

Statement of Accounts 2020/21 – 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 3)

Why is there non-financial information in the statement of accounts? Surely this document should be concerned with key financial information and nothing else?

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. This 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.

This year there is quite a lot about Covid-19 and the impact of the pandemic on the council's operations and finances and the pandemic is also covered in some detail in the Annual Governance Statement which came to Audit Committee in June.

Question No. 2 (Page 14)

Starting with the revenue variances, should we not be concerned to see increased spending/reduced income of £2.9m and reduced spending/increased income of £4.7m?

Revenue slippage continues to grow year on year, despite a minimum threshold of £5,000 being introduced, and in relation to 2020/21 the value (net of reserve funding) is £1,815,040. Around 30% (compared to around 40% in 2019/20) 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 green waste collection, benefits and rent allowances, Covid-19 related grants (un-ring-fenced), Sales, Fees and Charges Compensation Scheme, National Leisure Recovery Fund grant, Housing Benefit Administration Grants and council tax annexe grant total £1,986,324. **Savings** in employee costs, water charges, refuse collection contract, vehicle fuel, car allowances, tools and equipment, materials-consumables, postage, Greater Lancashire Plan and the Community Payback scheme total £567,374. These positive variances have been used to compensate for **reduced income** on rents and interest received totalling £84,653 and increased expenditure on business rates and bad debt provisions of £64,248. Other minor positive variances total £345,667. The net savings have been used to top up the New Homes Bonus Reserve by £1,137,498, the Property Investment Reserve by £266,900, the Leisure Management Reserve by £250,000 and the Capital Investment Reserve by £1,096,066.

When you consider that our gross expenditure on services for last year was £52m, a net saving of £2,750,464 equates to 5%.

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 the New Homes Bonus Reserve, Capital Investment Reserve, Property Investment Reserve and the Leisure Management Reserve and not, say the Value For Money Reserve? Who makes that decision and what is it based on?

Wyre traditionally underspends against the forecast each year and this money could just 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/November and this policy and the MTFP state that the Capital Investment Reserve will have the first call on any underspends at outturn (£1,096,066). 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.

The New Homes Bonus Reserve has been topped up by a further two years' worth (£1,137,498) of funding to extend the period for which it will cushion us from the impact of the council tax freezes (and consequent loss of tax base) in the previous decade. Given the extended uncertainty owing to all the delays to the spending review, fair funding review and business rates retention, this seems a prudent approach to extend the period of time before we face the 'cliff edge' from the utilisation of this reserve.

The reason for some of the underspend being used this year to top-up the Property Investment Reserve (£266,900) is that following approval from Cabinet to purchase commercial units at Fleetwood Docks and accept the Getting Building Fund grant (Project Neptune) (2 December 2020), the project has evolved and a small tranche of additional land as well as other changes have been agreed by the project team. These are within the totality of the original Cabinet approval value but represent an increase in the overall costs originally included in the budget plus a small contingency as we were able to secure a higher level of grant than was assumed at the time. A report from the Director of Communities will be returning to Cabinet which will provide an update on the changes and progress so far on the scheme later this year (Q3).

Finally, the Leisure Management Reserve has seen a modest increase of £250,000 in recognition of the expectation that the leisure centres run by the YMCA will still require additional subsidy, over and above the £147,500 base level, in 2022/23. This top-up sets a sum aside to be utilised if necessary to help meet any additional subsidy requirement. Initial forecasts from the YMCA indicate a subsidy level of around £350,000 in 2022/23 is likely.

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)

Business rates expenditure on the council's own assets was £12,308 higher than budgeted. Why was this?

The Valuation Office Agency (VOA) reviewed our car parks and determined that the rateable value had increased for one in particular, the seafront car park on North Promenade at Cleveleys. Changes to the configuration and number of spaces had not previously been picked up and this led to an increased bill. On the positive side, it does help in terms of business rates growth which impacts on our retained levy in the Business Rates Pool.

Question No. 5 (Page 14)

Please can you explain why the bad debt provision (excluding council tax, NNDR and Housing Benefit) has increased by nearly £52,000?

The original budget for the bad debt provision was £15,000 which was more than adequate in 2019/20 (actual £8,569). Unfortunately, owing to the pandemic the council has been unable to undertake any debt recovery action for most of 2020/21. This is both as a result of the redeployment of staff onto the government's prioritised business grants schemes and in recognition of the unprecedented economic impact suffered by many in 2020/21. Recovery action is undertaken by the Recovery team in accordance with our Sundry Debt Policy. All efforts to recover outstanding debt have recommenced and we will endeavour to pursue outstanding monies utilising internal staff and external agencies as we did prior to the pandemic. This may include but is not limited to: contacting the debtor by phone, a visit by a Compliance Officer to discuss the debt, attachment of earnings, warrants of execution against goods, charging orders, insolvency proceedings and possession proceedings.

Question No. 6 (Page 14)

During the pandemic, the government set up a Sales, Fees and Charges Income Compensation Scheme (SFCICS) to help mitigate the impact of lost revenue on council finances. Why then are we reporting a loss of £74,421 on rental charges?

The SFCICS only applied to certain income streams and excluded what the government classed as 'commercial income' from things like investment property. Recent rhetoric from the government has shifted away from encouraging commercialism in local authorities towards forthcoming regulatory changes which will limit powers to undertake higher risk ventures. This is following a small number of high profile examples where commercial ventures undertaken by 'pioneering' councils, usually in an effort to bridge a funding gap following austerity measures, have resulted in losses or the council carrying a significant amount of external debt.

Whilst Wyre is not one of these and our risk appetite has remained low, we do have historic commercially run assets, primarily Fleetwood Market, which was forced to close for much of 2020/21. The SFCICS will not compensate us for lost income in relation to rental from this and similar assets and as such the council has had to reduce expenditure where it could to help offset the loss of income. A rent free period was also given to all stallholders at Fleetwood Market for three months (April to June 2020) to provide additional help during the most uncertain period of the pandemic. This was more generous than most council's in the region that operate indoor markets but reflects the importance of maintaining this asset to help kick-start future economic recovery.

Question No. 7 (Page 14)

Last year we reported additional interest received of £44,694 but this year, it's a loss of £10,232. Why is it so different, particularly when we've had more cash to invest owing to the influx of government grants?

The interest received in the year was £59,768 compared to the revised estimate of £70,000, a loss of £10,232. This was a significant reduction on the 2019/20 outturn of £220,094 and is the lowest return achieved since 2013/14.

When the Covid-19 pandemic 'arrived' in March 2020, the Monetary Policy Committee cut the Bank Rate, first to 0.25% and then to 0.10% where it has remained all year. Despite carrying significant balances throughout 2020/21 owing to the numerous government grants, particularly in relation to businesses, low interest rates and the recommendation from CIPFA to maintain liquidity during the pandemic, has meant that limited returns have been achievable despite high cash balances.

The benchmark for returns on investment has been running at negative 0.07% but we have managed to achieve an equated positive return of 0.16% on our investments during the year. Our Treasury Management Consultants have advised that we have done well compared to similar counterparts 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 global crisis.

Once again, the SFCICS does not apply to lost investment income and so the losses have to be borne by the council.

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

Question No. 8 (Page 14)

Employee Costs (including training) show a saving of £318,083 which is similar to last year. I thought we'd be incurring higher costs on overtime for existing staff and to recruit temporary staff to help deal with the pandemic – what is included here and what are the largest elements?

The Updated Revised Estimate for employee related costs, excluding notional pension and accumulated absences adjustments, was £10.98m. The saving on employee costs across all services is £318,083 representing a saving against the budget of just under 3%. The vast majority of this underspend is in relation to Salary, NI and Pension (offset by a slight overspend on Agency staff of nearly £2K). This is despite incurring additional costs, primarily on overtime and additional plain time hours of just under £137,500, to help deal with the additional pandemic workload.

The pressures during the pandemic meant that recruitment was often put on hold in order to focus on fire-fighting measures and ensuring services were not significantly disrupted. Recruitment that did take place was usually in areas where progress had already been made prior to the pandemic in terms of adverts being placed and interviews already being arranged. Key areas such as Environmental Health have undertaken limited recruitment but alternative measures such as agency and utilising existing contractors such as District Enforcement (in their case, funded by specific government grant for Surge Enforcement so not impacting on employee budgets) have been used instead. By way of contrast, in quarter one (April to June) of 2020/21 six Officer

Delegation staffing reports came forward compared to 19 in the first quarter of 2021/22 – so there has been some catching up going on!

We typically assume £200,000 of turnover savings each year and any overachievement helps to offset any adverse variances. Training budgets also underspent by nearly £68,000 last year owing to staff redeployment and the inability to undertake face-to-face training. Since then, we have invested in an online e-learning portal called Learning Pool which is due to go live in September. This facility will improve our resilience should future lockdowns occur and also provide easily accessible training options for core corporate modules such as data protection, ICT security and equality and diversity.

Question No. 9 (Page 14)

Water charges (including surface and waste water) have reduced by nearly £34,000 in 2020/21 compared to an overspend the year before. Is this a result of building closures caused by the pandemic or something else?

Both surface water and waste water have seen modest reductions of under £5,500 and £8,500 respectively across all sites. The largest surface water reductions were seen at Copse Road Depot and the Civic Centre and the largest reductions on waste and general water usage occurred at Marine Gardens and Cleveleys Promenade. The reasons for these were as follows: the Civic Centre saw reduced occupancy owing to the pandemic and payment of a 2020/21 invoice for Copse Road Depot occurred in 2019/20 of approximately £7,900. The fountain at Marine Gardens has been leaking and was turned off for much of 2020/21; a number of credit notes were received against Cleveleys Promenade relating to prior years and this distorted the outturn.

Question No. 10 (Page 14)

A report went to Cabinet in July 2018 to approve an eight year extension to the refuse collection contract with Veolia and that report detailed savings which could be made if we purchased the vehicles required ourselves. The outturn position indicates that further savings have been achieved but how has this been possible?

The core contract underspent by nearly £51,000 and the purchase of additional containers overspent by just over £12,000. Together these net to a saving of just over £38,000. Cabinet approval in 2018 included a provisional sum of £100,000 for the pass through pension scheme as it would only be possible to quantify these costs accurately once the new contract commenced and affected staff determined which scheme they wanted to participate in. The actual costs have been less than £40,000 in the year and under the terms of the contract we only pay what it actually costs the contractor. This was a risk to us as part of the contract review but one that was assessed as being worthwhile and the position in 2020/21 bears out the decision. Although some adjustments were made at Revised Estimates, a cautious approach was maintained and a contingency retained in anticipation of increased container costs.

Question No. 11 (Page 14)

Fuel and Car Allowances are both showing a reduction in spend last year totalling over £47,000. I understand that non-essential journeys were restricted during the pandemic but as key workers, can you give me an indication of what is behind these underspends and whether the saving is likely to be ongoing?

Firstly, although our vehicles were redeployed during the pandemic to community hubs for the delivery of food parcels and prescriptions, much of this work was carried out during the first lockdown. Since then, we have seen this activity reduce but home and site visits have not increased back to the pre-pandemic levels owing to ongoing restrictions. It is likely that a saving will recur in 2021/22 but it is difficult to know if further lockdowns may be imposed and so this cannot be accurately quantified. Budgets will be reviewed at Revised Estimates and a view taken on the global budget position then.

In terms of car allowances, we only pay casual mileage allowance and since many staff were home working and not attending face-to-face meetings or training events etc., expenditure has reduced. Again, some staff conduct site visits in their own vehicle and some of this activity was curtailed owing to restrictions imposed by the government. Given the intention to allow suitable roles to hybrid work and the increasing number of virtual meetings and seminars etc, it is likely that these costs will remain at a reduced level in 2021/22 and ongoing although a return to face-to-face for some meetings and training is likely to increase beyond that and subject to the ongoing pandemic.

Question No. 12 (Page 14)

Savings on Hire and maintenance of Tools and Equipment have been achieved of nearly £31,000, was there a specific reason for this?

Yes, the vast majority of the saving on equipment hire (£13,852) related to the renegotiation of our photocopier contract by our procurement officer. This saw new machines being rolled out at a lower cost. There was no equivalent large saving on equipment maintenance, with the highest variance being £3,109 on car park machines owing to reduced usage and the remainder made up of smaller variances below £2.5K across numerous budgets for hire and maintenance. Apart from the copier budget which will be reviewed in 2021/22, most will be expected to see increased expenditure again in the current year but a review will take place at Revised Estimates as normal.

Question No. 13 (Page 14)

Materials and Consumables have underspent by £24,356 in 2020/21. What kind of things did we buy less of and why?

The two largest underspends which make up the majority of the saving were on Parks and Open Spaces (£15,695) and Vehicle/Plant Maintenance (£5,215).

Again, as a result of the pandemic our priorities changed and staff were redeployed to the community hubs primarily during the first lockdown. Our activities in certain areas shifted away from business as normal so for instance, we found that where we had ordered or would normally order plants and associated materials from nurseries, they were telling us that the plants had died owing to the lockdown and having no staff to water them etc. Although we honoured certain

commitments in line with the public procurement note issued by central government (PPN4), it ultimately meant that we didn't incur our normal costs and there was a knock on effect of not needing compost in the same quantities etc.

It's a similar story with vehicle/plant maintenance where fewer journeys by our fleet generally meant lower maintenance costs and a reduced need to use parts held in stock and therefore purchase replacements.

Both of these are expected to see increased costs in 2021/22 but will be reviewed at Revised Estimates as normal.

Question No. 14 (Page 14)

Last year we reported an overspend on postage and this year it's the opposite and we've underspent by £33,315. What's changed?

The three largest underspends which make up the majority of the saving were on Electoral Registration (£12,036), Council Tax Collection (£6,701) and Compliance (£5,848).

The pandemic affected many of our regular work streams, so activities like the annual canvas, debt recovery and billing/reminders were undertaken in different ways, less often or not at all for much of the year. Where we could, email was utilised instead of 'snail mail' and mass emailing services used to target as many recipients as possible. Where we did overspend slightly (£2,418) was in relation to Covid-19 related correspondence which included letters to Clinically Extremely Vulnerable residents, Over 70's etc.

Again, costs are expected to return to normal levels over the next year and a review will be undertaken at Revised Estimates to look at in-year savings.

Question No. 15 (Page 15)

What is the underspend on the Greater Lancashire Plan (GLP) and is this no-longer going ahead?

Prior to the pandemic, approval was given to support the Greater Lancashire Plan (a strategic document to be pulled together by consultants, based around seven themes agreed by Lancashire Leaders) and the cost to Wyre was envisaged to be around £25,000. Funding was to come from the additional income expected to be generated by the 75% Business Rates Pool Pilot operated in 2019/20 and each contributing authority was to pay a share of £400,000, in proportion to their additional rates income. Following the advent of the pandemic and the uncertainty around central government funding, it was agreed that apart from a small element already committed, council's would be refunded the balance of their unspent contribution in order to meet the costs of the growing crisis. This meant that Wyre received a refund of £21,853.

The GLP is still being discussed by Lancashire Leaders and it is expected that a decision will be made on whether this proceeds and in what form. At that point, a different cost division may be agreed as the 75% Business Rates Pool Pilot in Lancashire was for one year only and council's will find themselves in very different financial circumstances post-pandemic.

Question No. 16 (Page 15)

Why did we underspend on the Community Payback scheme and what is it?

Community Payback is where offenders work on projects to pay back the community for their crimes, for example by: removing graffiti, clearing wasteland or decorating a community centre. In Wyre, they often undertake litter picking and beach cleaning type activities. Our contribution is a payment towards the administration of the scheme and the supervision of the offenders. The underspend of £20,000 in 2020/21 reflects the restrictions on non-essential work during the pandemic and is not expected to be ongoing once restrictions are fully lifted.

Question No. 17 (Page 15)

Green waste subscription income increased in 2020/21 by over £10,000 despite some loss of service during the first lockdown. How much did we generate in 2020/21 and what is the expectation for 2021/22?

Green waste subscriptions have grown in popularity and the pandemic has potentially increased demand as workers on furlough have had time to devote to their gardens that they may not normally have. The forecast for 2021/22 is £830,000 which reflects the outturn of £837,830 in 2020/21 (£747,670 in 2019/20). Actuals received to date (c£850K) indicate that this budget will be exceeded and a review will take place at Revised Estimates with the budget adjusted accordingly.

Question No. 18 (Page 15)

I understand that there is a positive variance on housing benefit payments (also known as rent allowances) of £173,410 and would like to understand what has contributed to this?

The increased net income of £173,410 equates to less than one percent of the gross benefit expenditure budget and was the result of the following factors:

1. A decrease in the level of benefit payments totalling (£62,878).
2. An increased level of income from the government totalling £108,275; whilst the budget assumed a rate of 99.5% the actual was 99.7% when you consider payments total approximately £22.8m this small change in % really does make a difference.
3. Debtors raised for overpayments of discretionary housing payments were (£264) less than expected.
4. Debtors raised for overpayments of housing benefit, i.e. where somebody has been paid something to which they are not entitled and the top-up to the corresponding bad debt provision were a net £117,024 higher than estimated; and finally;
5. The clawback of Council Tax benefit was £11,253 more than expected.

Question No. 19 (Page 15)

What is the Council Tax Annexe Grant and why wasn't it budgeted for?

From 1 April 2014 the government introduced a 50% discount to annexes that are occupied by members of the family of the council tax payer of the main dwelling. They then compensate council's for this loss of income via the Council Tax Annexe Grant. We only receive confirmation of

the grant late in the final quarter of the financial year and so we traditionally treat this as bonus income (usually it is below £10,000 and so doesn't appear as a major variance here).

Question No. 20 (Page 15)

I can see that there's a large figure for unspent Covid-19 grants. What is this made up of and why didn't we spend it?

From our perspective, un-ring-fenced grant is the best kind because we can spend it on local priorities with no conditions attached. Ring-fenced grants are usually re-payable if not spent by a certain date and they can only be used to fund specific activities.

At the start of the pandemic it was unclear what additional funding central government would provide, if any, to local government. A monthly Financial Management return was instigated and all council's were encouraged to complete this in order to build the case for additional funding. At the same time, a plethora of small grants were introduced for specific items such as Surge Enforcement, Winter Support and Health Protection which were ring-fenced to be spent by 31 March 2021.

At the end of the year we have prioritised spending the ring-fenced grants first of all and have been successful in utilising many of these in full (over £300,000). This has reduced the need to call on the emergency Covid-19 grants (2020/21 allocation of £1.7m with £1.2m remaining) and the Clinically Extremely Vulnerable allocation (2020/21 allocation of £0.4m unspent) both of which are un-ring-fenced and can go into general balances. We also received very late notification of some New Burdens grant in May 2021 which related to 2020/21 (£166,800 for Business Grants administration) and so items like these have helped to improve the outturn position.

Although this is an improvement on where we thought we'd be, there are a number of projects which have slipped and we still envisage increased subsidy requirements for our leisure centres in future years as well as costs associated with resilience measures against future pandemic restrictions (e.g. costs associated with hybrid working). Central government also made it clear that further tranches of emergency funding would not be forthcoming and so whilst restrictions and pressures on services continue, we anticipate needing to draw down on some of the earmarked reserves and balances to meet ongoing pandemic-related costs in the next two years at least.

Question No. 21 (Page 15)

Why are we showing additional income from the Sales, Fees and Charges Income Compensation Scheme? I thought this was only meant to mitigate our losses, not increase our income over the budget?

The Sales, Fees and Charges Income Compensation Scheme (SFCICS) was introduced to help mitigate the impact of lost fees and charges income to councils. It excludes commercial income and any areas where a local decision was made to waive or reduce fees during the pandemic.

The key aspect is that the compensation is based on the council's Original Estimates. It assumes there's a 5% variance in a typical year and top-slices this. Of the remaining 95% of the relevant income budgets it will top-up any losses up to 75%. Basically we are guaranteed 70% of our Original Estimated income for non-commercial income, less any savings on expenditure and any self-imposed reductions e.g. we had a special offer in December on our car parks.

We have primarily claimed for lost car parking fees and charges, lettings income, disabled facilities grant admin fee income and legal fees (mostly summons related).

When we set the Revised Estimates, we tried to make these more reflective of where we thought our actual outturn would be (including the SFCICS element). In reality we have performed better than expected by £74,000, although this is still lower than the Original Estimates and why we are able to claim under the scheme.

The SFCICS has been extended to include Q1 of 2021/22 and so we anticipate some mitigation on our income losses in the current year as well.

Question No. 22 (Page 15)

What is the National Leisure Recovery Fund Grant of £220,000 and why is it showing as a variance rather than being included in the budget?

The NLRF grant was announced late in 2020 and was designed to include support for council's who contract with another organisation to run their leisure centres at a loss. We were only allowed to apply for £220,000 although this was increased later to £235,000. Owing to the third lockdown at Christmas, there were delays to the announcement of the funding allocations and so this came late in 2020/21, after the budget had been set. As a result this is 'bonus' income which is helping to offset costs in 2020/21.

Question No. 23 (Page 15)

Why did we receive additional Housing Benefit Administration related grants of just over £61,000?

We estimated that we would receive grant of £364,430 in 2020/21 and the outturn position was instead an improved position to £425,700 with no corresponding increase in costs. It is fairly common for us to receive new burdens grants during the year in relation to Universal Credit changes (£16,540) Verification of Earnings and Pension (£17,370) and other benefit changes. We don't always know if we will be able to meet these without incurring additional costs as there are often system changes required and so a cautious approach has been taken. We also received a late award for accuracy totalling £8,900 in April which related to 2020/21 and an additional unbudgeted £26,673 on the 31 March 2021.

Looking now at Revenue slippage...

Question No. 24 (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 2020/21 totalling £1,815,040 can be seen at Appendix 3b. Essentially, this is the value of the apparent underspend in 2020/21 which will ultimately be incurred in 2021/22.

Question No. 25 (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?

The highest value of slippage (£219,780) relates to the YMCA Leisure Centre subsidy. During 2020/21, it was necessary to provide significant additional financial support to the YMCA and two reports in July (£488,845) and December (£340,165) were approved to ensure that the leisure centres could survive a year of unprecedented challenges. These increases, on top of the original budget of £147,500 meant that we were forecasting spending nearly £1m on largely mothballed assets. Owing to the contractual arrangements in place with the Fylde Coast YMCA who operate the council's leisure centres, the council has not been able to claim under the government's Sales, Fees and Charges Income Compensation Scheme. The only government support specifically available to council's for leisure centres has been the National Leisure Recovery Fund (NLRF) but this was solely aimed at supporting a reopening strategy and associated costs and Wyre Council was only able to claim £220,000 although this was subsequently increased to £235,000. As a result of the late receipt of the NLRF funding and the extensions to the furlough scheme in particular, savings were made which we now expect will be utilised in 2021/22 owing to the extended lockdown restrictions.

The second highest value of slippage (£195,810) relates to the Council Tax Hardship Fund which was introduced during the pandemic to support those on benefits and Wyre's allocation was just over £1m. Under the scheme, a one-off payment of £150 was applied to qualifying accounts regardless of the duration of the council tax payer's entitlement to benefits. We saw a significant increase in LCTS cases during the pandemic and this payment helped to reduce and often eliminate the need to pay council tax in 2020/21. Towards the end of the financial year we prompted those not on benefits but who were falling behind on their payments owing to a significant drop in income, to also apply for a discretionary award. Late in the year we were advised that we could roll forward any unspent monies and continue to apply the scheme retrospectively to 2020/21 accounts, hence the slippage request.

The third highest value of slippage (£190,900) relates to employee budgets in Finance and Parks and Open Spaces that have been aggregated together. These amounts reflect temporary structures which may involve additional costs, including agency staff, in 2021/22, arrangements to fund ongoing training for staff from underspends and pending restructures which again may involve additional one-off costs.

Question No. 26 (Page 15)

I see that at 31 March 2021 we have just over £13m 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 2021 reflects a gap between

expenditure and income in 2025/26 of approximately £2.9m and in effect, our level of balances only allows the council to continue with its current spending plans until 2026/27 before it runs out of money. It should be noted that of the £13m in balances, nearly £2m is slippage or delayed expenditure from 2020/21, so already committed.

In 2019/20 our Revenue Support Grant ceased and owing to Brexit delays, the General Election in December 2019 and the ongoing Covid-19 pandemic, delays to the Spending Review, Fair Funding Review and Business Rates Retention Reform have continued and there is still a high level of uncertainty around what will replace this critical funding stream.

The impact of the pandemic in particular is still being assessed and it is likely that the council will have to bear some losses e.g. from reductions in commercial income, which central government will not meet. In these circumstances, having a reasonable level of general balances will help to cushion the council from the impact of these losses, negating the need for an emergency budget.

There is an action in the Council's Business Plan (2019-2023) to 'deliver efficiencies' and regular progress reports continue to be provided to Cabinet and Overview and Scrutiny in order to bring the expenditure and income projections back into balance. An update to the MTFP will be considered by Cabinet in October and this will reflect what we understand to be the impact of the global pandemic on our budgets, subject to further announcements and guidance from central government.

It is hoped that the Levelling Up white paper due to be published later this year will provide some clarity on the ongoing funding arrangements and a possible shift to a 'Place-Based' approach to service delivery. MHCLG are pushing for a three year financial settlement for local government to be published this December and if this happens it will help to remove a significant amount of uncertainty in the MTFP period and help us to pinpoint the funding gap with greater accuracy.

Moving on to Capital Expenditure...

Question No. 27 (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 meeting?

Imagine an apple tree...

The council has two types of expenditure:

The tree's apples, leaves and blossom 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 etc., of the tree, these items typically last for a short period before they are consumed.

The tree's trunk, roots and branches represent 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 still a risk. We have been undertaking our own review in 2020/21 of capitalisation and if anything, this has led to more expenditure being transferred to revenue as schemes have changed and our understanding of the detailed aspects of some projects has grown, leading to re-classification.

Question No. 28 (Page 16)

What were the three largest areas of capital expenditure in 2020/21?

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

Scheme	Value £
Vehicle Replacement	3,027,818
Disabled Facilities Grants	1,346,820
Restoration of The Mount	948,893
Total	5,323,531

They account for nearly 80% of the capital expenditure in 2020/21.

The Vehicle Replacement Reserve funded the purchase of the new fleet of Refuse Collection vehicles which cost nearly £2.5m, to coincide with the commencement of the eight year contract extension with Veolia. £224,000 was spent on three replacement street sweepers with the balance funding various fleet items of replacement including transit vans and a trailer.

Disabled Facilities Grants (DFG) of £1.3m were largely funded from the Better Care Fund with a £77,000 contribution from Regenda. Owing to the pandemic and unusually for Wyre, there will be slippage of unspent DFG into 2021/22 following restricted access to homes (particularly the Clinically Extremely Vulnerable and over 70s).

Finally the project to restore the Mount in Fleetwood, funded by the Heritage Lottery Fund and a generous donation from the late Mrs Lofthouse, has now completed.

Question No. 29 (Page 16)

In the table showing reasons for the variance to the Updated Revised Estimate, why is there over 40% of the budget or nearly £5m 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>
Wyre Beach Management Scheme	3,302	The choice of site compound was changed from Rossall School to Jubilee Gardens. This led to a delay in granting planning permission. There was also a delay in the granting of permissions for a marine licence from the Marine Management Organisation.
Disabled Facilities Grants	808	Owing to the pandemic, access to people's homes has been greatly restricted for large periods of 2020/21 and works have been necessarily delayed.
Rossall Sea Defences Scheme	208	For purchase of equipment and maintenance of the grasslands, installation of final way markers and ongoing monitoring of the beach using radar.

Any further changes will be reported via the normal capital programme reporting process with a Cabinet report due in October 2021.

Question No. 30 (Page 17)

It is useful to see the different grants and contributions in the financing table but when the Capital Programme is financed from Revenue to the tune of £3.2m what does this mean?

Revenue funding of £3,205,549 has been applied during the year reflecting a number of contributions including:

- Capital Investment Reserve (£47,969) - used mainly for procurement of wheeled bins to replace recycling boxes (£42,469);
- Vehicle Replacement/Street Cleansing Maintenance Reserve - used for the rolling replacement of the vehicle fleet (£512,617) and for the new fleet of Refuse Collection vehicles (£2,493,201) ;
- VFM Reserve – used for the implementation of the Citizens' Access Portal (£14,450); and
- IT Strategy Reserve (£137,312) – used primarily for the replacement of core IT network infrastructure (£135,860).

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

Question No. 31 (Page 42)

The Comprehensive Income and Expenditure Statement (CIES) appears to show that we have made a surplus on the Provision of Services of £2m but the Narrative Report on page 15 shows a reduction in balances of £0.8m. Why have balances not increased by £2m?

The CIES reflects the council's performance during 2020/21 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 43, provides an overview of the adjustments to and from reserves; Note 8, commencing on page 64, 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 totalling a deficit of £1,736,474, as detailed on page 42, is made up of a surplus on the Provision of Services totaling £2,006,431 (impacting on the General Fund Balance) and a deficit on Other Comprehensive Income and Expenditure totalling £3,742,905 (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 £2m to a reduction of £0.8m, as follows:

	Movement (£)	Cumulative Impact on General Fund Balance (£)
Surplus on Provision of Services (see CIES – page 42)	2,006,431	2,006,431
Adjustments between accounting basis and funding basis (see Note 8 – page 62)	5,351,379	7,357,810
Transfer (to) or from earmarked reserves (see Note 9 – page 64)	(8,171,118)	(813,308)

Question No. 32 (pg 42)

The Comprehensive Income and Expenditure Statement (CIES) reflects a reduction in the Cost of Services of just over £4.3m when compared to 2019/20; with considerable movements on the Leisure, Health and Community Engagement and Resources Portfolios. What are the causes of these movements and will they have an impact on balances?

The Council operates a rolling programme of asset valuations that ensures that all items of Property, Plant and Equipment (PPE) are revalued at least every five years. During 2019/20, the Thornton Cleveleys Sport Centre and Poulton Swimming Centre were revalued and revaluation losses totalling £1.2m were reported in Leisure, Health and Community Engagement, artificially increasing Gross Expenditure in that year. These valuation losses did not impact upon balances, as adjustments will be processed between the General Fund and the Capital Adjustment Account (an unusable reserve). During 2020/21, PPE revaluations resulted in upward movements; these gains are reflected in the revaluation reserve, rather than impacting on cost of services.

Resources saw one-off costs in 2019/20 amounting to nearly £1.3m attributable to pension scheme costs. The council is part of the Local Government Pension Scheme (LGPS), a defined benefit pension scheme, administered by Lancashire County Council. During 2019/20, a past service cost totalling over £1.3m was recognised; £0.8m relating to the McCloud case and £0.5m relating to Guaranteed Minimum Pension (GMP) equalisation. These costs did not impact upon balances, as adjustments were processed between the General Fund and the Pensions Reserve (an unusable reserve). During 2020/21, the Gross Income reported for Resources included the income attributable to the Covid-19 pandemic. As per the variances mentioned earlier, additional unringfenced Covid grants amounted to just over £1.4m.

**For noting, further work will be undertaken prior to the final accounts being published to clarify whether the Covid-19 grants should be fully reflected within the Net Cost of Services as detailed in the Draft Accounts or split out between Net Cost of Services and Taxation and Non-Specific Grant Income.*

Question No. 33 (Page 42)

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 2020/21 relates to Housing Benefit on which we spent £22.9m and received 99.7% subsidy in government grant. Once this element is stripped out of the Portfolio's income and expenditure, it is in line with the others. The level of expenditure and corresponding subsidy has reduced in 2020/21 compared to 2019/20 levels, where expenditure was in the region of £24.5m 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 Housing Benefit to Universal Credit, administered by the Department for Works and Pensions. We expect this to continue until HB no longer exists unless there's a change to the welfare system which precludes this.

And now turning to the Balance Sheet on page 44...

Question No. 34 (Page 44)

Current Assets has seen an increase of over £18.2m from 2019/20; 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. In 2021, the 31 March was not a typical year-end as we were still in the grip of the COVID-19 pandemic and experiencing a third lockdown.

The £18.2 increase can be broken down as follows:

- £9.5m relating to movements in short term investments and cash and cash equivalents;
- £8.7m relating to short term debtors.

Owing to the COVID-19 pandemic, Wyre received funds from Central Government to administer grants to businesses to help during these unprecedented times. Despite paying out nearly £43m in

business related grants in 2020/21, we still held a repayable balance of £5m plus £2m rolled forward for discretionary grants.

Short term debtors has also seen an increase of £8.7m; the majority of this increase can be attributed to amounts owing from Central Government and Other Local Authorities (see Note 19 – page 74). During 2020/21 we made a prepayment of employer contributions to the Pension Fund; this contribution covered a period of three years. At the end of 2020/21, we held a prepayment totalling just under £2.3m for employer pension contributions to be released during 2021/22 and 2022/23. A large proportion of the remaining balances relating to Central Government and Other Local Authorities relating to Collection Fund items.

Question No. 35 (Page 44)

Current Liabilities has seen an increase of just under £12.6m from 2019/20; what has caused this?

The majority of this increase can be attributed to Short Term Creditor movements; which total just under £12.4m; the increase relates to Central Government Bodies. As part of the Non-Domestic Rates scheme, Wyre received s31 grant from Central Government during 2020/21 totalling £15m; this grant allocation was paid in full to the council as the Billing Authority, however, at year end and as part of the reconciliation process for NDR, Wyre is now due to pay back just over £9m to Central Government, who will then make payments to the other preceptors (LCC and LFA) to recompense them for the shortfall in business rates receipts that were received in the year. In addition, the Council is holding balances of around £5m relating to Covid Grants that are repayable.

And now moving onto the Notes, commencing on page 46...

Question No. 36 (Page 46)

This is the fourth year we've included the new Expenditure and Funding Analysis (EFA) Note to the financial statements. What is it meant to be telling me that's different to say, the CIES on page 42?

As mentioned in question 31, the CIES reflects the council's performance during 2020/21 in accordance with proper accounting practices and this can differ from the actual impact upon available resources. The EFA Note (note 1, starting on page 46) is used to show how the figures presented in the CIES correspond to movements on the General Fund.

The EFA note provides details of net expenditure chargeable to the General Fund Balances and then reflects adjustments made to comply with accounting standards and the Code, resulting in the net expenditure figures reported in the CIES. The adjustments made relate to:

- Adjustments for capital purposes: capital disposals, charges for capital financing and capital grant income;
- Net change for pension adjustments: removing pension contributions and replacing with IAS-19 Employee Benefits pension related expenditure and income;
- Other differences: adjustments as required under statute.

The EFA reflects the overall movements on the General Fund, reflecting an overall balance at 31 March 2021 of £13,092,723, having reduced by £813,310 compared to 2019/20.

Question No. 37 (Page 68)

Looking at Note 9 on page 68 ‘Movements in Earmarked Reserves’, the Non-Domestic Rates Equalisation Reserve is the largest reserve by far at nearly £10m – why has it increased so much 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, Covid-19 reliefs for specific sectors such as nurseries, retail, hospitality and leisure).

Owing to the reactive nature of the response to the pandemic, we thought we'd be topping up the reserve at Revised by a net £4.7m but in the end this became £6m largely owing to £2.2m in additional s.31 grant. However, owing to the time lag on the use of the reserve (now one year) to meet any deficit on the collection fund, we may close the year with £9.9m in the reserve but we expect to draw down £4m in 2021/22 which actually relates to the 2020/21 deficit. This will restore the balance to what is a more typical level at the end of 2021/22 which will allow further releases to cushion us from any unexpected volatility not covered by the appeals and bad debt provisions. It will also allow us to maintain the practice of releasing funds from this reserve, following the audit, to meet revenue budget shortfalls as per the MTFP forecast.

Question No. 38 (Page 85)

The officers' remuneration at note 32 starting on page 85 showed nine employees earning more than £50,000 in 2019/20 but in 2020/21 this has increased to 14 and 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 several Heads of Service are in excess of £50,000 under the April 2020 pay scale which put the top of Grade 14 (the maximum for Heads of Service) at £52,624. Owing to the pandemic, overtime was also paid out to several of these posts to offset accrued TOIL (Time off in Lieu). None of these posts reported directly to the Head of Paid Service (Chief Executive) at Wyre in 2020/21 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. 39 (Page 90)

Note 38 shows termination benefits and on page 90 it indicates that we have had no compulsory redundancies during 2020/21 and only one other departure 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 2020/21, the only arrangement agreed was voluntary as part of the transformation of services in the Contact Centre Systems Support Team. This is reflective of the need to maintain capacity during the pandemic and the necessary delay of some restructures.

Question No. 40 (Page 99)

Looking at the Collection Fund on page 99, how much do we collect in council tax and business rates and how much do we retain in Wyre?

Beginning with council tax...

In 2020/21 we collected just over £72m in council tax, of which Wyre retained £8.4m (including Parish and Town Council precepts, see Note 10, pg 68, £764,213) which relates to our 10.7% of the overall council tax bill. The largest share of the £72m, after adjustments, goes to Lancashire County Council (LCC) (£52.2m) with Police and Fire receiving the balance (£7.9m and £2.6m 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 2022/23.

Moving on to business rates...

In 2020/21 we collected nearly £11.3m in business rates. This compares to nearly £27m in 2019/20 so you might be left wondering, what went wrong and why is our collection rate still nearly 95% if we collected less than half what we did in 2019/20? Well, the big difference is the s.31 grants which are mentioned in the Q&A on Earmarked Reserves above. Simply put, because central government awarded significant new reliefs in 2020/21 as part of the pandemic response, that was money we no longer had to collect. Rather than recover the business rate income from businesses, we will be compensated by central government. Owing to the make-up of businesses in Wyre, this is a significant sum and a large number of businesses that were exempt from paying any rates last year.

As members of the 50% business rate pool pilot, the way in which this money is shared out changed from 2019/20 when we were in a one year 75% pilot pooling arrangement. After adjustments, Central Government received 50% (prev. 25%), or £12.5m, Wyre retained 40% (prev.

56%), or £10m, Lancashire County Council received 9% (prev. 17.5%), or £2.2m and the Lancashire Combined Fire Authority received 1% (prev. 1.5%) or £0.25m. Again, the difference between the estimated and actual (surplus)/deficit in the year will be reflected in 2022/23. 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 2020/21 our tariff amounted to just over £6.8m.

And if you want to see a summary of the detail then if you look at page 14 of the narrative statement, you can see that our actual NDR income, increased by £1.2m.

And finally...

Question No. 41

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

There were a number of minor management recommendations made in the External Auditor's Report to those charged with governance, which was considered by the Audit Committee at their meeting 16 February 2021.

The first referred to the safety and security of the IT environment and these have been picked up as part of the IT Risk Review group's action plan. Various minor recommendations referred to asset valuations mainly focused around changes to documentation and undertaking peer reviews. A second in-house estates officer has now received training on Asset Valuation procedures from CIPFA and will be undertaking peer reviews of some of the main valuer's reports. Similarly, changes to improve our documentation will also be adopted. A further recommendation was made around journal processing to which management responded with existing mitigation measures. Finally, it was recommended that certain year-end system reports would be run in relation to NNDR overpayments and prepayments and this was accepted.

Given the delayed approval of the 2019/20 accounts, some of these changes will only be picked up in 2021/22.