



Audit and Standards Committee Minutes

The minutes of the Audit and Standards Committee meeting of Wyre Borough Council held on Tuesday, 26 September 2023 at the Council Chamber - Civic Centre, Poulton-le-Fylde.

Audit and Standards Committee members present:

Councillors Ibison, Minto, Bolton, Duffy, Higgs, Jackson, Leigh, Rendell, Sorensen, Belshaw, A Walker, Wells and Paul Taylor (Independent Member)

Other councillors present:

Councillor McKay

Officers present:

George Ratcliffe, Assistant Democratic Services Officer
Daphne Courtenage, Democratic Services Officer
Veronica Wilson, Head of Finance
Joanne Billington, Head of Governance and Business Support
Clare James, Corporate Director Resources and Section 151 Officer
Paul Hewitson, External Auditor (Deloitte)

No members of the public or press attended the meeting.

18 Declarations of interest

None.

19 Confirmation of minutes

The minutes of the meeting of the Audit & Standards Committee held on Tuesday 25 July 2023 were **confirmed** as a correct record by those who were in attendance.

20 Update report on the Statement of Accounts 2020/21 (Post-Audit)

The Chair welcomed Paul Taylor as the new Independent Member of the Audit Committee.

The Corporate Director Resources (Section 151 Officer), introduced the item to members and gave a short summary of the position to date, including the main reasons for the delays in the sign off of the 2020/21 accounts.

Councillor McKay (previous Chair of the committee) was invited to speak and give a summary of the historic process to the new members of the committee and provide assurances to them on the content within the statements. She indicated that she was supportive of approving the accounts when they were originally presented to the committee two years ago and still is and that the focus is now about getting them across the line.

The External Auditor took the committee through the External Audit (ISA 260 Report) for Wyre Borough Council for 2020/21 in detail by means of providing additional training for the committee. He explained that the purpose of the report was to communicate to the council the significant matters arising from the audit.

He highlighted the four significant risks that had been identified:

- recognition of Covid-19 grant income;
- inappropriate capitalisation of expenditure;
- valuation of property assets, and;
- management override of controls

He also highlighted the pension liability valuation and infrastructure assets as other areas of focus. He explained that their value for money work was on-going and would be reported in full in their Auditor's Annual Report.

With regards to the insights and recommendations, in particular around journal transfers, Councillor Walker asked if the management response met Deloitte's recommendation. It was explained to the committee that whilst the council's approach was not believed to be best practice, management had their own mitigation of risk process and it was for the committee to decide if they were comfortable with this. The Corporate Director Resources (Section 151 Officer) highlighted that as a small local authority it was about balancing resources and capacity within the team and there were controls in place to mitigate the risk.

Councillor Belshaw asked for clarification around the fees paid to the external auditor.

Paul Taylor asked a question around the layout of Deloitte's dashboards, in particular why there were no conclusions which Paul Hewitson took on board.

Councillor McKay left the meeting.

21 Management Representation Letter

The Corporate Director Resources (Section 151 Officer) clarified that before the next meeting she and the Chair expected to be in a position to sign off the Statement of Accounts and the Management Representation Letter. She explained that the formal sign off of the accounts would happen outside of the committee in this case.

The committee agreed to defer this item.

Councillor Bolton entered the meeting.

22 Statement of Accounts 2022/23 (Pre-Audit)

The Corporate Director Resources (Section 151 Officer) submitted a report on the Statement of Accounts and the final capital and revenue position of the financial year 2022/23.

The Corporate Director Resources (Section 151 Officer) introduced the report to members. She reminded members that prior to this meeting, a recorded training presentation had been circulated.

She highlighted that the statutory deadline, for signing off the audited accounts (30 September 2023) would not be met and this was a national issue.

The Corporate Director Resources (Section 151 Officer) and the Head of Finance, Veronica Wilson had pre-prepared a Q&A pack for the committee which highlighted the key issues and provided an explanation to the notes to the accounts. The pack was circulated to the members at the start of the meeting.

The Corporate Director Resources (Section 151 Officer) addressed questions 1 (narrative statement), 2 (revenue variances), 4 (water rates expenditure), 5 (tree maintenance), 9 (employee costs), 16 (planning fees) and 21 (revenue slippage) in the Q&A pack.

Members raised the following questions around:

- the on-going RAAC (Reinforced Autoclaved Aerated Concrete) problem;
- whether there was a budget in place for annual tree surveying for public areas;
- relationship between lower rates of pay and underspend;
- the underspend on parks and open spaces;
- salary costs not being impacted by the equal pay issues at other councils;
- whether planning fees were an income generator or whether they only covered department costs – it was agreed the cost centre account for Development Control would be shared with the committee prior to the next meeting;
- whether applicants were charged proportionally dependent on scale of the development;

- housing benefit overpayments;
- why the council used an external company for enforcing environmental crime fines;
- costs of living grants funding, and;
- provision for the revenue slippage items in the 2023/34 accounts;

Officers responded to the questions raised by members.

Councillor Belshaw left the meeting.

The Head of Finance addressed questions 26 (Comprehensive Income and Expenditure Statement (CIES)), 29 (balance sheet), 31 (long term liabilities) and 34 (officers' remuneration) in the Q&A pack.

Members raised the following questions around:

- short term deposits and;
- the pay gap between the Chief Executive and Directors;

Officers responded to the questions raised by members.

The Corporate Director Resources (Section 151 Officer) addressed question 37 (recommendations from last year's audit) in the Q&A pack.

After concluding the Q&A pack and training on the Statement of Accounts 2022/23, the Corporate Director Resources (Section 151 Officer) asked that her thanks to the Finance team and Veronica for their hard work be minuted.

In accordance with paragraph 3.1 of the report, the Chair approved the Statement of Accounts 2022/23.

23 Annual Audit Fee Letter

The Corporate Director Resources (Section 151 Officer) explained that the council no longer received an audit fee letter and therefore it was recommended that the audit fee letter should not be an agenda item moving forward.

The committee agreed with the recommendation.

24 Periodic private discussion with External Audit

Following the conclusion of the formal meeting, members of the Committee were given the opportunity to have their private periodic discussion with the External Auditor, Paul Hewitson, as provided for in the Committee's work programme.

(The Corporate Director Resources (and Section 151 Officer), Head of Finance, Head of Governance and Business Support, Democratic Services

Officer and the Assistant Democratic Services Officer left the meeting for this item).

25 Time and date of the next meeting

The next meeting of the Audit and Standards Committee would be held on Tuesday 14 November at 6pm in the Council Chamber.

The meeting started at 6.00 pm and finished at 8.00 pm.

Date of Publication: 05 October 2023

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Statement of Accounts 2022/23 – Questions and Answers

The following questions and answers will help to demonstrate that the Council's Accounts were subject to robust member scrutiny prior to approval.

First some questions on the Narrative Report which is included in the Statement of Accounts and starts on Page 2.

Question No. 1 (Page 2-13)

The final version of the Statement of Accounts is typically over 100 pages long. How is a layperson meant to understand what is a very lengthy, complex document?

In 2015/16, a new requirement of 'Telling the Story' of the Statement of Accounts was introduced and this had to include non-financial information. The Narrative Statement section is intended to give the reader some broad context about the organisation, how it is run and what it does. We are asked to follow certain principles set down in CIPFA's code of practice but generally speaking we have flexibility to include whatever we think will most help the reader of the accounts. Our non-financial information covers aspects like the geographical nature of the borough, our business plan priorities and performance measures, all intended to illustrate the nature of what we do and make the accounts more accessible.

The Narrative Statement section is at the front of the accounts and it summarises both contextual information and focuses in on key financial information, pulling the key messages together in a more easily understandable format for non-accountants to comprehend. This section is the main focus of the rest of the Q&As.

Question No. 2 (Page 14)

Starting with the revenue variances, should we not be concerned to see increased spending/reduced income of £1.7m and reduced spending/increased income of £2.9m?

Revenue slippage has remained similar to 2021/22 this year after maintaining the minimum threshold of £10,000 and in relation to 2022/23 the value (net of reserve funding) is £1,197,750. Around 12% (30% in 2021/22) of the slippage listed represents external funding that has not yet been spent so it would be counter-productive to refuse it on the basis that the money would ultimately be repaid to the funding body. As the slipped expenditure still needs to be incurred, the saving is returned to balances to be spent in the following year.

Whilst we will explore the other variances in a bit more detail below, in summary, **additional income** from planning fees, bulky household waste, various grants, interest, legal fees and markets totals £830,288. **Savings** in employee costs, consultants and legal fees, waste containers, private contractor costs and bad debt total £705,769. These positive variances have been used to compensate for **reduced income** on benefits and rent allowances and increased expenditure on water charges, tree maintenance, postage and materials/consumables – in total unbudgeted adverse variances of £333,774. The net savings of £1,202,283 (excluding changes to the general balances draw down of £5,190) together with other miscellaneous under spends of £194,643 have been used to top up the ICT Strategy Reserve £500,000, Capital Investment Reserve £394,906, Value for Money Reserve £252,020, Leisure Management Reserve £200,000 and the Property Investment Reserve by £50,000. This approach reflects a recognition of the need

to invest in our own assets and ICT improvements and the council's ongoing commitment to spend to save schemes.

When you consider that our gross expenditure on services for last year was £54m, a net saving of £1.4m equates to 2.58%.

Looking at the areas of increased spending or reduced income....

Question No. 3 (Page 14)

Please can you explain why you have chosen to top-up so many different Reserves? Who makes that decision and what is it based on?

Wyre traditionally underspends against the forecast each year (£1.4m in 2022/23) and this money could be returned to general balances. However, we have a Policy on Reserves which accompanies the Medium Term Financial Plan (MTFP) each year when it goes before Cabinet in October and this policy and the MTFP state that the Capital Investment Reserve will have the first call on any underspends at outturn. The reason for this is that we have a long-standing, unfunded, planned maintenance and investment backlog on our assets and without external funding or capital receipts from asset disposals we have to prioritise our programme of works based on health and safety and how essential the work is. Unusually though, in May 2022 we sold a piece of land at Bourne Hill, Thornton which generated a significant capital receipt and for that reason other reserves have benefited from increases as well as still making a sizeable top-up to the Capital Investment Reserve (£394,906).

The IT Strategy Reserve is being topped up by £500,000 in recognition of the journey towards increased digitalisation and the need to keep pace with technology but also the cyber-security measures required to maintain a resilient infrastructure. This aligns with the Digital Strategy 2022-2025 and our internal ICT Strategy document which directs the focus on key projects.

The Leisure Management Reserve has seen an increase of £200,000 reflecting the possibility that the leisure centres run by the YMCA may still require additional subsidy, over and above the £347,500 currently budgeted level, in 2023/24 and future years. This top-up sets a sum aside to be utilised if necessary to help meet any additional subsidy requirement and also support replacement of equipment prior to the contract ending.

The Value for Money Reserve has also been increased by £252,020. The draw-down on this reserve during 2022/23 was lower than expected but more 'invest to save' schemes are expected to come forward in 2023/24 and beyond and there is likely to be a need to fund additional resources from this reserve. Finally the Property Investment Reserve saw a modest increase of £50,000 to support additional costs associated with the flooring at the new Fish and Food Processing Park, Fleetwood.

Ultimately, the s.151 Officer makes the final determination on Reserves based on the most up-to-date information available on the resources required to meet business plan priorities.

Question No. 4 (Page 14)

Water rates expenditure on the council's own assets was £26,193 higher than budgeted in 2021/22 and in 2022/23 it's £160,161 higher. Why was this?

As reported to Audit Committee last year, an issue arose at the end of 2021/22 relating to unusually high water consumption at the Civic Centre, Poulton. This was reported to United Utilities and we engaged a plumber to check for leaks but none were evident. More exploratory work was undertaken and eventually the leak was traced to a point below the surface of the front car park at the Civic Centre. The leak has now been fixed and a claim for compensation has been lodged with UU. However, to be cautious we provided for the worst case scenario in the accounts in case we were not issued with a credit note to offset the bill. In August we received confirmation that we would receive a credit note of just over £200,000 which will now offset the £160,000 overspend.

Question No. 5 (Page 14)

In 2022/23, Newcastle City Council were fined £280,000 after a falling tree resulted in a fatality. I can see we've overspent against the budget for tree maintenance in 2022/23 – why was this and was it a reaction to this tragic case?

Firstly, Wyre employs one full-time Tree Officer and we utilise a combination of our own grounds staff (where qualified) and contractors to undertake tree maintenance works. Tree populations including those in council assets and un-adopted assets are under greater stress with significant impacts on tree physiology and structure owing to the impact of climate change and the increased frequency of severe weather extremes. Wind, heavy rainfall, flooding and drought, pests and diseases (e.g. ash dieback disease) have necessitated increases in proactive tree surveying and an unprecedented incremental upsurge from 2020 of essential tree works being identified and then promptly undertaken to meet the council's health and safety responsibilities. Higher volumes of reactive tree enquiries are also being received and leading to more essential tree works being undertaken. All of these things have led to an increased spend in 2022/23.

Question No. 6 (Page 14)

Materials and Consumables underspent (c£20,000) for two years running but has now exceeded the budget by £17,177 in 2022/23. What sort of things did we buy which took us over budget?

The largest overspend which makes up the majority of the additional cost occurred on Sea Defences and was in relation to the purchase of 14 railings at a total cost of £22,000. The railings were purchased following an accident in 2021 which resulted in a successful personal injury claim against the council. The railings were found to be failing around the bandstand area in Cleveleys and a procurement exercise had been initiated but unfortunately finding suitable replacements that would cope with the saltwater environment had proven challenging. A contractor has now been appointed to replace the railings and further overspends are not expected in 2023/24.

Question No. 7 (Page 14)

Similar to the last question, for two years running we reported an underspend on postage. However in 2022/23 this has become a significant overspend (£46,263), why?

During the 2021/22 year end process, a year end adjustment was not actioned in relation to annual billing which meant that approximately £23,000 of postage that should have been attributed to 2021/22 has instead been reflected in the 2022/23 accounts. This should not happen going forward. In addition to this, the pandemic meant that recovery action was paused for a lengthy period of time and 2022/23 represented a year of 'catching up' on debt recovery which has meant significantly more Council Tax letters were issued via the Critiqom service in 2022/23 than 2021/22.

Question No. 8 (Page 14)

What is included in the overspend on Benefits and Rent Allowances (£88,324) and why has it occurred?

The overspend is in relation to a reduction in expected repayment of rent allowances in part due a prior year corrective journal being actioned to bring the ledger in line with fully updated New Debtors Monitoring data. Also, due to information issues, the Revised budget for the repayment of rent allowance was based on 2021/22 actuals as up to date figures were not readily available during the budget setting process. Steps are now in place to ensure the New Debtors Monitoring is regularly updated and the reconciliation process has been improved.

Moving on to areas of reduced spending and increased income...

Question No. 9 (Page 15)

Employee Costs (including training) in 2021/22 showed a saving of £532,635 and this has reduced to £351,858 in 2022/23. I know that recruitment and retention is on the Strategic Risk Register so is this part of the reason for the underspend but what are the largest elements?

The Updated Revised Estimate for employee related costs, excluding notional pension and accumulated absences adjustments, was £12.2m. The saving on employee costs across all services is £351,858 representing a saving against the budget of just under 3%. This underspend is almost all in relation to Salary, NI and Pension.

The largest overspend on salaries £18,500 related to the Theatres team where some high TOIL (time off in lieu) payments were made owing to senior staff covering lower graded vacant posts. This has been addressed and should not recur going forward.

The largest underspends were in the Development Management (£69,010), Parks and Open Spaces (£59,900), Street Cleansing (£39,230) and Contact Centre Teams (£33,650).

Staff retention has dropped in 2022/23. It is often taking longer to recruit with adverts being extended or issued several times before we can get quality applicants. We have also struggled to

compete and recruit in key areas owing to a lack of skills in the region and lower rates of pay than nearby competitors such as neighbouring councils and the NHS.

Question No. 10 (Page 15)

We've been told to prepare for major changes in the way the government expects councils to collect waste in the future – is this why we've underspent on bins, boxes and sacks during the year (£59,525)?

The changes being proposed under the new Environment Act are significant and widespread, affecting not just how we collect waste but the types of waste we collect. The changes may well necessitate a change to containers including additional waste recycling receptacles but the final detail is not yet known. We had accumulated a large volume of bins which were being stored at Copse Road Depot at year-end and this stock has been adjusted for in the accounts which resulted in reduced expenditure in 2022/23. Where possible we repair/refurbish bins returned to us and reissue them to householders. We have also undertaken periodic 'bin amnesty' campaigns where we believe households have too many or larger bins than needed owing to changes in their household make-up. This helps to reduce the need to procure new containers and is better for the environment as well as collection round efficiency.

Question No. 11 (Page 15)

Consultants and Legal Fees have underspent by over £63,000 in total. What were the main areas/particular reasons for the saving?

- Ongoing delays with Project Neptune and the Fish Food and Business Park have resulted in a £17,400 underspend across legal and consultants fees combined.
- Savings on Air Pollution of £3,300 as we no longer have an area of specific concern in Wyre now that the Wheatsheaf Way has been built.
- The budget for legal costs incurred in the recovery of council tax and business rates is set at £18,500 as a worst case scenario, and mainly covers the cost of Land Registry searches and court fees. During 2022/23 there were fewer cases brought to court than anticipated owing to staff resources being diverted to dealing with administering Covid and Cost of Living grants which resulted in a £15,420 underspend. Pre-Covid, legal fee spend was higher, in line with the base budget and the expectation is that recovery action will increase to similar levels during future financial years.
- Legal Team underspent by £7,500 as external legal team costs were less than expected.
- The ICT Team underspent by £8,100 as ad-hoc consultancy days were less than expected.

Question No. 12 (Page 15)

What are 'Impairment Allowances for Outstanding Debt and why did they result in a saving of £212,329?

'Impairment Allowances for Outstanding Debt' is just a more formal term for bad debt allowances. Bad debt allowances are created for a number of reasons to cushion the council from the impact of non-collection/recovery of debt. The council holds impairment allowances relating to sundry debtors (i.e. customers who have been incurred services but who have yet to pay), housing benefit overpayments (i.e. where housing benefit has been overpaid to individuals and needs to be recovered), court cost arrears, council tax arrears and business rates arrears. Following a review of outstanding debt balances for housing benefit overpayments at the end of March 2023, the council's bad debt provision was too high in comparison with actual outstanding debt levels. This resulted in a release from the bad debt provision in year of just over £250,000; this off-set other minor increases in bad debt provision in the year.

Question No. 13 (Page 15)

Expenditure on Private Contractors was lower than expected in 2021/22 and it's over £18,000 under budget in 2022/23. What work does this relate to and is it time to reduce the budget permanently?

The underspend relates to the Community Payback Scheme which was put on hold throughout the pandemic and unfortunately has not picked back up yet. The council is in contact with the provider to recommence the service and we are hoping this will be soon. As such whilst there may be scope to reduce the budget in 2023/24, it is expected to be required in full beyond that.

Question No. 14 (Page 15)

There is a belief in some quarters that fly-tipping would reduce if we made Bulky Household Waste (BHW) free of charge so have we done the opposite and increased charges? What's the story behind the increase in BHW collection income (£37,043)?

BHW is one of the most popular and highly rated services that the council provides. It has a history of making a small surplus, ignoring any client side management and administration costs, and it helps to reduce the amount of items that end up in landfill by maximising re-use and recycling of household goods and furniture. The service has proven so popular that additional collections have been introduced and in 2022/23 it once again generated a small surplus. The income budget wasn't increased in line with the additional costs associated with the extra collections and going forward a breakeven approach will be reflected.

Question No. 15 (Page 15)

Market stall general charges and service charges income combined were over £41,000 higher than budgeted but how does the performance of Fleetwood Market compare to last year, having been closed for part of Q4?

In reality, Fleetwood Market operated on a deficit last year (excluding capital charges) of £52,711 compared to a small surplus of £4,873 in 2021/22. This is reflective of emerging out of the

pandemic and moving into a period of significant capital investment, supported by the Salix decarbonisation scheme funding in part which will mean the disruption will continue into 2023/24 and result in reduced income from traders and increased costs as the council compensates them in line with agreed terms. The market should be re-opening towards the end of the year and it is hoped that the much improved facilities will attract more and new customers to improve the return in 2024/25.

Question No. 16 (Page 15)

Central government haven't increased planning fees since January 2018 and yet we've seen an increase in our income of £127,569 against the budget in 2022/23. Why is it so difficult to estimate?

The estimated and actual income for 2022/23 and the previous four years can be seen below:

- 2018/19 – Actual income of £877,707 compared to a revised estimate of £659,660 – up £218,047
- 2019/20 – Actual income of £803,500 compared to a revised estimate of £750,000 – up £53,500
- 2020/21 – Actual income of £828,123 compared to a revised estimate of £828,120 – up £3
- 2021/22 – Actual income of £474,477 compared to a revised estimate of £600,000 – down £125,522
- 2022/23 – Actual income of £727,569 compared to a revised estimate of £600,000 – up £127,569

The decision was taken to keep the budget in line with the previous year's forecast based on a cautious but optimistic expectation that income would increase again as we transitioned out of the pandemic. We had fewer applications overall in 2022/23 but a greater number of large applications which generate larger fees. On average approximately 40% of our planning fee income is derived from a small number of major applications each year and we cannot control when these are submitted which makes it very difficult to gauge demand accurately.

Question No. 17 (Page 15)

Legal fee income was higher than expected in 2022/23 by £73,645, which is unusual. What was the main reason for this?

There were some smaller unders/overs in relation to business rates, taxi licensing and general legal team fee income. However, income from council tax summons was higher than budgeted (£76,215) and accounted for the vast majority of the additional income. This reflects the pausing of debt recovery during the pandemic (when the courts were closed) and the 'catching up' that occurred in 2022/23 which resulted in more formal recovery action being taken.

Question No. 18 (Page 15)

We seem to have benefitted from over £340,000 in additional funding from central government that we hadn't budgeted for. What did we receive and why was it unexpected?

Essentially, there are three elements to this: 1) Community Outbreak Management Fund (COMF) £41,501; 2) Cost of Living Grants £264,267 (£156,080 largely in relation to new burdens funding for the council tax rebate scheme and £108,187 in relation to recouping administration/staffing costs under the Household Support Fund (HSF)), and; 3) Non-domestic rates new burdens funding £36,872. Often, initiatives are launched by central government and we are advised that they will attract a 'new burdens' payment but that is not quantified until much later, sometimes after the scheme has closed. This makes it difficult to include a budget or recruit additional resources to help administer and/or oversee the schemes. We are taking steps to recruit a Grants Officer in the Contact Centre as there seems little sign of central government moving away from using local authorities as the deliverers of these many and varied initiatives. Where a new burdens payment isn't provided, we are usually able to recover our costs e.g. printing, postage, staff time etc., up to an allowed threshold and we have done this in the case of HSF and COMF.

Question No. 19 (Page 15)

In 2021/22 we reported interest received of £67,676 following a loss the year before. In 2022/23, interest received was £1,078,151, which was £208,151 higher than estimated (£870,000). Why is it so different?

Interest rates in 2021/22 remained low but with gradual increases towards the latter part of the year which had a modest impact on the rates achieved on our investments.

In 2022/23 we continued to carry significant balances throughout the year owing to the numerous (mostly government) grants we have received in relation to the cost of living crisis and various capital schemes. These, in addition to our healthy reserves and balances, meant that as interest rates kept going up, we were able to benefit from better and better rates of return.

All local authorities must abide by CIPFA's Treasury Management Code (Revised 2021) and we are satisfied that the right balance has been struck between ensuring a return on our investments and maintaining security and liquidity of funds during a period of great political and economic uncertainty.

Given the current period of high inflation, the Bank of England are likely to keep using interest rates as a way of trying to limit inflation. This means that we expect to see higher than normal interest rates at least until the end of the calendar year which will help to offset our increased costs as a result of inflation pressures. Our original budget for 2023/24 reflected the advice from our Treasury Management consultants. However, interest rates have risen quicker than expected and so we have already exceeded this year's income forecast by just over £110,000. The Medium Term Financial Plan update to Cabinet in October will reflect the latest position and forecast return during the five year period.

Looking now at Revenue slippage...

Question No. 20 (Page 15)

Can you explain what is meant by revenue slippage?

This is where spending officers ask for unspent budgets to be moved to the next financial year to avoid paying for previously committed works from their new year's budget. In other words they ask us to 'slip' the underspend against their budget so that next year they can spend their full budget and the underspend from the previous year. Often, the request relates to a one-off budget provision which has either been externally funded or met from earmarked reserves. A full list of revenue slippage (excluding reserve funded items) for 2022/23 totalling £1,197,750 can be seen at Appendix 3b. Essentially, this is the value of the apparent underspend in 2022/23 which will ultimately be incurred in 2023/24.

Question No. 21 (Page 15)

Looking at the table which summarises revenue slippage (with the full listing being shown at Appendix 3b), can I ask you to explain, the three highest requests hopefully giving me a better understanding of why slippage occurs?

Prior to 2022/23, revenue slippage had been increasing year-on-year and for the 2020/21 closedown we introduced a £5,000 threshold below which slippage would not be considered (unless externally funded). This had little impact on the volume of slippage requests so for the 2021/22 and 2022/23 closedowns the threshold was increased to £10,000. A small number of exceptions were made to this where conversations had been ongoing with the S.151 Officer. As a result we have seen a significant decline in revenue slippage and it has been at a similar level for the last two years which is pleasing. The approach is set to continue next year.

The highest value of slippage (£479,590) relates to amounts held in Contingency which have been set aside to cover anticipated additional costs in 2023/24. The largest elements are in relation to a voluntary declaration to HMRC in relation to VAT (£225,330) and legal fees/a refund of court fees which we may be required to spend in a manner still to be determined by central government as actually refunding individuals is not considered viable owing to the miniscule amounts (£100,000).

The second highest value of slippage (£150,320) relates to sea defences and the budget allocated for private contractors to undertake maintenance work on our sea walls etc. There have been continuing delays owing to a lack of materials and capacity but it hoped that in 2023/24 the team will catch-up.

The third highest value of slippage (£103,570) relates to environmental enforcement funding from fixed penalty notices (dog fouling and litter). However, subsequent reconciliation and checking has identified that this is overstated by around £61,000 which will be corrected in the Revised Estimates. The remaining £42,600 is ring-fenced to fund future community development initiatives and measures to reduce anti-social behaviour i.e. purchase of body worn cameras for Environmental Enforcement Officers to ensure personal safety and capture evidence of environmental crimes to assist with successful enforcement actions and prosecutions.

Question No. 22 (Page 16)

I see that at 31 March 2023 we have just over £14.5m in our revenue balances – why are we still trying to find efficiency savings?

The council prepares a five year Medium Term Financial Plan (MTFP) which forecasts what we expect our income and expenditure to be in each of those years and shows the impact on our revenue balances. The latest update to Cabinet in February 2023 reflected a gap between expenditure and income in 2027/28 of approximately £3.7m and in effect, our level of balances only allowed the council to continue with its current spending plans until 2027/28 before it 'runs out of money' in 2028/29. Of course, this would not be allowed to happen but it paints a vivid picture of what could take place if no steps are taken to mitigate the position. It should be noted that of the £14.5m in balances, nearly £1.2m is slippage or delayed expenditure from 2022/23, so already committed.

We are currently experiencing high demand in some service areas following the pandemic and now the cost of living crisis. We are faced with ongoing high inflation which is impacting on key contract repricing clauses, pay, energy and fuel prices to name a few so the pressure hasn't gone away.

With a general election due to be held before the end of January 2025, it is unlikely DLUHC will provide a two year financial settlement for local government, to be published this December. This means the uncertainty in the MTFP period will remain and we'll be unlikely to be able to pinpoint the funding gap with greater accuracy before the next election.

Moving on to Capital Expenditure...

Question No. 23 (Page 16)

What is the difference between revenue and capital and what did the external auditor mean when he mentioned the risk of 'inappropriate capitalisation of expenditure' at the June 2021 meeting?

Imagine a tree...

The council has two types of expenditure:

The tree's leaves represent Revenue expenditure: the everyday costs incurred with running the council such as employee costs, premises related expenditure and various supplies and services. Like the leaves of the tree, these items typically last for a short period before they are consumed.

The tree's trunk represents Capital expenditure: the more sizeable costs, which usually relate to the acquisition of new assets, or significant enhancement of existing assets to extend the economic benefit to the council. Just like the trunk of the tree, these items are substantial, made to last for many years and provide benefits over a longer period.

The presumption is always that expenditure is revenue unless you can prove it's capital. Just because it costs a lot doesn't mean it's capital!

There are three routes to capitalising expenditure but the main one the auditors will be reviewing is:

Expenditure on **new assets or subsequent** expenditure on an existing asset. This can only be recognised as capital if:

- It is probable that the council will benefit from the investment (e.g. building an extension that is then rented out by the council);
- The cost of the item can be measured reliably;
- It has a useful life longer than a year; and
- It is not intended for sale in the regular course of business operations.

If we are overspending on revenue budgets, there might be an incentive to try and capitalise some expenditure to 'hide' the overspend. For instance, the council could instead utilise capital receipts (which can generally only be used to pay for capital expenditure) to fund the overspend so the external auditors want to check to see if this is happening at Wyre. The good news is we rarely overspend on our revenue budgets so the environment for any deliberately incorrect capitalisation doesn't exist to any great degree. However, with a budget gap in future years it is still a risk. We review all capitalisation and if anything, this leads to more expenditure being transferred to revenue as we challenge spending officers to understand and justify the nature of the expenditure more.

Question No. 24 (Page 16)

Of the £13,356,549 spent, what were the three largest areas of capital expenditure in 2022/23?

The top three areas in terms of capital expenditure are as follows:

Scheme	Value £
Project Neptune (Fish and Food Processing Units)	4,165,933
Flood Defences (Wyre Beach Management/Our Future Coast/Cell Eleven Schemes)	3,559,771
Fleetwood Market	2,457,423
Total	10,183,127

They account for 76% of the capital expenditure in 2022/23.

The Project Neptune expenditure in 2022/23 was funded using £2.766m from the Property Investment Reserve and a repayable contribution from Lancashire County Council totalling £1.4m. This project is now complete and units 1 to 8 have been leased with units 9 and 10 actively marketed.

Flood Defences include funding from the Environment Agency of £3.365m for the Wyre Beach Management Scheme, £185k from the Environment Agency and DEFRA (Department for Environment, Food and Rural Affairs) for the Our Future Coast scheme (formerly known as 'Innovative Resilience Fund ECO-Community Buffer Strips') and £10k from Sefton Council for Cell Eleven Regional Coastline Monitoring.

(The Wyre Beach Management Scheme is a £42 million scheme to help raise and stabilise beaches from Cleveleys to Fleetwood *(owing to inflationary pressures, this scheme has had*

additional funding approved in the region of £10m to that detailed – due to be reported to Cabinet in October 2023, as part of the latest capital monitoring report). The scheme will protect over 11,000 properties.

The Our Future Coast Scheme includes interventions such as developing salt marsh, creating dune systems and intertidal lagoons and reclaiming redundant brownfield sites will help to mitigate the consequences of climate change including flood risk and the loss of biodiversity.)

The Fleetwood Market works involves nearly £1m of funding from Salix for decarbonisation and other funding from external bodies as well as capital receipts of over £2m and a report was approved most recently in July 2023 [Fleetwood Market additional improvement Works final version 002.pdf \(modern.gov.co.uk\)](#) which captures the latest update.

Question No. 25 (Page 16)

In the table showing reasons for the variance to the Updated Revised Estimate, why is there over 22% of the budget or £3.9m of capital slippage into future years?

The individual schemes making up this value can be seen in Appendix 2 Table 2. The largest three items accounting for the vast majority of the slippage are:

<u>Scheme</u>	<u>Slippage £'000</u>	<u>Reason</u>
Fleetwood Market Project	1,110	The project has encompassed a number of funding streams. Externally funded schemes of work had to be completed in specific time frames with internally funded works, which the slippage relates to, planned to be completed in the first half of 2023/24. There have been some further delays mainly owing to nesting seagulls but the project is set for completion in Q3 of 2023/24.
Disabled Facilities Grants	735	The pandemic has resulted in a waiting list for disabled adaptations owing to a backlog of referrals from LCC and extended contractor lead in times. This has necessitated some slippage of funding but as there is no deadline for spending the funding there is currently no risk of clawback.
Our Future Coast (formerly known as 'Innovative Resilience Fund ECO-Community Buffer Strips').	645	There have been delays to this project owing to resourcing constraints. A revised expenditure profile has been developed and key members of the project team now appointed to take the project forward.

Any further changes will be reported via the normal capital programme reporting process with a Cabinet report next due in October 2023.

And finally, some questions on the rest of the Statement of Accounts:

Question No. 26 (Page 26)

The Comprehensive Income and Expenditure Statement (CIES) appears to show that we have made a surplus on the Provision of Services of £1.8m but the Narrative Report, on page 14, only shows an increase in balances of £1.2m. Why have balances not increased by £1.8m?

The CIES reflects the council's performance during 2022/23 in accordance with proper accounting practices, as set out in the CIPFA Code of Practice on Local Authority Accounting in the UK (the Code) and accounting standards. The Movement in Reserves Statement (MiRS), on page 27, provides an overview of the adjustments to and from reserves; Note 8, commencing on page 51, provides further details of the adjustments that are made to the Total Comprehensive Income and Expenditure recognised in the year in accordance with proper accounting practice, to arrive at the resources that are specified by statutory provisions as being available to meet future capital and revenue expenditure.

The total comprehensive income and expenditure for the year resulted in a surplus of £51,294,153, as detailed on page 26, and is formed from a surplus on the Provision of Services totalling £1,813,381 (impacting on the General Fund Balance) and a surplus on Other Comprehensive Income and Expenditure totalling £49,480,772 (impacting on Unusable Reserves). Through details provided in the MiRS and Note 8, we can see how the impact on the General Fund balance changes from a surplus of £1.8m to an increase of £1.2m, as follows:

	Movement (£)	Cumulative Impact on General Fund Balance (£)
Surplus on Provision of Services (see CIES – page 26)	1,813,381	1,813,381
Adjustments between accounting basis and funding basis (see Note 8 – page 51)	(3,738,780)	(1,925,399)
Transfer (to) or from earmarked reserves (see Note 9 – page 54)	3,113,069	1,187,670

Question No. 27 (Page 26)

The Comprehensive Income and Expenditure Statement (CIES) reflects an increase in the Cost of Services of just over £3.2m when compared to 2021/22. What are the causes of these movements and will they have an impact on balances?

The year-on-year movement of Net Expenditure by Portfolio can be seen in the following table:

Portfolio	Net Expenditure (Year-on-Year Movement)
Leisure, Health and Community Engagement	1,053,519
Neighbourhood Services and Community Safety	106,774
Planning Policy and Economic Development	351,108
Resources	1,327,273
Street Scene, Parks and Open Spaces	384,634
Cost of Services	3,223,308

Some of these movements will have come about as a result of known changes such as the pay award, inflationary increases on contracts including energy, changes to capital charges and changes in levels of income and grants being received.

Gross expenditure and gross income within the Planning Policy and Economic Development Portfolio are both significantly lower than in 2021/22. This is largely attributable to specific projects undertaken to support businesses and town centres in 2021/22 as a result of the Covid-19 pandemic and the utilisation of one-off grant funding.

The Leisure, Health and Community Engagement Portfolio saw increased expenditure during 2022/23 of just over £1m. A large part related to the subsidy paid to the YMCA in year for the provision of leisure services at the council owned leisure centres. In 2021/22, the YMCA didn't require much subsidy (£3,710) owing to grants received but in 2022/23, the loss of grant support coupled with high energy costs began to have an impact and the final subsidy was just over the budget at £354,184, a swing of just over £350,000. During 2022/23, the council purchased additional columbaria for use at the Fleetwood Cemetery; this was an upfront cost of just over £63,000 that will be recovered in future years through fees and charges. Theatres also exceeded their budget by nearly £39,000.

The Resources Portfolio reported increased expenditure in 2022/23 owing in part to grants issued to assist with the cost of living crisis relating to the Household Support Fund and Energy Rebate schemes. In addition, during 2022/23 there were one-off costs borne by the Resources Portfolio relating to a VAT error correction for the Fleetwood Market site and additional water charges from a leak at the Civic Centre. The VAT error correction followed a review of lease agreements by the council's tax advisors, PSTax, who concluded that due to stipulations and clauses within our agreements that these did not meet the requirements of a licence to occupy land (an exempt supply) but rather a licence to trade (a standard rated supply); the error correction was backdated 4 years, covering 2022/23 to 2019/20. The council has borne the cost of this historic VAT liability rather than passing it onto the market stall holders. The water leak at the Civic Centre has now been found and works carried out to repair the issue; the leak was considerable in volume of water, however, the water was leaking directly into the drainage pipe and therefore no flooding was actually detected. The cost has been borne in year, but a contingent asset (see Note 38, pg 81) has been noted, as a claim has been registered with the water company.

Question No. 28 (Page 26)

The gross expenditure and gross income reported for Neighbourhood Services and Community Safety is considerably larger than the other Portfolio expenditure and income; why is this?

The biggest element of the 'Neighbourhood' Portfolio in 2022/23 relates to Housing Benefit (HB) on which we spent £19.8m and received 99.5% subsidy in government grant. Once this element is stripped out of the Portfolio's income and expenditure, it is in line with the other portfolios. The level of expenditure and corresponding subsidy has reduced in 2022/23 compared to 2021/22 levels, where expenditure was in the region of £20.5m and reflects the year-on-year reductions we've seen since the introduction of Universal Credit. Over time, the caseload for HB claims has reduced significantly from over £31m in 2012/13 as claimants transfer from HB to Universal Credit, administered by the Department for Works and Pensions. We expect this to continue until HB is retired or there's a change to the welfare system which precludes this.

And now turning to the Balance Sheet on page 28...

Question No. 29 (Page 28)

Current Assets has seen a decrease of just under £13m from 2021/22; what has caused this?

The Balance Sheet is a snapshot in time and for Wyre and other local authorities, this is as at 31 March.

The £13.0m decrease in current assets can be broken down as follows:

- £5.8m relating to movements in short term investments and cash and cash equivalents;
- £3.6m relating to short term debtors;
- £3.6m relating to assets classified as held for sale.

The 2021/22 cash balances included funding from central government of just over £6m which was received in the last week of March 2022, relating to 2022/23 Council Tax Energy Rebates. This funding has been distributed throughout the 2022/23 year.

The decrease in short term debtors is largely attributable to an agency arrangement with the Lancashire Enterprise Partnership, whereby at the end of the 2021/22 year we were awaiting £4m of funding to be paid to us in relation to the Getting Building Fund, resulting in a higher than normal balance in that year; I can confirm that these funds were received in May 2022. The large movement of Other Local Authorities short term debtors (see Note 18) relates to an outstanding funding contribution from Lancashire County Council towards the acquisition of units at the Fleetwood Docks (Project Neptune); this has since been received.

In July 2021, a report went to Cabinet which approved the sale of land at Bourne Hill, Thornton; this resulted in the asset being transferred on the balance sheet from Non-Current Assets to Current Assets - Assets Classified as Held for Sale, as we were anticipating disposal of the land within 12 months. The value on the balance sheet was reflective of the market value when options were initially being considered; the completion of the land sale took place in May 2022, with a sale price of £5.7m less costs of sale.

Question No. 30 (Page 28)

Current Liabilities has seen a decrease of just over £10.8m from 2021/22; what has caused this?

The £10.8m decrease in current liabilities can be broken down as follows:

- £5.0m relating to short term creditors;
- -£0.1m relating to provisions;
- £5.9m relating to revenue grants received in advance.

The movement on short term creditors is largely attributable to the Collection Fund – Business Rate items where we owed central government monies at year end owing to the high amounts of relief granted that were repayable (See also previous Q&A). In March 2022 the council received grant from Central Government, amounting to over £6m, relating to the Council Tax Energy Rebates which were processed in early 2022/23. As this grant related to future financial years, it had been held as a receipt in advance on the balance sheet in 2021/22.

Question No. 31 (Page 28)

Long Term Liabilities has seen a considerable decrease of just under £31.1m from 2021/22; what has caused this?

The £31.1m decrease in long term liabilities can be broken down as follows:

- £1.6m relating to long term borrowing;
- £26.3m relating to liability related to defined benefit pension scheme
- £3.2m relating to capital grants and contributions.

The council had borrowing from the Public Works Loan Board (PWLB), which had been taken out in 2008. This consisted of two loans totalling £1.6m and they were due for repayment in 2037 and 2057; with interest payments being made each year. Owing to the economic environment, in October 2022, the council were in a position to pay off the loans early at a discounted rate; this also resulted in a saving of on-going interest payments. The council is now debt free.

The council participates in the Local Government Pension Scheme administered by Lancashire County Council. This is a funded scheme, meaning that the council and employees pay contributions into the fund, calculated at a level intended to balance the pension liabilities with investment assets. The schemes actuaries, Mercers Limited, have assessed the liabilities and assets of the scheme as at 31 March 2023 and due to gains linked to changes in financial assumptions, the pension scheme is in a surplus position – resulting in an asset being recorded on the Balance Sheet rather than a liability. This is not a normal position to be in; the figures currently included in the Balance Sheet are subject to further review and clarification and are likely to change within the final Statement of Accounts for 2022/23.

The Environment Agency has provided funding for a number of flood defence capital schemes being undertaken by the council; this funding is held as a capital grant on the balance until relevant expenditure has been incurred, at which point the funding is released. During 2022/23, capital grants that had previously been held relating to the Wyre Beach Management and Our Future Coast schemes were released to off-set expenditure incurred in the year.

And now moving onto the Notes, commencing on page 30 ...

Question No. 32 (Page 54)

Looking at Note 9 on page 54 ‘Movements in Earmarked Reserves’, the Non-Domestic Rates Equalisation Reserve is the largest reserve by far at just over £8m – why is this balance so high and what is it being used for?

This reserve was created to cushion the council from the volatility of the business rates system when it changed from a purely national redistribution approach to one that forced local authorities to bear some of the risk and reward. We traditionally transfer business rates s.31 grants here (compensation from central government for changes they make to the scheme outside of our control e.g. Small Business Rates Relief and particularly in 2020/21 and 2021/22, Covid-19 reliefs for specific sectors such as nurseries, retail, hospitality and leisure).

The reserve has been used to off-set expenditure relating to deficits within the Collection Fund as a result of the reliefs issued during the pandemic. In 2022/23 we released funds of just over £5.0m; in 2023/24 we anticipated releasing just under £4.6m in part to off-set the estimated deficit position

for 2022/23. The reserve also provides cover for large movements relating to appeals, national redeterminations by the VOA or bad debt provisions.

In recent years, this reserve has also been used to draw down a minimum £1m contribution towards balancing our budget each year. This needs to be monitored to maintain a robust level in the reserve but the approach is reflected in the latest MTFP and is currently sustainable for that five year period.

Question No. 33 (Page 70)

In addition to the normal Lancashire County Council – Highway Related Functions, there are arrangements detailed as agency services in note 28 relating to Central Government Bodies. What are agency services and how do you determine what services are disclosed in this note?

When determining the accounting treatment of financial transactions within the financial statements regard is given to the general principle of whether the council is acting as the Principal or Agent. As the Principal, the council is acting on its own behalf; as Agent, the council is acting as an intermediary. For example, where the council is acting as a distribution point for grant monies to other bodies and has no control over the amount of grant allocated to a recipient, then the council is likely to be acting as Agent; where the council is able to conclude that it has control over the distribution or amounts of the grant, it would be deemed to be acting as Principal.

In instances where the council operates as Agent, transactions are not reflected in the Comprehensive Income and Expenditure Statement (CIES), instead, they are recognised in respect of cash collected and expenditure incurred on behalf of the principal, with a resulting debtor or creditor position on the balance sheet.

During 2022/23 the council has administered a number of Covid-19 and cost of living grants on behalf of central government bodies. These monies have had conditions and amounts stipulated centrally by the issuing government bodies, with the council acting more as the distribution point, rather than having any discretion as to how the grant scheme has been administered. As an Agent, the council carried over funding from 2021/22 and received funding in 2022/23 amounting to just under £8.0m. Of this funding, the council was able to distribute out to third parties or repay to government in the year amounts totalling £7.0m. We are carrying forward funds to be repaid to government of just over £0.2m; with funding related to the Alternative Fuel Payment Scheme and the Energy Bill Support Scheme (Alternative Funding) to be distributed in 2023/24 totalling £0.8m.

Question No. 34 (Page 71)

The officers' remuneration at note 30 starting on page 71 showed 11 employees earning more than £50,000 in 2022/23 but only four are listed in the Senior Officers' table – why is this?

The officers' remuneration table includes payments to all staff regardless of their position or grade within the organisation and therefore can include officers who are not considered to be 'senior employees'. The Code of Practice on Local Authority Accounting describes 'senior employees' as an employee whose salary (excluding bonuses, allowances, benefits in kind or compensation payments) is £50,000 a year or more and who is either:

- A head of paid service or Section 151 officer;

- a person for whom the head of the authority's paid service is directly responsible;
- a person who, as respects all or most of the duties of his post, is required to report directly or is directly accountable to the head of the authority's paid service;
- A person who has responsibility for the management of the relevant body to the extent that the person has power to direct or control the major activities of the body (in particular activities involving the expenditure of money) whether solely or collectively.

Salary costs for Heads of Service (HoS) and the Monitoring Officer are in excess of £50,000 under the April 2022 pay scale which put the top of Grade 14 (the maximum for HOS) at £55,470. None of the HoS posts reported directly to the Head of Paid Service (Chief Executive) at Wyre in 2022/23 and none were specifically covered by other criteria above. As a result only the Chief Executive and Corporate Directors are listed in the detailed Senior Officers' emoluments section of the Note.

Question No. 35 (Page 76)

Note 36 shows termination benefits and on page 76 it indicates that we have had one compulsory redundancy during 2022/23 and four other departures agreed. In what sort of circumstances do we make a financial contribution in order to allow officers to leave?

Normally the termination benefits note deals with redundancy situations either compulsory or voluntary. Voluntary redundancy usually arises where changes to service delivery mean that there is an opportunity for existing staff, particularly those nearing retirement, to take voluntary redundancy allowing others to retain their roles and avoid compulsory redundancy situations. A payback period of two years applies and costs should not exceed this threshold.

Occasionally the note also includes other settlement agreements reached where redundancy isn't appropriate but for other reasons it may be in the authority's best interests to release a member of staff. In these circumstances a settlement agreement may be reached and this could be in situations of ill health, for instance, although reasons vary.

In 2022/23, the only compulsory redundancy occurred in the Active Lives and Community Engagement Team and this resulted from a restructure. The four other departures, from Planning Services, the Built Environment Service and the Street Scene Team, allowed for service changes to take place.

Question No. 36 (Page 86)

Looking at the Collection Fund on page 86, how much do we collect in council tax and business rates and how much do we retain in Wyre?

Beginning with council tax...

In 2022/23 we collected just under £81.4m in council tax receipts, of which Wyre retained £9.0m (including Parish and Town Council precepts, see Note 10, pg 56, £864,171) equivalent to 11.5% of the overall council tax bill. The largest share of the £81.4m, after adjustments, goes to Lancashire County Council (LCC) (£57.5m) with Police and Fire receiving the balance (£9.0m and £2.9m respectively). Under statute the regulations require the authority to pay the preceptors the

estimated (surplus)/deficit in the year. The actual (surplus)/deficit will be reflected in the precepts paid in 2024/25, when the final outturn position is known.

Moving on to business rates...

In 2022/23 we collected just under £21.4m in business rates. As members of the 50% Lancashire business rates pool, Wyre retain 40% of income collected; with the remaining 50% being passed over to Central Government, 9% being passed over to Lancashire County Council and 1% being passed over to Lancashire Combined Fire Authority. Again, the difference between the estimated and actual (surplus)/deficit in the year will be reflected in 2024/25. Although Wyre retain 40% of business rates collected following adjustments, we do not keep this whole amount, as our need is assessed to be lower than what we collect and we are therefore charged a 'Tariff'; in 2022/23 our tariff amounted to just over £6.8m.

And finally...

Question No. 37

Are there any recommendations from last year's audit that remain outstanding?

Given the delayed approval of the 2020/21 and 2021/22 accounts, any new recommendations are still awaited/received too late to feed into the 2022/23 financial year. The 2019/20 audit identified some minor recommendations and these changes have been picked up in 2021/22 and beyond as necessary.

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