

Item

STATEMENT OF ACCOUNTS 2019/20



To:

Civic Affairs Committee 25/11/2020

Report by:

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Wards affected:

None directly affected

1. Introduction

- 1.1 At the time of writing this report, the external audit of the Statement of Accounts for 2019/20 by EY is still underway. However, sufficient progress has been made to allow EY to issue an Audit Results Report containing their preliminary findings and conclusions. It is anticipated that the majority of outstanding work will be completed in advance of the Civic Affairs Committee meeting on 25 November.
- 1.2 Before giving their formal opinion on the accounts there is a requirement for the auditors to present their audit findings and to obtain a Letter of Representation signed by both the Head of Finance and a member on behalf of 'those charged with governance'. Under the Council's constitution, this responsibility rests with the Civic Affairs Committee.
- 1.3 EY will be at the meeting to present and discuss their audit findings, and to give a verbal update on any areas of the audit which remain outstanding at the meeting date.

2. Recommendations

- 2.1 That the Committee receive the Audit Results Report presented by EY.
- 2.2 That the Statement of Accounts for the year ended 31 March 2020 be approved, subject to any remaining amendments per recommendation 2.3.
- 2.3 That authority be delegated to the Chair of the meeting, in consultation with the Opposition Spokes, to approve any amendments to the Statement of Accounts arising from remaining audit procedures, provided that these do not have a material impact on the Council's reserves or result in any changes to the auditor's opinion.
- 2.4 That the Chair of the meeting be authorised to sign the Letter of Representation and Statement of Accounts for the financial year ended 31 March 2020 on behalf of the Council.

3. Background

- 3.1 Draft unaudited accounts were published on 31 July 2020, in line with the revised timetable for 2019/20 set out by central government in response to the COVID-19 pandemic.
- 3.2 EY commenced the final accounts phase of their audit in the last week of October. As at the time of writing most of the audit is well progressed with few errors having been identified so far.
- 3.3 A revised Statement of Accounts is attached at Appendix 1, incorporating a small number of audit and management adjustments.
- 3.4 The audit of the 2018/19 financial statements took significantly longer than usual due to a number of factors, including the timeliness and quality of the draft Statement of Accounts and supporting working papers, and resourcing challenges at EY. In response to this, a number of actions were agreed between officers and EY to ensure a much smoother process in 2019/20.
- 3.5 These actions have been highly successful, as evidenced by the fact that the Statement of Accounts is ready for approval approximately 6 months earlier than in the previous year, with far fewer audit

adjustments, and with EY having commented on the significant improvement in the quality of working papers and the responsiveness of officers to audit queries.

- 3.6 Due to COVID-19, the deadline for signing the final Statement of Accounts for 2019/20 has been moved to 30 November 2020. Whilst every effort is being made to meet this deadline, there is some risk inherent in the fact that there is audit work outstanding at the time of writing this report. EY will give a verbal update on the proposed timetable for concluding the audit at the meeting. At present any delay is anticipated to be reasonably short.

4. Council Financial Results for 2019/20

- 4.1 The Council's financial performance is summarised in the main financial statements.
- 4.2 The Movement in Reserves Statement shows an overall increase in the Council's usable reserves of £2.5 million, to £147.4 million.
- 4.3 The movement in usable reserves includes net increases of £3.1 million in reserves which can only be used to support capital expenditure. These reserves will be utilised in future years in accordance with the capital programme. The net change in usable revenue reserves is therefore a decrease of £0.6 million.
- 4.4 General Fund unallocated reserves increased by £1.7 million to £17.4 million, whilst General Fund earmarked reserves decreased by £7.3 million to £17.8 million. The net decrease in earmarked reserves includes the application of £8.0 million from the Invest for Income Fund towards historic capital expenditure, which will reduce the minimum revenue contribution required to fund this expenditure in future years.
- 4.5 HRA reserves increased by £3.5 million to £15.1 million. HRA earmarked reserves increased by £1.6 million to £17.3 million. This increase most notably reflects a 'set-aside' contribution to reserves in respect of possible future debt redemption or reinvestment.
- 4.6 A more detailed analysis of the movement of both General Fund and HRA earmarked reserves is shown in note 6 to the Statement of Accounts.

- 4.7 There is a table of page **vii** of the Narrative Report which reconciles the outturn position of portfolios reported to scrutiny committees to the movement on General Fund and HRA general and earmarked reserves. The Expenditure and Funding Analysis (note 1 to the Statement of Accounts) then reconciles this position to the statutory accounting results detailed in the Comprehensive Income and Expenditure Statement.
- 4.8 The Comprehensive Income and Expenditure Statement shows a net surplus on provision of services (measured according to proper accounting practice) of £12.4 million, compared to a net surplus of £4.5 million in 2018/19. The most significant changes year-on-year were:
- Revaluation losses of £6.2 million were charged to HRA expenditure in respect of council dwellings, compared with losses of £13.2 million in 2018/19. Note that while this impacts on the surplus on provision of services, the effect is reversed out of the HRA through the Movement in Reserves Statement, so there is no impact on the Council's usable reserves. (N.B. These figures relate only to the element of revaluation loss which isn't a reversal of previous gains, therefore they will not agree with the figures at paragraph 4.9 which show the total revaluation movement on all council dwellings).
 - Financing and investment income is net of £13.1 million revaluation losses in respect of investment property, compared with losses of £7.7 million in 2018/19.
 - Taxation and non-specific grant income includes capital grants of £30.4 million, compared with £21.7 million in 2018/19. This year's figure includes £26.9 million of devolution grant funding from central government for the delivery of new Council homes, compared with £13.6 million in 2018/19. The 2018/19 figure also included a one-off release of £5.6 million of historic grant income which was previously being held on the Balance Sheet pending grant conditions being met.
- 4.9 The Balance Sheet details the value of the Council's assets and liabilities. The Council's total net assets have increased by £64.7 million, to £797.3 million. Key movements to note include:
- Net revaluation gains of £4.9 million on property, plant and equipment, consisting of a net loss of £5.8 million on Council dwellings, and a net gain of £10.7 million on other land and

- buildings (including £9.6 million on assets where valuation is based upon depreciated replacement cost).
- Net revaluation losses of £13.1 million on investment properties, consisting of a loss of £5.1 million on the central Cambridge shopping centre portfolio, and a loss of £8.0 million on other investment properties.
 - An decrease in the net pension liability of £35.2 million, which includes actuarial gains of £42.1 million and net interest costs of £3.3 million.

5. Group Financial Statements

- 5.1 The Group Financial Statements consolidate the performance of the Council with its subsidiary (Cambridge City Housing Company), and the Cambridge Investment Partnership (CIP) entities.
- 5.2 The accounts of the Cambridge City Housing Company (CCHC) show a profit for the year of £207k. After eliminating transactions with the Council and aligning accounting policies with the group, the total comprehensive income for CCHC included in the Group Financial Statements is £409k. However, under the Council's accounting policies £191k (relating to property revaluations) is credited to unusable reserves, leaving a net credit to usable reserves of £218k (compared to a net credit of £260k in 2018/19).
- 5.3 The activities of Cambridge Live and Cambridge Live Trading Ltd (together the Cambridge Live Group) transferred to the Council on 1 April 2019. At this point, liabilities totalling £1,351k (including £839k of pension liabilities) were effectively transferred from the Group Balance Sheet to the Council Balance Sheet. An equivalent expense has been recognised in the Council Comprehensive Income and Expenditure Statement. The results of Cambridge Live activities since 1 April 2019 are now included in the Communities line of the Council Comprehensive Income and Expenditure Statement.
- 5.4 As a joint venture the Council is required to include its share of the financial results of CIP as a single line in the Group Comprehensive Income and Expenditure Statement and the Group Balance Sheet. During the year, 1 new CIP entity was set up, so that there are now 4 entities in total; an overall operating company, plus 3 specific development companies for Mill Road, Cromwell Road, and L2 Orchard Park. Two of these entities (the Cromwell Road and L2 Orchard Park development companies) had no transactions during

the year, and nil net assets at year-end. The other two companies between them posted a net loss of £601k, reflecting the fact that development was ongoing. The Council's share of the partnership's net liabilities at year-end was £758k. Taking this into account, and in accordance with proper accounting practice, the consolidation value in the Group Financial Statements was nil.

6. Audit Results

- 6.1 International Auditing Standards require the auditor to communicate a number of matters to those charged with governance before issuing their audit opinion. EY's Audit Results Report is attached at Appendix 2. They will be at the meeting to discuss their report and audit findings.
- 6.2 Subject to completion of the outstanding audit work set out on page 5 of their report, EY propose to issue an unqualified audit report. A draft is provided at Section 3 of the Audit Results Report.
- 6.3 The current Covid-19 situation poses a risk to financial resilience for all local authorities, and as a result EY have sought additional evidence on the Council's future financial resilience and the impact this may have on the Statement of Accounts. This work is currently in progress and EY have highlighted that this may impact the audit report, which will need to go through an EY internal consultation process to ensure that it provides the appropriate assurance to the Council and its stakeholders. EY will provide a verbal update on this at the meeting.
- 6.4 As a result of COVID-19, both of the Council's external property valuers have inserted a 'material uncertainty' clause within their valuation reports. This means that less certainty, and a higher degree of caution, should be attached to the valuations than would usually be the case. EY have identified the need for us to disclose this fact within the Statement of Accounts, and an explanation has now been included at note 3. EY will include an emphasis of matter paragraph within their audit report to draw attention to this disclosure.
- 6.5 A small number of other adjustments have been made to the draft Statement of Accounts throughout the audit process. It should be noted that both the volume and value of these adjustments is significantly reduced from the previous year, which reflects the

progress made in improving the quality of the draft accounts and supporting working papers.

6.5 The table below sets out the impact of the audit adjustments made on the Council's reserves and surplus on provision of services:-

(£000)	General Fund	HRA	Other Usable Reserves	Unusable Reserves	Total Council Reserves	(Surplus) on provision of services
Draft Statement of Accounts	17,470	15,083	114,690	650,103	797,346	(11,741)
Total impact of audit adjustments	(42)	0	173	484	615	(615)
Revised Statement of Accounts	17,428	15,083	114,863	650,587	797,961	(12,356)
Adjustments include:						
1) Pension fund liability revaluation				484	484	(484)
2) Release of insurance provision			173		173	(173)
3) Update to audit fee accrual	(42)				(42)	42
Total	(42)	0	173	484	615	(615)

6.6 Pension fund liability revaluation – On 16 July 2020, the government released a consultation on applying a remedy to LGPS pension funds as a result of the McCloud ruling. This led the scheme actuaries to revise their assessment of the net pension fund liability at year-end (resulting in a reduction in the liability of £484k). The revised estimates were not received until 21 September, so were too late to include within the draft Statement of Accounts. The effect is to increase the Council's net assets and unusable reserves by £484k. There is no impact on usable reserves.

6.7 Release of insurance provision – Management review of information provided to support the insurance provision in the accounts identified a provision of £173k in respect of a claim which had already been settled before the year-end. This provision has now been released back to the Insurance Fund earmarked reserve from where it was originally taken (included within 'other usable reserves' in the table above).

6.8 Update to audit fee accrual – Due to the delays in the finalisation of the 2018/19 audit, the final fee was not known at the time that the draft Statement of Accounts was published. Originally an accrual of £60k had been raised for additional fees, but the final figure was £89k. In addition, an accrual for the certification of the housing benefit subsidy claim (£13k) had not been recognised. Ordinarily

these amounts would fall below the auditor's triviality limit and would therefore not be adjusted – however audit fees are considered material by nature therefore must be corrected. The impact of the extra accruals is to reduce the General Fund balance by £42k.

6.9 In addition to the above, there have been a small number of changes to other disclosures in the accounts which do not impact on the Council's reserves. These include:-

- updates to the going concern disclosures within the Statement of Accounting Policies to reflect the latest position as at the date of issue of the Statement of Accounts;
- changes to the presentation of capital financing at notes 5 and 17 to improve transparency around voluntary MRP contributions;
- minor reclassifications within the short-term creditors note; and
- minor corrections to other disclosure notes including employee benefits, grant income, leases and financial instruments.

6.10 There is one unadjusted difference in the Statement of Accounts which is set out on page 27 of the Audit Results Report. This relates to the impact on the pension fund liability of the recent Goodwin judgement. EY have estimated the impact of this judgement on the Council's net pension liability to be £206k. However, since this amount is not material, and in the absence of a formal actuarial assessment from the scheme actuaries, no adjustment has been made to the Statement of Accounts.

6.11 In addition to the audit adjustments, EY have also made one recommendation in relation to Council systems, processes and internal controls. This relates to the treatment of de minimis capital expenditure, and is set out more fully on page 12 of their report. EY were satisfied that the issue had not led to an error in the accounts which was greater than their audit differences threshold. The Accountancy team is currently considering how best to respond to this recommendation in a way which balances the need for compliance with the accounting framework against the additional administrative burden involved.

6.12 Page 33 of the EY report includes an assessment of progress against recommendations they made in the prior year. None of the issues found were repeated in 2018/19, which provides evidence that these have been successfully addressed.

7. Letter of Representation

- 7.1 International Auditing Standards require the auditor to have received a Letter of Representation drawn up by the Council that provides written confirmation on matters that might be relevant or significant to the Statement of Accounts. This letter is signed as near as possible to the date of the auditor opinion. The auditing standard requires that the letter is 'discussed and agreed by those charged with governance and signed on their behalf...to ensure that all those charged with governance are aware of the representations on which the auditor intends to rely in expressing the auditor's opinion on those financial statements.'
- 7.2 A draft Letter of Representation has been provided at Appendix 3. EY will be present at the meeting to answer any questions.

8. Audit Fee

- 8.1 EY have provided an update on their fee proposal on page 39 of their Audit Results Report. It should be noted that a final fee proposal will not be provided until the outstanding audit work is complete. Any additional fees proposed will be subject to agreement with Public Sector Audit Appointments (PSAA), who oversee the external audit regime for all local authorities.

9. Implications

a) Financial Implications

Included in the report above.

b) Staffing Implications

None

c) Equality and Poverty Implications

None

d) Environmental Implications

None. Paper copies of the Statement of Accounts document will only be produced on request. An electronic version will be available on the Council's website.

e) Procurement Implications

None

f) Community Safety Implications

None

10. Consultation and communication considerations

The Statement of Accounts will be published on the Council's website with a notice advertising that the audit of the accounts has been concluded.

11. Background papers

Background papers used in the preparation of this report:

- Statement of Accounts 2019/20

12. Appendices

- Appendix 1 – Statement of Accounts 2019/20
- Appendix 2 – EY Audit Results Report
- Appendix 3 – Draft Letter of Representation

13. Inspection of papers

To inspect the background papers or if you have a query on the report please contact Jody Etherington, Deputy Head of Finance, tel: 01223 - 458130, email: jody.etherington@cambridge.gov.uk.