

Item

STATEMENT OF ACCOUNTS 2020/21

To:

Civic Affairs Committee – 22 September 2021

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 2020/21 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 22 September 2021.
- 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 2021 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 usable 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 the Statement of Accounts for the financial year ended 31 March 2021 on behalf of the Council.

3. Background

- 3.1. Draft unaudited accounts were published on 30 July 2021, in line with the revised timetable for 2020/21 set out by central government in response to the COVID-19 pandemic.
- 3.2 EY commenced the final accounts phase of their audit in mid-June. 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 There is one further material change to the Statement of Accounts which is anticipated, relating to the net pension liability on the Balance Sheet. The auditors of the Cambridgeshire Pension Fund (also EY) have identified a material difference between the estimated pension asset values used by the actuary in calculating the Council's net liability, and the actual asset values (which were not yet available to the actuary at the time of issuing their report). As a result, we are currently awaiting a revised report from the actuary with updated asset values, and when we receive this we will update the Statement of Accounts accordingly. It should be noted that any actuarial movement in the pension liability is taken to unusable reserves, therefore there will be no impact on the Council's usable reserve position.

- 3.5 The audit of the 2018/19 financial statements took significantly longer than usual. In response to this, a number of actions were agreed between officers and EY to ensure a smoother process going forward.
- 3.6 These actions have been highly successful. The Statement of Accounts audit for 2019/20 was completed 6 months earlier than for 2018/19 and the 2020/21 Statement of Accounts is ready for approval approximately 3 months earlier still, with only a handful of audit adjustments.
- 3.7 Due to COVID-19, the deadline for signing the final Statement of Accounts for 2020/21 has been moved to 30 September 2021. 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.
- 3.8 The most significant risk to delivery relates to additional assurance required over the pension liability as a result of updates to the auditing standard on accounting estimates. This is a sector-wide issue affecting all local authority auditors. It is hoped that this can be resolved before the 30 September deadline, but EY will give a verbal update on this at the meeting.

4. Council Financial Results for 2020/21

- 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 £54.0 million, to £202.1 million.
- 4.3 The movement in usable reserves includes net increases of £18.7 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 an increase of £35.3 million.
- 4.4 General Fund unallocated reserves decreased by £0.7 million to £16.6 million, whilst General Fund earmarked reserves increased by £32.6 million to £51.2 million. The net increase in earmarked reserves includes £31.9 million set aside to cover the Council's share of the forecast collection fund deficit caused by the Covid-19 pandemic and the government's response to it (for example, the expanded retail rates relief scheme). This deficit must be repaid over the next 3 financial

years, and has largely been funded by compensatory grants from central government received during 2020/21 and placed in the earmarked reserve.

- 4.5 HRA reserves increased by £3.4 million to £18.4 million. HRA earmarked reserves remained the same at £17.3 million.
- 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 on page vii of the Narrative Report which reconciles the outturn position of portfolios reported to scrutiny committees to the movement on General Fund 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 £29.1 million, compared to a net surplus of £13.1 million in 2019/20. The most significant changes year-on-year were:
- Revaluation losses of £8.2 million were charged to HRA expenditure in respect of council dwellings, compared with losses of £6.1 million in 2019/20. Note that while this impacts on the surplus on provision of services, the effect is reversed out of the HRA through 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 is not 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 £0.4 million revaluation losses in respect of investment property, compared with losses of £13.1 million in 2019/20.
 - Taxation and non-specific grant income includes capital grants of £36.3 million, compared with £30.4 million in 2019/20. The business rates income retained by the Council under the business rates retention scheme is (£15.7 million), versus £6.0 million in 2019/20. Retained business rate income for 2020/21 is negative due to the impact of expanded retail rates relief offered by central government in response to the COVID-19 pandemic. The Council has been

compensated for these and other losses caused by changes in government policy through the receipt of business rate relief grants totalling £23.4 million, compared with £2.2 million in 2019/20. These grants are included within non-ringfenced government grants.

4.9 The Balance Sheet details the value of the Council's assets and liabilities. The Council's total net assets have increased by £24.3 million, to £823.0 million. Key movements to note include:

- Net revaluation gains of £26.6 million on property, plant and equipment, consisting of a net gain of £21.3 million on Council dwellings, and a net gain of £5.3 million on other land and buildings.
- Net revaluation losses of £0.4 million on investment properties, consisting of a loss of £5.2 million on the central Cambridge shopping centre portfolio, and a net gain of £4.8 million on other investment properties.
- An increase in the net pension liability of £42.9 million, which includes actuarial losses of £39.6 million and net interest costs of £2.4 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 £46k. 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 £196k.

5.3 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. There are four entities in total; an overall operating company, plus 3 specific development companies for Mill Road, Cromwell Road, and L2 Orchard Park. The overall operating company reported a profit of £0.7 million and Mill Road posted a profit of £3.3 million. The other two development companies between them reported a loss of £11k, reflecting the fact that development is ongoing.

5.4. The Council's share of the net assets of the joint venture entities (after adjustment to remove unrealised profits from the sale of Council land to the Mill Road company) totals £0.8 million.

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 6 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 A small number of adjustments have been made to the published 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. These only impact disclosure notes in the accounts and not 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;
- Minor corrections to the related party transactions note;
- Update to the council tax base table in the Collection Fund Statements;
- Additional narrative added to the earmarked reserves and senior officers' remuneration notes to aid transparency, and;
- Changes to the wording of the conclusion in the Annual Governance Statement to explicitly state that no significant governance issues have been identified.

6.4 In addition, the Audit Results Report refers to a corrected misstatement of £6.5 million in relation to the incorrect grossing up of income and expenditure related to internal recharges. This error appeared in an early draft of the Statement of Accounts which was provided to EY at the start of their audit visit, but was corrected before the draft Statement of Accounts was published on 30 July.

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. The 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 41 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

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.

11. Background papers

Background papers used in the preparation of this report:

- Statement of Accounts 2020/21

12. Appendices

- Appendix 1 – Statement of Accounts 2020/21
- 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 Francesca Griffiths, Senior Accountant (Technical and Financial Accounting), tel: 01223 - 458126, email: francesca.lawton@cambridge.gov.uk.