plant and Equipment	0	(1,527)
<b>Balance at the End of the Year</b>	<b>6,121</b>	<b>17,077</b>

### Fair Value Hierarchy

Details of the Council's investment properties and information about fair value hierarchy as at 31 March 2019 are as follows:

Recurring fair value measurements using:	Quoted prices in active markets for identical Assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable Inputs (Level 3)	Fair value as at 31 March 2019
	£,000	£,000	£,000	£,000
Investment Properties	0	0	17,077	17,077
Surplus Assets	0	0	4,254	4,254
<b>Total</b>	<b>0</b>	<b>0</b>	<b>21,331</b>	<b>21,331</b>

## 2017/2018 Comparative

Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value as at 31 March 2018
	£,000	£,000	£,000	£,000
Investment Properties	0	0	6,121	6,121
Surplus Assets	0	0	5,424	5,424
<b>Total</b>	<b>0</b>	<b>0</b>	<b>11,545</b>	<b>11,545</b>

### Transfers between Levels of the Fair Value Hierarchy

There were no transfers between Levels 1, 2 and 3 during the year.

### Valuation Techniques used to Determine Level 3 Fair Values for Investment Properties

#### Significant Unobservable Inputs – Level 3

The office and commercial units and Investment Properties located in the local authority area are measured using the income approach, by means of the discounted cash flow method, where the expected cash flows from the properties are discounted (using a market-derived discount rate) to establish the present value of the net income stream. The approach has been developed using the Council's own data requiring it to factor assumptions, such as the duration and timing of cash inflows and outflows, rent growth, occupancy levels, bad debt levels, maintenance costs, etc.

The Council's office and commercial units are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements (and there is no reasonably available information that indicated that market participants would use different assumptions).

#### Highest and Best Use of Investment Properties

In estimation the fair value of the Council's investment properties, the highest and best use of the properties is their current use.

### Reconciliation of Fair Value Measurements (using Significant Unobservable Inputs)

#### Categorised within Level 3 of Fair Value Hierarchy

#### Office buildings categorised within Level 3

	31 <sup>st</sup> March 2018 £,000	31 <sup>st</sup> March 2019 £000
<b>Opening Balance</b>	<b>9,880</b>	<b>11,545</b>
Transfers out of Level 3	(69)	(3,048)
Total gains (or losses) for the period included in Surplus or Deficit on the Provision of Services resulting from changes in the fair value	545	(144)
Additions	2,447	12,978
Disposals	(1,239)	0
Other Charges	(19)	0
<b>Closing Balance</b>	<b>11,545</b>	<b>21,331</b>

Gains or Losses arising from changes in the fair value of the investment property are recognised in Surplus or Deficit in the Provision of Services – Financing and Investment Income and Expenditure line.

## NOTE 26 INTANGIBLE ASSETS

The carrying amount of intangible assets is amortised on a straight-line basis.

The Council accounts for its software as intangible assets to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. Amortisation of £285k charged to revenue in 2018/19 was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading. The remaining amortisation was charged directly to the service using the asset.

The costs of the Council's major software suites are written off over the following periods:

Term	Internally Generated Assets	Other Assets
5 Years	None	I-Procurement, Human Resources Management Information Systems, E-mail and Schools e-learning, GIS Mapping Software, Wokingham Strategic Transport Model (WSTM) 2015 Base Update, Planning System, 21 <sup>st</sup> Century Implementation
15 Years	None	Housing Management System
25 Years	None	Transition of WBC's ICT to a mixed economy model (migration to cloud), Customer Service System and self- service technology

The movement on Intangible Asset balances during the year is as follows:

	2017/18 £,000	2018/19 £,000
<b>Balance at the Start of the Year</b>		
Gross Carrying Amount	6,684	6,971
Accumulated Amortisation	(2,890)	(3,294)
<b>Net Carrying amount</b>	<b>3,794</b>	<b>3,677</b>
<b>Additions</b>		
Purchases	152	1,416
Reclassifications (to)/from assets under construction	0	2,262
Other Changes	136	0
Amortisation for the Period	(404)	(285)
<b>Net Carrying Amount at End of the Year</b>	<b>3,677</b>	<b>7,069</b>
<b>Comprising:</b>		
Gross Carrying Amounts	6,971	10,649
Accumulated Amortisation	(3,294)	(3,580)
<b>Closing Balance at 31 March</b>	<b>3,677</b>	<b>7,069</b>

The Council incurred significant costs on intangible assets in 2018/19 on 21<sup>st</sup> Century Implementation improvements at a cost of £1.4m and a transfer of £2.2m from assets under construction.



## NOTE 27

### CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

	2017/18 £,000	2018/19 £,000
<b>Opening Capital Financing Requirement</b>	<b>250,423</b>	<b>271,462</b>
<b>Capital Investment:</b>		
Property, Plant and Equipment	60,594	107,556
Investment Properties	1,527	12,638
Intangible Assets	152	1,416
Revenue Expenditure Funded from Capital under Statute	14,353	5,732
Long Term Debtor	11,953	4,846
<b>Sources of Finance:</b>		
Capital Receipts	(16,902)	(5,812)
Government Grants and Other Contributions	(39,433)	(47,377)
Sums Set Aside from Revenue:		
Direct Revenue Contributions	(6,015)	(6,493)
MRP / Loans Fund Principal	(3,362)	(5,937)
<b>Other Adjustments:</b>		
Voluntary Debt Repayment - HRA	(1,828)	(2,284)
<b>Closing Capital Financing Requirement</b>	<b>271,462</b>	<b>335,747</b>

## NOTE 28 LEASES

### The Council as Lessee

#### Finance Leases

The Council has two finance leases which were entered into in 1982. They relate to property at 1-14 and 1a-9a Weller Drive on the Hogwood Lane industrial estate, and the original length of the leases is 125 years.

The assets acquired in the leases on the industrial estate are carried as Investment Properties in the Balance Sheet at nil value as the value was written down to nil during 2012/13 following a review as the initial lease terms on the property are onerous and at present the units are not trading at a surplus taking into account total management and running costs. In the event the properties trade at a surplus at a future date, the assets will be revalued and the impairment reversed as appropriate.

The Council is committed to making the minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments comprise the following amounts:

<b>Finance Lease Liabilities (Net Present Value of Minimum Lease Payments):</b>	<b>31st March, 2018 £,000</b>	<b>31st March, 2019 £,000</b>
• Current	0	0
• Non-current	1,067	1,067
Finance Costs Payable in Future Years	8,491	8,384
<b>Minimum Lease Payments</b>	<b>9,558</b>	<b>9,451</b>

The minimum lease payments will be payable over the following periods:

	<b>Minimum Lease Payments</b>		<b>Finance Lease Liabilities</b>	
	<b>31st March, 2018 £,000</b>	<b>31st March, 2019 £,000</b>	<b>31st March, 2018 £,000</b>	<b>31st March, 2019 £,000</b>
- Not Later than One Year	107	107	0	0
- Later than One Year and not Later than Five Years	427	427	0	0
- Later than Five Years	9,024	8,917	1,067	1,067
	<b>9,558</b>	<b>9,451</b>	<b>1,067</b>	<b>1,067</b>

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2018/19 £186k contingent rents were payable by the Council (2017/18 £184k)

## Operating Leases

The Council has a number of operating leases relating to buildings, vehicles and computer equipment. The items are used for the following purposes:

- buildings include office accommodation, industrial premises and social housing
- vehicles include animal warden, portorage and social services fleet vehicles

The future minimum lease payments due under non-cancellable leases in future years are:

	<b>31st March, 2018 £,000</b>	<b>31st March, 2019 £,000</b>
<b>Not later than one year:</b>		
Land and buildings	330	133
Vehicles, plant and equipment	47	47
Computer equipment	134	111
<b>Later than one year and not later than five years:</b>		
Land and buildings	661	369
Vehicles, plant and equipment	57	59
Computer equipment	142	133
<b>Later than five years:</b>		
Land and buildings	562	553
	<b>1,933</b>	<b>1,294</b>

The expenditure charged to the relevant service line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	<b>2017/18 £,000</b>	<b>2018/19 £,000</b>
<b>Minimum lease payments:</b>		
Land and buildings	451	130
Vehicles, plant and equipment	46	46
Computer equipment	183	128
<b>Contingent rents:</b>		
Land and buildings	0	0
	<b>680</b>	<b>307</b>

Reduction in 2018/19 due to a number of leases ending towards the end of 2017/18.

## The Council as Lessor

### Finance Leases

The Council did not enter into any finance leases in 2018/19 as a lessor.

## The Council as Lessor

### Operating Leases

The Council has a number of premises which it leases out on an operating lease basis for the following purposes:

- for the provision of community services such as sports facilities, community centres and leisure facilities
- for economic development purposes to provide suitable affordable accommodation for local businesses
- for the provision of service tenancy accommodation such as school caretakers.

The income receivable credited to the relevant service line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

<b>Rental Income receivable:</b>	<b>2017/18 £,000</b>	<b>2018/19 £,000</b>
Shops	(584)	(333)
Industrial Premises	(930)	(918)
Offices	(28)	(28)
Other	(808)	(680)
<b>Total</b>	<b>(2,350)</b>	<b>(1,959)</b>

The decrease in shop rental income from £584k in 2017/18 to £333k in 2018/19 is largely due to the short term impact of regeneration works taking place in Wokingham Town Centre.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	<b>31st March, 2018 £,000</b>	<b>31st March, 2019 £,000</b>
<b>Not later than one year:</b>		
Shops	(512)	(376)
Industrial premises	(519)	(538)
Offices	(28)	(21)
Other	(540)	(462)
<b>Later than one year and not later than five years:</b>		
Shops	(505)	(317)
Industrial premises	(976)	(626)
Offices	(50)	0
Other	(1,879)	(1,660)
<b>Later than five years:</b>		
Shops	(520)	(465)
Industrial premises	(31)	0
Offices	0	0
Other	(20,330)	(19,524)
<b>Total</b>	<b>(25,890)</b>	<b>(23,989)</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2018/19 £121k contingent rents were receivable by the Council (2017/18 £64k).

## NOTE 29 PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

### Waste Disposal PFI Scheme

In 2006/07 the Council, together with Reading and Bracknell Forest Borough Councils, entered into a PFI contract with WRG (RE3 Ltd) for the disposal of waste. The total outstanding value of the contract is estimated to be £117.3m as at 31 March, 2019, to be shared between the councils based on usage. Actual payments will depend upon the contractor's performance as well as that of the individual councils in waste collection and recycling. As part of the contract, the contractor has built a transfer station, materials recycling facility, civic amenity site and offices on land owned by Reading and Bracknell Forest Borough Councils. The contract will expire in December 2031.

The Council acquired a 37.2% share of assets that will revert to the ownership of the RE3 partnership between the three councils at the end of the contract.

The Council's share of the assets used to provide the waste disposal contract is recognised in the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on Property, Plant and Equipment in Note 24.

Payments remaining to be made by Wokingham Borough Council under the PFI contract at 31 March, 2019 (excluding any estimation of inflation and availability / performance deductions) are as follows:

	Income Amortisation	Liability	Interest	Service Charge s	Total
	£,000	£,000	£,000	£,000	£,000
Payable in 2019/20	118	491	457	2,277	3,225
Payable within 2 to 5 Years	472	1,588	1,506	10,378	13,473
Payable within 6 to 10 Years	590	2,649	1,132	14,431	18,211
Payable within 11 to 15 Years	267	1,517	167	7,047	8,731
<b>Total</b>	<b>1,447</b>	<b>6,245</b>	<b>3,262</b>	<b>34,133</b>	<b>43,639</b>

The liability outstanding under the waste contract is as follows:

	Deferred Income		Lease Liability	
	31st March, 2018 £,000	31st March, 2019 £,000	31st March, 2018 £,000	31st March, 2019 £,000
Balance Outstanding at Start of Year	0	0	(7,362)	(7,060)
Opening balance adjustment*	0	(1,565)	0	362
<b>Adjusted Balance</b>	0	(1,565)	(7,362)	(6,698)
Amortisation/Payments During the Year	0	118	302	453
<b>Balance Outstanding at End of Year</b>	<b>0</b>	<b>(1,447)</b>	<b>(7,060)</b>	<b>(6,245)</b>

\* The opening balance adjustment arises from a review of the accounting model to determine the accounting entries. This resulted in a revision, primarily, to the initial recognition of the assets and lease liability as well as the recognition of a deferred income liability in respect of the income stream from third party income over the life of the contract.

## NOTE 30 DEBTORS

Debtors are amounts that were due to the Council in full at the end of the accounting year and are net of bad debt provisions. They can be analysed as follows:

### SHORT TERM DEBTORS

#### Repayable within One year

Central Government Bodies
Other Local Authorities
NHS Bodies
Other Entities and Individuals
<b>Total</b>

31st March, 2018 £,000	31st March, 2019 £,000
4,517	4,508
2,796	10,488
952	1,222
29,698	56,938
<b>37,963</b>	<b>73,156</b>

Other Local Authorities have increased from £2.8m in 17/18 to £10.5m in 18/19. This is due to some large invoices relating to capital projects which are to be part funded by the LEP.

Other Entities and Individuals have increased from £29.7m in 17/18 to £56.9m in 18/19 due to a large payment in advance for the purchase of a commercial property and developer contributions owed to the Council.

### DEBTORS FOR LOCAL TAXATION

The debtors which were due to the Council in full at the end of the accounting year, net of bad debt provision, for local taxation (council tax and non-domestic rates (business rates)) can be analysed by age as follows:

	Council Tax £,000	Business Rates £,000	31st March, 2018 £,000	Council Tax £,000	Business Rates £,000	31 <sup>st</sup> March, 2019 £,000
Less than 1 year	1,015	1,377	2,392	1,175	1,780	2,955
Between 1 and 2 years	388	499	887	454	393	847
More than 2 years	261	166	427	274	179	453
<b>Total</b>	<b>1,664</b>	<b>2,042</b>	<b>3,706</b>	<b>1,903</b>	<b>2,352</b>	<b>4,255</b>

### LONG TERM DEBTORS

#### Repayable after one year

Other Entities and Individuals
<b>Total</b>

31st March, 2018 £,000	31st March, 2019 £,000
12,813	12,477
<b>12,813</b>	<b>12,477</b>

## NOTE 31 CREDITORS

Creditors are amounts due to be paid by the Council at the end of the accounting year and include:

	31st March, 2018 £,000	31st March, 2019 £,000
Central Government Bodies	(13,714)	(2,872)
Other Local Authorities	(2,601)	(4,227)
NHS Bodies	(900)	(327)
Charities	42	42
Other Entities and Individuals	(32,910)	(51,076)
<b>Total</b>	<b>(50,083)</b>	<b>(58,460)</b>

The decrease in Central Government Bodies from £13.7m in 17/18 to £2.9m in 18/19 is due to the reduction in payment of business rates to government. The increase in Other Entities and Individuals from £32.9m in 17/18 to £51.1m in 18/19 is due to an increase in goods and service received towards the end of the financial year which are not yet due for payment.

### LONG TERM CREDITORS

#### Repayable after one year

Other Entities and Individuals

#### Total

	31st March, 2018 £,000	31st March, 2019 £,000
Other Entities and Individuals	(71)	(71)
<b>Total</b>	<b>(71)</b>	<b>(71)</b>

The long term creditor is in respect of funds received from a developer for a deposit relating to a section 38 agreement, which will be returned to the developer at the end of the development if all conditions are met.

## NOTE 32 PROVISIONS

All of the Council's provisions are short term.

Provisions less than 1 year:	2017/18			2018/19		
	Provision for Accumulated Absences	Other Provisions	Total	Provision for Accumulated Absences	Other Provisions	Total
	£,000	£,000	£,000	£,000	£,000	£,000
<b>Balance brought forward</b>	<b>(3,478)</b>	<b>(2,907)</b>	<b>(6,384)</b>	<b>(2,708)</b>	<b>(3,005)</b>	<b>(5,713)</b>
Additional provisions made in year	(2,708)	(1,367)	(4,075)	(3,071)	(2,745)	(5,816)
Amounts used in year	0	1,268	1,268	0	725	725
Unused amounts reversed in year	3,478	0	3,478	2,708	0	2,708
Unwinding of discounting in year	0	0	0	0	0	0
<b>Balance carried forward</b>	<b>(2,708)</b>	<b>(3,005)</b>	<b>(5,713)</b>	<b>3,071</b>	<b>5,025</b>	<b>8,096</b>

### Provision for Accumulated Absences

Officers can carry forward holiday and flexi leave entitlement at the end of the financial year. However, they are not financially compensated if they leave the Council's employment before taking up their entitlement. The Council made a provision of £3.071m at 31 March 2019 (£2.708m at 31 March 2018) for compensated absences. The increase is largely related to schools payrolls increasing in year and the date of Easter in 2018/19 increasing the Term Time Only absence calculations.

### Other Provisions

Provision for Non Domestic Rates successful appeals against valuations - Following guidance from the Department of Communities and Local Government (DCLG), and in line with proper accounting practice, the Collection Fund has made a provision of £4.236m (£4.781m as at 31 March 2018) for successful appeals against business rates valuations, of which Wokingham's share is £4.193m (£2.343m as at 31 March 2018). This increase was due to the council being part of the 100% business rate retention pilot in 2018/19.

Dilapidation – A provision for dilapidation costs on buildings for Council lease of £0.217m (£0.395m as at 31 March 2018). As contracts may specify the building must be returned to their original condition at the end of the lease. This also includes terminating leases where necessary. In year there were costs incurred of £178k relating to returning the Aspire site in Winnersh back to its pre-contract position after the lease termination.

Wokingham Borough Council is a Member of the MMI (Municipal Mutual Insurance) Scheme of Arrangement, which was put in place following MMI's insolvency in 1992. It relates to historic insurance claims for mesothelioma caused by asbestos and those claims that may have been incurred but not yet reported. A small provision is held for this purpose, which was increased in 2018-19 by £158k to £425k.

In 2018-19 the council has lost 3 planning related legal cases, the costs of these have not currently been determined, a provision has been created for the estimated costs of £190k (nil as at 31 March 2018).



## NOTE 33 CONTINGENT LIABILITIES

Wokingham Borough Council has a number of subsidiary companies, which were operational during 2018/19. The Council funds any operating losses reported by the companies from its working balances as loans to the companies. The losses are carried forward in the profit and loss reserves of the companies (see the main financial statements and note 46 for more information). In addition, it acts as guarantor for any losses or liabilities incurred by the companies, particularly any residual losses that may be incurred by the companies if they were to cease trading and were wound up.

In relation to Optalis Ltd, the Council has an additional contingent liability in relation to staff transferred from the Council to the company under TUPE arrangements. The Council remains liable for the pension liabilities of the staff transferred, for costs associated with future redundancies and for pension strain costs arising from service closures and future modernisations if they were to occur. The Optalis pension deficit at 31 March 2019 is £7.346m (£7.867m at 31 March 2018), as can be seen in note 19.

## NOTE 34 CONTINGENT ASSETS

The Council does not currently have any contingent assets.

## NOTE 35 ASSETS HELD FOR SALE

	Current		Non-current	
	2017/18 £,000	2018/19 £,000	2017/18 £,000	2018/19 £,000
<b>Balance outstanding at start of the year</b>	171	1,847	0	0
Assets newly classified as held for sale:				
Property, plant and equipment	1,847	258	0	0
Assets sold	(171)	0	0	0
Transfers to Operational Assets – Not Sold	0	(1,847)		0
<b>Balance outstanding at end of year</b>	1,847	258	0	0

As at 31 March 2019 there were 3 properties classified as assets held for sale (30 at 31 March 2018).

## NOTE 36 FINANCIAL INSTRUMENTS

### Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	<u>Current</u>						<u>Non-Current</u>			
	Investments		Debtors		Cash and Cash Equivalents		Investments	Debtors		
	31st March, 2018 £,000	31st March, 2019 £,000	31st March, 2018 £,000	31st March, 2019 £,000	31st March, 2018 £,000	31st March, 2019 £,000	31st March, 2018 £,000	31st March, 2019 £,000	31st March, 2018 £,000	31st March, 2019 £,000
<b>Financial Assets</b>										
At amortised cost	51,403	53,410	31,887	39,542	13,739	51,966	35	35	12,813	12,477
<b>Total Financial Assets</b>	51,403	53,410	31,887	39,542	13,739	51,966	35	35	12,813	12,477
<b>Non-financial Assets</b>										
Other	0	0	6,076	33,614	0	0	0	0	0	0
<b>Total Non-financial Assets</b>	0	0	6,076	33,614	0	0	0	0	0	0
<b>Per Balance Sheet</b>	51,403	53,410	37,963	73,156	13,739	51,966	35	35	12,813	12,477

## Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Borrowings		<u>Current</u> Creditors		Cash and Cash Equivalents		<u>Non-Current</u> Borrowings		Creditors	
	31st March, 2018 £,000	31st March, 2019 £,000	31st March, 2018 £,000	31st March, 2019 £,000	31st March, 2018 £,000	31st March, 2019 £,000	31st March, 2018 £,000	31st March, 2019 £,000	31st March, 2018 £,000	31st March, 2019 £,000
<b>Financial Liabilities</b>										
At amortised cost	(6,010)	(28,045)	(27,111)	(42,119)	(2,580)	(2,125)	(142,246)	(199,505)	(71)	(71)
<b>Total Financial Liabilities</b>	(6,010)	(28,045)	(27,111)	(42,119)	(2,580)	(2,125)	(142,246)	(199,505)	(71)	(71)
<b>Non-financial Assets</b>										
Other	0	0	(22,972)	(16,341)	0	0	0	0	0	0
<b>Per Balance Sheet</b>	<b>(6,010)</b>	<b>(28,045)</b>	<b>(50,083)</b>	<b>(58,460)</b>	<b>(2,580)</b>	<b>(2,125)</b>	<b>(142,246)</b>	<b>(199,505)</b>	<b>(71)</b>	<b>(71)</b>

## Reclassification of Financial Assets and Financial Liabilities at 1 April 2018

	Carrying Amount Brought Forward at 1 April 2018 £,000	New Classifications at 1 April 2018		
		Amortised Cost £,000	Outside Scope £,000	Non Financial Instruments £,000
Previous Classifications				
Financial Assets				
Loans and receivables				
- Short term	51,403	51,403	0	0
- Long term	12,813	12,813	0	0
Financial assets carried at contract amounts	31,887	31,887	0	0
Investment in group companies	35	35	0	0
Cash and cash equivalents	0	13,739	0	0
Non-financial instruments	0	0	0	6,076
	96,138	109,877	0	6,076
Financial Liabilities				
Financial Liabilities at amortised cost				
- Short term	(6,010)	(6,010)	0	0
- Long term	(142,246)	(142,246)	0	0
PFI and other finance lease liabilities	(8,127)	0	(8,127)	0
Financial liabilities carried at contract amounts	(27,182)	(27,182)	0	0
Cash and cash equivalents	0	(2,580)	0	0
Non-financial instruments	0	0	0	(22,972)
	(183,565)	(178,018)	(8,127)	(22,972)

## Income, Expense, Gains and Losses

	2017/18			2018/19		
	Financial Liabilities Measured at Amortised Cost £,000	Financial Assets Measured at Amortised Cost £,000	Total £,000	Financial Liabilities Measured at Amortised Cost £,000	Financial Assets Measured at Amortised Cost £,000	Total £,000
Interest expense on external borrowing	5,163	0	5,163	5,077	0	5,077
Interest expense on PFI and finance lease liabilities	589	0	589	2,811	0	2,811
Impairment losses	0	0	0	0	0	0
<b>Total expense in surplus or deficit on the provision of services</b>	<b>5,752</b>	<b>0</b>	<b>5,752</b>	<b>7,888</b>	<b>0</b>	<b>7,888</b>
Interest income	0	(1,831)	(1,831)	0	(1,549)	(1,549)
<b>Total income in surplus or deficit on the provision of services</b>	<b>5,752</b>	<b>(1,831)</b>	<b>3,921</b>	<b>7,888</b>	<b>(1,549)</b>	<b>6,339</b>
Surplus / deficit arising on revaluation of financial assets in the comprehensive income and expenditure statement	0	0	0	0	0	0
<b>Net (gain) / loss for the year</b>	<b>5,752</b>	<b>(1,831)</b>	<b>3,921</b>	<b>7,888</b>	<b>(1,549)</b>	<b>6,339</b>

## Fair Values of Financial Assets and Financial Liabilities

All financial assets and financial liabilities of the Council are carried in the Balance Sheet at amortised cost. The fair values calculated for financial assets and liabilities are as follows:

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- for loans from the Public Works Loans Board (PWLB) and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- for loans receivable prevailing benchmark market rates have been used to provide the fair value;
- no early repayment or impairment is recognised;
- where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the principal outstanding or the billed amount;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

	31 March 2018		31 March 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£,000	£,000	£,000	£,000
<b>Financial Assets Held at Amortised Cost</b>				
Short-term Investments	51,403	51,403	53,410	53,410
Long-term Investments	35	35	35	35
Short-term Debtors	31,887	31,887	39,542	39,542
Long-term Debtors	12,813	12,813	12,477	12,477
Cash and Cash Equivalents	13,739	13,739	51,966	51,966
<b>Total Financial Assets</b>	<b>109,877</b>	<b>109,877</b>	<b>157,430</b>	<b>157,430</b>
<b>Financial Liabilities Held at Amortised Cost</b>				
Borrowings	(148,256)	(204,551)	(227,550)	(290,333)
Cash and Cash Equivalents	(2,580)	(2,580)	(2,125)	(2,125)
Other liabilities and creditors	(27,111)	(27,111)	(42,190)	(42,190)
	<b>(177,947)</b>	<b>(234,242)</b>	<b>(271,865)</b>	<b>(334,648)</b>
<b>Other</b>				
Long-term creditors	(71)	(71)	(71)	(71)
PFI and other Finance Lease Liabilities	(8,127)	(8,127)	(8,759)	(8,759)
	<b>(8,198)</b>	<b>(8,198)</b>	<b>(8,830)</b>	<b>(8,830)</b>
<b>Total Financial Liabilities</b>	<b>(186,145)</b>	<b>(242,440)</b>	<b>(280,695)</b>	<b>(343,478)</b>

The fair value of liabilities as at 31 March 2019 is greater overall than the carrying amount because the Council's portfolio of loans from the Government's Public Works Loans Board (PWLb) and other sources includes a number of fixed rate loans where the interest payable is higher than the rates available for similar loans in the market at the Balance Sheet date.

The fair values for financial liabilities have been determined by reference to the PWLB redemption rules and prevailing PWLB redemption rates as at each balance sheet date, and include accrued interest. The fair value for non-PWLB debt has also been calculated using the same procedures and interest rates and this provides a sound approximation for fair value of these instruments.

The differences are attributable to fixed interest instruments payable being held by the Council whose interest rate is slightly lower than the prevailing rate estimated to be available at 31 March 2019. This increases the fair value of loans and receivables.

The fair values for investments have been determined by reference to similar practices, as above which provide a reasonable approximation for the fair value of a financial instrument and includes accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each balance sheet date. In practice, rates will be determined by the size of the transaction and the counterparty but it is impractical to use these figures and the difference is likely to be immaterial.

**Fair Value Hierarchy for Financial Assets and Financial Liabilities that are not measured at Fair Value**

	<b>31st March, 2018</b>	<b>31st March, 2019</b>
	<b>Other Significant Observable Inputs (Level 2)</b>	<b>Other Significant Observable Inputs (Level 2)</b>
	<b>£,000</b>	<b>£,000</b>
<b>Financial Liabilities</b>		
PWLB and LOBO loans	(145,344)	(141,550)
Borrowings with other local authorities	0	(85,000)
Other loans	(2,912)	(1,000)
PFI and finance lease liabilities	(8,127)	(8,759)
	<b>(156,383)</b>	<b>(236,309)</b>
<b>Financial Assets</b>		
Short-term investments with other local authorities	54,406	91,258
Investments with banks and other financial institutions	6,500	8,637
Other investments	0	2,326
	<b>60,906</b>	<b>102,221</b>

## **NOTE 37                      NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

The Council's activities expose it to a variety of financial risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- re-financing risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Local Government Act 2003. Overall, these procedures require the Council to manage risk, which it does through the following means.

The Annual Treasury Management and Investment strategy which incorporates the prudential indicators was approved by Council on 22 February 2018 and is available on the Council website

at <https://wokingham.moderngov.co.uk/ieListDocuments.aspx?CId=131&MId=2451&Ver=4>

### **Credit risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Treasury Management and Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch, Moody's and Standard and Poor's Ratings Services. The Treasury Management Strategy also imposes a maximum sum to be invested and time limits with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria. The credit criteria in respect of financial assets held by the Council are detailed in the annual treasury management and investment strategy.

The following analysis summarises the Council's potential maximum exposure to credit risk on financial assets, based on experience of default, and ability to collect, over the last six financial years, adjusted to reflect current market conditions:



## Amounts Arising from Expected Credit Losses

The changes in the loss allowance for financial assets at amortised cost are as follows:

	Lifetime Expected Credit Losses-Credit Impaired Simplified Approach £,000
<b>2018-19 Movement</b>	
Opening balance at 1 April 2018	(2,160)
Amounts written-off	2
Increase in allowance for credit losses	(307)
Other changes	4
<b>Closing balance at 31 March 2019</b>	<b>(2,461)</b>
<b>2017-18 Movement</b>	
Opening balance at 1 April 2017	(2,310)
Amounts written-off	356
Increase in allowance for credit losses	(206)
<b>Closing balance at 31 March 2018</b>	<b>(2,160)</b>

The Council has the following exposure to credit risk at 31 March 2019:

	Gross Carrying Amount at 31 March, 2019 £,000
<b>Deposits with banks and financial institutions:</b>	
AAA Rated Counterparties	8,000
<b>Deposits with banks and financial institutions:</b>	
AA Rated Counterparties	91,258
<b>Simplified Approach</b>	
Customers	44,692
<b>Total</b>	<b>143,950</b>

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

## Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the annual treasury and investment strategy), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed. The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Instead, the risk is that the Council is exposed to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The maturity analysis of financial assets is as follows:

	31st March, 2018 £,000	31st March, 2019 £,000
Within one year	60,586	105,376

There were no financial assets due for repayment to the Council in over one year as at 31 March 2019 (Nil at 31 March 2018).

## Maturity and refinancing risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered together with the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets. The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved Treasury Management and Investment Strategy address the main risks and the corporate finance team addresses the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt;
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments to provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:

	31st March 2018 £,000	31st March 2019 £,000
<b>Short term borrowing</b>		
Within one year	(6,010)	(28,045)
<b>Long term borrowing</b>		
Between 1 and 2 years	(2,738)	(37,679)
Between 2 and 5 years	(12,232)	(34,492)
Between 5 and 10 years	(23,233)	(23,233)
Between 10 and 15 years	(40,634)	(40,620)
Between 15 and 20 years	(19,000)	(19,000)
Between 25 and 30 years	(1,567)	(1,465)
More than 30 years	(42,843)	(43,016)
<b>Total Long Term</b>	<b>(142,246)</b>	<b>(199,505)</b>
<b>Total Borrowing</b>	<b>(148,256)</b>	<b>(227,550)</b>

## Market risk

### Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise;
- borrowings at fixed rates – the fair value of the borrowing liability will fall;
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise;
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the surplus or deficit on the provision of services or other comprehensive income and expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the surplus or deficit on the provision of services and affect the general fund balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in other comprehensive income and expenditure.

The Council has a number of strategies for managing interest rate risk. The annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The corporate finance team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

At 31 March, if all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	31st March, 2018 £,000	31st March, 2019 £,000
Increase in interest payable on variable rate borrowings	0	0
Increase in interest receivable on variable rate investments	(372)	(230)
<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>(372)</b>	<b>(230)</b>
Share of overall impact debited/(credited) to the HRA	0	0
Decrease in Fair Value of Fixed Rate Investment Assets	0	0
<b>Impact on Other Comprehensive Income and Expenditure</b>	<b>(372)</b>	<b>(230)</b>
Decrease in Fair Value of Fixed Rate Borrowings Liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	0	0

There is nil impact on the cost of borrowing of a 1% change as all the loans are at fixed rates. The impact of a 1% fall in interest rates would be as above but with the movements being reversed. Fund Managers investments are not considered as variable rate investments.

#### Price risk

The Council does not generally invest in instruments with this type of risk.

## NOTE 38 OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	31st March, 2018 £,000	31st March, 2019 £,000
Interest Received	1,831	1,549
Interest Paid	(5,753)	(7,988)
	<b>(3,922)</b>	<b>(6,338)</b>

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements

	31st March, 2018 £,000	31st March, 2019 £,000
Depreciation of property, plant and equipment	16,041	15,936
Impairment and downward valuations	4,555	1,863
Amortisation of intangible assets	405	285
Increase/(decrease) in impairment allowance for bad or doubtful debts	0	291
Increase/(decrease) in creditors	3,678	8,342
(Increase)/decrease in debtors	(2,952)	(13,678)
Movement in pension liability	14,294	12,924
Carrying amount of non-current assets, and non – current assets held for sale, sold or derecognised	96,476	1,137
Other non-cash items charged to the net surplus or deficit on the provision of services	713	2,539
<b>Total Non-Cash Movements</b>	<b>133,209</b>	<b>29,639</b>

## NOTE 39 INVESTING ACTIVITIES

	31st March, 2018 £,000	31st March, 2019 £,000
Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	(61,210)	(140,249)
Purchase of Short-term and Long-term Investments	(51,435)	(51,084)
Other Payments for Investing Activities	(11,953)	(4,845)
Proceeds from the Sale of Property, Plant and Equipment, Investment Property and Intangible Assets	2,966	1,780
Proceeds from Short-term and Long-term Investments	51,684	54,259
Other Receipts from Investing Activities	52,346	84,265
<b>Net Cash Flows from Investing Activities</b>	<b>(17,602)</b>	<b>(55,874)</b>

## NOTE 40 FINANCING ACTIVITIES

	31st March, 2018	31st March, 2019
	£,000	£,000
Cash Receipts of Short and Long-term Borrowing	42,250	142,035
Other Receipts or Payments for Financing Activities	3,472	216
Cash Payments for the reduction of outstanding liabilities relating to Finance leases and on balance sheet PFI contracts	(302)	631
Repayments of short and long-term borrowing	(39,380)	(62,741)
Other Payments for Financing Activities	0	(6,750)
<b>Net Cash Flows from Financing Activities</b>	<b>6,039</b>	<b>73,391</b>

## NOTE 41 CASH AND CASH EQUIVALENTS

	WBC 31st March, 2018	Group 31st March, 2018	WBC 31st March, 2019	Group 31st March, 2019
	£,000	£,000	£,000	£,000
Cash held by the Council	4,235	4,235	3,155	3,155
Money Market Instruments	9,503	9,503	48,178	48,178
Cash Held by Fund Managers	0	0	634	634
Bank Current Assets	0	2,476	0	1,268
<b>Cash and Cash Equivalents</b>	<b>13,739</b>	<b>16,214</b>	<b>51,967</b>	<b>53,235</b>
Bank Current Liabilities	(2,580)	(2,580)	(2,125)	(2,125)
<b>Total Cash and Cash Equivalents</b>	<b>11,159</b>	<b>13,634</b>	<b>49,842</b>	<b>51,110</b>

## **NOTE 42      ACQUIRED AND DISCONTINUED OPERATIONS**

There were no acquired or discontinued operations in 2018/19 or 2017/18.

## **NOTE 43      EVENTS AFTER THE BALANCE SHEET DATE**

The draft Statement of Accounts was authorised for issue by the Deputy Chief Executive (S.151 Officer) on 31 May 2019. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements have not been adjusted for any post balance sheet events which took place after 31 March. On 1<sup>st</sup> April 2019 the Council acquired an investment property asset to the value of £18.4m. The impact on the accounts would be to reduce debtors and increase investment properties in the fixed asset note.

On Thursday 27th June 2019, the Executive agreed to transfer of all statutory adult social care functions (Brokerage and Support Services) and staff from Optalis Ltd to Wokingham Borough Council. The decision relates to service post 31st March 2019 therefore does not impact on the expenditure recorded in the Comprehensive Income and Expenditure Statement nor the structure of the company in relation to the group accounts.

## NOTE 44 AGENCY SERVICES

The Council performs an Independent Mental Capacity Advocacy service on behalf of a number of other unitary authorities in Berkshire, Slough and Bracknell Forest councils left the contract in 17/18 and West Berkshire left the contract during 18/19. The other authorities reimburse the Council for this work, including a contribution towards administrative costs. The Council operates a shared legal service and internal audit & investigations service with the Royal Borough of Windsor and Maidenhead, a building control service with Royal Borough Windsor and Maidenhead and West Berkshire, and a reprographics service with Bracknell Forest Council for which the expenditure and income are shown below. A summary of expenditure incurred and income received, in respect of agency services, which is not included within the Comprehensive Income and Expenditure Statement, is as follows:

	2017/18 £,000	2018/19 £,000
<b>Expenditure</b>		
Independent Mental Capacity Advocate (IMCA)	166	175
Shared Legal Services	599	557
Internal Audit & Investigation	400	414
Building Control	1,234	1,252
Operational Property	0	806
Reprographics	157	100
<b>Total Expenditure</b>	<b>2,556</b>	<b>3,304</b>
<b>Income</b>		
IMCA		
Reading	(62)	(80)
Slough	(2)	0
Bracknell	(1)	0
Windsor	(46)	(71)
West Berkshire	(56)	(24)
Shared Legal Services		
Windsor	(599)	(557)
Internal Audit & Investigation		
Windsor	(400)	(414)
Building Control		
Windsor	(627)	(626)
West Berkshire	(606)	(626)
Operational Property	0	(806)
Reprographics		
Bracknell Forest	(157)	(100)
<b>Total Income</b>	<b>(2,556)</b>	<b>(3,304)</b>
<b>Net Expenditure / Income</b>	<b>0</b>	<b>0</b>



## NOTE 45 POOLED BUDGETS

Section 75 of the National Health Service Act 2006 and the Community Care and Health (Scotland) Act 2002 enable the establishment of joint working arrangements between NHS bodies and local authorities to enable them to work collaboratively to provide services to address local health issues. Wokingham currently has two pooled budget arrangements.

### Joint Equipment Stores Agreement

The Joint Equipment Stores Agreement uses NRS Healthcare as an agent to provide the services. The six Berkshire Unitary Authorities and the Berkshire Clinical Commissioning Groups are members of the agreement with West Berkshire Council as the lead partner. The memorandum account for the fund is as follows:

	2017/18 £,000	2018/19 £,000
<b>Funding Provided to the Pooled Budget:</b>		
Wokingham Borough Council	(436)	(551)
West Berkshire Council	(778)	(1,103)
Other Berkshire Councils	(1,843)	(2,018)
Berkshire Clinical Commissioning Groups	(4,512)	(5,381)
	<b>(7,569)</b>	<b>(9,053)</b>
<b>Expenditure Met from the Pooled Budget:</b>		
Management Fund Costs	114	106
Nottingham Rehab Supplies	7,455	8,947
<b>Net (Surplus) / Deficit Arising on the Pooled Budget During the Year</b>	<b>0</b>	<b>0</b>

### Better Care Fund (BCF)

Wokingham Borough Council and Wokingham Clinical Commissioning Group (Wokingham CCG) are partners in the provision of services to support the following aims and benefits:

- improve the quality and efficiency of Health and Social Care Services;
- meet the National Conditions set by NHS England and Local Objectives set;
- make more effective use of resources through the establishment and maintenance of an aligned fund for revenue expenditure on the Services;
- ensure that people in Wokingham will remain independent, avoid hospital admission or are discharged quickly with a joined up package of care and support, and;
- for those that need it, to develop an integrated health and care system that enables people to proactively manage their own care with the support of their family, community and the right professionals at the right time in a properly joined up system.

The BCF provides various services to residents of Wokingham who benefit from specific targeted interventions,

The services provided include:

- Support for carers;
- Extended social care provision hours;
- Re-ablement services, and
- Intermediate care and support.

**Funding Provided to the Pooled Budget:**

 Wokingham Borough Council  
 Wokingham CCG

**Expenditure Met from the Pooled Budget:**

 Wokingham Borough Council  
 Wokingham CCG

**Net (Surplus) / Deficit Arising on the Pooled Budget During the Year**

2017/18 £,000	2018/19 £,000
2,089	2,086
7,777	7,925
<b>9,866</b>	<b>10,011</b>
6,209	6,210
3,697	3,769
<b>9,906</b>	<b>9,979</b>
<b>40</b>	<b>(32)</b>

## NOTE 46 INVESTMENTS IN COMPANIES

**Trading Standards South East Ltd (TSSEL)**

This is a company set up by 19 local authority trading standards departments in the South East of England to provide a consumer helpline and regional intelligence unit for Trading Standards' functions, training to the member authorities and other joined up trading standards services. It was established in 2004/05 and is limited by guarantee of £1. Wokingham Borough Council has an equal 1/19th share in the company and is able to nominate one director on the board of the company. It has been determined that the Council does not have control or significant influence over the activities of TSSEL and so it is not classed as a subsidiary, joint entity or associate of the Council. The latest financial statements for the company were prepared at 31 March 2018 and show net assets of £601k at 31 March 2018 (£952k at 31 March 2017). Wokingham Borough Council does not receive any dividend income from the company. The financial statements for the company for 2018/19 will be available later in 2019. A full set of financial statements for the company can be obtained from the Company Secretary at the registered office: Surrey County Council, Trading Standards, Fairmount House, Bull Hill, Leatherhead, Surrey, KT22 7AY.

**Flexible Home Improvement Loans Ltd (FHILL)**

This is a company set up by 17 local authorities across the South East of England to deliver small loans to homeowners to improve their property. The loans are targeted at vulnerable households to ensure they are in decent accommodation and therefore can remain in their own home rather than go into residential care. The company was established in March 2008 and is limited by guarantee of £10. Wokingham Borough Council has an equal 1/17th share in the company and is able to nominate one director on the board of the company. It has been determined that the Council does not have control or significant influence over the activities of FHILL and so it is not classed as a subsidiary, joint entity or associate of the Council. The latest financial statements for the company were prepared at 31 March 2018 and, show that turnover for 2017/18 was nil (nil in 2016/17). However, the company received investment income of £268,913 (£259,700 in 2016/17) and as a result, after meeting administrative expenses, the company made a profit of £160,496 in 2017/18 (profit of £120,588 in 2016/17). The company had net assets of £8.207m at 31 March 2018 (£8.046m at 31 March 2017). The purpose of the company is to receive grants from Central Government and make loans to local authority members which, when repaid, are then also used to make loans to homeowners. Any grant income and investment income therefore maintain the company as a going concern. Wokingham Borough Council does not receive any dividend income from the company. A full set of financial statements for the company can be obtained from Head of Finance, Royal Borough of Windsor and Maidenhead, Town Hall, St. Ives Road, Maidenhead, SL6 1RF.

### **Optalis Ltd**

Optalis Ltd (OL) is a company set up by Wokingham Borough Council (WBC) for the purposes of providing Adult Social Care Services. The company was established in 2011 and is limited by shares. On 01 April 2014, Optalis Holdings Ltd (OHL) was set up and 100% of the shareholding in OL was transferred by WBC to OHL. On the same date OHL issued 50,000 preference shares of £1 and 1 ordinary share of £1 to which WBC (Holdings) Ltd subscribed 100%. Also on 01 April 2014, Optalis Wokingham Ltd (OWL) was set up as a wholly owned subsidiary of OHL. Its purpose is to assist service delivery and tax management. In preparation for the commencement of a new arrangement with the Royal Borough of Windsor and Maidenhead (RBWM), 100% of WBC (Holdings) Ltd shareholding in OHL was transferred back to WBC. At the same time the 50,000 preference shares were re-designated as ordinary shares and 99 additional ordinary shares were issued. A share sale took place on 31 March 2017 with RBWM purchasing 22,545 shares in OHL for £771k, representing a 45% interest, with new services starting and TUPE of staff into Optalis Ltd on 03 April 2017. Jointly with RBWM, WBC is able to control the operating, governance and financial policies of the organisation, and also able to appoint the board of directors of the company. The Company is accounted for as a partially owned subsidiary of WBC however, as WBC's interest in Optalis arose as a result of formation of the company no goodwill arose. Optalis had turnover of £45.497m in 2018/19 (£44.243m in 2017/18 actual), a net operating profit of £79k (£59k in 2017/18), and had net assets of £327k at 31 March 2019 (£273k net assets at 31 March 2018).

### **WBC (Holdings) Ltd**

WBC (Holdings) Ltd is a company set up in October 2013, and wholly-owned by Wokingham Borough Council. Its purpose is to ensure group tax relief can be claimed for all the Council's wholly-owned companies and to ensure the overall coordination of the Council's interests in its wholly-owned companies. Its share capital is 1 ordinary share of £1. The Council's shareholdings in Optalis Holdings Ltd (OHL) and Wokingham Housing Ltd (WHL) were transferred at nil cost to WBC (Holdings) Ltd in April 2014. As noted above the shareholding in OHL was subsequently transferred back to WBC on 31 March 2017 ahead of the sale of 45% of the shares to RBWM. The company does not undertake any trading and does not therefore have any trading income. The 2018/19 accounts show net expenditure of £212k (£200k in 2017/18 actual) largely in respect of administrative costs. The company had net assets of £846k at 31 March 2019 comprising £1.9m reserves in respect of the face value of shareholding in WHL, less the accumulated losses of £(1.054)m (£1.057m at 31 March 2018 actual).

### **Wokingham Housing Ltd (WHL), including Loddon Homes Ltd (LHL)**

WHL is a company wholly owned and set up by Wokingham Borough Council (WBC) for the purposes of providing housing services. The company was established in January 2012, is limited by shares, and started trading during 2012-13. WBC has 100% of the share capital in the company and is able to control the operating, governance and financial policies of the organisation. The Council is also able to appoint the board of directors of the company. The company has issued a total of 1.9m ordinary £1 shares and the Council subscribed to all of them at a cost of £1.9m, however, the ownership of these shares was transferred to the Council's holding company, WBC (Holdings) Ltd, in 2014/15 in line with Council policy. The Company is accounted for as a wholly-owned subsidiary of WBC. As WBC's interest in Wokingham Housing Ltd arose as a result of the formation of the company, no goodwill has arisen as a result of the formation. Loddon Homes Ltd is a provider of social and affordable housing, accredited with Homes England as a for-profit registered provider. WHL and LHL 2018/19 accounts show combined turnover of £4,805k in 2018/19 (£12,752k in 2017/18); the combined net loss for 2018/19 of both companies is £(54)k (combined loss of £(580)k in 2017/18), and there were combined net assets of £486k at 31 March 2018 (combined £518k net assets at 31 March 2018).

**Berry Brook Homes Ltd (BBHL) (formerly known as Wokingham Enterprises Ltd (WEL))**

Berry Brook Homes Ltd (BBHL) is accounted for as a wholly-owned subsidiary of WBC. The company was formerly known as Wokingham Enterprises Ltd (WEL), which had not undertaken any trading activity since March 2013. WEL was renamed BBHL in 2017/18 and transferred to WBC Holdings Ltd to be used within the portfolio of housing companies. In 2018/19 BBHL had turnover of £776k (£370k in 2017/18) and the company had net liabilities of £(236)k at 31 March 2019 comprising £3k share capital and accumulated losses of £(239)k (net liabilities of £(5k) at 31 March 2018 comprising £3k share capital and accumulated losses of £(8)k).

## NOTE 47      ADJUSTMENTS BETWEEN GROUP ACCOUNTS AND AUTHORITY ACCOUNTS

Details of intra group transactions between entities within the Group, eliminated out of the consolidation of the group accounts.

Adjustment for Intra - group transactions in Net Cost of Sales	Wokingham Authority	Optalis Ltd	Wokingham Housing Ltd	WBC (Holdings) Ltd	Loddon Homes Ltd	Berry Brook Homes Ltd	Total
	£,000	£,000	£,000	£,000	£,000	£,000	£,000
<b>2018/19</b>							
- Corporate Services	(12,395)	9,149	3,390	(150)	(42)	47	0
<b>2017/18</b>							
- Corporate Services	(7,582)	7,766	971	(1,104)	(49)	(2)	0

Details of all Financing and Investment Income and Expenditure transactions put through the Comprehensive Income and Expenditure Account on consolidation

**Financing and Investment  
Income and Expenditure**

**2018/19**

Net Interest on Pension Fund  
Defined Liability (assets)

Wokingham Authority	Wokingham Subsidiaries	Wokingham Group
£,000	£,000	£,000
6,816	199	7,015

**2017/18**

Net Interest on Pension Fund  
Defined Liability (assets)

7,542	224	7,766
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## 7. HOUSING REVENUE ACCOUNT

### Introduction

The Housing Revenue Account (HRA) reflects a statutory obligation to maintain a revenue account for the Council's housing provision, in accordance with Schedule 4 of the Local Government and Housing Act 1989 (England and Wales). Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants. Consequently, the HRA is a statutory account, ring-fenced from the rest of the General Fund so that rents cannot be subsidised from council tax and vice versa.

Transactions relating to the HRA have been separated into two statements:

- HRA Income and Expenditure Statement
- Movement on the HRA Statement

### HRA Income and Expenditure Statement

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Council charges rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

### Movement on the HRA Statement

The overall objectives for the Movement on the HRA Statement, and the general principles for its completion, are the same as those generally for the Movement in Reserves Statement into which it is consolidated. The statement takes the outturn on the HRA Income and Expenditure Statement and reconciles it to the surplus or deficit for the year on the HRA Balance, calculated in accordance with the requirements of the Local Government and Housing Act 1989.



# Housing Revenue Account Income and Expenditure Statement

	Notes	2017/18 £,000	2018/19 £,000
<b>Income</b>			
Dwelling rents (gross)		(14,544)	(14,321)
Non-dwelling rents (gross)		(211)	(232)
Charges for services and facilities		(603)	(594)
Re-imbursement of costs		(9)	(12)
		<b>(15,367)</b>	<b>(15,159)</b>
<b>Expenditure</b>			
Repairs and maintenance		2,796	3,028
Supervision and management		3,105	3,269
Rents, rates, taxes and other charges		157	158
Increased impairment allowance for bad or doubtful debts	11	116	16
Depreciation	7	3,585	3,644
Revaluation or impairment of fixed assets		82	0
Debt management costs		117	117
		<b>9,958</b>	<b>10,232</b>
<b>Net Cost of HRA Services</b>		<b>(5,409)</b>	<b>(4,927)</b>
(Gain) or loss on sale of HRA non-current assets (Inc. Pooling Payment)		(1,227)	1,256
Interest payable and similar charges		2,796	2,762
HRA interest and investment income		(30)	(32)
Accumulated leave		(2)	(1)
Pension interest cost and expected return on pension assets	9	176	144
<b>(Surplus) or Deficit for the Year on HRA Services</b>		<b>(3,697)</b>	<b>(798)</b>

# Movement on the HRA Statement

	Notes	2017/18 £,000	2018/19 £,000
<b>Balance on the HRA at the End of the Previous Year</b>		<b>(4,923)</b>	<b>(4,057)</b>
(Surplus) or deficit for the year on the HRA income and expenditure statement		(3,697)	(798)
<b>Adjustments between Accounting Basis and Funding Basis under Statute</b>			
Depreciation	7	(3,585)	(3,644)
Impairment / revaluation loss		(82)	0
(Gain) / loss on disposal		1,227	(1,256)
Reversal of accumulating absences		2	1
Capital expenditure funded by the HRA (adjusted against the capital adjustment account)	5	5,516	6,057
Transfer to the capital adjustment account for voluntary debt repayment		1,828	2,284
HRA share of contributions (to) or from the pensions reserve	9	(176)	(144)
Reversal of financial instrument amortisation		1	1
<b>Net (Increase) or Decrease in the HRA Balance before Transfers to or from Reserves</b>		<b>1,034</b>	<b>2,501</b>
Transfer to capital reserves		1,763	1,186
Transfers to or (from) the major repairs reserve	4	(1,931)	(2,413)
<b>(Increase) or Decrease in Year on the HRA</b>		<b>866</b>	<b>1,274</b>
<b>Housing Revenue Account Balance Carried Forward</b>		<b>(4,057)</b>	<b>(2,783)</b>

## 8. NOTES TO THE HOUSING REVENUE ACCOUNT

### NOTE 1 HOUSING STOCK

The number and types of dwellings in the Council's housing stock are as follows:

	Number of Properties	
	31-Mar-18	31-Mar-19
<b>Dwellings:</b>		
Low and medium rise flats	588	589
Traditional houses and bungalows	1,368	1,371
Non-traditional houses and bungalows	328	328
<b>Sheltered Units:</b>		
Low and medium rise flats	198	197
Traditional houses and bungalows	117	117
<b>Shared Equity Properties:</b>		
Low and medium rise flats	7	7
Traditional houses and bungalows	36	35
<b>Total HRA Housing Stock</b>	<b>2,642</b>	<b>2,644</b>

### NOTE 2 HRA ASSET VALUATION

The value of land, houses and other property held within the HRA is as follows:

	Dwellings	Operational Assets Other Land and Buildings	Plant and Equipment	Total
	£,000	£,000	£,000	£,000
Gross valuation at 31 March, 2018	252,121	3,867	858	256,846
Accumulated depreciation and impairment	(53,471)	(307)	(685)	(54,463)
<b>Net Book Value at 31 March, 2018</b>	<b>198,650</b>	<b>3,560</b>	<b>173</b>	<b>202,383</b>
Additions	8,779	0	1	8,780
Disposals	(2,745)	0	0	(2,745)
Revaluations	(1,020)	0	0	(1,020)
Assets reclassified from held for sale	1,590	0	0	1,590
Depreciation	(3,313)	(305)	(26)	(3,644)
Impairments				
<b>Net Book Value at 31 March, 2019</b>	<b>201,941</b>	<b>3,255</b>	<b>148</b>	<b>205,344</b>

## NOTE 3 VACANT POSSESSION

The vacant possession value of dwellings within the Council's HRA at 31 March 2019 was £604.3m and on 31 March 2018 was £597.3m

The vacant possession value and the balance sheet value of dwellings within the HRA show the economic cost to the Government of providing council housing at less than open market rents. The dwellings in the balance sheet are valued using the existing use value (EUV) for social housing rate. This is an open market rate with an adjustment factor that recognises the fact that the dwellings are tenanted properties let at affordable rents without vacant possession. The adjustment factor is set by the Government and is currently 33% of open market value (33% in 2017/18).

## NOTE 4 MAJOR REPAIRS RESERVE

Movement on the Major Repairs Reserve (MRR) was as follows:

	2017/18 £,000	2018/19 £,000
<b>Balance at 1st April</b>	(3,622)	(3,454)
Charges for depreciation	(3,585)	(3,644)
Capital expenditure on land, houses and other property within the HRA	5,516	6,057
Transfers (to) or from major repairs reserve	<b>1,931</b>	<b>2,413</b>
Revenue contribution to capital expenditure	(1,763)	(1,186)
<b>Balance at 31st March</b>	<b>(3,454)</b>	<b>(2,227)</b>

## NOTE 5 CAPITAL EXPENDITURE AND FUNDING

	2017/18 £,000	2018/19 £,000
<b>Capital Expenditure within the Year:</b>		
Capital expenditure on land, houses and other property within the HRA	7,468	9,672
<b>Funded by:</b>		
Major repairs reserve	(5,516)	(6,057)
Capital receipts reserve	(1,952)	(1,549)
S106 developer contributions	0	(2,066)
HRA revenue		
<b>(Surplus) / Deficit</b>	<b>(7,468)</b>	<b>(9,672)</b>

## NOTE 6 CAPITAL RECEIPTS

	2017/18 £,000	2018/19 £,000
Disposal receipts for ten dwellings (ten in 2017/18)	2,316	1,781

In 2018/19 fifteen properties were purchased for £4.45m.  
 (In 2017/18 eleven properties were purchased for £2.46m).

## NOTE 7 DEPRECIATION

Operational assets (property, plant and equipment)  
Other, land and buildings  
Council dwellings

2017/18 £,000	2018/19 £,000
26	26
305	305
3,254	3,313
<b>3,585</b>	<b>3,644</b>

## NOTE 8 IMPAIRMENT CHARGES

There have been no impairments on council dwellings available for letting and other non-current HRA Assets during 2018/19. (In 2017/18 there were no impairments).

## NOTE 9 CONTRIBUTIONS TO THE PENSION RESERVE

Pension costs of £144k in 2018/19 (£176k in 2017/18) are included in the '(surplus) or deficit for the year on HRA services' section of the income and expenditure statement.

## NOTE 10 RENT ARREARS

Current Tenants  
Former Tenants

2017/18 £,000	2018/19 £,000
647	575
160	231
<b>807</b>	<b>806</b>

## NOTE 11 IMPAIRMENT ALLOWANCE FOR BAD DEBTS

Balance at 1st April  
(Decrease) / Increase in Provision for the Year

2017/18 £,000	2018/19 £,000
551	667
116	16
<b>667</b>	<b>683</b>

## NOTE 12 SUMS DIRECTED BY THE SECRETARY OF STATE

No items have been directed to be debited or credited to the HRA.

## NOTE 13 ASSETS HELD FOR SALE

The HRA has three properties classed as 'assets held for sale' in the council's balance sheet at 31 March 2019 (thirty- one properties at 31 March 2018).

## 9. COLLECTION FUND

### Introduction

The Collection Fund (England) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the Council as billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates and its distribution to local government bodies and the Government.

	2017/18			2018/19		
	Business rates	Council tax	Total	Business rates	Council tax	Total
	£,000	£,000	£,000	£,000	£,000	£,000
<b>INCOME</b>	(75,722)	(112,926)	(188,648)	(71,555)	(122,149)	(193,704)
<b>Total income</b>	<b>(75,722)</b>	<b>(112,926)</b>	<b>(188,648)</b>	<b>(71,555)</b>	<b>(122,149)</b>	<b>(193,704)</b>
<b>EXPENDITURE</b>						
<b>Prescribed amounts</b>						
Wokingham Borough Council	30,590	91,660	122,250	76,860	98,464	175,324
Payments to Government	31,215	0	31,215	5,698	0	5,698
Parish Councils	0	3,932	3,932	0	4,154	4,154
Police and Crime Commissioner for Thames Valley	0	11,483	11,483	0	12,517	12,517
Royal Berkshire Fire and Rescue Authority	624	4,214	4,838	834	4,420	5,254
Cost of collection	191	0	191	196	0	196
<b>Bad and doubtful debts</b>						
Provisions	500	(284)	216	600	211	811
Write offs	0	620	620	0	159	159
Provisions for appeals	2,430	0	2,430	0	0	0
<b>Transfer of collection fund surplus</b>	0	823	823	0	823	823
<b>Total expenditure</b>	<b>65,550</b>	<b>112,448</b>	<b>177,998</b>	<b>84,188</b>	<b>120,748</b>	<b>204,936</b>
<b>Deficit/(surplus) for the year</b>	<b>(10,172)</b>	<b>(478)</b>	<b>(10,650)</b>	<b>12,633</b>	<b>(1,401)</b>	<b>11,232</b>
<b>Balance at 1 April</b>	<b>(3,813)</b>	<b>(2,433)</b>	<b>(6,246)</b>	<b>(13,985)</b>	<b>(2,911)</b>	<b>(16,896)</b>
Opening Balance Adjustment *	0	0	0	3,511	0	3,511
<b>Adjusted Balance at 1 April</b>	<b>(3,813)</b>	<b>(2,433)</b>	<b>(6,246)</b>	<b>(10,474)</b>	<b>(2,911)</b>	<b>(13,385)</b>
<b>Balance at 31 March</b>	<b>(13,985)</b>	<b>(2,911)</b>	<b>(16,896)</b>	<b>2,159</b>	<b>(4,312)</b>	<b>(2,153)</b>

See note 3 to the collection fund to see Wokingham Borough Council's share of the deficit / (surplus) on the collection fund.

\* Note – The opening balance has been adjusted upon review of the opening balance compared to the final NNDR 3 return submitted in August 2018.

## 10. NOTES TO THE COLLECTION FUND

### General

The Council has a statutory requirement as a billing authority to operate a collection fund as a separate account from the general fund. The purpose of the collection fund is to separately identify the income and expenditure relating to council tax and business rates.

Collection fund surpluses or deficits are declared by the billing authority in relation to council tax and are apportioned to the relevant precepting bodies in the subsequent financial year. Wokingham's precepting bodies for council tax are the Police and Crime Commissioner for Thames Valley and the Royal Berkshire Fire and Rescue Authority.

Business rates surpluses or deficits declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies in the subsequent financial year in their respective proportions.

The code of practice requires the collection fund income and expenditure account to be included in the Council's accounts, and the collection fund balance sheet is incorporated into the Council's consolidated balance sheet.

### NOTE 1 INCOME COLLECTABLE FROM BUSINESS RATE PAYERS

Each Council which is a billing authority collects Non Domestic Rates (NDR) for its area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by the business rates multiplier set nationally by Central Government.

The total business (non-domestic) rateable value at 31 March 2019 was £179,311,906 (at 31 March 2018 £179,865,070). The national non-domestic rate multiplier for 2018/19 was 49.3p (for 2017/18 47.9p).

2018/19 was the first year Wokingham was part of the Berkshire business rates pilot (100% retention). The benefit of the pilot arrangements result in Berkshire authorities retaining 100% of business rates growth. For 2019/20, Wokingham will continue in the pilot, however, under a 75% retention arrangement rather than 100% retention for 2018/19.

### NOTE 2 CALCULATION OF THE COUNCIL TAX BASE

Council tax is charged according to the value of residential properties, which are classified into 8 valuation bands (A to H) for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the collection fund by the Council for the forthcoming year and dividing this by the council tax base (i.e. the equivalent numbers of Band D dwellings).

The council tax base for 2018/19 was 68,669.1 band D equivalent properties (67,433.4 in 2017/18). The tax base for 2018/19 was approved at an Extraordinary Council meeting on 19 January 2018 and was calculated as set out in the table below. The council tax reduction scheme which must be approved each year, was approved by Council on 19 January 2018.

2017/18			2018/19			
Band	Chargeable Dwellings	Ratio	Band D Equivalent Dwellings	Chargeable Dwellings	Ratio	Band D Equivalent Dwellings
A	1,515	6/9	1,010	1,556	6/9	1,037
B	2,926	7/9	2,276	2,971	7/9	2,311
C	8,862	8/9	7,877	9,048	8/9	8,043
D	16,724	1	16,724	17,084	1	17,084
E	14,009	11/9	17,122	14,194	11/9	17,348
F	9,314	13/9	13,454	9,472	13/9	13,681
G	5,929	15/9	9,881	6,014	15/9	10,023
H	446	18/9	892	468	18/9	936
Total			69,235			70,461
Net effect of premiums and discounts			(1,802)			(1,792)
Council Tax Base			67,433			68,669

## NOTE 3 COLLECTION FUND (SURPLUS) / DEFICIT

	Council Tax	Business Rates	2017/18	Council Tax	Business Rates	2018/19
	£,000	£,000	£,000	£,000	£,000	£,000
Wokingham Borough Council	(2,485)	(6,853)	(9,338)	(3,679)	1,676	(2,003)
Central Government	0	(6,992)	(6,992)	0	461	461
Police and Crime Commissioner for Thames Valley	(311)	0	(311)	(468)	0	(468)
Royal Berkshire Fire Authority	(114)	(140)	(254)	(165)	22	(143)
<b>Total</b>	<b>(2,911)</b>	<b>(13,985)</b>	<b>(16,896)</b>	<b>(4,312)</b>	<b>2,159</b>	<b>(2,153)</b>



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## 11. STATEMENT OF ACCOUNTING POLICIES

The Statement of Accounts summarises the Council's and Group transactions for the 2018/19 financial year and its position at the year end of 31 March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices.

The Statement of Accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code) 2018/19 supported by International Financial Reporting Standards (IFRS) and have been produced in accordance with the statutory framework established by sections 3 and 20 of the Local Audit and Accountability Act 2014.

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.

The single entity financial statements are also defined as including the income, expenditure, assets, liabilities, reserves and cash flows of the local authority maintained schools within the control of the local authority. Local authority maintained schools are those schools categorised in the School Standards and Framework Act 1998, i.e. community, voluntary controlled, voluntary aided, foundation, community special, foundation special and nursery schools.

The Statements reflect the requirements of International Financial Reporting Standards (IFRS) by adopting the core accounting principles and concepts of:

- **Accruals Basis** – other than the Cash Flow Statement, the financial statements have been prepared on an accruals basis and report transactions that have been recorded in the accounting period for which the goods and services were received or supplied rather than in which the cash was received or paid.
- **Going Concern** - the financial statements have been prepared on the assumption that the Council will continue in operational existence for the foreseeable future.
- **Understandability** – the statements have been prepared to ensure they are as easy to understand as possible.
- **Relevance** - the financial statements provide information about the Council's performance and position that is useful to the users of the accounts to assess the stewardship of public funds and for making economic decisions.
- **Reliability** – the financial information faithfully represents the substance of the transactions, the activities underlying them and other events that have taken place, are free from deliberate or systematic bias and material error, are complete within the bounds of materiality and cost and have been prudently prepared.
- **Comparability** – the information has been prepared consistently and with adequate disclosures so that it can be compared with prior years and other local authorities.
- **Materiality** – the statements only disclose items of a certain value and nature such that they provide a fair presentation of the financial position and transactions of the Council. Where there are items below this threshold or are considered to have no impact on fair presentation in the accounts they are not included.

- **Legality** – where the accounting principles and specific legislation requirements are in conflict, the financial statements have been prepared to reflect legislative requirements

Where the Council is acting as an agent for another party (e.g., in the collection of business rates and council tax), income and expenditure are recognised only to the extent that commission is receivable by the Council for the agency services or the Council incurs expenses directly on its own behalf in rendering the services.

## **1. Accruals of Income and Expenditure**

Activity is accounted for in the year that it takes place and when a right to consideration exists, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies and services are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the Balance Sheet
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest payable on borrowings and receivable on investments 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 income and expenditure has 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 it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected
- Where payments are made or received in advance of a service being provided or received a payment or receipt in advance is recognised as a debtor or creditor in the Balance Sheet
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure

## **2. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of less than 24 hours.

Cash equivalents are highly liquid investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with little risk of change in value.

## **3. Exceptional Items**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

#### **4. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Adjustments applicable to prior years arising from changes in accounting policies are accounted for by restating the comparative figures for the preceding period and by adjusting opening balances as if the new policy had always been applied.

Changes in accounting estimates are accounted for in the current and future years affected by the change but do not give rise to a prior year adjustment.

Material errors are corrected retrospectively by restating the comparative figures for the preceding period and by adjusting the opening balances.

#### **5. Charges to Revenue for Non-Current Assets**

General Fund service revenue accounts, central support services and trading accounts are charged with the following amounts to record the cost of holding fixed 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 fixed assets attributable to the service

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution (Minimum Revenue Provision) in the General Fund Balance by way of adjusting transactions with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### **6. Employee Benefits**

##### **i. Benefits Payable During Employment**

Short term employee benefits are those to be settled within 12 months of the year end, for example wages and salaries, paid annual and sick leave, bonuses and non-monetary benefits such as cars. They are charged to the accounts in the period within which the employees worked. An accrual is made for the cost of any leave earned but not taken before the year end and which can be carried forward by the employee into the next financial year. The accrual is made at the wages and salaries rate in the new financial year as that will be when the employee will benefit. The charge is made to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement and then reversed out by a credit to the Accumulating Compensated Absences Adjustment Account through the Movement in Reserves Statement, allowing the benefit to be charged to revenue when the leave occurs.

##### **ii. Termination Benefits**

Amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy are charged on an accruals basis to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement 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.

Termination benefits involving pension enhancement are required by statutory provisions to be charged to the General Fund balance on the basis of the amount payable by the Council to the pension fund or the pensioner in the year not the amount calculated according to relevant accounting standards.

Appropriations are required to and from the Pensions Reserve in the Movement in Reserves Statement to remove the notional debits and credits for pension enhancement termination benefits and to replace them with debits for the cash paid to the pension fund, the pensioners and any amounts payable but unpaid at the year end.

### **iii. Post-Employment Benefits**

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

- The Teacher's 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 Council

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

The arrangements for the teacher's scheme mean that liabilities for these benefits cannot be specifically identified to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme with no liability for future payments of benefits recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers Pensions in the year.

#### **Local Government Pension Scheme**

The Local Government Pension Scheme provides members of the scheme with defined benefits related to pay and service. The level of the employer's contribution is determined by triennial actuarial valuation. The latest review was undertaken as at 31 March 2019. Under Superannuation Regulations, the contribution rates are set to meet all the liabilities of the fund.

The Balance Sheet includes a Pension Reserve which includes the attributable share of the funds, assets and liabilities that relate to the Council. Employer contributions will be adjusted in future years to account for any projected deficit.

The liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate determined by the actuary, which has been chosen to meet the requirements of IAS 19 and with consideration of the duration of the employer's liabilities. This is consistent with the approach used at the previous accounting date.

The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price

- Property – market value

The valuation of quoted securities for the pension scheme is based on bid price rather than mid-market value.

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

Service cost comprising:

- Current service cost – the increase in liabilities as a result of years of service earned this year is allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of the services for which the employees worked.
- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – charged to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
- Net interest on the net defined liability i.e. net interest expense for the Council– the change during the period in the net defined liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined liability at the beginning of the period, taking into account any changes in the net defined liability during the period as a result of contribution and benefit payments.

Re-measurement comprising:

- The return on plan assets – excluding amounts included in net interest on the net defined liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made in the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Berkshire County Council Pension Scheme – cash paid as employer's contributions to the pension fund in settlement of liabilities is not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund, pensioners and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### **Discretionary Benefits**

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Details of the methods adopted in the valuation of scheme assets and liabilities are set out in the notes to the Balance Sheet.

## **7. Events after the Balance Sheet Date**

These are events both favourable and unfavourable, which occur between the end of the Balance Sheet date and the date when the Statement of Accounts is authorised for issue:

- **Adjusting Event**

The Statement of Accounts is adjusted to reflect events where there is evidence that conditions existed at the Balance Sheet date

- **Non-Adjusting Event**

Where an event is indicative of conditions that arose after the Balance Sheet date, the Statement of Accounts are not adjusted. However, the following will be disclosed for each material category of non-adjusting event:

- the nature of the event, and
- an estimate of the financial effect, or a statement that such an estimate cannot be made reliably.

The date when the Statement of Accounts was authorised for issue and who gave the authorisation is disclosed in the notes to the accounts.

## **8. Financial Instruments**

### **i. Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

The Council does not issue bonds.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase / settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.



Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

## **ii. Financial Assets**

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- Amortised cost;
- Fair value through profit or loss (FVPL), and
- Fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument). The Council does not hold any financial assets that are measured at FVPL and FVOCI.

### **Financial Assets Measured at Amortised Cost**

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

### **Expected Credit Loss Model**

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.



### **Financial Assets Measured at Fair Value through Profit of Loss**

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of a financial asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## **9. Foreign Currency Translation**

Income and expenditure arising from a transaction denominated in a foreign currency is translated into pound sterling at the exchange rate in operation on the date on which the transaction occurred. If the rates do not fluctuate significantly, an average rate for a period is used as an approximation. Where the transaction is to be settled at a contracted rate, that rate is used.

At each Balance Sheet date, monetary assets and liabilities denominated in a foreign currency are reconverted at the spot exchange rate at 31 March or, where appropriate, the rates of exchange fixed under the terms of the relevant transactions. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## **10. Government Grants and Contributions**

Whatever their basis of payment, Government grants and other contributions or donations are accounted for on an accruals basis. They are recognised on the relevant service line or the Taxation and Non-Specific Grant Income line in the Comprehensive Income and Expenditure Statement once the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received. Where conditions have not been satisfied, the grant or contribution is carried in the Balance Sheet as a creditor.

Capital grants credited to the Comprehensive Income and Expenditure Statement are reversed out of the General Fund Balance in the Movement in Reserves Statement. Grants which have not yet been used to finance capital expenditure are transferred to the Capital Grants Unapplied reserve. When an amount in the Grants Unapplied Reserve is applied to fund capital expenditure, it is transferred to the Capital Adjustment Account through the Movement in Reserves Statement. There

is no deferral of grant expenditure to match against the depreciation of the underlying asset the grant was used for.

Donated assets transferred to the Council for nil consideration are recognised at fair value in the Comprehensive Income and Expenditure Statement once any conditions attaching to them have been met.

## **11. Intangible Assets**

Intangible assets are non-monetary assets without physical substance which are capable of being sold separately from the rest of the Council's business or which arise from contractual or other legal rights. They are recognised where they have a cost in excess of £10,000, where it is probable that future economic benefits will flow to, or service potential be provided to, the Council and where the cost of the asset can be measured reliably. Where internally generated assets are held for service potential, this involves a direct contribution to the delivery of services to the public.

Internally generated assets are capitalised only where all of the following can be demonstrated by the Council:

- Technical feasibility of completing the asset so it will be available for use or sale;
- Intention to complete the asset;
- Ability to use or sell the asset;
- How the asset will generate future economic or service delivery benefits (by demonstrating a market for the asset or the usefulness of the asset);
- Availability of adequate resources to complete the asset; and
- Ability to measure reliably the expenses attributable to the asset during the development phase only (research expenditure cannot be capitalised)

Software which is integral to the operation of hardware (e.g. an operating system) is capitalised as part of the relevant item of property, plant and equipment. Software which is not integral to the operation of hardware (e.g. application software licences), is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods and services and does not assist in the provision of effective services or generate an economic benefit.

Intangible assets are recognised initially at cost, comprising all directly attributable costs needed to create, produce and prepare the asset to the point that it is capable of operating in the manner intended by management. Subsequently intangible assets are recognised at fair value measured by reference to an active market. However, the types of intangible assets held by the Council are very unlikely to have readily ascertainable active market values so they are carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life and charged to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. The useful economic lives of intangible assets disclosed in the Balance Sheet has been determined individually. Useful lives are reviewed at the end of each reporting period and revised if necessary.

An asset is tested for impairment whenever there is an indication that the asset might be impaired:

- At the end of the first full financial year following the acquisition, and
- In other periods if events or changes in circumstances indicate that the carrying values may not be recoverable
- Intangible assets that are not amortised over a period are reviewed for impairment at the end of each reporting period

Any losses recognised as a result of impairment are treated 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
- If there is insufficient or no balance in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The reversal of an impairment loss is only recognised in the Comprehensive Income and Expenditure Statement if the value is directly attributable to the reversal of the event which caused the original impairment loss. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve for any sale proceeds greater than £10,000.

#### **i. Landfill Allowances**

Under the Waste and Emissions Trading Act 2003, the Council as a waste disposal authority is issued with landfill allowance permits on an annual basis for the amount of biodegradable waste that it is allowed to landfill. If the amount of biodegradable waste sent to landfill exceeds the allowance in any one year then additional permits are required to be purchased from other authorities or a cash penalty is paid to the Government for the shortfall. The scheme is known as a 'cap and trade scheme'.

The fair value of allowances held by the Council (whether issued by the Government or purchased from another authority) is recognised as an intangible current asset within the Balance Sheet. The fair value of allowances issued by the Government is recognised as a government grant and accounted for in accordance with paragraph 10; (i.e., it is initially recognised as deferred income on the Balance Sheet and subsequently recognised as income on a systematic basis over the compliance year for which the allowances were allocated). The fair value of allowances is taken as the present market value at the Balance Sheet date.

The value of allowances after the initial recognition is measured at the lower of cost and net realisable value.

An estimate of expenditure required to settle the obligation to deliver allowances equal to the biodegradable and municipal waste landfill usage to the government is recognised as a liability (provision) on the Balance Sheet. The value of the provision is measured as the present market value at the Balance Sheet date of the number of allowances required to be delivered to the government and/or the cash penalty required for any shortfall in allowances.

## **12. Interests in Companies and Other Entities**

The Council has some interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded in the Balance Sheet if the company has share capital, as financial assets at cost less any provision for losses. The Council records the name, business, shareholding, net assets and results of operations and

other financial transactions of any related companies including cross-reference to where the accounts of the related companies may be acquired.

### **13. Inventories and Long-Term Contracts**

Inventories held by the Council will be included in the Balance Sheet at the lower of cost and net realisable value. At present the Council has no holdings of this nature.

A long-term contract is 'A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or of a combination of assets or services which together constitute a single project) where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods'. Long-term revenue contracts are charged to services in the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year and long-term capital contracts are charged to capital on the basis of the valuation certificate.

### **14. Investment Property**

Investment properties are those that are used solely to earn rentals and / or capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Where the Council acquires properties for rental income but have an element of economic development and/or regeneration these are classified as operational land and buildings as such properties are not solely used for investment purposes.

Refer to Note 25 in the Statement of Accounts for explanations of the basis of the valuation of properties, and the categorisation required under IFRS 13.

Investment properties are measured initially at cost and subsequently at fair value (Highest and Best Use), based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually, according to market conditions at the year end. Gains and losses on revaluation or disposal are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement with the carrying value of the asset transferred to the Capital Adjustment Account and the sale proceeds above £10,000 transferred to the Capital Receipts Reserve.

### **15. Jointly Controlled Operations and Jointly Controlled Assets**

The Council is involved in arrangements with public sector partners to engage in joint activities that involve the use of the assets and resources of the partners rather than the establishment of a separate entity. Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and its partners, with the assets being used to obtain benefits for the partners. The Council accounts only for its share of the assets, liabilities, income, expenditure and cash flows held within the jointly controlled operations within its financial statements.

## 16. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, they are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### i. The Council as Lessee

#### Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at the lower of its fair value, measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor.

Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as an expense in the periods in which they are incurred.

Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the asset-applied to write-down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Assets recognised under finance leases are accounted for using the policies applied generally to Property, Plant and Equipment, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council is not required to raise council tax to cover depreciation, revaluation or impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation, revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### Operating Leases

Where assets are acquired by the Council (as a lessee) under operating leases, the lease rentals payable are charged to the revenue accounts of those services that use the assets as they are made.

Any hire purchase contracts that have similar characteristics to an operating lease are accounted for as an operating lease and disclosed in a note to the Balance Sheet.

### ii. The Council as Lessor

#### Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on

disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is transferred from the General Fund Balance to the Capital Receipts Reserve through the Movement in Reserves Statement. Where the amount due in relation to the leased asset is to be settled by the payment of rentals in future financial years, this is transferred from the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor with a corresponding transfer from the Deferred Capital Receipts Reserve to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### **Operating Leases**

An asset held by the Council for use in operating leases by a lessor is retained in the Balance Sheet and depreciated over its useful life. Rental income from operating leases, excluding charges, is recognised in the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as income is received.

This policy is a departure from the Code which states that rentals receivable should be charged to revenue on a straight-line basis over the term of the lease, even if this does not match the pattern of the payments. The Council believes that this departure from the Code is not material.

## **17. Overheads and Support Services**

The costs of overheads and support service costs (e.g., legal, human resources and finance) are charged to the relevant teams and departments (i.e., the front line service departments) in accordance with the Council's arrangements for accountability and financial performance. The total absorption costing principle is used in that the full cost of overheads and support services are shared between users in proportion to the benefit received.

## **18. Property, Plant and Equipment (PPE)**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment (PPE).



## i. Recognition

Items of PPE that qualify for recognition will be measured at cost and capitalised on an accruals basis. Cost is defined as either purchase price, costs attributable to bringing the asset to location and condition necessary for it to be capable of operating in the manner intended by management or the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

## ii. De-Minimis

Capitalisation of expenditure on PPE is not necessary where the amounts involved are not material to the true and fair presentation of the financial position and transactions of the authority and to an understanding of the Statement of Accounts by a reader. The Council has agreed a de-minimis level of £10,000 for expenditure to be capitalised, with the exception of capital works for schools where the de-minimis level is £1,000, and in order to utilise ring-fenced funding no de-minimis is applied.

## iii. Measurement

Assets will be disclosed and valued on the Balance Sheet on the following bases:

Asset Category	Valuation Method
Assets under Construction	Depreciated Historic Cost
Infrastructure Assets	
Council Dwellings	Fair Value (Existing Use Value – Social Housing) EUV-SH
Community Assets	Depreciated Historic Cost or Valuation in accordance with section 4.10 of the Code
Other, Land and Buildings	Fair Value (Existing Use Value) EUV or DRC*
Vehicles, Plant and Equipment	
Surplus Assets	Fair Value (Highest and Best Use)
Heritage Assets	Individual Asset Valuation

\* Depreciated Replacement Cost (DRC) using the ‘instant build’ will be used if Existing Use Value (EUV) cannot be determined.

A full valuation of a property is conducted by the Council’s internal valuer, Mrs I Kearns, the Council’s Senior Estates Surveyor and also a Professional Member of the Royal Institution of Chartered Surveyors (RICS). The valuations have been prepared in accordance with the Practice Statements and UK Practice Statements contained in the RICS Appraisal and Valuation Standards.

The asset valuations have been prepared using the following assumptions:-

- The Council has good title free from encumbrances;
- There are no hazardous substances or latent defects in the properties and there is no contamination present;
- The properties have permanent planning permission and any other necessary statutory consent for their current use;
- Plant and machinery is included in the valuation of the property, where applicable;
- No special circumstances beyond those likely to be considered by a prospective purchaser in the open market have been taken into account;

- f) No allowance has been made for any liability to taxation, which may arise on disposal, nor for costs of acquisition or realisation.
- g) All transactions agree with the Council's de-minimus level

Not all properties are specifically inspected for the purpose of asset valuations. This is neither practicable, nor considered by the valuer to be necessary, for the purpose of the valuation. However, regular inspections are made by the Council's Property Section of all the Council's property assets. The inspections and report do not purport to be a building survey.

The Council operates a 5 yearly revaluation cycle for all assets, with the exception of Council Dwellings and Investment properties which are reviewed on an annual basis as per the Code's requirements.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- 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.

#### **iv. Depreciation**

Depreciation is provided for on all Property Plant and Equipment by the allocation of their depreciable amounts over their useful lives, in line with IAS 16. An exception is made for assets without a determinable useful life (e.g. freehold land and some community assets) and assets not yet available for use (e.g. assets under construction). The useful lives of assets are estimated on a realistic basis and are reviewed on a regular basis and, where necessary, revised. Where the useful life of a fixed asset is revised, the carrying amount of the fixed asset is depreciated over the revised remaining useful life. 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 charged based on their historical cost being transferred from the Revaluation Reserve to the Capital Adjustment Account.

Depreciation is calculated on the amount at which the asset is included in the Balance Sheet, whether current cost or historical cost. Depreciation has been calculated as follows:

- All assets are depreciated on straight line basis over the useful life of the asset taking into account land value and residual value. The range of estimated lives of each asset is set out in note 24.
- Investment Properties are not depreciated as per the Code's guidance; instead they are revalued on an annual basis.
- Newly acquired assets are not depreciated in the year of acquisition, while assets under construction are only depreciated once the asset becomes operational.



- Community assets are also exempt from depreciation requirements as a determinable finite useful life cannot be obtained.
- Assets are depreciated in the year of disposal.

A change from one method of providing depreciation to another is only made where the new method will give a fairer presentation of the results and of the financial position. Such a change does not, however, constitute a change of accounting policy; the carrying amount of the fixed asset is depreciated using the revised method over the remaining useful life, beginning in the period in which the change is made.

### **Componentisation**

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 should be depreciated separately. Where there is more than one significant part of the same asset which has the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. In practice this can be achieved by only separately accounting for significant components that have different useful lives and/or depreciation methods.

The Council's policy is to componentise part of assets where the part subject to componentisation is more than £500k or 10% or more of the building value of the asset and the value of the building itself is greater than £5m. Any amounts below these levels would not be considered material enough for componentisation purposes.

### **v. Impairment**

The value at which each category of assets is included in the Balance Sheet is reviewed at each year-end. Where there is reason to believe that its value has changed materially in the period, the recoverable amount of the asset is estimated and where this is less than the carrying amount, an impairment loss is recognised for the shortfall.

Events and changes in circumstances that indicate a reduction in value may have incurred include:

- A significant decline in an asset's market value during the period
- Evidence of obsolescence or physical damage to the asset
- A significant adverse change in the statutory or other regulatory environment in which the Council operates
- A commitment by the Council to undertake a significant reorganisation.

Where impairment losses 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
- If there is insufficient or no balance in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

## **vi. Disposals and Non-Current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered through a sale rather than continuing use, it is reclassified as an Asset Held for Sale, but only if the following criteria are met:

- a) The asset must be available for sale in its present condition subject to terms that are usual and customary for sales of such assets.
- b) The sale must be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated.
- c) The asset must be actively marketed for a sale at a price that is reasonable in relation to the current value.
- d) The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Immediately before reclassification the asset is revalued and carried at the lower of this figure and fair value (Highest and Best Use) less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Assets Held for Sale are not depreciated.

If an asset no longer meets the criteria to be classified as Assets Held for Sale, they are classified back to non-current assets at the lower of their carrying amount before they were classified as held for sale (adjusted for depreciation, amortisation or revaluations that would have been recognised if they had not been classified as Held for Sale) and their recoverable amount at the date of the decision not to sell. Assets that are abandoned or scrapped are not reclassified as Assets Held for Sale.

When an item of Property, Plant, Equipment or Asset Held for Sale is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal.

Amounts received in excess of £10,000 are categorised as capital receipts. The proportion that is required to be paid over to Central Government for housing disposals is appropriated to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement.

Where a fixed asset is disposed of for other than a cash consideration, or payment is deferred, an equivalent asset is recognised and included in the balance sheet at its fair value.

The written-off value of disposals is not a charge against council tax because the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from General Fund Balance in the Movement in Reserves Statement.

## **19. Private Finance Initiative (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. The Council has one PFI contract with Reading and Bracknell Councils for waste disposal under the RE3 Partnership. The Council receives the benefit of the services that are provided under its PFI scheme and ownership of the property, plant and equipment will pass to the partnership at the end of the contract for no additional charge. The Council carries its share of the property, plant and equipment used under the contract on the Balance Sheet.

The original recognition of these assets was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- Finance cost – an interest charge of 7.5% on the outstanding Balance Sheet liability, debited to Financing and Investment Income 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 towards the PFI operator
- Lifecycle replacement costs – these are included within the fair value of services and not recognised as additions to Property, Plant and Equipment as the amounts involved are not material and details of the actual spend is not readily available.

## **20. Provisions, Contingent Liabilities and Contingent Assets**

### **i. Provisions**

Provisions are made for any liabilities of uncertain timing or amount that have been incurred. Provisions are recognised when:

- The Council has a legal or constructive obligation as a result of a past event
- It is probable that a transfer of economic benefits or service potential will be required to settle the obligation, and
- A reliable estimate can be made of the amount of the obligation.

Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation. The amount recognised as a provision is the best estimate taking into account the risks and uncertainties surrounding the events. When payments for expenditure are incurred to which the provision relates they are charged direct to the provision carried in the Balance Sheet. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that a transfer of economic benefits will be required to settle the obligation (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised as income for the relevant service only when it is virtually certain that reimbursement will be received if the obligation is settled.

In the case of a provision for bad or doubtful debts, the carrying amount of debtors is adjusted and known uncollectable debts are written off.

## **ii. 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 of uncertain future events not wholly within the control of the Council. Contingent liabilities are not recognised in the accounting statements; they are disclosed by way of notes if there is a possible obligation that may require a payment or a transfer of economic benefits. For each class of contingent liability, the nature of the contingency, a brief description, an estimate of its financial effect, an indication of the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement will be disclosed.

## **iii. Contingent Assets**

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the accounting statements; they are disclosed by way of notes if the inflow of a receipt or economic benefit is probable. The disclosures indicate the nature of the contingent asset and an estimate of its financial effect.

## **21. Reserves**

Transfers to and from reserves are distinguished from service expenditure. The movements in reserves available to this Council are detailed in a note to the financial statements. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cash flow management.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so there is no net charge against council tax for the expenditure.

Most capital reserves are not available for revenue purposes and some of them can only be used for specific statutory purposes. The Revaluation Reserve and Capital Adjustment Account are non-distributable reserves. The Capital Receipts Reserve is a reserve established for specific statutory purposes.

The Major Repairs Reserve is required by statutory provision to be established in relation to the HRA in England.

## **22. Revenue Expenditure Funded from Capital under Statute**

Revenue expenditure classified as capital under statute, formerly known as deferred charges, represents expenditure that may be capitalised but does not result in the creation of non-current assets. The expenditure has been charged to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of council tax.

## **23. VAT**

VAT payable is included as an expense, whether of a capital or revenue nature, only to the extent that it is irrecoverable. VAT receivable is excluded from income.

## **24. Group Accounts**

The Code requires the Council to consider all of its interests and to prepare a full set of group accounting statements where there are material interests in subsidiaries, associates and joint ventures. The Council has investigated all potential interests that could qualify for group accounts and has determined it has five group relationships which qualify for the preparation of, and inclusion in, group accounts. The companies all operate the same financial year and follow the same accounting policies as Wokingham Borough Council.

The Council has a holding company, WBC (Holdings) Ltd, whose main purpose is to enable group tax relief to be claimed, and in addition to coordinate the management of the Council's interests in the companies included in the group accounts, which are summarised below. The company is 100% owned by the Council. WBC (Holdings) Ltd wholly owns three housing companies: Wokingham Housing Ltd, Loddon Homes Ltd and Berry Brook Homes Ltd. All of these companies' accounts are consolidated into the group accounts.

Optalis Ltd is a partially owned subsidiary of Wokingham Borough Council with the other 45% owned by the Royal Borough of Windsor and Maidenhead. The company was established in June 2011 and became operational during 2011/12. 2017/18 has been the first year of joint operation with the Royal Borough of Windsor and Maidenhead. Optalis Ltd is consolidated on a subsidiary basis at 100%, with RBWM's 45% share disclosed as a minority interest on the group balance sheet.

## **25. Heritage Assets**

Heritage assets are assets that are held by the Council principally for their contribution to knowledge and culture. The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the Council so that heritage assets must be shown separately on the balance sheet. The Council undertook a detailed review and at present does not have any heritage assets.

## **26. Tax Income (Council Tax, and Non-Domestic Rates)**

### **Non-Domestic rates (NDR)**

- Retained Business Rates income included in the Comprehensive Income and Expenditure Statement for the year is treated as accrued income.
- Levy expenditure included in the Comprehensive Income and Expenditure Statement for the year is treated as accrued expenditure

### **Council Tax**

- Council Tax income included in the Comprehensive Income and Expenditure Statement for the year is treated as accrued income

Both NDR income, less tariff and levy expenditure, and Council tax are recognised in the Comprehensive Income and Expenditure Statement in the line Taxation and Non-Specific Grant Income. As a billing authority the difference between the NDR and Council Tax included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is transferred to the Collection Fund Adjustment Account through the Movement in Reserves Statement. Each preceptor's share of the accrued NDR and Council Tax

income will be available from the information that is required to be produced in order to prepare the Collection Fund Statement.

The income for Council Tax, and NDR, is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council and the amount of the revenue can be measured reliably. Revenue relating to such things as council tax, business rates, etc., shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

## **27. Fair Value Measurement**

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) In the principal market for the asset or liability, or
- b) In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Unobservable inputs for the asset or liability.

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## 12. GLOSSARY OF TERMS

### Accounting Code of Practice

The CIPFA Code of Practice on Local Authority Accounting: Specifies the principles and practices of accounting required to give a 'true' and 'fair' view of the financial position and transactions of a local authority, including group financial statements. The code prescribes the accounting treatment and disclosures for all normal transactions of a local authority based on a hierarchy of standards including International Financial Reporting Standards (IFRS)

### Accounting policies

The rules and practices adopted by the Council that dictate how transactions and events are treated in its financial records.

### Accounting standards

A set of rules explaining how accounts are to be kept. By law, local authorities must follow 'proper accounting practices', which are set out in Acts of Parliament, professional codes and statements of recommended practice.

### Accruals

This is an accounting concept that recognises income and expenditure when goods or services are provided, and not when cash is transferred. The inclusion of debtors and creditors examples of accruals.

### Actuarial gain/losses

The profits and losses on the pension scheme as calculated by the actuary because the assumptions made were not the same as the actual performance (e.g. if interest rates were less than anticipated).

### Acquisitions

The Council spends funds from the capital programme to buy assets such as land and buildings.

### Amortisation

The equivalent of depreciation for intangible assets.

### Appointed auditors

Public Sector Audit Appointments appoints external auditors to local authorities, from one of the major firms of registered auditors.

### Asset

An asset is a resource controlled by the Council as a result of past events and from which economic benefits or service potential are expected to flow to the authority e.g. cash, stock, buildings etc.

### Assets held for sale

Properties or equipment that have been taken out of use for service delivery and are awaiting sale.

### Assets under construction

Assets not yet ready for use. This could be new building work in schools or road construction.



### Balances and reserves

Balances and reserves are maintained to fund future years' expenditure, or specific projects, and to provide a cushion against expenditure being higher or income lower than expected. Contributions to balances and reserves can be either a planned contribution from the revenue budget to set aside monies for a specific purpose or a transfer of any revenue surplus at the year-end. The maintenance of an appropriate level of general balances is a fundamental part of prudent financial management.

### Budget

A planned expenditure forecast. Budgets are reviewed during the course of the financial year to take account of pay and price changes and other factors affecting the level or cost of services.

### Capital expenditure

Capital expenditure is expenditure that creates future benefits. A Capital expenditure is incurred either when buying or, adding to the value of an existing fixed asset with a useful life extending beyond the current financial year.

### Capital adjustment account (CAA)

A balance sheet reserve that is unique to the local authority accounting capital accounting regime. The balance on the account cannot be used, but reflects how the Council's assets have been financed. It contains the balance of depreciation against the minimum revenue provision (MRP), additional debt repayments over the MRP, reserved capital receipts and usable capital receipts/ grants/ planning gains applied to meet capital expenditure.

The account is debited with the cost of acquisition, construction or enhancement of assets, as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the Council. The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date the revaluation reserve was created to hold such gains.

### Capital financing

This term describes the method of financing capital expenditure, the principal methods now being loan financing, leasing, capital receipts and developer contributions.

### Capital financing requirement

It measures the local authorities underlying need to borrow or finance by other long-term liabilities for capital purposes. It represents the amount of capital expenditure that has not yet been resourced absolutely.

### Capitalisation

Costs are capitalised to the extent that they create or improve any fixed asset with a useful economic life greater than one year.

### Capital receipts

Proceeds from the sale of fixed assets. The Council earmarks capital receipts to finance future capital expenditure.

**Chartered Institute of Public Finance and Accountancy (CIPFA)**

CIPFA is the professional accountancy institute that sets the standards for the public sector. The institute produces advice, codes of practice and guidance to local Authorities on best practice.

**Collection fund**

A statutory account into which council tax and non-domestic rates are paid, and from which amounts are paid to the local authority and the precepting bodies.

**Community assets**

Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples include the Countryside estate and historic assets that are not used in service delivery.

**Community infrastructure levy (CIL)**

CIL is a statutory charge on proposals for buildings based upon the type, size and location of development. As a charging Authority for the purposes of Part 11 of the Planning Act 2008 the Council may therefore charge the Community Infrastructure Levy (CIL) in respect of development in its administrative area.

**Comprehensive Income and Expenditure Statement (CIES)**

Statement that shows the accounting cost in the year of providing the services in accordance with generally accepted accounting policies.

**Contingent assets**

Potential assets whose outcome depends on future events.

**Contingent liabilities**

A contingent liability is either: a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control (e.g. the outcome of a court case).

**Creditors**

Financial liabilities for future goods or services that have been received or supplied by the end of the accounting period, that is due immediately or in the short term. Creditors are an example of the concept of accruals.

**Current service cost (pensions)**

The increase in the present value of Local Government pension scheme liabilities expected to arise from employee service in the current period.

**Curtailment costs (pensions)**

For a defined benefit scheme (such as LGPS) an event that reduces the expected years of future service of present employees or reduces for a number of employees, the accrual of defined benefits for some or all of their future service.

**Debtors**

Financial assets, with fixed or determinable payments, when goods or services have been delivered or rendered. Debtors are an example of the concept of accruals.

**Depreciation**

A charge to the revenue account to reflect the consumption or use of a fixed asset in service delivery. There is a corresponding reduction in the value of the fixed asset.

**Earmarked reserves**

These are reserves set aside for a specific purpose or a particular service, or type of expenditure.

**Exceptional item**

An item identified separately in the accounts because of its exceptional nature to ensure the presentation of the accounts is fair, and comparable year on year.

**Fair value**

The amount for which an asset could be exchanged, or liability settled at arm's length, between knowledgeable and willing parties.

**Fair value hierarchy**

IFRS 13 requires investment properties, assets held for sale and surplus assets to be valued at fair value. A hierarchy has been established that categorises into three levels the inputs to valuation techniques used to measure fair value. The levels of inputs are as follows:-

Level 1 inputs – observable, unadjusted quoted prices in active markets

Level 2 inputs – observable, other than quoted prices in active markets

Level 3 inputs – unobservable inputs

Valuation techniques shall aim to maximise the use of observable inputs and minimise the use of unobservable inputs.

**Finance lease & operating leases**

A finance lease is one that transfers a substantial proportion of the risks and rewards of a fixed asset to the lessee. With a finance lease the present value of the lease payments equates to substantially all of the value placed on the leased asset. For an operating lease a rental payment is payable to the lessor for the use of the asset and the ownership reverts to the owner when the lease is terminated.

**Financial instrument**

A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments can be classified generally as equity based, representing ownership of the asset, or debt based, representing a loan made by an investor to the owner of the asset.

**Financial instrument adjustment account**

The financial instruments adjustment account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Council uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the general fund balance to the account in the Movement in Reserves Statement. Over time, the expense is posted back to the general fund balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

**Financial year**

The year of account, which runs from the 1<sup>st</sup> April to the following 31<sup>st</sup> March.

**Fixed assets**

An asset that yields benefits to the local authority and the services it provides for a period of more than one year. Tangible fixed assets have a physical form e.g. buildings or land. Intangible fixed assets do not have a physical form e.g. software licences.

**General fund**

The local Council's main revenue account that covers the net cost of all services other than the provision of council housing for rent.

**Government grants**

Financial assistance from central government, or its agents, usually for a specific purpose, in the form of cash transfers in return for compliance with certain conditions. These grants may be capital or revenue in nature.

**Heritage assets**

A building, monument, site, place, area or landscape identified as having a degree of significance meriting consideration in planning decisions, because of its heritage interest. Heritage asset includes designated heritage assets and assets identified by the local planning authority (including local listing).

**Historic cost**

The estimated value of an asset on the balance sheet based upon its original purchase cost, less depreciation to date.

**Housing revenue account (HRA)**

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing. It contains the balance of income and expenditure that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

**Impairment**

A reduction in the value of a fixed asset, below its carrying amount on the Balance Sheet.

**Infrastructure assets**

Fixed assets, such as highways and footpaths, that is inalienable and has no resale value.

**Intangible assets**

Fixed assets which have value but do not have physical any substance. They are identified and controlled by the Council for example, purchased software licences.

**Investment properties**

An interest in land and, or buildings, which are held solely for their investment potential/rental income and are not required for delivery of local authority service.

**Lessee**

The party that leases an asset that is owned by another party.

**Lessor**

The owner of an asset that is leased by another party.

**Liability**

An obligation that binds the Council to settle a debt as a result of a past event or transaction such as the purchase of goods or services.

**Major repairs reserve**

Contains an element of the capital resources limited to being used on capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

**Minimum revenue provision**

The way in which capital expenditure which is financed by borrowing or credit arrangements is paid for by council tax payers. Local authorities must set aside some of their revenue each year as provision for this debt

**Net book value**

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

**Net realisable value**

A method of valuation that estimates the open market value of an asset, less the expenses required to sell it.

**Non-domestic rate (NDR) income**

A levy on businesses based on national 'rateable value' of the premises occupied. NDR is paid into a national pool and then redistributed to all local and police authorities on the basis of assessed needs.

**Non-operational assets**

Fixed assets held by a Council but not directly occupied, used or consumed in the delivery of services. Examples of these assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

**Observable inputs**

See 'fair value hierarchy'. Inputs that are developed using market data, such as publicly available information about actual events or transactions, and reflect the assumptions that market participants would use when pricing the asset or liability.

**Operational assets**

Fixed assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

**Past service cost (pensions)**

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

**Pensions reserve**

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds, or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

**Precept**

An amount levied on another public body in respect of the council tax. Parish Councils, Royal Berkshire Fire and Rescue Authority and the Police and Crime Commissioner for Thames Valley levy precepts on the Council to collect council tax on their behalf.

### **Prior period adjustments**

Material adjustments applicable in prior years, arising from changes in accounting policies or from correction of fundamental errors.

### **Private finance initiative (PFI)**

A contract between the Council and a private company. The private company makes a capital investment in the assets required to deliver improved services, and the Council pays a unitary charge to cover the cost of services and financing requirements. In the case of Wokingham the PFI contract is for the disposal of waste.

### **Provisions**

Amounts set aside for any liabilities or losses that are likely to be incurred, but which are uncertain as to the amounts or the dates on which they will arise.

### **Public Works Loans Board (PWLB)**

A central government agency which provides long and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities are able to borrow a proportion of their requirements to finance capital spending from this source.

### **Revaluation reserve**

This account contains the balance on the revaluation of fixed assets previously shown in the accounts arising from revaluations or disposals of those assets. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised.

The reserve contains revaluation gains accumulated since 1 April, 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the capital adjustment account. The balance on the account cannot be used.

### **Revenue expenditure**

Expenditure incurred on day to day running costs e.g. running costs, salaries, and is confined to accounts within one financial year.

### **Revenue expenditure funded from capital under statute (REFCUS)**

Expenditure that is treated under the Local Government Act 2003, as capital expenditure but which does not meet the definition of capital expenditure in the statement of recommended practice. Therefore the expenditure is not carried on the balance sheet as a fixed asset.

### **Revenue support grant (RSG)**

Expenditure that is treated under the Local Government Act 2003, as capital expenditure but which does not meet the definition of capital expenditure in the statement of recommended practice. Therefore the expenditure is not carried on the balance sheet as a fixed asset.

### **Surplus Assets**

Surplus assets are those assets that are no longer essential for the operation of services.

### **Unobservable Inputs**

See 'fair value hierarchy'. Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

**Unusable Reserves**

Unusable reserves are reserves that in simple terms enable the Council's balance sheet to reconcile and cannot be released to spend on services.

**Usable Reserves**

Usable reserves are those reserves that can be released to spend on services or added to for future spending on services.

**Useful Life (of assets)**

The period over which the local authority can derive benefits from the use of a fixed asset.

**Write-offs**

Elimination of an asset or liability within the financial year, for example, uncollectable debts.

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# Wokingham Borough Council

## Audit progress update

January 2020

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Audit Committee Members  
Wokingham Borough Council  
Shute End, Wokingham  
Berkshire, RG40 1BN

23 January 2020

Dear Audit Committee Members

#### Audit Progress Report

We are pleased to attach our Audit Progress Report.

The purpose of this report is to provide the Committee with an overview of the current status of the Council's 2018/19 audit, given the delay in completing the audit; and to set out a timeline for the 2019/20 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson

For and on behalf of Ernst & Young LLP

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## 01 Progress Update

## 02 Timetable for 2019/20



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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Governance Committee and management of Southampton City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Governance Committee, and management of Southampton City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Governance Committee, and management of Southampton City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





# 01 Progress Update





# Status of the 2018/19 audit

## 2018/19 financial statements

As Committee members are aware, the completion of the audit has been substantially delayed. We were notified by the auditors of The Royal County of Berkshire Pension Fund on the day of the July Audit Committee (24 July 2019) that they were unable to provide the required assurances over the information supplied to the actuary of the Pension Fund. The Pension Fund audit was signed on 10 December 2019. However, as at the date of drafting this update (23 January 2020), we are yet to receive the assurance letter. We understand that the letter has been drafted and is subject to review, and that it will be issued by 24 January 2020.

The delay in the certification of the Pension Fund audit was due to audit concerns about two specific issues: the valuation of a longevity hedge and the valuation of a convertible bond. As a consequence, the Pension Fund accounts were revised, with the valuation of these assets being reduced by £74.5m in total. As a consequence, your officers requested a revised report from the Pension Fund to update the IAS19 disclosures within the Council's statements.

Officers have provided us with a revised set of financial statements. We have compared the revised statements against those which were subject to audit in July, and we are currently discussing and agreeing these to the final statements.

We cannot complete our work until we have received the IAS19 assurance letter from the auditors of the Pension Fund. However, we are completing our review of the revised disclosures against the revised report provided to the Council.

We have agreed with the Head of Finance & deputy s.151 officer that we will delay issuing our updated audit results report until 29 January 2020. If we receive the assurance letter by 24 January, we will seek to complete our work and issue a fully updated audit results report for the Committee in advance of the meeting on 5 February 2020. However, if there are any further delays, or there are significant issues that require additional audit work, we will update the audit results report with the details to ensure there is sufficient time for members to read the report. In this instance, we would then provide a further verbal update at the Committee meeting.

## Annual audit letter

Until we have completed our work on the financial statements, and issued our audit results report, we are unable to issue the annual audit letter.

We are required to complete the annual audit letter within one month of the audit opinion. We will agree with officers, and discuss with you at the Audit Committee on 5 February 2020, the most appropriate way to circulate the annual audit letter, given the next scheduled meeting of the Audit Committee is likely to be June 2020.



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## Timetable for 2019/20





## Audit timetable for 2019/20

# Timetable of communication and deliverables

### 2019/20 audit

The delay in the completion of the 2018/19 audit has impacted on the start of our 2019/20 audit. We plan to complete our early planning and walkthroughs in late March/early April 2020. We will produce our audit plan and discuss this with officers in early April. We are aware that the next scheduled Audit Committee is likely to be in June 2020. We would like to circulate the audit plan to Committee members before this, if possible, and would welcome your views as to the most appropriate process for this to take place.

The timing of the year end audit is not yet confirmed, and we will also need to obtain assurances from the auditor of The Royal County of Berkshire Pension Fund around their timetable to provide the assurances that led to the delays in our 2018/19 audit.

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<b>TITLE</b>	<b>Treasury Management Strategy 2020/21</b>
<b>FOR CONSIDERATION BY</b>	Audit Committee on 5 February 2020
<b>WARD</b>	None Specific;
<b>LEAD OFFICER</b>	Deputy Chief Executive - Graham Ebers

## **OUTCOME / BENEFITS TO THE COMMUNITY**

Effective and safe use of our resources to deliver service improvements and service continuity through the management of the council's cash flow and investments while funding the capital programme.

## **RECOMMENDATION**

The Audit Committee is asked to recommend to the Council for approval the following

- 1) Capital Prudential indicators 2020/21 Appendix A (pages 4 &5)
- 2) Borrowing strategy 2020/21 Appendix A (page 8)
- 3) Annual Investment Strategy 2020/21 Appendix A (page 9)
- 4) MRP policy Appendix A (page 7)
- 5) Treasury Indicators: limits to borrowing activity 2020/21 Appendix A (page 8)

## **SUMMARY OF REPORT**

This report outlines the expected treasury activity for the forthcoming year and includes prudential indicators relating specifically to Treasury Management for the next three years. Further reports are produced during the year: a mid-year monitoring report and post-year end outturn report. A key requirement of this report is to explain both the risks and the management of the risks associated with the treasury service. This strategy covers.

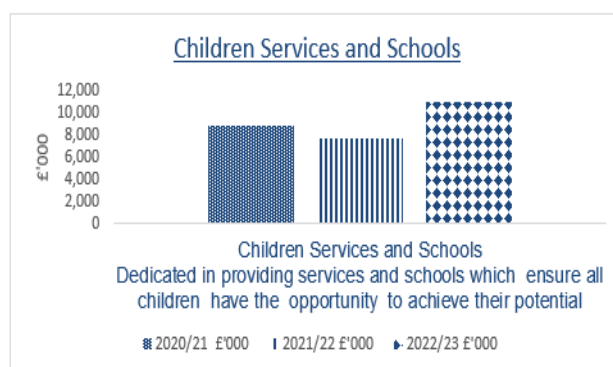
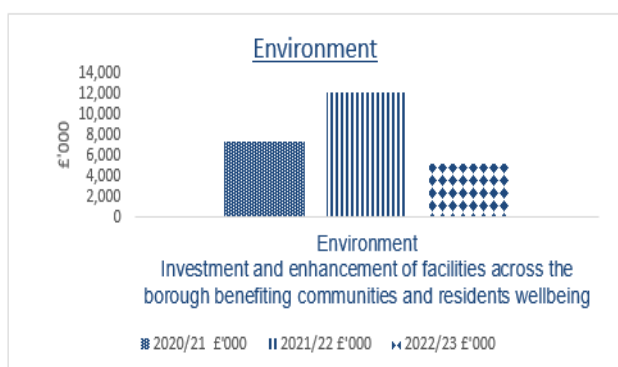
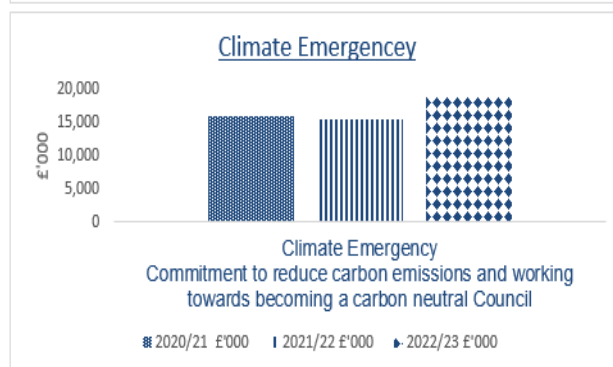
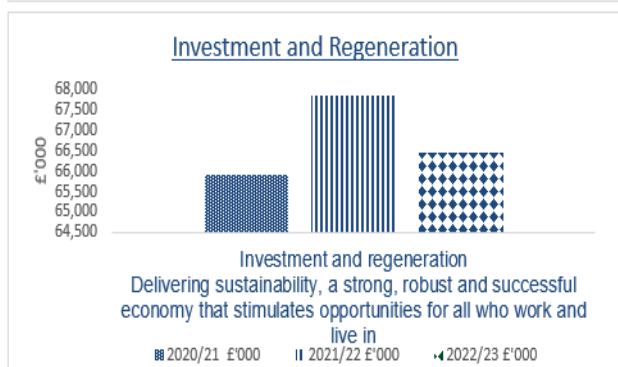
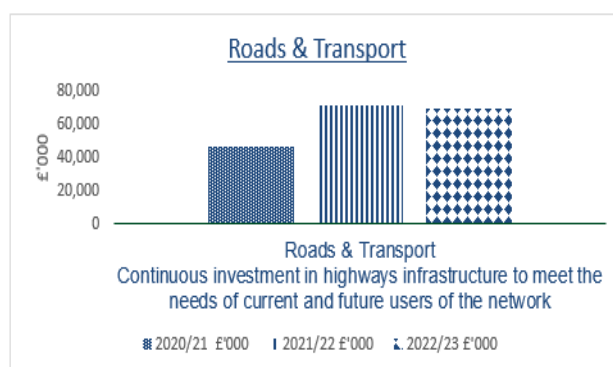
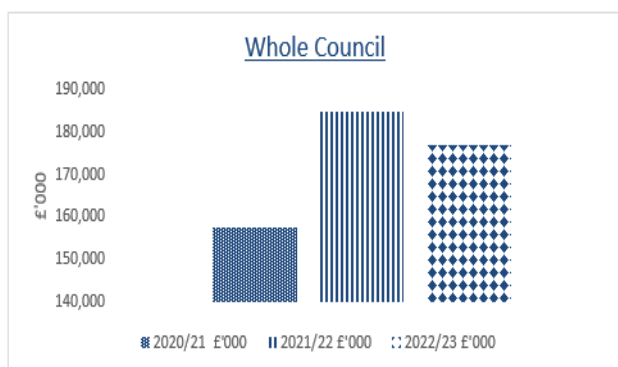
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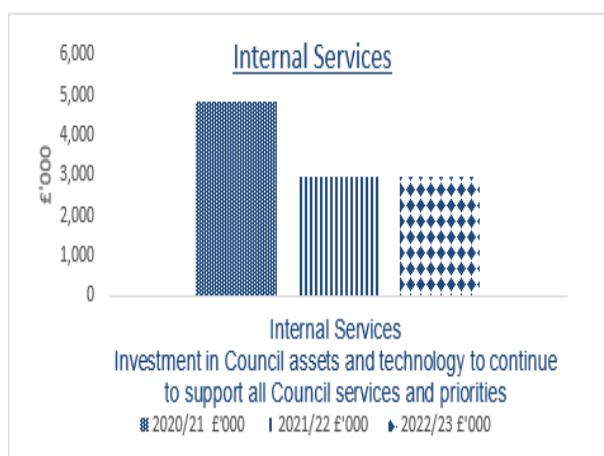
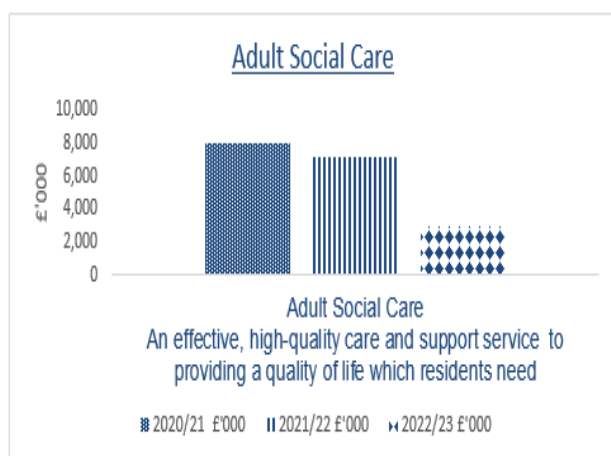
The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity and security, initially before considering maximising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans or using longer term cash flow surpluses. On occasion, debt previously drawn may be restructured to meet Council risk or cost objectives.

### Capital Expenditure:

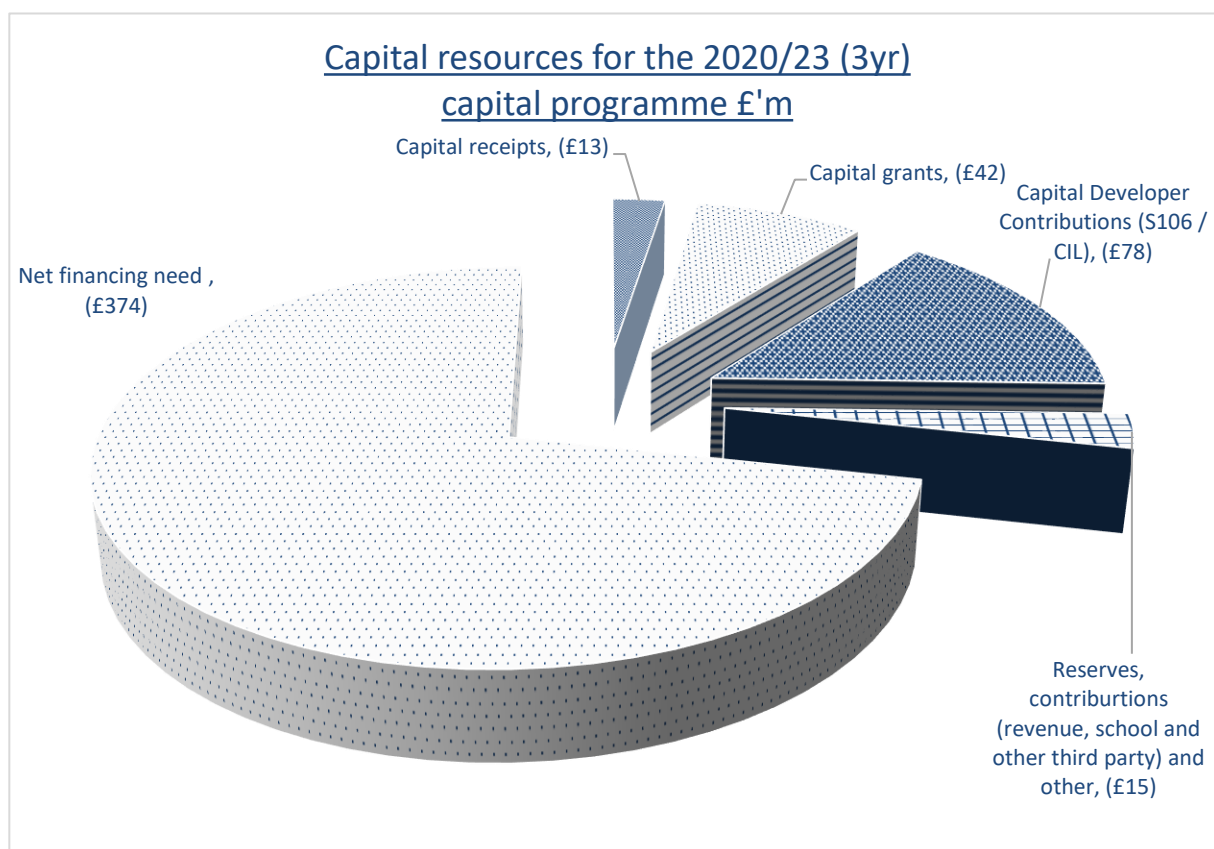
The graphs below shows the planned capital expenditure broken down in to key priorities for the next three years





### **Capital Resources:**

The Pie chart below demonstrates how the capital programme for 2020/21 to 2022/23 will be funded :



The break down by year is:

Financing of capital expenditure £m	2020/21 Budget	2021/22 Budget	2022/23 Budget	Total
Capital receipts	(8)	(2)	(3)	(13)
Capital grants	(26)	(10)	(6)	(42)
Capital Developer Contributions (S106 / CIL)	(29)	(31)	(18)	(78)
Reserves, contributions (revenue, school and other third party) and other	(4)	(6)	(5)	(15)
<b>Net financing need for the year</b>	<b>(92)</b>	<b>(137)</b>	<b>(145)</b>	<b>(374)</b>

## **Borrowing Position**

The cumulative Council debt is estimated to be:

- 31st March 2021 £470m
- 31st March 2022 £573m
- 31st March 2023 £678m

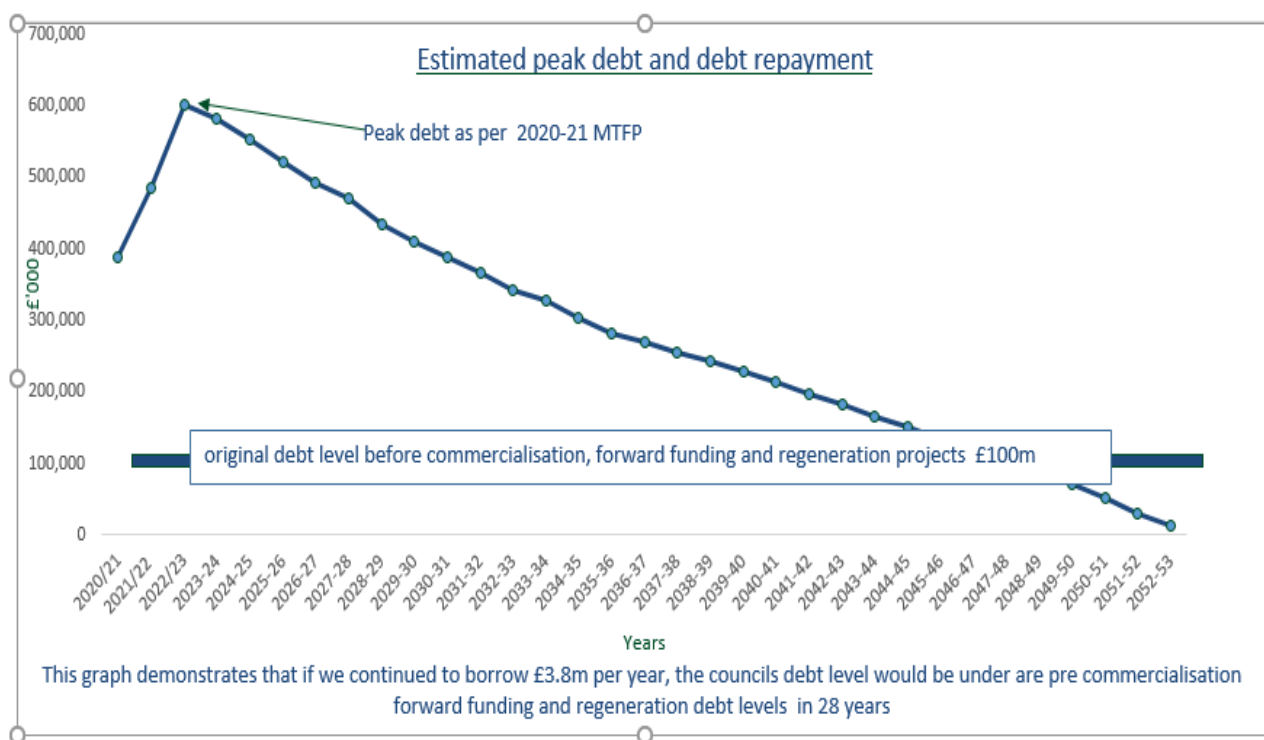
This will be split by internal and external borrowing

External borrowing is anticipated to rise to £564.5m by the 31st March 2023.

A full breakdown of anticipated levels and timing of borrowing can be found in Table 3 page 7 of Appendix A.

## **Debt repayment**

In the above section it is highlighted that the debt is anticipated to rise to £736m to fund the Council's capital programme. This debt will reduce to pre 2011-12 of £100m levels by 2048-49 (28 years). For further information on debt repayment please refer to page 7 in appendix A.



The graph above shows that in 2022/23 the general fund debt reaches a peak debt of £603m. This peak debt is due to the council's planned large scale ambitious capital schemes which are now in the build phase (i.e., new roads schemes, town regenerations etc.) Debt then starts to reduce due to the following reasons:

- Income generating schemes come on line and start providing income to repay debt and produce savings for the council
- Sale of new build assets (i.e. residential)

<b>The Council's borrowing need (the Capital Financing requirement)</b>	<b>2018/19 £'m</b>	<b>2019/20 £'m</b>	<b>2020/21 £'m</b>	<b>2021/22 £'m</b>	<b>2022/23 £'m</b>
General fund financing need for the year (Debt)	250	336	386	494	603
HRA financing need for the year (Debt)	86	85	83	79	76
<b>Total financing need for the year (Debt)</b>	<b>335</b>	<b>422</b>	<b>470</b>	<b>573</b>	<b>678</b>

### **Key changes to the strategy:**

The Council are recommending a minor change to the wording of the MRP policy to note the potential impact of the accounting changes from IFRS 16 – Leases from 1<sup>st</sup> April 2020.

Under the new accounting changes for IFRS 16, the accounting treatment of some leases will change. The likely impact will be some operating leases (where material) will be restated to finance leases. This may have an impact on the Council's CFR and MRP calculations as finance leases are treated as Capital expenditure rather than Revenue expenditure for operating leases.

The Council are currently reviewing all existing leases to assess the impact from the changes introduced under IFRS 16.

The Council is recommending changes to the investment strategy as explain on page 10 of appendix A

### **Prudential indicators:**

The Cipfa prudential and treasury management codes require local authorities to undertake financial planning. Prudential and treasury indicators are one of the tools which are used to measure the Councils effectiveness. A list of these prudential indicators and their limits can be found in appendix A (pages 8 and 11).

### **Investments:**

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (commercial income, asset sales etc.). Taking this into account we anticipated the council investments balance to be as demonstrated in the following table.

	<b>2019/20 £'m</b>	<b>2020/21 £'m</b>	<b>2021/22 £'m</b>	<b>2022/23 £'m</b>
<b>Loans to WHL/HRA/WTCR</b>	162	183	235	274
<b>Local Authorities/fund managers</b>	83	70	60	50
<b>Total</b>	<b>245</b>	<b>253</b>	<b>295</b>	<b>324</b>

## **Appendices and other useful information**

When reading this report please refer to the following

- Appendices A – E provide the detail behind the above headlines The capital strategy (please refer to Feb 20<sup>th</sup> 2020 Executive)
- Please use the link below to Property Portfolio Investment Strategy

(<https://wokingham.moderngov.co.uk/documents/s20127/Property%20Portfolio%20Investment%20Strategy%20Council%20Report.pdf>)

### **FINANCIAL IMPLICATIONS OF THE RECOMMENDATION**

***The Council continues to face severe financial challenges over the coming years as a result of reductions to public sector funding and growing pressures in our statutory services. It is estimated that Wokingham Borough Council will be required to make budget reductions of approximately £20m over the next three years and all Executive decisions should be made in this context***

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	£3.4m-Revenue (net of debt charges and investment returns) £158.7m -capital	Yes	Revenue & Capital
Next Financial Year (Year 2)	£3.4m-Revenue (net of debt charges and investment returns) £186.1m -capital	Yes	Revenue & Capital
Following Financial Year (Year 3)	£3.4m-Revenue (net of debt charges and investment returns) £176.5m -capital	Yes	Revenue & Capital

#### **Other financial information relevant to the Recommendation/Decision**

None

#### **Cross-Council Implications**

None

#### **Public Sector Equality Duty**

An Equality Impact Assessment is not required for this report

<b>Reasons for considering the report in Part 2</b>
N/A

<b>List of Background Papers</b>
<ul style="list-style-type: none"> <li>• Appendix A - Treasury Management Strategy 2020/23</li> <li>• Appendix B - Wokingham Borough Council Capital programme 2020 to 2023</li> <li>• Appendix C - Prudential &amp; Treasury Management Indicators 2020/21 to 2022/23</li> <li>• Appendix D - Annual Investment Strategy</li> <li>• Appendix E - MRP policy</li> </ul>

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# Treasury Management Strategy 2020-21

## Including

- Investment Strategy
- Borrowing Strategy
- MRP Strategy



**WOKINGHAM**  
**BOROUGH COUNCIL**

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## 1 Introduction

The Council defines its treasury management activities as:

***“The management of the Council’s investments and cash flows, banking, money market and capital market transactions, the effective control of the risks associated with above mentioned activities and the pursuit of optimum performance consistent with those risks.”***

The Strategy for 2020/21 covers two main areas:

### **Treasury management activities**

- treasury management policy statement
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- the investment strategy;
- policy on use of external service providers;
- reporting arrangements and management evaluation

### **Capital activities**

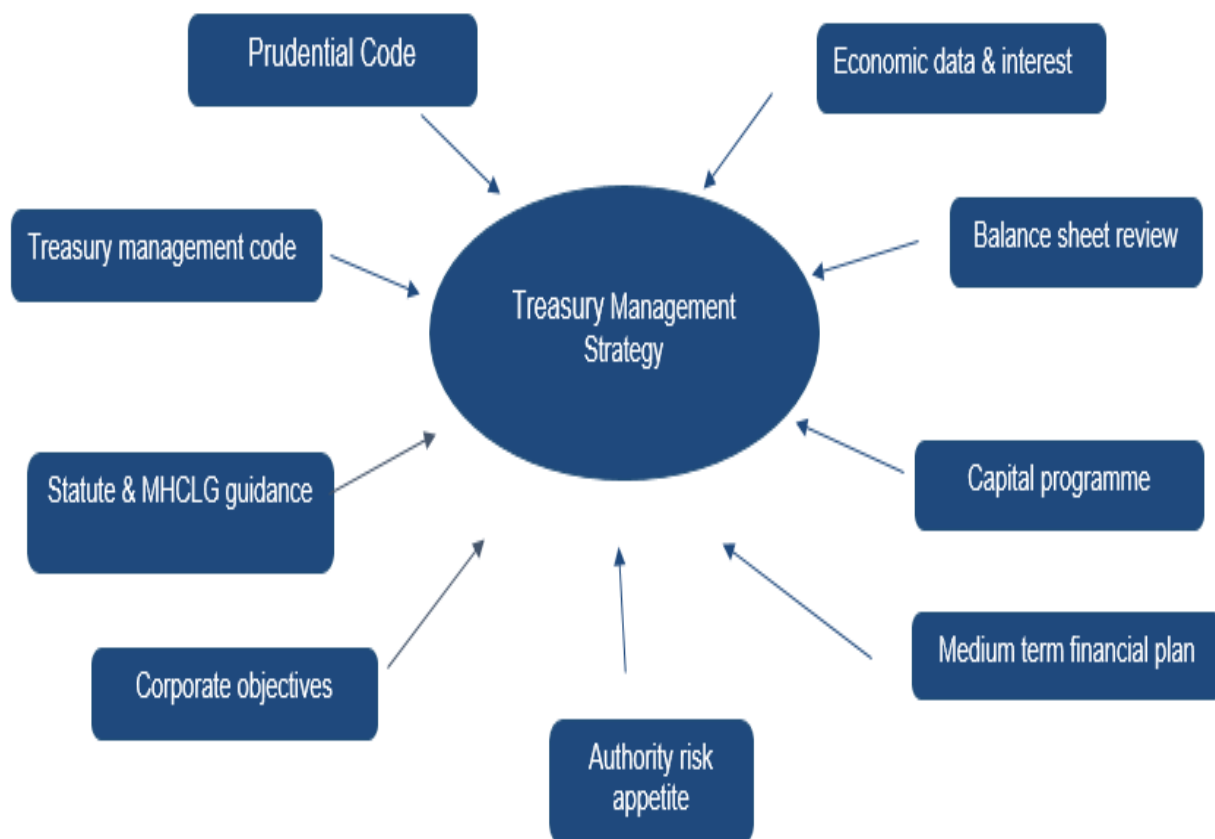
- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

## 2. Treasury Management Policy Statement

Wokingham Borough Council Treasury Management Policy Statement for 2020/21 is:

- The Council defines its treasury management activities are:  
The management of the Council's investments and cash flows, banking, money market and capital market transactions, the effective control of the risks associated with above mentioned activities and the pursuit of optimum performance consistent with those risks.
- The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.
- The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

### Factors that shape the Treasury Strategy



### 3. The Council's capital expenditure and financing 2020/21

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- financed in year, immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resulting impact on the Council's borrowing need or;
- funded by borrowing (internal or external).
  - internal borrowing - is the use of the internal cash reserves of the Council to fund its capital expenditure.
  - external borrowing - is the use of loans from the outside organisations. For example other local authorities or the Public Works loans Boards.

The capital expenditure plan is a key driver of the treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital programme.

Table 1 sets out by key area the council capital programme for the next 3 years.

**Table 1 Capital programme 2020/23**

	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
<b>Investment and Regeneration</b> Delivering sustainability, a strong, robust and successful economy that stimulates opportunities for all who work and live in	65,908	67,847	66,457	200,212
<b>Roads and Transport</b> Continuous investment in highways infrastructure to meet the needs of current and future users of the network	46,226	68,857	69,592	184,675
<b>Climate Emergency</b> Commitment to reduce carbon emissions and working towards becoming a carbon neutral Council	16,060	15,595	18,838	50,493
<b>Children Services and Schools</b> Dedicated in providing services and schools which ensure all children have the opportunity to achieve their goals potential	8,865	7,725	11,098	27,688
<b>Environment</b> Investment and enhancement of facilities across the borough benefiting communities and residents wellbeing	7,425	12,135	5,155	24,715
<b>Adult Social Care</b> An effective high-quality care and support service to providing a quality of life which residents need	7,378	7,206	2,937	17,521
<b>Internal Services</b> Investment in Council assets and technology to continue to support all Council services and priorities	5,445	2,976	2,958	11,379
<b>Total Capital Programme</b>	<b>157,307</b>	<b>182,341</b>	<b>177,035</b>	<b>516,683</b>

Note: The capital programme with full detail can be found in Appendix B of this report.

For the capital projects funded by borrowing these are summarised into the following categories for the calculation of several of the prudential indicators:

- Invest to save
- Commercial activities (excludes Town centre)
- Town Centre Regeneration
- Wokingham Housing Ltd
- Infrastructure
- Developer contributions forward funded
- Housing Revenue Account

### **The Capital Financing Requirement (CFR)**

The capital financing requirement (CFR) is the total historic outstanding capital expenditure which has not yet been paid for from resources (e.g. Capital receipts, Capital grants etc.). It is essentially a measure of the Council's indebtedness and its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. The following table demonstrate the CFR in the categories mentioned in previous page.

**Table 2 CFR 2020/23**

	2019/20 Estimated Outturn £'000	2020/21 Budget £'000	2021/22 Budget £'000	2022/23 Budget £'000
<b>CFR opening balance broken as below:</b>				
Invest to save**	7,195	18,503	44,349	67,922
Commercial Activities (excludes Town centre)**	27,040	61,605	94,291	122,414
Town Centre Regeneration**	61,543	84,929	90,555	85,416
Wokingham Housing Ltd**	11,598	15,597	20,597	25,639
Infrastructure	100,080	102,406	109,058	108,978
Developer Contributions Forward Funded*	42,166	53,153	56,502	83,526
Housing Revenue Account	85,552	85,372	83,258	79,059
<b>Total</b>	<b>335,175</b>	<b>421,565</b>	<b>498,610</b>	<b>572,954</b>
Net capital expenditure funded by borrowing	98,263	91,756	137,028	141,465
MRP charge / loan repayments	(11,873)	(43,622)	(33,774)	(36,152)
<b>Movement in year</b>	<b>86,390</b>	<b>48,134</b>	<b>103,254</b>	<b>105,313</b>
<b>CFR closing balance</b>	<b>421,565</b>	<b>469,699</b>	<b>601,864</b>	<b>678,266</b>

Note: \*Developer contributions forward funded will be repaid once the developer contribution have been received

\*\* These types of borrowing will be repaid using capital receipts, additional income and savings



The in-year increase in the borrowing requirement is due to the council ambitious capital programme which includes invest to schemes (these schemes will be able create a saving and pay for the financing costs), Commercial investments, which will reduce over time when capital receipts are recovered or loans repaid. To be able to provide the infrastructure such as roads and facilities that the borough needs the council is continuing to forward fund schemes. These will decrease again as developer contributions are received. The CFR is also reduced each year by the minimum revenue provision (MRP) (see section 4). Part of the Councils financial strategy is based on diversifying income streams, by growing revenue generating assets through its housing companies and other strategic investments.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital programme and cash flow requirements. The Council does not borrow all of this money externally but uses some of its internal cash reserves to fund this expenditure (this approach saves the council on interest costs). This is referred to as "internal borrowing". This means that the Council's capital financing requirement is higher than its external borrowing figures. External borrowing may be sourced from bodies such as the Public Works Loan Board [PWLB], the money markets and other types of funding (local authorities, bonds etc.).

#### 4. Balance sheet projections

The following table demonstrates the Council balance sheet and estimates for the four years (including 19/20). This tool is used to forecast are external borrowing need and estimated investment potential

**Table 3 balance sheet 2020/23**

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
CFR (General fun & HRA)	335,175	421,565	469,699	572,953	678,266
PFI Liabilities / Finance Lease Liabilities	(8,600)	(1,453)	(1,453)	(1,453)	(1,453)
Underlying Borrowing Requirement	326,575	420,112	468,246	571,500	676,813
External Borrowing b/fwd	(142,496)	(227,550)	(269,170)	(325,688)	(399,688)
in year movements (new loans /maturities etc.)	(85,054)	(41,620)	(56,518)	(74,000)	(76,516)
External Borrowing c/fwd	(227,550)	(269,170)	(325,688)	(399,688)	(476,204)
<b>internal borrowing</b>	<b>99,025</b>	<b>150,942</b>	<b>142,558</b>	<b>171,812</b>	<b>200,609</b>
Internal borrowing as a % of Underlying Borrowing Requirement	30%	36%	30%	30%	30%
Amount Available for Investment (reserves etc.) *	129,141	129,141	129,141	129,141	129,141
Working Capital (Deficit) / Surplus*	76,665	76,665	76,665	76,665	76,665
<b>Less internal borrowing</b>	<b>99,025</b>	<b>150,942</b>	<b>142,558</b>	<b>171,812</b>	<b>200,609</b>
<b>External Investments-(borrowing requirement)</b>	<b>106,781</b>	<b>54,864</b>	<b>63,248</b>	<b>33,994</b>	<b>5,197</b>

Example (129,141+76,665-99,025 =106,781)

Note:

\*Total estimated additional borrowing from 1st April 2020 to 31st March 2023 £422m

The additional borrowing of £422m taken out between 1st April 2020 and 31st March 2023 will be a mixture of external and internal.

The Underlying Borrowing Requirement (debt) is estimated to reduce to the pre 2011-12 of £100m levels by 2048-49 (28 years). 2011-12 is used as a bench mark because the level of debt is pre commercialisation, regeneration and forward funded projects

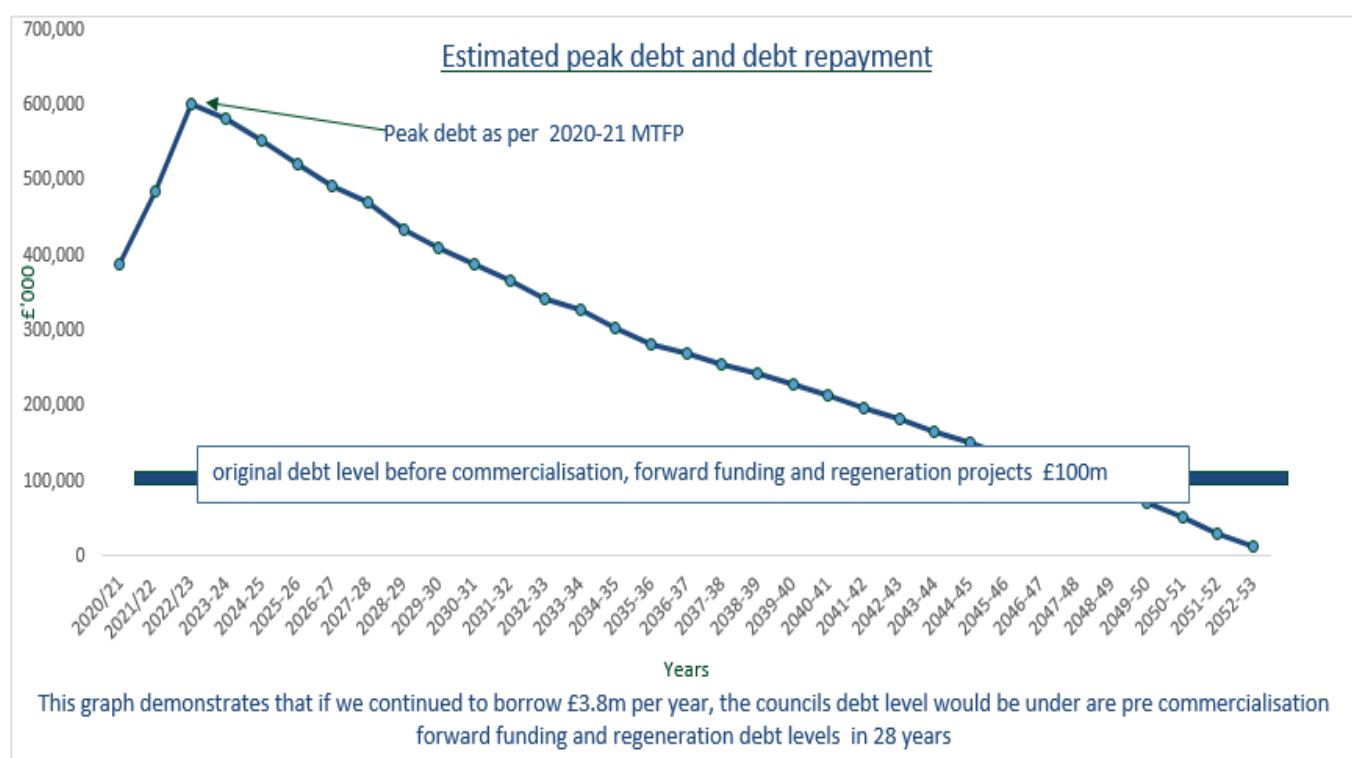
This reduction will be caused by the following:

- Income generating schemes come on line and start providing income to repay debt and produce savings for the Council
- Sale of new build assets (i.e. residential)

Please note that not only will our debt be reduced, the value of our assets will rise to an estimated £710m from £443m in 2020 in the 28 years mentioned earlier in this a paragraph.

Graph 1 below shows the debt and repayments over the next 28 years

### Graph 1 debt repayments



The Council's capital programme now includes many large infrastructure schemes that span a number of years. It is not uncommon or unreasonable for the profiling of these to be refined once the initial budget has been approved and the precise timing of expenditure becomes clearer as projects move from feasibility and planning through to delivery.

Our capital finance specialists meet regularly with our key project managers to update predictions and find ways to improve the accuracy of our capital monitoring. This has included the receipt of more detailed information on projects and a new profiling methodology for the capital programme in accordance with The Royal Institute of British Architects (RIBA) planned stage process. Work will continue to do what we can to improve the financial arrangements, however it should be recognised that it contains by its nature, sizeable and often uncontrollable, fluctuations.

## 5. Minimum Revenue Provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund underlying borrowing each year (the 'CFR') through a revenue charge known as the minimum revenue provision (MRP). The Council is also permitted to undertake additional voluntary payments known as voluntary revenue provision (VRP).

The Ministry for Housing, Communities and Local Government (MHCLG) regulations have been issued which require the full Council to approve a MRP Statement in advance of each financial year. The decision on the amount of MRP lies with the Council although a prudent provision must be made. The Council is recommended to approve the MRP Statement which can be found in Appendix F.

Principles in the guidance have been reflected in the Council strategy now the guidance has been finalised. However where we identify an alternative prudent and more pertinent MRP policy, we are permitted to follow that instead.

For 2020/21 Wokingham Borough Council's MRP policy will follow the main MHCLG principles, except in some instances, the table below summarises other area where WBC are planning to divert from the draft guidance.

**Table 4: Changes to MRP Guidance**

Expenditure type	Guidance maximum (MRP repayment period)	WBC MRP charging policy
Freehold land	maximum of 50 years	maximum 60 years
Bridges	maximum of 50 years	maximum 60 years
Investment assets	maximum of 50 years	10% of maximum 60 years asset life
loan capital in WBC holdings	20 years	no charge - Loan covered by Asset
Forward funding Schemes	maximum of 50 years	no charge – Developer contribution are used to repay principle

## 6. External borrowing and compliance with treasury limits and Prudential Indicators for debt

The previous sections cover the overall capital programme but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators found in table 5.

Further detail on each of these indicators is included in Appendix C.

**Table 5: Prudential Indicator – Debt**

	2019/20 Estimate £'000	2020/21 Budget £'000	2021/22 Budget £'000	2022/23 Budget £'000
<b>Authorised limit £,000</b>	421,565	533,005	646,510	763,749
<b>Gross external borrowing £,000</b>	276,170	326,688	401,688	476,204
<b>% of internal borrowing to CFR</b>	34%	30%	30%	30%
<b>Maturity structure of borrowing</b>	See Appendix C			
<b>Operational boundary for external debt £'000</b>	421,565	494,366	599,163	713,110
<b>Ratio of financing costs to net revenue stream General fund</b>	2.5%	2.4%	2.3%	2.3%
<b>Ratio of financing costs to net revenue stream HRA</b>	18.23%	19.11%	19.12%	18.47%

In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (plus the estimates of any additional capital financing requirement for the current and next two financial years). This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs.

## 7. Investments

The treasury management team ensure the cash flow is adequately planned, with surplus monies being invested in suitable low risk counterparties, providing adequate liquidity initially before considering maximising investment return. The return on investments contributes to the Council's budget for both the general fund and housing revenue account.

### Annual investment strategy

CIPFA Code and the MHCLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's investment priorities will be security first, liquidity second, then return. The Council may invest its surplus funds in accordance with its time and monetary limits for institutions on the Council's counterparty list.

### Changes for 2020/21

The Council is to increase its limit to £10m for other local authorities and the duration to 5 years. This will give us opportunity to increase our rate of return without any significant increase in risk.

**Table 6: Time and monetary limits for institutions on the Council's counterparty list**

	* Minimum credit criteria / colour band*	Money Limit	Max. maturity period
DMADF – UK Government	UK sovereign rating	£20M	3 months
UK Government gilts	UK sovereign rating	£5m	1 year
UK Government Treasury bills	UK sovereign rating	£5m	1 year
Money market funds	AAA	£5m	Liquid
<b>Local authorities</b>	<b>N/A</b>	<b>10m</b>	<b>5 year</b>
Term deposits with banks and building societies**	AA	£5m	Liquid
Term deposits with building societies	A-	£5m	Liquid
CDs or corporate bonds with banks and building societies	AA	£5m	Liquid

Note\*: The credit criteria shown here is Fitch credit ratings agencies long term, When using the credit rating the Council will use the lower of the three credit rating agencies.(See appendix E)

Note \*\*for each banking group the following limits will apply, dependent on the rating of the Parent Bank (i.e. Lloyds group)

- AAA : £7m with a maximum average duration of 1 year
- AA- :£5m with a maximum average duration of 6 months

The investment policies can be found in Appendix E

#### Investment projections treasury

The table 7 below shows the Councils investment projections

**Table 7: Investments (total amount invested during the financial year)**

	2019/20 £'m	2020/21 £'m	2021/22 £'m	2022/23 £'m
<b>Loans to WHL/HRA/WTCR</b>	162	183	235	274
<b>Local Authorities/fund managers</b>	83	70	60	50
<b>Total</b>	<b>245</b>	<b>253</b>	<b>295</b>	<b>324</b>



### Non-Treasury Investments

Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the MHCLG Guidance, the Council may also make loans and investments for service purposes or where the local authority is setting up local authority owned companies. Such loans and investments will be subject to the Council's normal approval processes for revenue and capital expenditure and need not comply with this Treasury Management Strategy. Commercial properties investment will be made in line with previously strategy agreed by Council on 23/11/2017. Where these investments have treasury or MRP implications this strategy will be followed.

Please use the link below to Property Portfolio Investment Strategy

(<https://wokingham.moderngov.co.uk/documents/s20127/Property%20Portfolio%20Investment%20Strategy%20Council%20Report.pdf>)

### Cash flow management

The Council's officers maintain a detailed cash flow forecast for each coming year revising it as more information is available. This informs the short term investments such as those to cover precept payments. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Long term investment strategy is based on the Council's medium term financial strategy.

### Estimated Investment return rates

Investment returns are likely to remain low during 2020/21 but are expected to rise gradually over the next few years'. Political uncertainty will continue to weigh on the economy and imported inflation is likely to be a feature for some time.

### Compliance with treasury limits and prudential indicators for investments

As with debt, the Council has a framework of prudential indicators for investment which it uses to assess its investment strategy. The Council is asked to approve the following indicators found in table 8 on the following page. Further detail on each of these indicators is included in Appendix C.

The following table comprise or the council prudential indicator for investments

**Table 8: Prudential Indicator – Investment**

2020/21	
Review of investment strategy to be undertaken during year	Yes
<b>Investment risk benchmarking</b>	
Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables	0%
<b>Liquidity – in respect of this area the Council seeks to maintain:</b>	
Bank overdraft	£0m
Liquid short term deposits available with a week's notice of at least	£5m
Weighted average life benchmark is expected to be 0.25 years, with a maximum of 0.5 years.	0.5 Years
<b>Investments – internal returns above the 7 day LIBID rate</b>	
Investment Balance as 31 <sup>st</sup> March 2021	Tbc
Returns on investments	Tbc

## 8. Updates to Treasury Management Strategy

The Director of Corporate Services confirms that the treasury team will abide by the strategy set out within this document and will report to the Audit Committee in February 2020 as part of the mid-year report any breaches to limits and prudential indicators.

## 9. Appendices

- Appendix B - Wokingham Borough Council Capital programme 2020 to 2023
- Appendix C - Prudential & Treasury Management Indicators 2020/21 to 2022/23
- Appendix D - Annual Investment Strategy
- Appendix E - MRP policy

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**CAPITAL PROGRAMME 2020/21 to 2022/23 - DETAIL**

The following table sets out by key area, the Councils detailed capital programme by scheme for the next 3 years.

Key Area	Project Name	Project Description	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
<b>Investment and Regeneration</b>						
Income generation	Strategic property, commercial and residential assets	To build on the commercial property portfolio as part of the councils sustainability agenda	27,500	28,300	26,500	82,300
	Commercial Portfolio - Improvement to WBC commercial properties	To ensure commercial properties are suitable for letting.	0	0	100	100
		Income generation total	27,500	28,300	26,600	82,400
191 Regeneration of towns	Carnival Pool Area Redevelopment	Town Centre Regeneration.	13,483	9,850	6,174	29,507
	Town Centre Regeneration (Elms Field)	Town Centre Regeneration.	1,028	0	0	1,028
	Wokingham Town Centre Regeneration Environmental Improvements	Improving the borough towns and parishes	100	200	200	500
	Denmark Street Environmental Improvements	Improving the borough towns and parishes	0	0	340	340
		Regeneration of towns total	14,611	10,050	6,714	31,375
New facilities	Feasibility Case for Developing New Crematorium	To undertake a feasibility work and prepare a planning application, Construction and to develop and run a crematorium in Wokingham borough.	225	3,300	2,700	6,225
		New facilities total	225	3,300	2,700	6,225

Key Area	Project Name	Project Description	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
<b>Investment and Regeneration Continued..</b>						
192	Housing delivery	WBC (Housing) funding sources	5,190	8,000	10,000	23,190
		Strategic residential port folio	5,834	5,033	6,833	17,700
		Gorse Ride Regeneration (Phase 2)	2,000	5,000	6,000	13,000
		Housing (Tenants Services)	4,100	4,100	4,100	12,300
		Purchase of council houses HRA (1 for 1)	2,054	2,054	2,500	6,608
		Gorse Ride Regeneration (Phase 1)	2,884	0	0	2,884
		Mandatory disabled facility grants	950	950	950	2,850
		Gypsy, Roma, Traveller (GRT) Additional Pitches	500	1,000	0	1,500
		Gorse Ride Regeneration Project Management	60	60	60	180
		Housing delivery total	23,572	26,197	30,443	80,212
<b>Investment and Regeneration Total</b>			<b>65,908</b>	<b>67,847</b>	<b>66,457</b>	<b>200,212</b>

Key Area	Project Name	Project Description	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
Roads & Transport						
193	SCAPE - Road infrastructure (dist. roads etc.)	Investment in future road building/enhancement across WBC road network (including new relief roads)	12,564	46,494	58,494	117,552
	Nine Mile Ride Extension	Investment in future road building/enhancement across WBC road network (including new relief roads)	6,419	6,419	2,160	14,998
	Shinfield Eastern Relief Road	Residual payments to Reading University for the completed scheme	3,986	3,491	2,751	10,228
	California Crossroads	Investment in future road building/enhancement across WBC road network (including new relief roads)	1,230	4,447	0	5,677
	Land Acquisition for Major Road Schemes	Investment in future road building/enhancement across WBC road network (including new relief roads)	4,677	0	0	4,677
	Completed Road Schemes Retention	Completed Road Schemes Retention	200	213	62	475
		New roads total	29,076	61,064	63,467	153,607
Service improvements	Wokingham Highways Investment Strategy (WHIS)	A “Needs Based” approach to maintaining Wokingham’s highways network, aligned to the Council’s and stakeholder’s priorities in the most efficient manner	3,850	2,968	2,300	9,118
	Toutley Highways Depot Modernisation	Highways infrastructure enhancements	5,600	1,000	0	6,600
	Highway Infrastructure Flood Alleviation Schemes	To deliver flood risk management schemes and Sustainable Drainage Systems to reduce the risk of flooding to major highways across the borough	100	500	500	1,100
	Integrated Transport Schemes	The enhancement the Integrated transport schemes	250	250	250	750
	Traffic Signal Upgrade Programme	Investment in highways signals	250	250	250	750
		Service improvements total	10,050	4,968	3,300	18,318



Key Area	Project Name	Project Description	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
<b>Roads &amp; Transport Continued..</b>						
Improvement to existing facilities	Highways Carriageways Structural Maintenance	Resurfacing of carriageways (roads) to repair damage and extends the life of the asset. This is a rolling programme.	2,280	2,280	2,280	6,840
	Bridge Strengthening	The continued enhancement to highway structures	3,000	225	225	3,450
	Strengthening Approach Embankments to Bridges	The continued enhancement to highway structures	770	0	20	790
	Highways Footway Structural Maintenance Programme	Enhancement to footways within the borough	100	100	100	300
	Street Lighting Column Structural Testing	Monitoring the council lighting assets	0	20	0	20
	Highway Drainage Schemes	To reduce the overall degradation of the highway drainage network which suffers from 'silting up', breakages, tree root damage, inadequate size and increased loading	200	200	200	600
194		Improvement to existing facilities total	6,350	2,825	2,825	12,000
Road improvements	Safety / Crash Barriers	Improving safety / crash barriers on the highways in the borough	750	0	0	750
		Road improvements total	750	0	0	750
<b>Roads &amp; Transport Total</b>			<b>46,226</b>	<b>68,857</b>	<b>69,592</b>	<b>184,675</b>

Key Area	Project Name	Project Description	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
<b>Climate Emergency</b>						
195	Managing Congestion and pollution	This project aims to create improvement to traffic flow throughout the borough with a number of approaches based around the principles of: Prevent - reducing the likelihood of incidents on the network causing problems for congestion including use of CCTV	3,000	5,000	5,000	13,000
	Energy Reduction Projects	Expenditure on a wide range of energy efficiency projects at existing properties to improve energy efficiency. These include, installing LED lighting, Cavity Wall, loft insulation boiler controls etc, all to make the property 'consume' less energy.	1,500	1,500	1,500	4,500
	Support Services Energy Reduction Schemes	Investment in energy reduction schemes through various mechanisms e.g. lighting, insulation and improvements; which is envisaged to deliver demonstrable energy bill savings	250	250	250	750
	Waste Schemes (Recycling)	The purchase of waste receptacles to enable the Borough to continue their waste/recycling scheme	89	89	89	267
	Food Waste Collection	To provide food waste containers	20	20	20	60
	Wokingham Biodiversity Capital Projects	A rolling programme of capital projects aimed at enhancing the biodiversity value of various sites and other assets	25	25	0	50
		Co2 reduction total	4,884	6,884	6,859	18,627
Clean energy generation	Renewable Energy Infrastructure projects	Renewable energy generation infrastructure. i.e. solar farms (fields of solar panels) feeding into a battery or grid arrangement and either us selling off the energy or using against our own consumption etc	3,500	6,500	8,000	18,000
		Clean energy generation total	3,500	6,500	8,000	18,000

Key Area	Project Name	Project Description	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
<b>Climate Emergency Continued..</b>						
196	Winnersh Triangle Parkway	Transport infrastructure enhancement in the borough	3,100	0	0	3,100
	Coppid Beech Park and Ride	Transport infrastructure enhancement in the borough	2,700	0	0	2,700
	Greenways	A network of quiet commuting and leisure routes for pedestrians and cyclists	610	874	742	2,226
	Public Rights of Way Network	Investment in all public rights of way and other non-motorised routes to support the needs of all types of users	612	737	737	2,086
	Wokingham Borough Cycle Network	Investment in current/future cycle networks in the Borough	500	500	1,000	2,000
	South Wokingham Railway Crossings (Foot and cycle)	New Foot and cycle structures in the borough	0	0	1,500	1,500
	Byways	Foot/bridal/cycle ways enhancements or new build in the borough	100	100	0	200
	Bus Stop Infrastructure Works to Support North Arborfield SDL Bus Strategy	Transport infrastructure enhancement in the borough	54	0	0	54
Alternative transport total			7,676	2,211	3,979	13,866
<b>Climate Emergency Total</b>			<b>16,060</b>	<b>15,595</b>	<b>18,838</b>	<b>50,493</b>

Key Area	Project Name	Project Description	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
<b>Children Services and Schools</b>						
New facilities 197	Sixth Form Expansion	Extension/ new build projects to provide additional places throughout the borough to meet need for additional sixth form places	500	3,500	1,900	5,900
	Primary strategy - Spencer's Wood Primary School	New build project to provide additional places throughout the Borough to meet need	0	0	4,112	4,112
	Basic Needs Primary Programme	Extension/new build projects to provide additional places throughout the Borough to meet need	600	1,500	1,500	3,600
	Primary strategy Arborfield / Barkham Primary school	New build project to provide additional places throughout the Borough to meet need	2,225	75	50	2,350
	Primary strategy - Matthews Green	New build project to provide additional places throughout the Borough to meet need	2,113	37	25	2,175
	New Children's Home 2020	To provide a setting to meet the needs of vulnerable children	150	1,250	0	1,400
	New Build: Care Leaver accommodation	To provide a setting to meet the needs of vulnerable children	100	0	1,200	1,300
	Basic Needs Secondary - Additional Places	Extension/new build projects to provide additional places throughout the Borough to meet need	0	0	968	968
	Furniture, Fittings & Equipment for Additional Places	Furniture, fittings & Equipment to meet need of additional places throughout the Borough.	395	84	64	543
	SEND Investment Programme 2017 to 2020	The investment programme will enable children to receive the support they need in the borough. This will enable: better outcomes for children with Education Health and Care Plans and better value for money placements locally	307	0	0	307
New facilities total			6,390	6,446	9,819	22,655

Key Area	Project Name	Project Description	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
<b>Children Services and Schools Continued..</b>						
Improvement to existing facilities	Schools Urgent Maintenance	Urgent capital planned improvements and suitability issues	630	630	630	1,890
	Schools Devolved Formula	Specific government grant to carry out capital works, controlled by schools	389	389	389	1,167
	Care Leaver Supported Accommodation: Funding for renovation costs of Seaford Court	The enhancement of care leavers accommodation	840	0	0	840
	School Kitchens	To improve various school meals kitchens throughout the Borough including delivery of the universal free school meal programme	100	100	100	300
	ICT Equipment for children in care	To purchase/replace equipment that is provided to children in care in line with our children in care pledge	22	22	22	66
	Refurbishment of Bathroom at Bridges Short Break Centre	Enhancements to the councils Short Break Centre	20	0	0	20
198	Improvement to existing facilities total		2,001	1,141	1,141	4,283
Service improvement	Capitalisation of Business Analysts	Investment in Business Analysts part of continued change programme	138	138	138	414
	Capitalisation of Capita One system - From 2020	Investment in an It system part of continued change programme	336	0	0	336
Service improvement total			474	138	138	750
<b>Children Services and Schools Total</b>			<b>8,865</b>	<b>7,725</b>	<b>11,098</b>	<b>27,688</b>

Key Area	Project Name	Project Description	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
<b>Environment</b>						
199	Carnival Pool Leisure Facilities Redevelopment	The redevelopment of the leisure centre (a multi year scheme)	0	10,000	0	10,000
	Sports Provision Across the Borough	Investment in a new sport provision.	750	1,750	4,080	6,580
	Dinton Activity Centre Project	To provide a new building to enhancement the services available at this site	1,750	0	0	1,750
	New Bulmershe swimming pool / leisure centre	The redevelopment of Bulmershe Leisure centre (a multi year scheme)	1,000	0	0	1,000
	New pool in the Arborfield area - a multi year scheme to start in 2020/21	A development of a new swimming pool (a multi year scheme)	0	0	1,000	1,000
	Shinfield SDL Community Centre	A new community facility in the Shinfield area which facilities will provide flexible and adaptable pace for a range of community activities, This is a joint project with Shinfield Parish	1,000	0	0	1,000
	Polehampton Community Library	To provide a new facility serving the Twyford area	640	0	0	640
	Montague Park Community Facility	To provide a new facility serving the SDL site	250	0	0	250
New facilities total			5,390	11,750	5,080	22,220
Improvement to existing facilities	Cantley Park enhancements	Improving existing facilities at this site	1,600	0	0	1,600
	Borough Wide Non SDL Play Area Enhancement Project	To renovate, refurbish and replace existing play areas at various locations across the Borough	360	310	0	670
	Leisure Centre refurbishments / upgrades across the borough (x5 facilities)	The enhancement of existing leisure facilities	75	75	75	225
Improvement to existing facilities total			2,035	385	75	2,495
<b>Environment Total</b>			<b>7,425</b>	<b>12,135</b>	<b>5,155</b>	<b>24,715</b>

Key Area	Project Name	Project Description	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
<b>Adult Social Care</b>						
Service improvements	Learning Disability Accommodation Transformation	Creation of a learning disability residential and Supported Living to develop a service transformation plan. This will ensure learning disability residential and Supported Living to develop a service transformation plan	1,200	1,200	0	2,400
	Learning Disability Demand Management	This project intends to manage the future demand by investing in additional supported living accommodation. This will regenerate savings in the region of £200k per annum	600	600	1,200	2,400
	Learning Disability Outreach and Overnight Respite Centre	The project is to complete the business case for a respite and supported living facility with a block contract for beds available to WBC adult social care clients and other beds available to surrounding local authorities for spot purchase.	200	1,000	800	2,000
	Adult Social Care - Community Equipment	To support statutory duty to provide prevention, reduction and delay of long term care and support through the provision of equipment. This provision of equipment will help to improve customer outcomes, facilitate independence	476	504	535	1,515
	Investment in Assistive Technology to Reduce Domiciliary Care Costs	Provision of AT equipment to facilitate the prevention and reduction of more costly packages of domiciliary care.	153	153	153	459
	Connected care	Integration of health and social care ICT systems.	100	100	100	300
	Investment in Manual Handling Equipment to Reduce Domiciliary Care Costs	Provision of newer equipment to facilitate a reduction in the cost of domiciliary care costs by reducing the number of carers from two to one per care call, reduce sickness and injury of carers, and improve the quality of care.	89	89	89	267
	Project Management Costs for New Enhanced Assistive Technology Service	Provision of project management to set up, launch, embed and monitor the development of an Enhanced AT service to facilitate the prevention and reduction of more costly packages of domiciliary care.	10	10	10	30
Service improvements total			2,828	3,656	2,887	9,371

Key Area	Project Name	Project Description	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
<b>Adult Social Care Continued..</b>						
New facilities	Older People's Dementia Home	The project is to build a home with a block contract for beds available to WBC adult social care clients.	4,500	3,500	0	8,000
New facilities total			4,500	3,500	0	8,000
Improvement to existing facilities	H&W Urgent Maintenance & Refurbishment	The urgent maintenance/refurbishment of the Health and Wellbeing estate to retain the function and value of the assets and to meet health and safety issues	50	50	50	150
Improvement to existing facilities total			50	50	50	150
<b>Adult Social Care Total</b>			<b>7,378</b>	<b>7,206</b>	<b>2,937</b>	<b>17,521</b>



Key Area	Project Name	Project Description	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
<b>Internal Services</b>						
2022	Central Contingency	For allocation to Wokingham Borough Council schemes as required. (1% of total budget of the year)	2,190	1,976	1,958	6,124
	Communications and Engagement	Communications and Engagement activity to support the Council's extensive capital and regeneration programme	250	250	250	750
	IMT Security & Infrastructure / Networking / Licences	Enhancement in It estate inline with the councils continued improvement programme	620	0	0	620
	Mosaic Modernisation and Reimplementation	The implementation of a major upgrade to the business application which underpins the Adult and Children's social care	600	0	0	600
	Laptop Refresh	This project refreshes the Council's Laptop estate on a 4 year life cycle	350	0	0	350
	Network Hardware Replacement	Continued enhancement in It network	100	100	100	300
	Replacement of the fundamental operating system for CRM / Workflow	To replace a critical system used to underpin Council Services.	150	0	0	150
	New Server room at Waterford House to provide improved resilience	Enhancement to strategic assets	150	0	0	150
	IT Network capability and resilience improvement	Ensure that the council has an up to date and supportable network infrastructure.	35	0	0	35
Service improvements total			4,445	2,326	2,308	9,079

Key Area	Project Name	Project Description	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
<b>Internal Services Continued..</b>						
203 Improvement to existing facilities	Property Maintenance and Compliance	The continued development and upkeep of the Councils customer IT infrastructure.	350	350	350	1,050
	Maintaining an enhanced level of IT infrastructure	The continued development and upkeep of the Councils customer digital assets enhanced and created by Council continued improvement programme.	300	300	300	900
	Re-Roofing Waterford House Roof and Repairs to Chimney	Improving existing facilities	225	0	0	225
	Replace life expired control panel in Shute End Offices boiler house	Improving existing facilities	70	0	0	70
	Improved Air-conditioning Provision at Shute End Offices SEDS room (Critical IT Servers)	Improving existing facilities	55	0	0	55
Improvement to existing facilities total			1,000	650	650	2,300
<b>Internal Services Total</b>			<b>5,445</b>	<b>2,976</b>	<b>2,958</b>	<b>11,379</b>
<b>Total Capital Programme</b>			<b>157,307</b>	<b>182,341</b>	<b>177,035</b>	<b>516,683</b>

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## Prudential & Treasury Management Indicators 2020/21 to 2022/23

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital programme.

### Capital Expenditure

The Council's Capital programme is summarised below as the required prudential indicators for capital expenditure.

	2020/21 £'m	2021/22 £'m	2022/23 £'m	Total £'m
Investment and Regeneration	65.9	67.8	66.6	200.4
Roads and Transport	46.2	68.9	69.6	184.7
Climate Emergency	16.1	15.6	18.8	50.5
Children Services and Schools	8.9	7.7	11.1	27.7
Environment	7.4	12.1	5.2	24.8
Adult Social Care	7.4	7.2	2.9	17.5
Internal Services	5.4	3.0	2.9	11.3
<b>Total Capital Programme 2020/21 to 2022/23</b>	<b>157.3</b>	<b>182.3</b>	<b>177.1</b>	<b>516.7</b>

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of funding resources results in a borrowing need.

	2020/21 £'m Budget	2021/22 £'m Budget	2022/23 £'m Budget	Total £'m
<b>Financing of capital expenditure £m</b>				
Capital receipts	(8.0)	(2.0)	(3.0)	(13.0)
Capital grants	(26.0)	(10.0)	(6.0)	(42.0)
Capital Developer Contributions (S106 / CIL)	(29.0)	(31.0)	(18.0)	(78.0)
Reserves, contributions (revenue, school and other third party) and other	(2.3)	(2.3)	(5.1)	(9.7)
<b>Net financing need for the year</b>	<b>(92.0)</b>	<b>(137.0)</b>	<b>(145.0)</b>	<b>(374.0)</b>
<b>Total funding 2020/21 to 2022/23</b>	<b>(157.3)</b>	<b>(182.3)</b>	<b>(177.1)</b>	<b>(516.7)</b>

The net financing need for commercial activities / non-financial investments included in the above table against expenditure is shown below:

	2018/19 Actual £'m	2019/20 Estimate £'m	2020/21 Budget £'m	2021/22 Budget £'m	2022/23 Budget £'m
<b>Commercial activities / non-financial investments</b>					
Capital Expenditure	27	35	33	33	33
Financing of capital expenditure	0	0	0	0	0
<b>Net borrowing need for the year</b>	<b>(27)</b>	<b>(35)</b>	<b>(33)</b>	<b>(33)</b>	<b>(33)</b>
<b>Percentage of total net financing need %</b>	<b>37%</b>	<b>36%</b>	<b>36%</b>	<b>24%</b>	<b>23%</b>

CFR is any capital expenditure above, which has not funded (borrowing need), will increase the CFR. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which reduces the borrowing need in line with our MRP policy. The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include the financing of the asset and so the Council is not required to separately borrow for these schemes.

	2018/19	2019/20	2020/21	2021/22	2022/23
<b>The Council's borrowing need (the Capital Financing Requirement)</b>	<b>Actual £'m</b>	<b>Estimate £'m</b>	<b>Budget £'m</b>	<b>Budget £'m</b>	<b>Budget £'m</b>
CFR – non housing	161	190	224	286	364
CFR – housing	86	85	83	79	76
CFR - Commercial activities/ non-financial investments	89	147	162	208	239
<b>Total CFR</b>	<b>335</b>	<b>422</b>	<b>470</b>	<b>573</b>	<b>678</b>
<b>Movement in CFR</b>	<b>63</b>	<b>86</b>	<b>48</b>	<b>103</b>	<b>105</b>

## External Debt

### The Operational Boundary

This is the limit beyond which external borrowing and long-term liabilities are not normally expected to exceed. In most cases, this would be linked to the CFR, but may be lower or higher depending on the levels of actual borrowing and the ability to fund under-borrowing by other cash resources.

	2019/20 Estimate £'m	2020/21 Budget £'m	2021/22 Budget £'m	2022/23 Budget £'m
<b>Operational boundary for external debt</b>	<b>421.6</b>	<b>494.4</b>	<b>599.2</b>	<b>713.1</b>

### Authorised limit

This is the maximum level of borrowing. It represents a limit beyond which external borrowing is prohibited.

	2019/20 Estimate £'m	2020/21 Budget £'m	2021/22 Budget £'m	2022/23 Budget £'m
<b>Authorised limit</b>	<b>421.6</b>	<b>533.0</b>	<b>646.5</b>	<b>763.7</b>

### Gross Debt / Capital Financing Requirement

This indicator is to ensure that debt does not, exceed the total of the capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years.

	2019/20 Estimate £'m	2020/21 Budget £'m	2021/22 Budget £'m	2022/23 Budget £'m
<b>External debt</b>	<b>(227.6)</b>	<b>(276.2)</b>	<b>(326.7)</b>	<b>(401.7)</b>
<b>Other long-term liabilities (OTL)</b>	<b>(8.6)</b>	<b>(1.5)</b>	<b>(1.5)</b>	<b>(1.5)</b>
<b>Gross debt</b>	<b>(236.2)</b>	<b>(277.6)</b>	<b>(328.1)</b>	<b>(403.1)</b>
<b>Capital Financing Requirement (CFR)</b>	<b>335.2</b>	<b>421.6</b>	<b>469.7</b>	<b>573.0</b>
<b>Under / (Over) Borrowing - sum (gross debt, CFR)</b>	<b>99.0</b>	<b>143.9</b>	<b>141.6</b>	<b>169.8</b>

## Affordability

To assess the affordability of a council's capital programme, the following indicators provide an indication of the impact of the capital investment plans on the Council's overall finances.

### Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream;

#### General Fund

	2019/20 Estimate	2020/21 Budget	2021/22 Budget	2022/23 Budget
Percentage of Financing Costs to Net Revenue Stream	2.48%	2.47%	2.44%	2.30%

The decrease is due to the following reasons:

- Repayment of forward funded borrowing on receipt developers contributions
- Repayment of invest to save schemes as savings/income is received
- Investments returns from internal subsidiaries

#### Housing Revenue Account (HRA)

	2019/20 Estimate	2020/21 Budget	2021/22 Budget	2022/23 Budget
Percentage of Financing Costs to Net Revenue Stream	18.26%	18.23%	19.11%	19.12%

The increase is due to new loans taken out as per the business model

## Maturity structure of borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.

31st March 2020

Long Term Borrowing	£,m
Between 1 and 2 years	65.0
Between 2 and 5 years	17.3
Between 5 and 10 years	21.7
Between 10 and 15 years	41.2
Between 15 and 20 years	12.0
Between 20 and 25 years	0.0
Between 25 and 30 years	1.5
More than 30 years	42.7
<b>Total Long Term</b>	<b>201.5</b>
Short Term Borrowing	20
less than 1 year (previously between 1 and 2 years)	47.7
<b>Total Borrowing</b>	<b>269.2</b>

## Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

Upper limit for principal sums invested for longer than 365 days	2019/20 Estimate £'000	2020/21 Budget £'000	2021/22 Budget £'000	2022/23 Budget £'000
Principal sums invested for longer than 365 days	50,000	60,000	60,000	60,000
Current investments (as at 24/01/19) in excess of 1 year	35,000			



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## ANNUAL INVESTMENT STRATEGY

The CIPFA Code and DCLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's investment priorities will be security first, liquidity second, then return.

The council may invest its surplus funds in accordance with its time and monetary limits for institutions on the Council's counterparty list, as shown below

	Fitch Long term Rating	Moody's	Standard & Poors	Money Limit	Time Limit
<b>Banks 1 higher quality</b>	F1+/AAA	P-1Aaa	A-1+/AA-	£5m	365 days
<b>Banks 1 medium quality</b>	F1+/AA-	P-1Aa3	A-1+/AA-	£3m	365 days
<b>Building Societies</b>				£2m	6 Months
<b>Debt Management Office Account (DMADF)</b>	-	-	-	£20m	3 Months
<b>Guaranteed Organisations</b>	-	-	-	£2m	3 Months
<b>Other local authorities</b>	-	-	-	£10m	5 years 1825 days
<b>Other Institution Limits</b> (Money Market Funds, Gilts and Supranational investments)	-	-	-	£5m	365 days

### Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections ; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Director of Corporate Services will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary.

### Credit Rating criteria:

Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list.

- Banks a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
  - I. Short term – F1+ (Fitch), P-1 (Moody's), A-1+ (Standard and Poor's)
  - ii. Long term – AA (Fitch), Aa2 (Moody's), AA (Standard and Poor's)
- Building societies. Subject to a minimum asset size of £5bn and meeting a minimum credit rating of A-.
- UK Government: including Money market funds – the Council and its Fund Managers will use AAA rated funds.

### Bank criteria

The Council will only use good credit quality banks which:

- are UK banks; and/or
- are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA (in house team only)
- Group Limits – For each banking group the following limits will apply, dependent on the rating of the Parent Bank
  - AAA : £7m with a maximum average duration of 1 year
  - AA- : £5m with a maximum average duration of 6 months

### Other institutions

Gilts and the Debt Management Account Deposit Facility (DMADF)

- Local authorities, parish councils etc.
- Supranational institutions – multilateral investment organisations such as the World Bank or European Investment Bank (sometimes used by the Fund Managers)

**Note:** investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

## **TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT**

The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council applies its principles to all investment activity. In accordance with the Code, the Director of Corporate Services has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained above in this Appendix and in the body of the treasury strategy statement found in Appendix A section 7 page 10

**SPECIFIED INVESTMENTS:**

These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is very low. These would include sterling investments with:

- The UK Government (such as the Debt Management Office, UK Treasury Bills or a gilt with less than one year to maturity).
- Supranational bonds with less than one year to maturity.
- A local authority, parish council or community council.
- Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This covers a money market fund rated AAA by Standard and Poor's, Moody's or Fitch rating agencies
- A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society) this covers bodies with a minimum short term rating of F1+ (or equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies.

**NON-SPECIFIED INVESTMENTS:**

Non-specified investments are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

a.	Supranational Bonds greater than 1 year to maturity (a) Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). (b) A financial institution that is guaranteed by the United Kingdom Government (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.
b.	Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.
c.	Building societies which are subject to a minimum asset size of £5billion and meeting a minimum credit rating of A-. These investments will be restricted to a maximum period of 6 months and £2m per institution.
d.	NatWest Bank for the provision of Banking Services. The Council is limited to daylight exposure only (i.e. the flow of funds in and out during the day), with a maximum limit of 1 working day.

e.	A body which has been provided with a government issued guarantee for wholesale deposits within specific timeframes. Where these guarantees are in place and the government has a AAA sovereign long term rating these institutions will be included within the Council's criteria, temporarily until such time as the ratings improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee. In addition to this, a maximum limit of £2m with a maximum duration of 3 months is also set.
f.	Eligible Institutions for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008, with the necessary ratings required. These institutions have been subject to suitability checks before inclusion and have access to HM Treasury liquidity if needed.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	* Minimum credit criteria / colour band	Money Limit	Max. maturity period
DMADF – UK Government	UK over sovereign rating	£20M	3 months
UK Government gilts	UK sovereign rating	£5m	1 year
UK Government Treasury bills	UK sovereign rating	£5m	1 year
Money market funds	AAA	£5m	Liquid
Local authorities	N/A	£10m	5 years
Term deposits with banks and building societies	AA	£5m	Liquid
CDs or corporate bonds with banks and building societies	AA	£5m	Liquid
Corporate bond funds	AA	£5m	3 Years

Currently not in our strategy are the following investment categories:

a.	<b>Share capital</b> in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies.
b.	<b>Loan capital</b> in a body corporate.
c.	<b>Property funds</b> – The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.

**Accounting treatment of investments**

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken

**The monitoring of investment counterparties**

The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded after an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Corporate Services, and if required new counterparties which meet the criteria will be added to the list.

**Use of external fund managers**

It is the Council's policy to use external fund managers for part of its investment portfolio. The fund managers will use both specified and non-specified investment categories and are contractually committed to keep to the Council's investment strategy, which will be defined in an updated Treasury Management Strategy post fund manager's appointment. The performance of each manager is reviewed at least quarterly by the Director of Corporate Services.

## 2020/21 Wokingham Borough Council MRP policy

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement (CFR) through a revenue charge (the minimum revenue provision - MRP), and it is also allowed to undertake additional voluntary payments (voluntary revenue provision - VRP).

Department for Communities and Local Government (DCLG) regulations have been issued which require the full Council to approve a MRP Statement in advance of each financial year. The decision lies with the Council although a prudent provision must be made. The Council is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008, the MRP policy will be:

- MRP will be based on the CFR (option 2);

These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all borrowing (including PFI and finance leases) the MRP policy will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction).

This option provides for a reduction in the borrowing need over approximately the asset's life. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

Repayments included in annual PFI or finance leases are applied as MRP.

Wokingham will follow the statutory guidance, except in some instances, as disclosed below. Final guidance is expected to be issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. Under that section local authorities are required to "have regard" to this guidance.

For some investment assets WBC believes it would be overly prudent to charge MRP in line with the draft guidance, as it would stop the Council making an investment which could otherwise strengthen its financial position, due to an artificial self-implemented restriction.

For assets which WBC or one of its subsidiary companies is investing in purely for the return on investment, we will charge a 10% charge for MRP. The MRP will be applied with a maximum useful economic life of 50 years for freehold land, and 40 years for other asset classes.



Alternative prudent assumptions will be used in the following circumstances.

Expenditure type	Guidance maximum 'C', (MRP repayment period)	WBC MRP charging policy
Freehold land	maximum of 50 years	Maximum 60 years
bridges	maximum of 50 years	Maximum 60 years
Investment assets	maximum of 50 years	10% of maximum 60 years asset life
loan capital in WBC holdings	20 years	No charge - Loan covered by Asset
Forward funding Schemes	maximum of 50 years	No charge – Developer contribution are used to repay principle

Based on the Council latest estimates of its Capital financing of its CFR on 31<sup>st</sup> March 2020 the budget for MRP and voluntary overpayments (VRP) has been set as follows:

CFR	2019/20 Estimate £'000	2020/21 Budget £'000	2021/22 Budget £'000	2022/23 Budget £'000
Opening Capital expenditure funded by borrowing	335,175	421,565	498,610	616,828
Closing Capital expenditure funded by borrowing	420,112	497,157	615,375	736,350

Estimated MRP/VRP 2020/21	2019/20 Estimate £'000	2020/21 Budget £'000	2021/22 Budget £'000	2022/23 Budget £'000
Invest to save	(133)	(1,508)	(2,113)	(2,321)
Commercial Activities (excludes Town centre)	(426)	(648)	(870)	(1,093)
Town Centre Regeneration	(138)	(1,725)	(2,218)	(2,758)
Infrastructure	(3,555)	(3,555)	(3,555)	(3,555)
Developer Contributions Forward Funded*	(5,633)	(3,792)	(5,855)	(7,279)
<b>Total</b>	<b>(9,885)</b>	<b>(11,229)</b>	<b>(14,612)</b>	<b>(17,006)</b>

Note \* this is on receipt of the developer contributions linked to the forward fund schemes

## Impact of IFRS 16 Changes

The MRP Policy above covers the treatment for finance leases. The accounting changes from IFRS 16 – Leases, which apply from 1<sup>st</sup> April 2020 will not change how the current MRP policy accounts for lease payments. The potential change will be for material operating leases being restated as finance leases which will affect the CFR balance and the estimated MRP payments. Any new leases undertaken from 1<sup>st</sup> April 2020 may also have an impact on the estimated balances above. The Council are currently reviewing all leases to ensure correct accounting treatment for 20/21.

<b>TITLE</b>	<b>Treasury Management - Mid Year Report</b>
<b>FOR CONSIDERATION BY</b>	Audit Committee on 5 February 2020
<b>WARD</b>	None Specific;
<b>LEAD OFFICER</b>	Deputy Chief Executive - Graham Ebers

**OUTCOME / BENEFITS TO THE COMMUNITY**

Effective and safe use of our resources to deliver service improvements and service continuity through capital investments.

**RECOMMENDATION**

The Audit committee are asked:

- 1) to recommend to Executive the mid-year position on the treasury management portfolio;
- 2) to note that the Council has worked within approved parameters;
- 3) to note the forecast outturn saving of £500k (an over achievement on investments £390k, and saving on debt charges of £110k).

**SUMMARY OF REPORT**

This report provides Executive with a summary review of Treasury Management activities during the first six months of 2019/20 and will detail any breaches of the agreed treasury management strategy and also any proposed in-year amendments to the strategy. The Treasury function supports the provision of all Council services through timely management of the Council's cash flow and through its debt and investment portfolio.

The mid-year report reviews the performance of the treasury management function and forms part of the formal reporting arrangements required by the CIPFA Code of Practice for Treasury Management.

## Background

As at 30 September 2019 the council held investments of £101.8m with an average rate of return of 0.99%. The average rate excluding loans to subsidiaries as at September 2019 was at the rate of return of 0.67% which is very positive when compared to the 7-day average London Interbank Bid (LIBID) rate of 0.57% as at the 30 September 2019. All Council investments are placed with regard to security, liquidity and yield and in that order.

In accordance with the updated strategy set by Council in February 2019, the Council has taken advantage of the permission to increase the investment duration with other local authorities for up to two years; this has generated better rates of returns at the date of investment.

As at 30 September 2019 the Council has earned £1.866 million in interest (received and accrued). The Council's treasury team forecasts a full year return (received and accrued) of £4.024 million against a budget of £3.634 million

## Debt:

As permitted by the Treasury and Capital strategy, the Council has increased its external borrowing by £10 million; this takes the total external borrowing to £211.2 million. This is still below the agreed limit (operational boundary for debt) of £492 million (increased by £125 million) set out in the borrowing strategy approved by Council on the 21<sup>st</sup> February 2019.

During the first six months of the year through a combination of good cash flow management, additional income and phasing of the capital expenditure, the Council's treasury team has managed to keep additional borrowing at £10 million, saving on debt financing cost, this will continued to be monitored for the last six months and any new borrowing will be taken in line with the strategy parameters.

The forecast of debt financing costs for the full year is £7.337 million, against a budget of £7.447 million.

The following table demonstrates budget monitoring for both debt and returns on investments

	Budget £'000	Forecast £'000	Variance
Returns on investments	(3,634)	(4,024)	(390)
Debt charges	7,447	7,337	(110)
Total	3,813	3,313	(500)

## Prudential Indicators

The Director of Corporate Services confirms that as at 30 September 2019 the council has worked within the treasury strategy 2019/20

## FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

***The Council continues to face severe financial challenges over the coming years as a result of reductions to public sector funding and growing pressures in our statutory services. It is estimated that Wokingham Borough Council will be required to make budget reductions of approximately £20m over the next three years and all Executive decisions should be made in this context***

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	External borrowing as at 30th September 2019: £211.2m Treasury Investments held as at 30th September 2019 £101.8m	Yes	Revenue & Capital
Next Financial Year (Year 2)	To be determined through the Medium term financial plan	Yes	Revenue & Capital
Following Financial Year (Year 3)	To be determined through the Medium term financial plan	Yes	Revenue & Capital

<b>Other financial information relevant to the Recommendation/Decision</b>
N/A

<b>Cross-Council Implications</b>
N/A

<b>Public Sector Equality Duty</b>
An Equality Impact Assessment is not required for this report

<b>Reasons for considering the report in Part 2</b>
N/A

<b>List of Background Papers</b>
None

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<b>TITLE</b>	<b>Corporate Risk Register</b>
<b>FOR CONSIDERATION BY</b>	Audit Committee on 5 February 2020
<b>WARD</b>	None Specific
<b>LEAD OFFICER</b>	Chief Executive - Susan Parsonage

**OUTCOME / BENEFITS TO THE COMMUNITY**

Enterprise Risk Management (ERM) provides for robust and transparent decision-making. Effective ERM is therefore an integral part of the Council's control environment and helps demonstrate the effective use of resources and sound governance. The Council's Corporate Risk Register (CRR) demonstrates that the council is pro-actively identifying and managing its significant business risks.

**RECOMMENDATION**

That the Audit Committee notes the update.

**SUMMARY OF REPORT**

The Corporate Risk Register is regularly reviewed by the Corporate Leadership Team.

There are 14 corporate risks being carefully monitored details of which can be found at Appendix 1.

The Assistant Director Governance will attend the meeting to explain the major risks in the Council and the key actions being taken to mitigate these risks.

## Background

The roles and responsibilities of Members and Officers with respect to Risk Management are detailed in the Council's Enterprise Risk Management Policy (ERMP) which was approved by the Audit Committee. The ERMP states that CLT is responsible for identifying and managing the Council's risks and opportunities, and for setting an example to staff. CLT is also responsible for identifying, analysing and profiling high-level strategic and cross-cutting risks on a regular basis.

The Audit Committee is required to seek confirmation that the Council's strategic risks are being proactively managed. Strategic risks are essentially those risks that might occur and could prevent the Council from achieving its objectives as detailed in its Vision, Priorities and Corporate Plan.

## Analysis of Issues

The main changes to the CRR since last reviewed by the Audit Committee are:-

- Updates to the BREXIT risk (risk no. 11)
- Further mitigating actions implemented on Climate Emergency – risk no. 13
- New risk identified with regard to the High Needs Block (risk no. 14)

## FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

***The Council continues to face severe financial challenges over the coming years as a result of reductions to public sector funding and growing pressures in our statutory services. It is estimated that Wokingham Borough Council will be required to make budget reductions of approximately £20m over the next three years and all Executive decisions should be made in this context***

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	£Nil	Yes	Revenue
Next Financial Year (Year 2)	£Nil	Yes	Revenue
Following Financial Year (Year 3)	£Nil	Yes	Revenue

### Other financial information relevant to the Recommendation/Decision

There are no financial implications to be noted as a result of this update. However there are risks within the register that should they materialise, would have a significant financial impact on the authority.

### Cross-Council Implications

A risk is an unexpected event or action that can adversely affect the Council's ability to achieve its objectives and successfully execute its strategies. Risk Management is about managing opportunities and threats to objectives. Therefore good risk management will assist the Council in delivering its services and achieving its priorities.

<b>Reasons for considering the report in Part 2</b>
Not applicable

<b>List of Background Papers</b>
Corporate Risk Register
Enterprise Risk Management Strategy and Policy

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**Corporate Risk Register**  
**Summary Page**  
**Updated 24/1/2020**

**APPENDIX A**

**Key**

<b>Current Score:</b>	<b>VH = Very High</b>	<b>H = High</b>	<b>M = Medium</b>	<b>L = Low</b>
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**Risk Matrix**

227

LIKELIHOOD

6			5, 11	
5			3, 12, 13	
4			4, 8	1, 6, 7, 14
3			2	
2			10	9
1				
	2	4	6	8

IMPACT

**Summary of Corporate Risks**

- 1 Budgeting & financial mgt (inc forecasting demand & investment and commercial strategy)
- 2 Corporate Governance
- 3 Workforce
- 4 Local Plan (including five year land supply)
- 5 Delivering SEND Reforms
- 6 Safeguarding Children and Young People
- 7 Safeguarding Adults
- 8 Information and Data Management
- 9 Health and Safety
- 10 BREXIT
- 11 Inspections Regulatory
- 12 Adult Social Care Provider Market
- 13 Climate Emergency
- 14 High Needs Block

### **Key to Abbreviations**

JH	Councillor John Halsall
PJ	Councillor Pauline Jorgensen
PB	Councillor Parry Batth
SM	Councillor Stuart Munro
UC	Councillor Ullakarin Clark
JK	Councillor John Kaiser
CM	Councillor Charles Margetts
WS	Councillor Wayne Smith
CHT	Councillor Charlotte Haitham Taylor
GM	Councillor Gregor Murray
SP	Susan Parsonage, Chief Executive
GE	Graham Ebers, Director of Corporate Resources & Deputy Chief Executive
SH	Sarah Hollamby, Director of Locality & Customer Service
CC	Carol Cammiss, Director of Children's Services
MP	Matt Pope, Director of Adult Social Services
AC	Audit Committee
O&S	Overview & Scrutiny Management Committee

Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating			
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
1	<p><b><u>Budgeting and financial Management (inc forecasting demand &amp; investment and commercial strategy).</u></b></p> <p><i>Budgeting</i> - Effectively and efficiently achieving outcomes for the community as per the Council's Plans and Priorities.</p> <p>Risks: a budget that is:-</p> <ol style="list-style-type: none"> <li>Value for money</li> <li>Achieves priorities</li> <li>Meets statutory duties</li> <li>Sustainable in the long term</li> <li>Owned and managed by those responsible and accountable</li> <li>Controlled and monitored to targets set</li> </ol> <p><i>Demand</i> - Effectively managing demand-led services in areas such as Adult Social Care and Children's Social Care and special needs.</p> <p>Risks:-</p> <ol style="list-style-type: none"> <li>Forecasting and profiling the demand for the long term.</li> <li>Managing increasing public expectations to be realistic to the resources available</li> <li>Prevention strategies based on analyses of nature of demand</li> <li>Reviewing existing services and/or placements to reduce demand and enable independent living</li> </ol> <p><i>Investment and Commercial Strategy</i></p> <p>Risk that the Council fails to deliver key investment priorities through insufficient resources or inadequate planning</p> <p>The Council has significant investment aspirations including Strategic Development Locations (SDL's), Town Centre Regeneration, school rebuilds and housing provision. This is in the context of limited resources and a complex funding source. The Council needs to ensure</p>		<ul style="list-style-type: none"> <li>Medium term financial (MTFP) planning processes over three years.</li> <li>Budget management and monitoring controls as set out in financial regulations</li> <li>Internal Audit programme covering major financial systems</li> <li>Reduce capital programme in line with delay in receipts</li> <li>Increase borrowing</li> <li>Closer monitoring of on-site schemes</li> <li>Quarterly refresh of capital programme</li> <li>Refreshed corporate asset management plan</li> <li>Annual capital bidding system and capital programme in place</li> <li>Programme Board for Town Centre Regeneration Project</li> <li>Forward Funding</li> <li>Asset Review Programme</li> <li>Meeting the Council's strategic capital requirement, incorporating Strategic</li> </ul>	<ul style="list-style-type: none"> <li>Performance management framework implemented and embedded covering Council Plan, Executive Priorities, Services Plans, individual staff appraisals</li> <li>Continuous Improvement Programme (CIP) for ASC to incorporate risks including increasing demand.</li> <li>Continuous Improvement Programme (CIP) for Children's Services to incorporate risks including increasing demand.</li> <li>Ongoing response to internal/external audits and sources of external assurance including implementation of recommendations.</li> <li>Launch of "Commercial Council" programme (from Sept 2019)</li> <li>Budget Executive and Council – Feb 2020</li> <li>Lobbying re Local Government Finance Settlement for 2021 and beyond.</li> </ul> <p><b>Audit Committee to monitor progress</b></p>	SP	JH	8	4	H	L
					MP	CM				
					CC	UC				
					GE	JK				
					SP/GE	JK				
					GE	JK				
					GE	JK				

Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating			
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
	<p>it guards against any unmet critical needs and prioritise its aspirations over the long term.</p> <p>Risk that the Council fails to deliver key investment priorities through insufficient resources or inadequate planning.</p> <p>Risks:-</p> <ul style="list-style-type: none"> <li>Insufficient school places for children with additional needs within the Borough</li> <li>Financial shortfall</li> <li>Negative PR</li> <li>Loss of rental income</li> <li>Scheme slippage / downsizing</li> </ul> <p><b>This is a permanent, long-term risk to the Council.</b></p>		<p>Development Locations (SDL) in the medium term financial plan.</p> <ul style="list-style-type: none"> <li>Resource planning for Strategic Development Locations (SDL) infrastructure needs.</li> <li>£100m commercial investment approved.</li> <li>Establishment of Capital Review Group (CRG) and Investment Group with appropriate senior representation.</li> <li>Establishment of healthy reserve balances in line with good practice.</li> <li>Overview &amp; Scrutiny reviewed 2020/21 budget proposals (from Sept 2019)</li> <li>CIPFA independent assessment on financial resilience – shows Wokingham BC rated in top 20 for financial sustainability.</li> </ul>							
2	<p><b><u>Corporate Governance</u></b> (inc Political Governance)</p> <p>Governing effectively to ensure achievement of the Council's purpose and priorities within the resources available and achieving value for money.</p> <p>Risks:-</p>		<ul style="list-style-type: none"> <li>Council and Borough Plan processes.</li> <li>Code of Local Corporate Governance</li> </ul>	<ul style="list-style-type: none"> <li>Internal Audits of Corporate Governance, Performance Management and Risk Management and implementation of recommendations.</li> </ul>	SP	JH	6	3	M	L

Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating			
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
	<ul style="list-style-type: none"> <li>a. Assurance framework for carrying out different types of assurance activity that is understood and discharged effectively</li> <li>b. Leadership culture and tone models good governance (i.e. Nolan principles of standards in public life)</li> <li>c. Effective risk management</li> <li>d. Effective decision making tools that inform value for money proportionate to the risk e.g. evidenced in business cases</li> <li>e. Effective arrangements for the safe delivery of services and programmes for the delivery of projects.</li> </ul> <p>Effective political governance that sets priorities to deliver purpose, allocate resources, and holds to account through development of policies and strategies</p> <p>Risks:-</p> <ul style="list-style-type: none"> <li>a. Leadership and culture sets the tone that models and holds to account, motivates, and learns from delivery</li> <li>b. Quality decisions that are based on balancing evidence, public perceptions and political considerations</li> <li>c. Effective monitoring of priorities, risks and business cases</li> <li>d. Effective Administration and effective political opposition supported to achieve outcomes for the community</li> <li>e. Members partake in development and training to effectively discharge their responsibilities</li> <li>f. Clarity of officer/member boundaries and relationships to avoid politicisation of officers.</li> </ul> <p><b>This is a permanent, long-term risk to the Council.</b></p>		<ul style="list-style-type: none"> <li>• Constitution (e.g. Member/Officer protocol, delegations, Code of Conducts etc)</li> <li>• Staff training (Code of Conduct e learning Nov 18)</li> </ul>	<ul style="list-style-type: none"> <li>• LGA Peer Review action plan completion from 2017 and consideration of new Peer Review.</li> </ul> <p><b>Audit Committee to monitor progress</b></p>	SP	JH				
3	<p><b><u>Workforce (inc Capacity)</u></b></p> <p>A workforce that is stable, motivated and attracted to work for the Council with an organisational workload that is aligned to capacity available. Resources are allocated proportionate to priority and risk.</p>		<ul style="list-style-type: none"> <li>• People strategy</li> <li>• Corporate People Dashboard</li> <li>• Management training</li> </ul>	<ul style="list-style-type: none"> <li>• Updated People strategy including HR continuous improvement plan.</li> </ul>	GE	JK	6	5	H	L
					GE	JK				

Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating			
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
232	Risks:-  a. Reward and recognition policies b. Recruitment policies c. Value for money d. Sustainable e. Career development opportunities f. Clarity of roles g. Empowerment – staff have appraisal and development that gives clarity to objectives, nurtures and develops, in addition to holding to account. h. Clarity of offer i. (Over)Reliance on key members of staff j. Capacity on the front-line  <b>This is a permanent, long term risk to the Council.</b>			<ul style="list-style-type: none"> <li>Employee Engagement Survey launched on 14 October with results (and associated Action Plan) to be published in early 2020</li> </ul> <b>Overview &amp; Scrutiny to monitor (through oversight of Performance reports)</b>						
	4	<u><b>Local Plan (including five year land supply)</b></u> Reputational, financial and legal risks associated with the process of producing the latest Local Plan.  <b>This is a temporary, shorter-term risk to the Council.</b>	<ul style="list-style-type: none"> <li>Project plan in place</li> <li>Resources allocated to deliver project plan.</li> <li>Public consultation on housing numbers held in summer 2109</li> <li>Executive approved launch of consultation on 15 Jan 2020</li> </ul>	Ongoing monitoring.  Government lobbying on housing numbers.  Approval of Housing Infrastructure Fund (HIF) bid	SH	WS	6	4	H	L
	5	<u><b>Delivering SEND Reforms</b></u> Role of the Council in SEND in an environment of academies and national formulas for education budgets, and increasing special needs.	<ul style="list-style-type: none"> <li>SEND Improvement Board (and associated task and finish groups) in place</li> </ul>	SEND strategy consultation from 31 January 2019 with the aim of agreeing final strategy in	CC	UC	6	6	VH	L

Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating			
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
203	<p>Risks:-</p> <ol style="list-style-type: none"> <li>Relationship with education partners and schools</li> <li>Future services and delivery models that are fit for purpose</li> <li>School places meeting the growth in population</li> <li>Managing special needs demand and public expectations of Council resources</li> <li>Financial.</li> </ol> <p><b>This is a permanent, long term risk to the Council.</b></p>		<ul style="list-style-type: none"> <li>Children &amp; Young People's Plan (CYPP) set up.</li> </ul>	<p>autumn or earlier. Will include plans to reduce High Needs Block overspend.</p> <p><b>Children's Services Overview &amp; Scrutiny to monitor</b></p>						
	<p><b><u>Safeguarding children and young people</u></b></p> <p>Risk of serious or significant harm to a vulnerable child or young person with whom the council is working.</p> <p>WBC has a duty to care for the needs of, and to provide safeguarding services for the most vulnerable children and young people in the Borough.</p> <p>Risks:-</p> <ul style="list-style-type: none"> <li>Avoidable harm to a vulnerable child</li> <li>Damage to reputation</li> <li>Litigation</li> <li>Low staff morale – loss of staff, unstable workforce – poor outcome for future children, impact on budget.</li> <li>Impact of being judged inadequate by Ofsted could lead to statutory/government intervention.</li> <li>Not managing the transition to Adult Services</li> </ul> <p><b>This is a permanent, long-term risk to the Council.</b></p>		<ul style="list-style-type: none"> <li>Berkshire West Safeguarding Partnership</li> <li>Children's Overview &amp; Scrutiny Committee</li> <li>Policies and Procedures in place</li> <li>Staff appraisal. Supervision, training</li> <li>Practice Framework implementation</li> <li>Quality Assurance System and framework</li> <li>Recruitment and retention strategy embedded</li> </ul>	<p><b>Children's Services Overview &amp; Scrutiny to monitor -</b></p>	CC	UC	8	3	H	L



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Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating			
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
7	<b><u>Safeguarding adults</u></b>  Risk of avoidable serious harm or death of a vulnerable adult for whom the council has a responsibility.  WBC has a statutory duty to meet the care needs of, and safeguard the most vulnerable adults in the Borough. It is vital to ensure continued focus on Safeguarding systems and procedures.  Risks:- <ul style="list-style-type: none"><li>• Damage to reputation and public confidence in services</li><li>• Possible external intervention from statutory agencies such as DH, CQC or Police)</li><li>• Disruption of service provision</li><li>• Litigation</li><li>• Impact on staff morale</li><li>• Recruitment and retention problems</li><li>• Removal and replacement of senior managers</li><li>• Not managing the transition from Children’s Services</li></ul> <b>This is a permanent, long-term risk to the Council.</b>	Policies and Procedures (multi-agency) in place <ul style="list-style-type: none"><li>• Referral system and assessment processes</li><li>• Management and supervision of staff</li><li>• Staff Training and awareness</li><li>• Berkshire West Safeguarding Board operating effectively</li><li>• Optalis contract as emergency provider in case of external provider failure</li><li>• Care Governance Quality Assurance system for providers</li><li>• Market Failure Protocol in place</li><li>• Appointment of Principal Social Worker to provide additional tier of scrutiny and oversight to lead to improved quality of safeguarding policy and practice.</li><li>• Risk assessment for safeguarding completed.</li><li>• LGA Peer Review covered safeguarding.</li></ul>	<ul style="list-style-type: none"><li>• Set up new ASH (Adult Safeguarding Hub).</li><li>• Implement actions from the safeguarding risk assessment.</li><li>• Implement safeguarding actions from Peer Review.</li><li>• ASH will lead to process change</li><li>• PSW to train on evidence management oversight</li><li>• Increased capacity by appointing Locums</li></ul>	MP	CM	8	4	H	L	
8	<b><u>Information and Data Management</u></b> Risk of a significant fine and reputational damage due to loss of confidential/ sensitive data.	<ul style="list-style-type: none"><li>• Information Security Management System - governance for this area</li></ul>	Internal compliance review of information and data management arrangements.	GE	JK	6	4	M	L	

Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating			
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
	<p>The Council holds information of a confidential and sensitive nature. There have been past breaches of information security and it is an area under intensive scrutiny from the Information Commissioner. The primary risk is likely to concern paper based documents.</p> <p>Loss of confidential or sensitive data, leading to a significant fine and reputational damage for the council, with a potentially damaging impact on the resident/ customer to which the information relates.</p> <p>Risks:-</p> <ul style="list-style-type: none"> <li>• Imposition of a substantial fine</li> <li>• Reputational damage/ bad media coverage</li> <li>• Breach of contract and payment of damages</li> <li>• Loss of future business</li> <li>• Increased number of complaints</li> <li>• Loss of trust from partner organisations/contractors.</li> </ul> <p><b>This is a permanent, long-term risk to the Council.</b></p>		<p>including SIRO &amp; IGG roles</p> <ul style="list-style-type: none"> <li>• Encrypted IT equipment</li> <li>• Secure storage/ lockers at council offices</li> <li>• Robust policies in this area</li> <li>• Mandatory refresher programme recently undertaken</li> <li>• Archiving of physical records</li> <li>• Training for staff on document / information handling and basic information security practice</li> <li>• Secure e-mail solution</li> <li>• Document marking scheme</li> <li>• GDPR implemented for 25/5/18 to address new obligations</li> <li>• Training for new members</li> <li>• Additional resource to deal with Subject Access Requests and FoI requests</li> </ul>	<p>Audit Committee monitoring of data protection performance - ref 25/9 Audit Committee .</p> <p>Online data protection training being updated to be launched in spring 2020.</p>						

Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating			
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
9	<p><b>Health and Safety</b></p> <p>If the council fails to protect the health and safety of its employees and other persons who come into contact with the services provided by the authority there is a risk of serious injury or death.</p> <p>There is a risk that a health and safety failing could result in an intervention by a relevant enforcement agency and potential enforcement action or conviction.</p> <p>Risks:-</p> <ol style="list-style-type: none"> <li>Enforcement notices and HSE fines for intervention</li> <li>Unlimited fine</li> <li>Custodial Sentence</li> <li>Publicity Order (Corporate Manslaughter only)</li> <li>Remedial Order (Corporate Manslaughter and HSWA)</li> <li>Publicity Order (Corporate Manslaughter only)</li> <li>Removal of key staff</li> <li>Reputational damage</li> <li>Service delivery loss due to depleted resources</li> <li>Damage to individuals wellbeing</li> <li>An avoidable death or injury</li> </ol> <p><b>This is a permanent, long-term risk to the Council.</b></p>	<p>If the council fails to protect the health and safety of its employees and other persons who come into contact with the services provided by the authority there is a risk of serious injury or death.</p> <p>There is a risk that a health and safety failing could result in an intervention by a relevant enforcement agency and potential enforcement action or conviction.</p> <p>Risks:-</p> <ol style="list-style-type: none"> <li>Enforcement notices and HSE fines for intervention</li> <li>Unlimited fine</li> <li>Custodial Sentence</li> <li>Publicity Order (Corporate Manslaughter only)</li> <li>Remedial Order (Corporate Manslaughter and HSWA)</li> <li>Publicity Order (Corporate Manslaughter only)</li> <li>Removal of key staff</li> <li>Reputational damage</li> <li>Service delivery loss due to depleted resources</li> <li>Damage to individuals wellbeing</li> <li>An avoidable death or injury</li> </ol> <p><b>This is a permanent, long-term risk to the Council.</b></p>	<ul style="list-style-type: none"> <li>Risk profile - Awareness of high risk areas</li> <li>Ongoing compliance with statute policies and procedures</li> <li>Seeking Assurance programme</li> <li>Compliance with Health and Safety policies and procedures</li> <li>Management and Member performance monitoring reporting from Health and Safety staff</li> <li>Contracts with third parties include a Health and Safety clause, setting out what the Council expects from the contractor in relation to Health and Safety obligations</li> <li>Incident reporting, following Health and Safety process should death or serious injury occur</li> <li>Training of managers and staff - Health and Safety training</li> <li>Annual historical benchmarking review of</li> </ul>	<p>Training for managers and staff who procure and manage contracts to ensure that the Council as a client discharges its H&amp;S duties.</p> <p>To set up a Lone Working and Work-related Violence Task &amp; Finish Group with representatives from all services to develop a short term and long term improvement plan.</p> <p>Latest statutory Health &amp; Safety report for 2018/19 refers to current plans – see 27/6/19 Executive for details.</p> <p>Internal Audit of Health &amp; Safety reported April 2018 giving a category 2 “good” level of assurance.</p> <p>Building maintenance of schools – discharging Council responsibilities.</p>	GE	JK	8	2	M	L

Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating			
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
			<p>all Corporate Manslaughter and relevant Health and Safety cases in order to identify the key risk area</p> <ul style="list-style-type: none"> <li>Review across the Council of the arrangements in place to protect staff against violence at work</li> </ul> <p>Health and Safety training included in the Management Induction Programme for all new managers.</p> <ul style="list-style-type: none"> <li></li> </ul>							
10	<p><b>BREXIT</b></p> <p>As the UK prepares to implement the result of the 2016 Referendum there is a risk that the Council fails to plan for the implications and impacts of BREXIT.</p> <p>There is also the risk that Government focus on Brexit, delays or postpones decisions on other areas e.g. Children's Services (SEND agenda), Adult Social Care, and local government financing.</p> <p><b>This is a temporary, shorter term risk to the Council.</b></p>		<ul style="list-style-type: none"> <li>Self-assessment of preparedness undertaken</li> <li>Corporate Working Group established to develop more detailed responses.</li> <li>Business Continuity Plans updated</li> <li>BREXIT risk register established</li> </ul>	<ul style="list-style-type: none"> <li>Corporate Working Group met regularly to early Jan 2020 – now stood down but will be re-introduced later in year if necessary</li> </ul> <p><b>Overview &amp; Scrutiny to monitor</b></p>	SP	JH	6	2	M	L

Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating			
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
11	<p><b>Regulatory Inspections</b></p> <p>Children's Services are inspected regularly by the regulators. ILACs is an inspection 'system' that includes: Annual Conversations between Ofsted &amp; the Local Authority; Inspection at least every 3 years and possible Focussed Visits on identified themes. This means that Children's Services is under regular scrutiny from Ofsted that is carried out in a cyclical process.</p> <p>In addition the Local Area could be subject to a Joint Targeted Area Inspection focussing on a set theme.</p> <p>The Local Area is also inspected under the SEND inspection Framework.</p> <p>The directorate are not given notice of when the inspections will occur as they are unannounced.</p> <p>The SEND inspection took place in March 2019 and the Local Area had to produce a Written Statement of Action (WSOA) in response to 6 major areas identified to be requiring improvement. The WSoA was submitted to Ofsted &amp; CQC in August 2019. The Local Area will be re-inspected under the SEND Inspection framework 18 months to 2 years following the submission of the WSoA - so between Feb 2021 and August 2021.</p> <p>The ILACS inspection took place in June 2019 and the Local Authority was found to be Requiring Improvement to be Good.</p> <p>Risks:-</p> <ol style="list-style-type: none"> <li>The embedding of improvements in services to be Good could be affected if resources and action plans are redirected due to a Focused Visit or other inspection activity</li> <li>Impact of being judged inadequate by Ofsted could lead to statutory/government intervention.</li> <li>Lack of evidence of improvement in services could lead to reputational damage</li> </ol>		<ul style="list-style-type: none"> <li>Performance data</li> <li>Self-evaluation</li> <li>Intelligence captured in relation to all forms of external scrutiny that help to drive improvement e.g. Peer Reviews &amp; Audits</li> </ul>	<ul style="list-style-type: none"> <li>The continuous improvement board set up from February 2019 to address actions arising.</li> <li>Wokingham Local Area SEND Written Statement of Action</li> <li>Wokingham SEND Improvement Board</li> <li>Children with Disabilities Improvement Board</li> <li>Service Plans for Children's Services</li> </ul>	CC	UC	6	6	H	

Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating			
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
12	<p><b>Adult Social Care Provider Market</b></p> <p>WBC has a duty to understand its local market of care providers and stimulate a diverse range of care and support services to ensure that people and their carers have choice over how their needs are met and that they are able to achieve the things that are important to them.</p> <p>Sustainability of the adult social care market is of major importance in order to ensure the safety, health and wellbeing of vulnerable adults with a range of eligible social care support needs. To support the financial sustainability of our local market, ASC has invested in local provision through the annual uplift process. There is, however, an ongoing pressure from care providers for an annual financial uplift, reflecting inflation, cost of living and the local market. Circa 4/8% pa.</p> <p>Adults Social Care has seen a significant number of providers (Home Care) return care packages as they are no longer viable, adding an additional cost pressure to the service.</p>		<ul style="list-style-type: none"> <li>Annual Uplift Process</li> <li>Provider engagement</li> <li>Quality Assurance Framework</li> <li>Development of an MPS and Adult Social Care Strategy</li> </ul>	<ul style="list-style-type: none"> <li>Develop provider market relationship through rigorous contract management (CMS)</li> <li>Review of the current commissioning pathway</li> <li>Establish a true 'Cost of Care' with the local provider market</li> <li>Establish a market sustainability strategy (inc uplift policy)</li> </ul>	MP	CM	6	5	H	L
13	<p><b>Climate Emergency</b></p> <p>On July 18<sup>th</sup> 2019, a motion was passed at council declaring a climate emergency. The council gave itself six months to establish the boroughs carbon footprint and develop an action plan setting how the council would achieve its targets by 2030.</p> <p>The world's leading climate scientists have warned there is only a 12 years to limit global warming to a maximum of 1.5C. This much earlier than the previously thought. Beyond this even half a degree will significantly worsen the risks of drought, floods and extreme heat</p> <p>The council needs to both</p> <ul style="list-style-type: none"> <li>to reduce carbon emissions to slow climate change, and</li> <li>adapt to the impacts of extreme weather events brought on by climate change</li> </ul>		<ul style="list-style-type: none"> <li>Cross Council officer group established</li> <li>Cross party member climate emergency working group</li> <li>Appointed a climate emergency strategy officer to deliver the climate emergency action plan</li> </ul>	<ul style="list-style-type: none"> <li>Climate Change Initial Action Plan approved by council on 23 Jan 2020</li> <li>Regular monitoring and measurement of the initial action plan and targets to ensure targets will be achieved</li> <li>Develop mitigation measures to adapt to the impacts of extreme weather events on council services and activities</li> </ul>	GE	GM	6	5	H	L

Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating			
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
	There are an increasing number of extreme weather events, caused by climate change, affecting council services and the borough in general. This ranges from episodes of heavier more prolonged rainfall resulting in flooding or higher temperatures, which result in events such as heath fires or drought conditions.									
14	<b>High Needs Block</b> The high needs block spend forms part of the revenue dedicated budget for schools. Its purpose is to provide the necessary funding to support children with special educational needs or disabilities who have been assessed as requiring an Education, Health and Care Plan. This funding is ring fenced and cannot be used for other purposes. The budget provided by Government is significantly insufficient to meet the needs of Wokingham Borough children, the consequence of which means that year on year large deficit is carried forward. Most of the current expenditure is used to purchase special educational services from outside Wokingham Borough from independent school providers. Last year, the overspend on the budget was in excess of £1 million. This year it is projected to be significantly more.		<ul style="list-style-type: none"> <li>The Authority is currently in the process of expanding current special needs provision at Addington School from 200 to 250 places.</li> <li>In addition, the Council's pupil referral unit, is undergoing a major programme of refurbishment. This will improve facilities and provide resources that will reduce the need for agency placements.</li> <li>Seven specialist resources are currently provided by local primary and secondary schools. Work is underway to improve these resources and improve the current level of funding for these placements. This will when completed further</li> </ul>	<ul style="list-style-type: none"> <li>The Council has reached agreement with the DfE to build a new 150 place special school in Wokingham to meet the needs of SEND children from the Wokingham/Reading area. This is planned to open 21/22.</li> <li>Ongoing discussions are being held with the Education and Skill Funding Agency to ascertain whether additional funding can be provided as part of a deficit recovery programme.</li> </ul>	CC	UC	8	4	H	L

Ref	Risk		Existing controls	Further Actions to Mitigate Risk	Lead		Risk Rating			
	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
241			<p>reduce the need for expensive out of area placements.</p> <ul style="list-style-type: none"><li>Finally, the Council is in negotiation/discussion with the Department for Education to re-broker provision for Northern House School so as to introduce a new sponsor to improve provision for children with emotional and behavioural difficulties. This is a local specialist academy that has been judged by Ofsted as inadequate.</li></ul>							



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<b>TITLE</b>	<b>2019/20 Internal Audit and Investigation Q3 Progress Report</b>
<b>FOR CONSIDERATION BY</b>	Audit Committee on 5 February 2020
<b>WARD</b>	None Specific
<b>GENERAL MANAGER</b>	Andrew Moulton, Assistant Director, Governance (and Chief Audit Executive)

## **OUTCOME / BENEFITS TO THE COMMUNITY**

The Internal Audit and Investigation Progress Report details the work of the team from the 1 April 2019 to 31 December 2019. This is an update on the progress towards the formation of the Chief Audit Executive's annual audit opinion on the Council's internal control and governance framework, which forms part of the Annual Governance Statement. It provides assurance through the Audit Committee to the Council and the wider public that the Council is managing its key risks and identifies any weaknesses identified in the governance, risk management and internal control environment. This assurance supports the Council in the achievement of its vision, priorities, principles and objectives and provides for better and improved outcomes for our residents.

## **RECOMMENDATION**

The Audit Committee is asked to note the 2019/20 Internal Audit and Investigation Quarter 3 Progress Report (attached as Appendix A and supporting Appendix AI)).

## **SUMMARY OF REPORT**

The report summarises the work completed by Internal Audit and Investigation during the period and enables the Committee to discharge its oversight function in relation to these activities.

The report provides the opportunity for the Assistant Director, Governance (and Chief Audit Executive) to provide details of the work undertaken this financial year and highlight any areas of weakness the Committee should be aware of.

## **Background**

This Progress Report fulfils two functions for the Audit Committee:

- It enables the Committee to hold the Assistant Director, Governance (and Chief Audit Executive) to account for the performance of Internal Audit and Investigation.
- It facilitates the Audit Committee in holding management to account for managing weaknesses identified during the course of Internal Audit and Investigation activities.

## Analysis of Issues

The Audit Committee should ensure that it receives the coverage, performance and results of Internal Audit and Investigation activity and any other appropriate additional assurances.

### FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

***The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.***

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	Nil	Yes	Revenue
Next Financial Year (Year 2)	Nil	Yes	Revenue
Following Financial Year (Year 3)	Nil	Yes	Revenue

#### Other financial information relevant to the Recommendation/Decision

Nil

#### Cross-Council Implications

Not applicable

#### Reasons for considering the report in Part 2

Not applicable

#### List of Background Papers

None

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<b>Date</b> 23 January 2020	<b>Version No.</b> v1.1

**Shared Audit and Investigation Service**  
**Wokingham Borough Council Performance Report**  
**2019/2020 to 31 December 2019**  
**Audit Committee 5 February 2020**

**2019/20 Quarterly Progress Report (to 31 December 2019)**

**1. Introduction**

- 1.1 This report summarises the work of Internal Audit and Investigation to 31 December 2019.

**2. Internal Audit**

**Performance against Audit Plan to 31 December 2019**

- 2.1 Appendix A (I) presents progress made against the approved 2019/20 Internal Audit and Investigation Plan approved at the meeting of this Committee on 7 February 2019. We are reporting progress as at the 31 December 2019 and are actively managing the Audit Plan to take account of developments regarding the Council Plan and the continuous improvement programme to ensure that our audit work is focussed on assisting the organisation to achieve its objectives and to add value.
- 2.2 There were 12 audits carried forward from 2018/19, 10 are at final report stage, 1 at draft report stage and 1 work in progress. For 2019/20 audits there are 6 that are at Draft Report stage and 9 are work in progress.
- 2.3 The majority of audits have received the top two assurance categories (1 and 2).
- 2.4 There no audits since the Quarter 2 progress report submitted to the Audit Committee on 6 November 2019 completed to final report stage that attracted the third category of audit opinion (Range of Risk Mitigation Controls is incomplete and risks are not effectively Mitigated) in respect of 2018/19 Debtors follow up audit. There are no audits falling into the fourth category of audit opinion (There is no effective Risk Management process in place).
- 2.5 Below is a summary of progress made against those audits that have been reported previously to the Audit Committee;

**Debtors**

Debtors/Accounts Receivable has received a Category 3 audit opinion for the past two financial years. Updates have been periodically reported to this Committee, the most recent being to the June 2019 Audit Committee in the Annual Report 2018/19 – Shared Audit and Investigation Service.

The 2019/20 audit still resulted in a Category 3 audit opinion at draft report stage, although a number of significant improvements have been made and continue to progress. Further evidence of progress is expected to be provided by management during Quarter 4 which may reduce the risk levels identified before a final report is issued.

Key concerns and current status are summarised as:

- Adequacy of management reporting showing the overall debt position, breakdown of debts and debt deemed to be collectable – improvements have been made to debt

reporting provided to budget managers. Whilst the level of debt has reduced since the previous audit, this remains an issue and procedures are in place to track the Council's overall debt position on a monthly basis.

- Adequacy of debt monitoring and supporting records – a revised proactive approach to debt management is to be developed during 2020, whereby service managers will be required to focus on debt prevention at source. Improvements to debt management reporting have been made recently and management aim to improve further. In addition, the process for setting up direct debit payments is being reviewed in liaison with IMT Services to help improve income collection.
- Aged debts not subject to regular review and recovery actions – a project is underway to identify aged debt which is collectable compared with debt requiring write-off authorisation. This will also give a truer representation of the outstanding recoverable overall debt position.

### Housing Rents

An internal audit of Housing Rents was carried out during Q3. This was at draft report stage at the end of December 2019. Audit testing showed considerably improved debt management of both current and former tenant arrears since the previous audit with collection rates at 110%, plus improved management reporting with an improved overall audit opinion (category 2) expected.

A report was submitted to the Audit Committee 6th February 2019 entitled "Update on Internal Audit of Housing Rents" (item 51). This report concluded that debt was being actively managed with recovery actions taken prior to consideration for write-off. Enquiries during the recent audit showed considerable progress made, in particular:

- Monthly reports have continued to be submitted to the TLIP (Tenant and Landlord Improvement Panel) to December 2019, showing an analysis of rent collection and collection of arrears against targets set. In addition, rent KPI's are reported quarterly to CLT.
- The reports to TLIP show significant progress with arrears reduction over the past year to 18 months, with total arrears reduced to £533,023 in December 2019 (3.63% of annual debit) compared with £637,682 in September 2018 (4.43% of annual debit). Yearly targets for arrears as a percentage of annual debt have been set annually to 2024/2025 (2% target). The target for the end of 2019/20 is 3.8% which is set to be exceeded based on the December 2019 percentage of 3.63%.
- There is evidence of immediate contact with tenants in arrears with payment guidance given. Direct debits have been encouraged and have improved collections.
- Regular reviews have taken place following work carried out by collection agencies to certify write-offs where debts are considered uncollectable or uneconomic to collect.

### Public Health

A follow-up audit was in progress as at the end of Q3 to evidence how management is addressing the high and medium risk concerns identified in the final audit report issued April 2019. These concerns were primarily around governance arrangements and financial budget monitoring.

The Assistant Director People Commissioning, submitted a report to CLT in October 2019 outlining the approach to address the existing issues around the governance and

accountability. CLT agreed that the Public Health team would work with the directorates to develop the approach outlined and to monitor progress against the outcomes going forward. Copies were supplied as part of the audit follow-up exercise.

The Public Health Programme Manager provided update information as at the end of Q3 as follows:

- A dedicated team is now in place to manage the Public Health (PH) programme and grant administration.
- The Risk Register is now in place for PH and is to be reviewed and updated as required.
- A Framework has been developed and is due to be published through the Joint Strategic Needs Assessment (JSNA) website, expected early 2020.
- The Memorandum of Understanding (MOU) is still to be signed and the governance arrangements for managing compliance to be clarified.
- Financial Monitoring – the PH Programme Manager is working closely with the appointed Finance Specialist to reconcile the budget with actuals and establish a robust monitoring process going forward and is to provide further evidence to complete the audit follow-up exercise.
- Performance Management Dashboard – performance indicators are being developed for regular reporting to the Health and Well-Being Board, commencing early 2020.

The full follow-up audit findings will be reported to senior management during Q4 and an update provided to the next Audit Committee.

- 2.5 Where concerns are classified as being Very High or High that have been tolerated by management, these are highlighted to the Audit Committee. There have been no cases in Quarter 1 of Very High or High concerns being tolerated by management.
- 2.6 Management is given one month between the draft and final reporting stage to address any countermeasures and, where applicable, improve the overall audit opinion. There were no audits during the quarter where the audit opinion was improved from the draft to final report stage.
- 2.7 Where progression of the 2019/20 Audit and Investigation Plan has been impacted by the availability of staffing resources we have prioritised high profile audits and will roll forward any key areas into the 2020/21 Plan.

#### Contingency

- 2.8 Contingency days to date have been spent on one piece of consultancy work in respect of Taxi Licensing.

### **3. Corporate Investigations**

- 3.1 Corporate investigations so far this year have included 22 Council Tax Reduction Scheme/Council Tax Single Person Discounts, 20 Housing Tenancy, 4 Whistleblowing, 1 Disciplinary, 1 Grievance and 1 Member Code of Conduct case. The results of an investigation at a school which has previously been reported to this committee is still outstanding awaiting an update from the Criminal Prosecution Service.
- 3.2 Due the diversity of the investigation topic areas there are no trends or patterns for the committee to be made aware of.

### Regulation of Investigatory Powers Act

- 3.3 No new investigations have been undertaken during Q3 2019/20 that have required Regulation of Investigatory Powers Act surveillance approval to be requested.
- 3.4 The Council is currently subject to a targeted inspection from the Investigatory Powers Commissioner's Office and the results of the inspection will be reported to the next Audit Committee meeting. The action points raised from the previous inspection have been addressed.

**2019/20 Wokingham Borough Council Internal Audit Plan Status  
(as at 31 December 2019)**

AUDIT TITLE	DIRECTORATE	STATUS	DRAFT AUDIT REPORT OPINION	FINAL AUDIT REPORT OPINION
<b><u>2019/20 Audits</u></b>				
<b><u>Key Financial Systems</u></b>				
Cashiers	Corporate Services	WIP		
Creditors	Corporate Services	WIP		
Debtors	Corporate Services	WIP		
Housing Rents	Local and Customer Services	WIP		
Payroll	Corporate Services	Draft	2	
Treasury Management	Corporate Services	WIP		
Council Tax and NNDR	Locality and Customer Services	WIP		
BACS, CHAPS and Cheques*	Corporate Services			
<b><u>Key Corporate Risks</u></b>				
Corporate Health and Safety	Corporate Services	DRAFT	2	
<b><u>Key Operational Risks</u></b>				
Direct Payments – Adults	Adult Services	DRAFT	2	
Investment Strategy	Corporate Services	FINAL	1	
Procurement Cards	Corporate Services	DRAFT	2	
Equality	Cross Cutting	DRAFT	3	
<b><u>Servicing the Business</u></b>				
Grazeley Primary School	Corporate Services	DRAFT	2	
Bearwood Primary School	Corporate Services	WIP		
Lambs Lane Primary School	Corporate Services	DRAFT	2	
Grants including; BSOG, LTP, TFG				C
<b><u>Consultancy</u></b>				
Taxi Licensing				N/A
<b><u>2018/19 Audits Carried Forward</u></b>				
<b><u>Key Financial Systems</u></b>				
Budgetary Control and Reporting	Corporate Services	FINAL	2	2
Capital Accounting	Corporate Services	FINAL	2	1
Debtors (follow up)	Corporate Services	FINAL	3	3
Fixed Asset Register	Corporate Services	FINAL	2	2
Housing Rents (follow up)	Corporate Services	FINAL	3	3
General Ledger	Corporate Services	DRAFT**	2	
<b><u>Governance Building Blocks</u></b>				
Project Management	Cross Cutting	FINAL	2	2
Corporate Governance	Cross Cutting	FINAL	3	2
Statutory Roles and Responsibilities	Cross Cutting	WIP***		



<b>Key Operational Risks</b>				
Public Health	Corporate Services	FINAL	3	3
Shared Building Services (follow up)	Corporate Services	FINAL	3	3
Town Centre Regeneration	Cross Cutting	FINAL	2	2

\*This audit area has been fragmented in to other Key financial Systems audits to ensure complete coverage.

\*\*This audit is awaiting responses from management due to uncertainties around countermeasure responsibilities leading to a delay in finalising.

\*\*\*To be incorporated into the 2020/21 Corporate Governance audit.

<b>Audit Opinion – Legend</b>	
1. Complete and Effective	<ul style="list-style-type: none"> <li>All necessary Treatment Measures are in place and are operating effectively.</li> <li>Residual risks have been reduced to an acceptable level</li> <li>There are no unacceptable financial implications.</li> <li>Concerns reported are minor.</li> </ul> (Risk management processes are strong and controls are adequate and effective).
2. Substantially Complete and Generally Effective	<ul style="list-style-type: none"> <li>Most key Treatment Measures are in place and these operate effectively.</li> <li>The majority of residual risks have been reduced to an acceptable level.</li> <li>There are some unacceptable financial implications.</li> <li>The majority of concerns are of a predominately moderate impact/likelihood.</li> </ul> (Risk management processes are good and controls are adequate although only partially effective).
3. Range of Risk Mitigation Controls is incomplete and risks are not effectively mitigated	<ul style="list-style-type: none"> <li>Not all key Treatment Measures are in place and / or do not operate effectively</li> <li>Residual risks have not all been reduced to an acceptable level</li> <li>There are some unacceptable financial implications associated with more than one risk mitigation control or because of a lack of risk mitigation control.</li> <li>There are a number of concerns that are predominantly of a major impact/likelihood.</li> </ul> (Risk management processes and controls are adequate but not effective in mitigating the identified risks).
4. There is no effective Risk Management process in place	<ul style="list-style-type: none"> <li>There are no appropriate Treatment Measures in place.</li> <li>Residual risks remain at an unacceptable level</li> <li>Reported concerns are predominantly of a catastrophic or major impact/likelihood.</li> </ul> (Risk management processes and controls are weak).
C	Certification
E	Exempt from classification

<b>TITLE</b>	<b>2020/21 Internal Audit and Investigation Plan and Internal Audit Charter</b>
<b>FOR CONSIDERATION BY</b>	Audit Committee, 5 February 2020
<b>WARD</b>	None specific
<b>LEAD OFFICER</b>	Andrew Moulton, Assistant Director, Governance and Chief Audit Executive

## **OUTCOME / BENEFITS TO THE COMMUNITY**

The Council's 2020/21 Internal Audit and Investigation Plan details the proposed Internal Audit and Investigation activity and seeks to:

- provide key stakeholders with independent assurance that the risks within the Council's fundamental systems and processes are being effectively and efficiently managed;
- allow the Council to demonstrate it is complying with the relevant legislation and applicable professional standards;
- demonstrate the Council's commitment to good governance and a zero tolerance approach towards fraud and corruption; and
- set out that the Team's resources are being properly utilised.

The Internal Audit Charter, Audit Terms of Reference, defines the internal audit activity's purpose, authority and responsibility and are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

## **RECOMMENDATION**

The Audit Committee is asked to:-

- 1) Approve the 2020/21 Internal Audit and Investigation Plan; and
- 2) Note the content of the Internal Audit Charter.

## **SUMMARY OF REPORT**

1. This report presents the 2020/21 Internal Audit and Investigation Plan (Appendix A and supporting Appendix AI) and Internal Audit Charter, Terms of Reference (Appendix AII).
2. A consultation draft Internal Audit and Investigation Plan and Internal Audit Terms of Reference has been consider and agreed by the Corporate Leadership Team.
3. If adopted, the key financial implications for the Council are revenue costs of providing, and contributing to, the Shared Audit and Investigation Service.

## Background

- 2.1 These recommendations are being made to ensure the Council has adequate Internal Audit and Investigation coverage for 2020/21, to ensure that the Council meets its legislative requirements, as well as the requirements of the Audit Committee's Terms of Reference and to enable the Chief Audit Executive to give an overall opinion on the Council's internal control and risk framework at the end of the financial year.

### Internal Audit Plan

- 2.2 The attached report, (Appendix A) and supporting Appendix A(I), present the Audit Committee with the planned Internal Audit approach and activity type for the 2020/21 financial year. Its purpose is to demonstrate:-
- that the Council to demonstrate how it is complying with the relevant legislation and applicable professional standards.
  - how the internal audit service supports the overall aims and objectives of the Council.
  - the risks within the Council's fundamental systems and processes are being effectively managed
  - the Council's commitment to good governance and compliance with the CIPFA/IIA Public Sector Internal Audit Standards (PSIAS) 2016;
  - provide all Internal Audit key stakeholders with independent assurance that
  - the risks within the Council's fundamental systems and processes are being effectively managed; and
  - set out that internal audit and investigation resources are being properly utilised.
- 2.3 The outcomes from the work proposed in the 2020/21 Draft Internal Audit and Investigation Plan underpin the Chief Audit Executive's statutory annual Internal Audit opinion statement. This opinion concludes on the overall adequacy and effectiveness of the Council's internal control, risk management and corporate governance arrangements. It also supports the Council's Annual Governance Statement which forms part of the statutory financial statements.
- 2.4 The proposed 2020/21 Plan is intended to demonstrate how the SAIS supports the overall aims and objectives of the Council. The internal audit service use a risk based approach to developing the Audit and Investigation Plan using the Council's Corporate Risk Register, where possible, to align the key risks to the achievement of the Council's Strategic priorities.
- 2.5 In order to achieve this, the Council requires a comprehensive Audit and Investigation Plan which gives sufficient risk-based coverage and support to management. To help meet this need, the risk-based IA Plan for 2020/21 has been linked to the organisational objectives and strategic priorities, whilst also taking account of the Council's wider assurance framework.
- 2.6 Consultations have taken place with stakeholders, such as the Chief Executive and Directors and S151 Officer through the Corporate Leadership Team in preparing the 2020/21 Draft Audit and Investigation Plan.

- 2.7 In accordance with the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards, the Audit Committee is required to approve (but not direct) and monitor against the internal audit plan.

#### Internal Audit Charter

- 2.8 Internal Audit work is undertaken in accordance with the Internal Audit Charter, which sets out the Terms of Reference for Internal Audit activity and complies with the PSIAS. Appendix All of this report includes the Internal Audit Charter for Members to note. This was last approved by the former Audit and Performance Review Panel in February 2018 and is presented with the 2020/21 Audit Plan.
- 2.9 The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the *Definition of Internal Auditing* the *Code of Ethics* and the *Standards*. The Chief Audit Executive (role fulfilled by the Assistant Director, Governance, Wokingham Borough Council) must periodically review the Internal Audit Charter and present it to senior management and the Board (Audit Committee) for approval.
- 2.10 The Internal Audit Charter establishes the internal audit activity's position within the organisation, including the nature of the Chief Audit Executive's functional reporting relationship with the Audit Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.
- 2.11 The Investigations element of the Plan includes fraud awareness, proactive fraud drives and investigation of fraud and malpractice.

#### **FINANCIAL IMPLICATIONS OF THE RECOMMENDATION**

***The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.***

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	N/A	Yes	N/A
Next Financial Year (Year 2)	N/A	Yes	N/A
Following Financial Year (Year 3)	N/A	Yes	N/A
<b>Other financial information relevant to the Recommendation/Decision</b>			
Not applicable			

<b>List of Background Papers</b>
N/a

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<b>Date</b> 17 January 2020	<b>Version No.</b> v1



# WOKINGHAM BOROUGH COUNCIL

## Draft Internal Audit and Investigation Plan 2020-21

## SHARED AUDIT AND INVESTIGATION SERVICE

### 2020/21 DRAFT INTERNAL AUDIT AND INVESTIGATION PLAN

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#### 1. Introduction

- 1.1 The role of internal audit is defined by the CIPFA/IIA Public Sector Internal Audit Standards (PSIAS):-

*“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

- 1.2 Internal audit also supports the Deputy Chief Executive and Director of Corporate Services (S151 Officer) in discharging his/her statutory duties. The following are two key pieces of legislation that internal audit supports the S151 Officer to comply with:-
- I. Section 151 of the Local Government Act 1972. The Deputy Chief Executive and Director of Corporate Services, as the council’s Section 151 Officer, is responsible under the Local Government Act for ensuring that there are arrangements in place for the proper administration of the authority’s financial affairs. The work of internal audit is an important source of information for the Deputy Chief Executive and Director of Corporate Services (S151 officer) in exercising his/her responsibility for financial administration. Reliance upon Internal Audit and their annual programme of work in reviewing the operation of systems of internal control and financial management is fundamental to the fulfilment of that responsibility.
  - II. The Accounts and Audit Regulations (2015) state that: ‘A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance’.

And that:

*A relevant authority must undertake an effective internal audit<sup>1</sup> to evaluate the effectiveness of its risk management, control and governance processes, and taking into account public sector internal auditing standards or guidance.*

*Each financial year, a relevant authority must:*

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<sup>1</sup> ‘Effective internal audit’ is defined by the Department for Communities and Local Government as compliance with the Public Sector Internal Audit Standards (PSIAS) and CIPFA’s Local Government Application Note for the PSIAS.

*a) Conduct a review of the effectiveness of the system of internal control required by regulation 3; and*

*b) Prepare an annual governance statement.*

- 1.3 The internal audit and investigation plan provides the mechanism through which the Chief Audit Executive can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.
- 1.4 The purpose of Internal Audit is to provide an independent and objective opinion to the Council on the level to which the internal control environment supports and promotes the achievement of the Council's objectives. Internal audit contributes to the Council achieving its key priorities by helping to promote a secure and robust internal control environment, which enables a focus on achieving the key priorities. It also supports the Deputy Chief Executive and Director of Corporate Services (S151 Officer) in discharging his/her statutory duties.

#### Scope and Responsibilities of Internal Audit

- 1.5 The scope and responsibilities relating to Internal Audit are specified in the WBC Constitution Section 9 – Ethics and Governance, as well as in the Internal Audit Charter, detailing the Terms of Reference for Internal Audit activity and complies with the PSIAS, and an Audit Protocol, outlining the approach to service delivery. The Audit Charter is approved periodically and is attached at Appendix A (II). The previous Audit Charter was approved by the Audit Committee in July 2018 and there have been no significant changes.
- 1.6 The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the *Definition of Internal Auditing* the *Code of Ethics* and the *Standards*. The Chief Audit Executive (role fulfilled by the Assistant Director, Governance, Wokingham Borough Council) must periodically review the Internal Audit Charter and present it to senior management and the Board (Audit Committee) for approval.
- 1.7 The Internal Audit Charter establishes the internal audit activity's position within the organisation, including the nature of the Chief Audit Executive's functional reporting relationship with the Audit Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.
- 1.8 This document sets out the proposed Internal Audit and Investigation Plan and programme of work for the 2020/21 financial year. It is intended to demonstrate how the Shared Audit and Investigation Service (SAIS) supports the overall aims and objectives of the Authority whilst maintaining its professional standards. The Plan takes account of the proposed role, objectives and approach to the service delivery of the Internal Audit and Investigation Plan.



## **2. Audit Planning Process 2020-21**

- 2.1 The purpose of the audit planning process is to ensure that resources are appropriately focused in order to provide maximum audit coverage.
- 2.2 The PSIAS set out the standards for internal audit and include the need for risk-based plans to be developed for internal audit and for plans to receive input from management and the 'Board'. Within the Council, the Audit Committee undertake the key duties of the 'Board' laid out in the PSIAS.
- 2.3 The PSIAS Performance Standard 2010 - Planning states that: *'The Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.'*
- 2.4 The proposed 2020/21 Draft Internal Audit and Investigation Plan, attached at Appendix A and supporting Appendix A(I), is intended to demonstrate how the SAIS supports the overall aims and objectives of the Council. The 2020/21 Draft Internal Audit and Investigation Plan focuses efforts / cost on only those audits that feed directly into:
- other regulated reporting but only the minimum effort necessary to deliver compliance, including the Annual Governance Statement (AGS).
  - facilitating the provision of an overall opinion each year for the Audit Committee on the operation of the Council's internal control environment, risk management arrangements and governance framework.
  - other CLT / Executive / Audit Committee strategic & tactical priorities which are at high risk from changes in customer needs, funding, processes or resourcing.
  - the audit of areas which are deemed to be 'important' to support operating objectives.
  - cutting out all other 'housekeeping' activities not directly driven by the above.
  - the 2020/21 Draft Internal Audit and Investigation Plan is aligned with the Council's objectives and Corporate Risk Register (CRR), where possible.
  - the 2020/21 Draft Internal Audit and Investigation Plan includes provision for investigation work, comprising reactive investigations and a programme of proactive fraud investigation exercises with a view to detecting fraud by a targeted and systematic review of data.

- 2.5 Whilst a number of audit reviews within the 2020/21 Draft Internal Audit and Investigation Plan are effectively considered as mandatory (key financial systems, particularly high risk items etc.), others enter or leave the 2020/21 Draft Internal Audit and Investigation Plan based on the CRR rating and the views of officers and Members. As such, the 2020/21 Draft Internal Audit and Investigation Plan is fluid and is regularly realigned to accommodate changes to the CRR, thereby ensuring that it remains current and focussed on the key risks affecting the Council. Any changes made to the 2020/21 Draft Internal Audit and Investigation Plan during the year will be reported to the Audit Committee.
- 2.6 Consultations are undertaken with the Chief Executive and Directors, whilst preparing the Plan, both in determining risk and any emerging issues and taking into account any specific requests for audits to be undertaken.

### **3. Resources**

- 3.1 Risk assessment is used to inform the amount of staff resource dedicated to each area and the extent, frequency and depth of testing undertaken, with the high risk areas being examined more frequently. Annual allocations against individual audit areas have been deliberately flexed in recognition of the need to devote additional resources where new systems are being implemented.
- 3.2 In putting together the 2020/21 Draft Internal Audit and Investigation Plan priorities, it is apparent that, within the limitations of the resources available, it is not possible to address all the risks. The approach to be adopted will, therefore, be a top down systems review process aimed at providing management with an overall opinion on the adequacy of the control environment. In this scenario, individual transaction testing will be limited to that necessary to verify the workings of systems. In the event of changing priorities, such as a major fraud investigation, those areas identified as low risk may be reviewed less frequently than once every three years.
- 3.3 The Plan allows some flexibility to be given to the Chief Audit Executive to deploy resources to special projects or investigations, should the need arise.

### **4. Reports to Corporate Leadership Team (CLT) and Audit Committee**

- 4.1 A status report on internal audit work will be presented to the Audit Committee on a quarterly basis and CLT on a quarterly basis (approximately). The purpose of these reports is to provide an update on the progress made against the delivery of the 2020/21 Draft Audit and Investigation Plan. The report will provide details of the status of audits, i.e. those completed to date, at draft stage or work in progress with the assurance opinions given. The report will also provide a summary of internal audit performance, planning and resourcing issues.

## **5. Annual Assurance Report**

- 5.1 A formal annual report to the CLT and Audit Committee, presenting the Chief Audit Executive's opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control, will be published to enable it to be taken into account within the annual review of the effectiveness of the system of internal audit and in preparing the AGS. The format of the Chief Audit Executive's report will follow that set out in the PSIAS for Internal Audit and will include:
- an opinion on the overall adequacy and effectiveness of the Council's framework of internal control, risk management and governance;
  - disclose any qualifications to that opinion, together with the reasons for qualification;
  - present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
  - any issues considered by the Chief Audit Executive to be particularly relevant to the AGS;
  - A comparison of work undertaken with that planned, with a summary of internal audit performance for the year; and
  - Comment on compliance with the PSIAS and internal audit's quality assurance programme.

## **6. Conformance with Public Sector Internal Audit Standards**

- 6.1 The PSIAS, as revised from April 2017, define the service and professional standards for public sector internal audit services. These include the need for risk-based audit plans to be developed and to receive input from management and the 'Board' (usually discharged by a Council's Audit Committee) on those plans. For SAIS, the Board functions are discharged through both the CLT and the Audit Committee.
- 6.2 Key, specific PSIAS provisions include:
- PSIAS : 2010 - *"The Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals."*
- PSIAS : 2450 – *"The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control."*
- 6.3 The SAIS is designed to conform to the PSIAS. Under the PSIAS there is a requirement for audit services to have an external quality assessment every five years. In 2018, the SAIS commissioned CIPFA to complete an external quality assessment of the SAIS against the PSIAS, Local Government Application Note and the International Professional Practices Framework.

- 6.4 This external assessment confirmed a positive outcome with the service achieving the highest category of assessment “Generally Conforms” with the Standards (out of 3 possible categories). A small number of recommendations were made to ensure full compliance with the Standards, plus a number of advisory points raised to assist the development of the Shared Service and the achievement of best practice going ahead. These have been actioned, or are being addressed on an on-going basis.
- 6.5 A self-assessment will be completed in 2020/21, to provide on-going assurance that the SAIS continues to comply with all aspects of the International Professional Practices Framework, PSIAS and Local Government Application Note.
- 6.6 Internal Audit Standards also require that any potential conflicts of interest that may impair the objectivity or independence of the team are disclosed. We are not aware of any relationships that may impair the objectivity or independence of the team.

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**Chargeable Audit & Investigations Work****Summary**

Area	Description	Proposed Days
Key financial systems	Meeting section 151 and external audit statutory duties	123
Governance building blocks	Facilitating the overall internal audit assurance opinion	85
Key corporate risks	Providing assurance to Management on the Council's most significant risks	200
Key operational risks	Providing assurance to Management on the Council's operational risks	120
Fraud & investigation	Focusing on cashable saving fraud work as per agreed strategy	310
Servicing the business	Various, majority of which is at request of management	85
<b>TOTALS</b>		923

**Details**

<b>Key Financial Systems</b>				
Traditionally, the service has undertaken full coverage of the key financial systems below. The coverage is listed in the outline scope. The Service will be continually reviewing this coverage in consultation with the Council's External Auditor and the Director of Corporate Services (section 151 officer) in year to ensure that audit coverage, if any, is relevant and focused correctly.				
Audit	Reason for Audit	Outline Scope	Proposed Days	2019/20 Audit
Payroll	Main financial system	To provide assurance that only bona fide, authorised and accurate payments are made in a timely manner; to ensure that all payroll transactions are accurately reflected in the accounting system; to ensure correct classification on payments made to individuals to confirm the Council is compliant with guidance regarding the employment status of workers.	12	Y

Income systems and Debtors	Main financial system	To provide assurance that income-generating activities are identified and accurately invoiced; that all invoices are paid and the income is accounted for and reflected in the Council's accounts; the extent of debt is minimised and overdue accounts are promptly followed up.	8	Y
Payment systems and Creditors	Main financial system	To provide assurance that creditor payments are valid authorised, accurate and timely in respect of goods and services ordered and received by the Council.	8	Y
General Ledger	Main financial system	To provide assurance that all financial transactions of the Council are recorded, including ensuring their completeness and integrity with the aim of providing the data from which management accounts, final accounts and statutory returns can be prepared.	5	Y
Cash & bank reconciliation	Main financial system	To provide assurance on the effectiveness, accuracy and completeness of reconciliations.	5	Y
Cashiers	Main financial system	To provide assurance on the operation of the cashiering function.	5	Y
Treasury Management	Main financial system	To provide assurance on the implementation and operation of the treasury function in compliance with the Treasury Management Strategy.	8	Y
Housing Rents	Main financial system	To provide assurance on effectiveness, timeliness, accuracy and completeness of housing rent collection.	10	Y
Benefits/CTRS	Main financial system	To provide assurance on Benefit/CTRS operations.	12	Y
Council tax and NNDR	Main financial system	To provide assurance on Council tax and NNDR collection and recovery processes.	12	Y

Capital Accounting	Main financial system	To provide assurance that the Council is correctly and accurately accounting for its assets.	10	Y
Budgetary Control and Reporting including MTFP	Main financial system	To provide assurance on the Council's budget setting, budget monitoring including forecasting, budgetary control and reporting process.	15	Y
Fixed asset register	Main financial system	To provide assurance on the completeness and accuracy of the fixed asset register.	8	Y
BACS/CHAPS/Cheques	Main financial system	To provide assurance on the effectiveness, security and accuracy of payments.	5	Y
<b>SUB TOTALS</b>			<b>123</b>	



<b>Governance Building Blocks</b>  These reviews cover the key governance elements and are necessary for the formation of the Head of Internal Audit Opinion (HIAO) and Annual Governance Statement (AGS)				
<b>Audit</b>	<b>Reason for Audit</b>	<b>Outline Scope</b>	<b>Proposed Days</b>	<b>2019/20 audit</b>
Facilitating the preparation of the AGS	Governance and reporting	To support and advise Directors and Assistant Directors in producing Management Assurance Statements as evidence for the Annual Governance Statement which forms part of the Council's financial statements. To include the golden thread of Corporate Governance	10	Y
Risk Management	Governance and reporting	To provide assurance on; Assessment of risk management governance including risk appetite, risk maturity, policy and procedures and analysis scores	15	N
Performance Management	Governance and reporting	To provide assurance on; Objective of the Performance Management, alignment of KPIs with the Council's Vision, Corporate Plan and Service Plans, progress of KPI reporting and plans for implementation, clarity of roles and responsibilities for maintaining the performance management system and accuracy of KPIs and Quality Assurance	15	N
Procurement	Governance and reporting	To provide assurance on; Compliance with Procurement Directive, Engagement with consultants, compliance with EU thresholds, compliance with WBC thresholds, material decisions, use of standing lists and major suppliers	15	Y
Corporate Governance	Governance and reporting	To provide assurance on all aspects of Corporate Governance	20	N
Adult Services Governance	Governance and reporting	To provide assurance on governance within the Adult Services Directorate	10	N
<b>SUB TOTALS</b>			<b>85</b>	

**Key Corporate Risks**

With reference to the Council's Corporate Risk Register, these audits are intended to provide assurance to management that the expected mitigating actions and controls to manage risks are operating as expected. All key corporate risks are expected to be covered over a two to three year period.

<b>Audit</b>	<b>Reason for Audit</b>	<b>Outline Scope</b>	<b>Proposed Days</b>	<b>2019/20</b>
Workforce (including capacity)	Key Corporate Risk		15	N
SEND reforms	Key Corporate Risk		15	N
Safeguarding children and young people	Key Corporate Risk		20	N
Safeguarding adults	Key Corporate Risk		10	N
Information and data management	Key Corporate Risk		20	N
Health and Safety	Key Corporate Risk		20	Y
Brexit	Key Corporate Risk		10	N
Regulatory inspections	Key Corporate Risk		20	N
Adult Social Care provider market	Key Corporate Risk	Management of market property including total spend in this area.	20	N
Climate Emergency	Key Corporate Risk		20	N
Commercialisation	Key Corporate Risk		30	N
<b>SUB TOTALS</b>			<b>200</b>	

**Key Operational Risks**

With reference to the Departmental Risk Registers and through discussion with Directors, these audits are intended to provide assurance to management that the expected mitigating actions and controls to manage risks are operating as expected.

<b>Audit</b>	<b>Reason for Audit</b>	<b>Outline Scope</b>	<b>Proposed Days</b>	<b>2019/20</b>
Highways Governance	Key Operational Risk		20	
Car Parking Enforcement	Key Operational Risk		15	
Recycling	Key Operational Risk		10	
Transition	Key Operational Risk	To give assurance on transition between Children's Services and Adult Services	20	
Fragmented Pathway	Key Operational Risk	To give assurance on the policies, procedures and processes on Fragmented Pathway	20	
Recruitment and Retention of staff (Adult Services)	Key Operational Risk	To give assurance on the recruitment and retention of staff within the Adult Services Directorate	15	
CIL	Audit Committee request	To provide assurance on the CIL administration and collection processes.	20	
<b>SUB TOTALS</b>			<b>120</b>	

Fraud and Investigation			
Activity	Outline Scope	Proposed Days	2019/20
Reactive Investigations	Investigation of ad hoc referrals, including whistleblowing work where suspected irregularity has been detected	150	Y
Proactive Investigations	Proactive counter fraud work that includes targeted testing of processes with inherent risk of fraud (Council Tax Reduction, Council Tax Discounts, New Homes Bonus) – to be undertaken jointly with any audits in the same area	80	Y
National Fraud Initiative	Management of Council's provision of data and investigation of matches	10	Y
Member Code of Conduct investigations	Investigations into breaches of Code of Conduct on behalf of the Monitoring Officer	30	Y
Disciplinary investigations	Investigations on behalf of management	30	Y
Training	Development and delivery of Fraud Awareness Sessions - authority wide and service specific	5	Y
Other	Continued development of Counter Fraud policies in line with current legislation and best practice; providing Statutory data such as Transparency information.	5	Y
		<b>310</b>	

Servicing the Business			
Reason	Outline Scope	Proposed Days	2019/20
Optalis	Jointly commissioned by WBC and RBWM as the shareholders.	20	Y
Schools Finance	Undertake testing of the following areas; Governance, Financial Stability, Budget Setting, Budget Monitoring, Payroll and Income.	25	Y
Effectiveness of internal audit	PSIAS compliance	5	Y
Advice on demand	Requests for adhoc advice on control, risk management and governance issues	10	Y
Grant certifications	Statutory compliance e.g. DfT, Troubled Families	10	Y
Follow ups	High risk only	5	Y
Contingency	To cover management/member and other unforeseen requests throughout the year for both audit and investigation	10	Y
<b>SUB TOTALS</b>		<b>85</b>	

# Wokingham Borough Council

## INTERNAL AUDIT CHARTER

**The Terms of Reference for the provision of the Internal Audit Service within the Shared Audit and Investigation Service at Wokingham Borough Council.**

*(This document revises and updates the previous Audit Charter approved by Audit Committee  
Reviewed annually. Last approved by Audit Committee ~~28 September 2016~~)*

# INTERNAL AUDIT CHARTER

## Introduction

1. The purpose of this Audit Charter is to set out the Terms of Reference for the provision of the Internal Audit Service within Wokingham Borough Council. The Charter is reviewed on an annual basis to ensure that current needs are met. The latest Charter was approved by Audit Committee on 28 September 2016 and it demonstrates how the Internal Audit Service complies with the Public Sector Internal Audit Standards (PSIAS), which came into effect in April 2013 and revised in April 2016.

## Authority

2. The Local Government Accounts and Audit Regulations 2015 require every local authority to undertake effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
3. Under S151 of the Local Government Finance Act 1972, the S151 Officer is responsible for ensuring that proper arrangements exist for the management of the Council's financial affairs. Reliance upon Internal Audit is fundamental to the fulfilment of that responsibility.

## Definition of Internal Auditing

4. In accordance with the PSIAS, Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

## Role, Purpose and Function

5. The Internal Audit Service is delivered by the Shared Audit and Investigation Service (SAIS), a Shared Service between Wokingham Borough Council (WBC) and the Royal Borough of Windsor and Maidenhead (RBWM), hosted by WBC. The role of the Head of Internal Audit (HoIA) is performed by the [Assistant Director, Governance, Wokingham Borough Council Service Manager, Shared Audit & Investigation Service](#).
6. The Internal Audit Service provides:-
  - Senior Management and the Board (the Audit Committee) with assurances on the adequacy of control within the Council's systems and activities.
  - the S151 Officer with the assurances required to discharge their statutory responsibilities.
  - a service to monitor the efficient and effective delivery of the Council's objectives.
  - evidence regarding compliance with the Council's Constitution, Corporate procedures and the Council's policies and objectives.
7. The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

8. For the purposes of clarification, Senior Management is defined as those posts that are within the organisation at Head of Service level and above.
9. The Board is the highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation.

### **Independence**

10. The main determinant of the effectiveness of Internal Audit is that it is seen to be independent. To ensure this, Internal Audit operates within a framework that allows:-
  - unrestricted access to the Head of Paid Service and Senior Management.
  - unrestricted access to the Chair of the Audit Committee and other Council Members.
  - segregation from operations.
11. Every effort is made to preserve objectivity by ensuring that all audit members of staff are free from any conflicts of interest with regard to both audit and non audit activities.

### **Objectives of Internal Audit**

12. As an independent appraisal function within the Council, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources. In addition, the other objectives of the function are to:
  - Ensure compliance with the Accounts and Audit Regulations 2015.
  - Deliver an annual internal audit opinion on the strength of the Council's governance arrangements and control environment to support the Council's review of the effectiveness of internal control and the production of the Annual Governance Statement (AGS).
  - Support managers with the management of risk including: -
    - In the delivery of services
    - Protection of assets from loss
    - Maintaining the reputation of the Council
    - Protecting the organisation from litigation
    - Meeting statutory obligations
    - Meeting corporate objectives
    - Being aware of environmental implications
    - Being alert to the risk of fraud or irregularity
    - Contingency planning
    - Provide managers with support and advice to encourage consultation and the adoption of best practice.
  - Perform testing of key systems to inform the work of the External Auditors.
  - Undertake projects to meet the current concerns of the Audit Committee, Head of Paid Service, Directors, Heads of Service, the Section 151 Officer and Monitoring Officer.
  - Undertake an annual review of the effectiveness of the Council's system of internal audit, required under the PSIAS. The [Service Manager, Shared Audit and Investigation Service Assistant Director, Governance, Wokingham Borough Council](#) arranges this work and the outcomes are presented to the Audit Committee.
  - Assist management with the provision of consultancy work where appropriate, e.g. in the preparation for inspections, to implement best practice.



13. The assurance set out above is provided for the internal use of Wokingham Borough Council. Where the Audit Sponsor (Chief Executive/Director) decides it is prudent and increases efficiency these assurances can be used by 3<sup>rd</sup> parties. Examples include, but are not limited to, other local authorities, local authority trading companies, grant awarding bodies, regulatory and inspection bodies. Where this assurance is provided to external bodies these are limited to the primary purpose of providing reasonable assurance to Wokingham Borough Council, except where this is agreed within the scope of the applicable internal audit Terms of Reference.

### Scope of Internal Audit

14. The scope of Internal Audit allows for unrestricted coverage of the Council's activities and unrestricted access to all records (both electronic or otherwise), assets, personnel and premises and for obtaining such information and explanations it considers necessary to fulfil its responsibilities. These rights of access also apply to the Council's partner organisations and contractors. This unrestricted access also extends to any person carrying out an investigation on behalf of the HoIA.
15. In addition, Internal Audit, has unrestricted access to Members, the Head of Paid Service, Directors, Heads of Service, all other council employees, External Audit, suppliers and contractors.
16. Internal Audit work covers all systems and activities in all directorates and locations throughout the Council.

### Professional Standards and Ethics

17. The ~~Service Manager, Shared Audit and Investigation Service~~Assistant Director, Governance, Wokingham Borough Council has adopted the mandatory PSIAS which applies the IIA International Standards to the UK Public Sector. The objectives of these Standards are to;
- Define the nature of internal auditing within the UK public sector.
  - Set basic principles for carrying out internal audit in the UK public sector.
  - Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
  - Establish the basis for the evaluation of internal audit performance and to drive improvement planning.
18. All Internal Auditors will endeavour to conform with the IIA's Code of Ethics and rules of conduct and the requirements of any other professional bodies for which they are a member. Internal Auditors also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life* ("Nolan Principles").
19. Instances of non-conformance to the PSIAS will be reported to the Board (Audit Committee). More significant deviations will be considered for inclusion in the AGS.
20. Any offers of gifts or hospitality will be reported to the ~~Service Manager, Shared Audit and Investigation Service~~Assistant Director, Governance, Wokingham Borough Council and an appropriate record made in accordance with the Council's gift and hospitality policy. Auditors must avoid the perception of any impairment to their objectivity and independence.

## Responsibility

21. Internal Audit has no executive responsibility for the Council's systems of internal control other than an appraisal of their effectiveness with regard to Council objectives.
22. Internal Audit is not an extension of, or a substitute for, the functions of management. Responsibility for internal control rests fully with managers, who should ensure that arrangements are appropriate and adequate. It is for management to address Internal Audit concerns or to accept the risk resulting from not taking action. However, it is the Shared Audit and Investigation Service's responsibility to consider taking matters to higher levels of management or to Council Members if it is felt that the risk should not (or need not) be borne.
23. The internal auditor should have regard to the possibility of such malpractice and should seek to identify serious defects in internal control, which might permit the occurrence of such an event.
24. An internal auditor who discovers evidence of, or suspects, malpractice should report, through the [~~Service Manager, Shared Audit and Investigation Service~~Assistant Director, Governance, Wokingham Borough Council](#), firm evidence, or reasonable suspicions, to the appropriate level of management. It is a management responsibility to determine what further action to take.
25. The [~~Service Manager, Shared Audit and Investigation Service~~Assistant Director, Governance, Wokingham Borough Council](#) will use information from fraud activities to inform the annual audit opinion and the risk-based plan.
26. The [~~Service Manager, Shared Audit and Investigation Service~~Assistant Director, Governance, Wokingham Borough Council](#) will manage any conflict of interest from non-audit activities and details of these will be provided to the Audit Committee. This includes any advisory and non-audit services that SAIS provides to management.

## Audit Style and Content

27. The primary task of Internal Audit is to review the systems of internal control operating throughout the Council and in doing this will adopt a predominantly risk-based approach to audit, aligned to the WBC Risk Register. Internal Audit will also provide advice and consultancy services to management on any issues related to governance, risk management and internal control matters where this does not negatively impact on their primary responsibility. This advice and consultancy work can be used to contribute to the annual internal audit opinion.
28. The [~~Service Manager, Shared Audit and Investigation Service~~Assistant Director, Governance, Wokingham Borough Council](#) will be required to manage the provision of a complete Internal Audit Service to the Council which will include risk based compliance, computer and contract audit and in discharging this duty, the [~~Service Manager, Shared Audit and Investigation Service~~Assistant Director, Governance, Wokingham Borough Council](#) will:
  - prepare an annual risk-based audit plan in consultation with the Head of Paid Service, Section 151 Officer, Directors, Heads of Service, client managers and External Audit for formal endorsement by the Audit Committee. This Plan will be regarded as flexible rather than as an immutable expression of audit policy.
  - ensure that current entries in the WBC Risk Register are reflected and included in the Audit Plan on a rolling basis and any significant changes to the Audit Plan to be brought to the attention of the Board.

- ensure a system of close supervision of audit work, and maintain a review of audit files through the supervisory structure and a standardisation of documentation, as there may occasionally be a requirement to provide working papers, where requested.

### **Audit Resources and Training**

29. Internal Audit resource will be determined by the Audit Committee in consultation with the S151 Officer in order to enable him to discharge his statutory duties and will reflect the corporate needs of the Council. Resources will also reflect requirements needed to allow the S151 Officer to discharge his obligations. The [~~Service Manager, Shared Audit and Investigation Service~~Assistant Director, Governance, Wokingham Borough Council](#) must ensure that the internal audit function has appropriate resources in order to meet its objectives and to comply with the PSIAS.
30. The staffing structure of the Service will comprise of suitably qualified posts with a mix of professional specialisms and skills to reflect the varied functions of the Service and the need to evaluate the efficiency and effectiveness of the complex range of processes undertaken by WBC. The [~~Service Manager, Shared Audit and Investigation Service~~Assistant Director, Governance, Wokingham Borough Council](#) will arrange, as and when necessary and/or if such specialisms cannot be provided in-house, for such expertise to be provided by external providers.
31. The [~~Service Manager, Shared Audit and Investigation Service~~Assistant Director, Governance, Wokingham Borough Council](#) will carry out a continuous review of the development and training needs of all audit personnel and will arrange appropriate in-service training. Internal Auditors have a personal responsibility to undertake a programme of continuing professional development (CPD) to maintain and develop their competence.
32. All Internal Audit staff will receive an annual appraisal.

### **Audit Reporting**

33. The [~~Service Manager, Shared Audit and Investigation Service~~Assistant Director, Governance, Wokingham Borough Council](#) reports operationally directly to the Head of Governance and Improvement who is a member of the Council's Corporate Leadership Team (CLT). The [~~Deputy Chief Executive Head of Paid Service~~](#) reviews the performance appraisal of the [~~Service Manager, Shared Audit and Investigation Service~~Assistant Director, Governance, Wokingham Borough Council](#). Feedback is sought from the Chair of the Audit Committee on the performance of the [~~Service Manager, Shared Audit and Investigation Service~~Assistant Director, Governance, Wokingham Borough Council](#)
34. Timely reporting is a key part of Internal Audit and reporting takes place: -
  - a. To the responsible Director, Head of Service and Unit/Service Manager/Head Teacher at the conclusion of each audit review setting out an overall opinion and the main concerns.
  - b. To the Chief Executive and External Audit at the conclusion of each audit review (School's audits are issued to the Chair of Governors).
  - c. To the Audit Committee on a quarterly and on an annual basis and to the CLT on a regular basis, reporting progress against the Audit Plan, summarising the outcome of audit

reviews, to highlight where management have not responded to audit concerns, to identify the progress made by management in implementing the treatment of concerns and to emphasise any other key issues.

- d. The annual report to the Audit Committee will also include an overall opinion on the strength of the governance arrangements and control environment (which will also contribute towards the production of the AGS) and an assessment of the system of internal control, as required by the Accounts and Audit Regulations 2015.

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<b>TITLE</b>	<b>Certification of Claims and Returns – Claims and Returns Organised by Local Authorities</b>
<b>FOR CONSIDERATION BY</b>	Audit Committee on 5 February 2020
<b>WARD</b>	None Specific
<b>LEAD OFFICER</b>	Deputy Chief Executive - Graham Ebers

## **OUTCOME / BENEFITS TO THE COMMUNITY**

The report provides the Audit Committee with information on the various claims and returns for which local authorities are required to make their own audit arrangements.

## **RECOMMENDATION**

That the Committee

- 1) notes the Audit Certification Reports 2018/19 for the Teachers' Pension Return;
- 2) note the deadline for Pooling of Housing Capital Receipts Return has changed from 30<sup>th</sup> November to 7<sup>th</sup> February resulting in no Audit result at the time of this meeting however Audit Committee to note the information provided which is subject to the Audit.
- 3) note, the Council no longer have an audit on the Review of Sub Contracting Arrangements for the Skills Funding Agency (SFA) as the level of spend on sub-contracting arrangements have fallen below the £100k threshold for Audits.

## **SUMMARY OF REPORT**

Since 2013/14 the Teachers' Pension return is no longer included in the overall audit of the Council's Statements of Accounts by the Council's auditors appointed by the Audit Commission, Ernst and Young. Local education authorities have had to make their own audit arrangements for this return since 2013/14.

A further change was made during 2014/15, whereby relevant local authorities are now required to make their own audit arrangements for the annual Housing Pooled Capital Receipts return.

In addition to the above changes, the Skills Funding Agency (SFA), a Government agency, required all local authorities which use sub-contractors for SFA functions such as adult learning with an overall annual value of over £100k, to have an annual audit of the sub-contracting arrangements completed. For the past year, Wokingham Borough Council have fallen below the £100k threshold as a result of increasing its internal services meaning no audit is necessary for 18/19.

The arrangements for each of these audits, together with the key outcomes, are set out below.

The cost of the 2019/20 audits of the three claims is expected to be similar to the audit of the 2018/19 figures and arrangements reported below.

## **Background**

Local authorities are required under legislation to make appropriate arrangements for certain grant claims and government returns to be audited.

## **Analysis of Issues in Individual Claims**

### **1. Teachers Pensions Return (EOYCa)**

This is an annual return required by the Department of Education by 30th November each year which covers the teachers' pension contributions to the Teachers Pensions Scheme. The cost for the audit of the 2018/19 Teachers Pensions return by the Wokingham firm, Rice Associates, was £1,050, a £55 increase from the cost for the previous year, (but less than the £2,760 in 2012/13 when it was undertaken by Ernst and Young) . The cost has been met from the 2019/20 budget.

During the audit, one minor point was raised. The audit found in one external payroll, it was found that the third party payroll provider had not updated certain details to Teachers Pensions through the employer portal. These details have now been addressed and corrected. From April 2019, the Council appointed a new third party payroll provider and are working closely to ensure the audit point raised does not happen again.

The auditor approved the Council's return within the deadline.

### **2. Pooling of Housing Capital Receipts Assurance**

This is an annual return required by the Ministry of Housing, Communities and Local Government (MHCLG) by the 7<sup>th</sup> February. This has been extended from previous years set at 30th November. The return which sets out details of sale of council houses and flats under Right to Buy legislation by local authorities with a Housing Revenue Account (HRA). It sets out the number of properties sold, the cash received less admin fee, and the amount which must be paid to the Government, and the amount to be reinvested in social housing. In 2018/19, nine Right to Buy (RTB) properties were sold for £1.548m and one non RTB properties sold for £243k, giving a total sales receipt of £1.791m, of which £292k had to be repaid to MHCLG, with most of the remainder restricted for reinvestment in social housing in the Borough.

A local auditor, Haines Watts (formerly Choice Accountants), was selected at a cost of £2,250, a £235 increase from the cost for the previous years. The audit is due to be complete by the 7<sup>th</sup> Feb and certified using the MHCLG's internet returns portal (DELTA). An update on the outcome of the Audit will be reported at the next Audit Committee.

### **3. Providing External Assurance on Sub-Contracting Controls**

Recipients of ESFA funding have to provide an annual subcontracting assurance if £100,000 or more is subcontracted in the year. This is required so that councils or other bodies in receipt of ESFA funds ensure that any colleges or other providers meet the ESFA's requirements. The ESFA's key requirements are the need for colleges and other providers to provide high quality services and to take action where services do not meet the required quality levels. The audit was introduced to ensure that councils have sufficient procedures and mechanisms to check whether providers are delivering the high

quality services as set out in the respective contracts, and to ensure that providers take the corrective action required as necessary.

For the past year, Wokingham have fallen below the £100k threshold for sub contracting arrangements and therefore no audit was required. The Council continue to carry out internal checks. The Wokingham Adult Education team undertakes compliance checks of all providers on a termly basis or sooner as short courses complete and learner paperwork is returned to WBC. The aims of compliance checking are to examine the completeness and consistency of learners' paperwork as required by the Education & Skills Funding Agency and also to check learners' opportunities to manage their own learning and next steps. This process complements Observations of Teaching & Learning. Once courses are underway, WBC officers also produce monthly performance updates for providers to compare results to date against contract targets.

## **FINANCIAL IMPLICATIONS OF THE RECOMMENDATION**

***The Council continues to face severe financial challenges over the coming years as a result of reductions to public sector funding and growing pressures in our statutory services. It is estimated that Wokingham Borough Council will be required to make budget reductions of approximately £20m over the next three years and all Executive decisions should be made in this context***

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	Within existing budgets	Yes	Revenue
Next Financial Year (Year 2)	N/A	N/A	N/A
Following Financial Year (Year 3)	N/A	N/A	N/A

<b>Other financial information relevant to the Recommendation/Decision</b>
None

<b>Cross-Council Implications</b>
None

<b>Public Sector Equality Duty</b>
An assessment has not been made as the report is for Audit Committee to note past activity rather than agree to a decision which may impact on residents.

<b>Reasons for considering the report in Part 2</b>
None

<b>List of Background Papers</b>
None

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