

**Meeting:**                   **Audit Committee/Statement of  
Accounts Committee**                   **Agenda Item:**

Portfolio Area:   Resources

**Date:**                   **28 February 2022**

## **2019/20 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT**

Author – Clare Fletcher                   Ext No. 2933

Contributors – Robert Garnet/ Neil Harris (Appendix A)/ Harbham Odedra

Lead Officer - Clare Fletcher           Ext No. 2933

Contact Officer – Clare Fletcher   Ext No. 2933

### **1           PURPOSE**

- 1.1       To present the External Auditor – Ernst & Young LLP’s Audit Results Report for consideration and the audited 2019/20 Financial Report including the Statement of Accounts (SOA).

### **2           RECOMMENDATIONS**

That the Audit committee/statement of Accounts Committee agree to delegate authority to the CFO, after consultation with the Chair of Audit Committee/Statement of Accounts Committee, to authorise changes to:

- 2.1       The Council's Letter of Representation provided no matters arise from the conclusion of the audit which are material in nature (appendix 2).
- 2.2       The Statement of Accounts 2019/20 be approved provided no matters arise from the conclusion of the audit which are material in nature (appendix 3).
- 2.3       That the Audit Results Report to those charged with Governance for 2019/20 be noted (appendix 1).
- 2.4       That the Annual Governance Statement is approved (appendix 4)

### **3           BACKGROUND**

- 3.1       This report is presented to the Audit Committee in its capacity as the body charged with Governance. The Auditor's results report produced by the Council's External Auditors, Ernst & Young is shown at Appendix 1.
- 3.2       The General Fund and The Housing Revenue Account outturn position were presented to the Executive on 8 July 2020. The General Fund year end balances were reported as £6.829Million and the HRA £19.819Million.

## **Changes affecting the 2019/20 Statement of Accounts**

- 3.6 The Statement of Accounts (SOA) has to be compiled in accordance with current International Financial Accounting Standards, statutory requirements, and CIPFA published guidance. The standards and guidance may change year on year.
- 3.7 CIPFA LASAAC has issued an exceptional consultation on time limited changes to the 2021/22 and 2022/23 Codes of Practice. The consultation, which closes on 3 March 2022, asks for feedback on two proposals:
- Pausing the requirements for professional valuation of operational property, plant and equipment assets in the 2021/22 Code and (at least) the 2022/23 Code, with the possibility of mitigating the effect of this through the application of centrally determined indices.
  - Deferring the implementation of IFRS 16 Leases, which is currently set to be implemented in the 2022/23 Code.
- 3.8 If the proposals being consulted on are enacted, then the valuation of operational property, plant and equipment, with or without indices depending on the consultation outcome, would be effective for 2021/22 and so come into force shortly before 31 March 2022. The remaining option relates to the 2022/23 Code. This is to simplify the closure and audit process to enable the backlog of external audits not to impact on future years.
- 3.9 The **Annual Governance Statement** is shown as a separate document and is included at Appendix 1 to this report. This Committee is required to approve the SOA and the Annual Governance Statement.
- 3.10 The Council is required to send to the Council's External Auditors a Letter of Representation (Appendix 2 to follow on after completion of the audit).

## **4 REASONS FOR RECOMMENDED COURSE OF ACTIONS AND OTHER OPTIONS**

### **4.1 Statement of Accounts**

- 4.1.1 The Statement of Accounts is Appendix A to this report and is required to be signed off by Full Council or a committee delegated to do so such as the Statement of Accounts Committee.
- 4.1.2 The 2019/20 fourth quarter outturn position for the General Fund has changed from that set out in paragraph 3.2 and following the audit the General Fund balances are now £133,438 higher , as shown in the table below.

GENERAL FUND	2019/20 Original Budget £	2019/20 Working Budget £	Reported July 2020 2019/20 Actual £	Statement of Accounts	Variance to July 2020 report £
<b>General Fund Balance 1 April</b>	<b>(£4,794,061)</b>	<b>(£4,794,061)</b>	<b>(£4,794,061)</b>	<b>(£4,794,061)</b>	<b>£0</b>
<b>Net Budget (incl. S31 Grant &amp; NDR levy)</b>	<b>£8,802,520</b>	<b>£9,570,680</b>	<b>£6,965,145</b>	<b>£6,831,707</b>	<b>(£133,438)</b>
Council Tax	(£5,754,911)	(£5,754,911)	(£5,754,911)	(£5,754,911)	£0
Retained Business Rates	(£2,562,580)	(£2,562,580)	(£2,909,395)	(£2,909,395)	£0
Transfers to/from collection fund	(£436,583)	(£436,583)	(£436,583)	(£436,583)	£0
<b>Total Core resources</b>	<b>(£8,754,074)</b>	<b>(£8,754,074)</b>	<b>(£9,100,889)</b>	<b>(£2,269,182)</b>	<b>(£133,438)</b>
Net Contribution from/ (to) balances	£48,446	£816,606	(£2,135,744)	(£2,269,182)	(£133,438)
<b>General Fund Balance 31 March</b>	<b>(£4,745,615)</b>	<b>(£3,977,455)</b>	<b>(£6,929,805)</b>	<b>(£7,063,243)</b>	<b>(£133,438)</b>

3.3 This was as a result of two invoices that had been accrued on estimation, which related to:

- Estimate of Shared Revenues and Benefits final 2019/20 invoice dated 4 September £75,046 higher than accrued for.
- Estimate of HCC Waste Management costs final 2019/20 invoice dated 20 September £58,392 higher than accrued for.

3.4 The impact of the £133,438 underspend was included in the 2020/21 outturn report to the July 2021 Executive, so the overall impact is neutral for the General Fund. Members should note there will always be a need to estimate expenditure where invoices have not been received but goods consumed.

3.5 There were a number of further amendments between draft and final including that included in paragraph 3.2-3.3. These included:

- Restatement of some fixed asset valuations (Fairlands Valley, golf course and Peartree play area)- no impact on the General Fund but increasing asset values and revaluation reserve
- Restatement of pension entries following the audit of the pension accounts, reducing pension reserve liability, no impact on General Fund or HRA but increases unuseable reserves.
- Restatement of the Local Enterprise grant as loan reducing government grants unapplied by £1.57Million and increasing borrowing (at 0%), reducing useable reserves (Government Grants Unapplied) by the amount accrued for but not received.

- The net effect of a reduction in the amount of depreciation charge to the HRA and major repairs reserve and capital expenditure that should not have been accrued - Reduction in Major Repairs Reserve balance of £123K on the draft accounts.

## 4.2 Balance Sheet

4.2.1 The Council's Balance Sheet as at the 31 March 2020 showed total reserves of £573.58Million, an increase of £37.7Million over the Balance Sheet as at 31 March 2019. The increase in the Council's net worth can be assessed by reviewing the Useable and Non Useable Reserves. The draft accounts total reserves were £573.320Million.

### 4.2.2 Useable Reserves

4.2.3 Useable reserves are cash reserves that are available for the Council to spend on revenue and/or capital. As at the 31 March 2020 the Council's useable reserves decreased by £1.5Million to £57.8Million.

4.2.4 The table below details the movement in useable reserves.

Useable Reserves	Balance at 31 March 2019	Increase/ (Decrease) in year	Balance at 31 March 2020	Draft SOA 31 March 2020	Variance
<b>Revenue Reserves:</b>					
General Fund Balance	(£4,794)	(£2,269)	(£7,063)	(£6,930)	(£133)
Earmarked General Fund Reserves	(£3,311)	(£1,087)	(£4,398)	(£4,398)	£0
Housing Revenue Account	(£21,302)	£1,483	(£19,819)	(£19,819)	£0
Earmarked Housing Revenue Account	£0	(£5,713)	(£5,713)	(£5,713)	£0
<b>Total Revenue Reserves</b>	<b>(£29,407)</b>	<b>(£7,586)</b>	<b>(£36,993)</b>	<b>(£36,860)</b>	<b>(£133)</b>
					£0
<b>Capital Reserves:</b>					
Major repairs reserve	(£10,919)	£6,173	(£4,746)	(£4,869)	£123
Capital Reserve (earmarked reserve)	(£594)	(£500)	(£1,094)	(£1,094)	£0
Capital Receipts Reserve	(£15,191)	£398	(£14,793)	(£14,793)	£0
Government Capital Grants Unapplied	(£1,671)	£0	(£1,671)	(£3,243)	£1,572
<b>Total Capital Reserves</b>	<b>(£28,375)</b>	<b>£6,071</b>	<b>(£22,304)</b>	<b>(£23,999)</b>	<b>£1,695</b>
<b>TOTAL REVENUE AND CAPITAL RESERVES</b>	<b>(£57,782)</b>	<b>(£1,515)</b>	<b>(£59,297)</b>	<b>(£60,859)</b>	<b>£1,562</b>

4.2.5 All usable cash resources have been allocated, so unless earmarked reserves are no longer needed in the future, there are **currently no cash resources available** for new projects. In addition the capital strategy requires external borrowing for both the General Fund and HRA.

#### 4.2.6 Unusable Reserves

4.2.7 Non useable or unusable reserves are non-cash reserves and include (but not exhaustively) the value of:

- Gains and losses from changes to the value of the Council's assets shown in the **Revaluation Reserve**.
- Timing differences between the purchase and use/or consumption of non-current assets (formerly known as fixed assets) shown in the **Capital Adjustment Account**.
- The calculated liability owed by the council at the Balance Sheet date for staff pensions shown in the **Pension Reserve**.
- The amount of money that would have to be paid to staff if all holiday entitlement due, but not taken was paid at the Balance Sheet date shown in the **Accumulated Absences Account**.
- The **Collection Fund Adjustment Account** which holds the timing difference between the recognition of Council Tax and Non Domestic Rates (NDR) income in the Income and Expenditure Statement as it falls due from council tax payers and business rate payers, compared with the statutory arrangement for paying across amounts to the General Fund from the Collection Fund (Council Tax and NDR), to match those calculated and approved at budget setting for that financial year.

4.2.8 The Council's unusable reserves increased by £36.2Million to £514.28Million as at 31 March 2020, due to an increase in the Capital Adjustment account. This arose from higher capital financing costs versus the costs reversed out of the General Fund for depreciation and revaluation gains and losses and a decrease in the pension liability of £19.28Million. Movements in the unusable reserve do not affect the Council tax payer or HRA tenant.

<b>Unusable reserves</b>	<b>2018/19</b>	<b>Audited 2019/20</b>	<b>Variance</b>	<b>2019/20 draft</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Revaluation Reserve	(£95,913)	(£97,972)	(£2,059)	(£94,906)	£3,066
Capital Adjustment Account	(£428,830)	(£443,324)	(£14,494)	(£446,109)	(£2,785)
Deferred Capital Receipts Reserve	(£12,059)	(£12,009)	£50	(£12,009)	(£0)
Pensions Reserve	£58,694	£39,414	(£19,280)	£40,974	£1,560
Collection Fund Adjustment Account	(£406)	(£928)	(£522)	(£928)	(£0)
Accumulating Compensated Absences Adjustment Account	£435	£535	£100	£535	£0
<b>Total Unusable Reserves</b>	<b>(478,079)</b>	<b>(514,284)</b>	<b>(36,205)</b>	<b>(512,443)</b>	<b>1,841</b>

### 4.3 External Auditor's Conclusions

- 4.3.1 As the Council's appointed Auditor, Ernst & Young LLP is required to review and report on the Council's financial statements and provide a value for money conclusion. Their draft findings and ISA 260 report are included at Appendix 1. At the time of writing the report the audit had not been concluded so final minor amendments are recommended to be delegated to the CFO following consultation with the Chair of Audit Committee/Statement of Accounts Committee. The Council's auditors will be present at the Statement of Accounts meeting to update Members on the works outstanding.
- 4.3.2 At the time the time of writing the report, no objections were received by electors to the 2019/20 accounts.
- 4.3.3 No requests were received for any further details on the Council's financial records.

### 4.4 CFO comments

- 4.4.1 There are a number of adjustments to fixed asset valuations which caused changes to the fixed asset valuations (£2.5Million ), although these assets are not held for sale but relate to the council's operation and community buildings.

<b>Balance Sheet</b>	<b>Draft £'000</b>	<b>Audited £'000</b>	<b>Variance £'001</b>
Total Long Term Assets	£810,440	£812,964	£2,524
Current Assets	£59,969	£58,692	(£1,277)
Current Liabilities	(£26,748)	(£26,478)	£270
Long Term Liabilities	(£270,360)	(£271,597)	(£1,237)
<b>Net Assets</b>	<b>£573,302</b>	<b>£573,581</b>	<b>£279</b>

- 4.4.2 A review has been taken of fixed assets for the 2020/21 and 2021/22 accounts, notwithstanding the potential consultation changes to fixed assets as set out in paragraph 3.7-3.8 of the report.
- 4.4.3 The correct classification of the LEP funding from grant to loan, which is due to be repaid by 2030, increases long term liabilities (and is included in the reduction of current assets as a proportion had been accrued to be received in 2020/21, so reducing current liabilities).
- 4.4.4 The audits of both 2019/20 and 2020/21 have been challenged by significant vacancies in the Finance department and the impact of COVID on the service. To mitigate this, an agency member of staff has been retained to provide continuity for the 2020/21 accounts. Recruitment has also taken place for the finance team and the new Technical Manager is due to start 1 March 2022 and an offer has been made for the Assistant Director Finance. It should also be noted that delays in completion of the external audit work makes completion of the audit more difficult do due dealing with two year ends, turnover of staff etc. .

## **5 IMPLICATIONS**

### **5.1 Financial Implications**

5.1.2 The updated Accounts for 2019/20 are financial in nature. As this document is finance related, the financial implications are contained therein.

### **5.2 Legal Implications**

5.2.1 The requirement under the Accounts and Audit Regulations England (2015) previously required to publish draft accounts by 31 May following the year end, the Council's 2019/20 draft accounts were published on 30 July 2020. The external audit of the draft accounts was delayed by Ernst Young (EY) LLP due to EYs resourcing pressures, exacerbated by COVID, together with internal Finance Team resourcing issues. This situation is allowed for by Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015. As such the Council was unable to publish its audited accounts by the end of July. The Audit and Statement of Accounts Committees has had to be rescheduled a number of times. This situation is allowed for by Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015

5.2.2 However for 2020/21 the extension of the audited accounts publication deadline was made to 30 November for all local authority bodies, in part reflecting the special challenges posed for both auditors and local bodies by the Covid-19 pandemic.

5.2.3 In January 2021, the government consulted on amendments to the Accounts and Audit Regulations 2015 to implement recommendation 10 of the Redmond review, to extend the deadline for publishing audited local authority accounts to 30 September from 31 July. The government said that they would extend the deadline for two years from 2020/21 and to review at that point whether there is a continued need to have an extended deadline. These regulations came into force on 31 March 2021.

## **BACKGROUND PAPERS**

4th Quarter General Fund and HRA report 8 July 2020 Executive

4th Quarter Capital monitoring report 8 July 2020 Executive

Review of the Medium Term financial strategy and impact of COVID 19 on the Council's General Fund Revenue budget

Medium Term Financial Strategy 15 September 2021 Executive

## **APPENDICES**

Appendix 1 – Annual Results Report

Appendix 2 - Letter of Representation

Appendix 3 – Statement of Accounts 2019/20

Appendix 4 – Annual Governance Statement