

# Item

## STATEMENT OF ACCOUNTS 2021/22

**To:**

Civic Affairs Committee – 03 November 2022

**Report by:**

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**Wards affected:**

None directly affected

### 1. Introduction

- 1.1 The external audit of the Statement of Accounts for 2021/22 by EY commenced in August in line with the agreed timetable. Work is still ongoing at the time of preparing this report. However, sufficient progress has been made to enable EY to issue an Audit Results Report containing their preliminary findings and conclusions. The report explains that, at the current time, no material adjustments to the draft Statement of Accounts are required and no significant deficiencies in the Council's arrangements have been identified. Much of the work which is described in EY's report as outstanding is nearing completion. A verbal update will be provided at today's meeting to summarise any additional findings and to specify the remaining work which EY need to complete prior to issuing their audit opinion.
- 1.2 In accordance with auditing standards, EY have communicated their audit findings for members of the Civic Affairs Committee to consider in the context of their role as 'those charged with governance'. This covering report provides both commentary from officers on EY's report and information regarding the Council's Statement of Accounts to assist members to fulfil their responsibility for approving the Statement of Accounts. At the same time as approving the Statement of Accounts,

EY require the Council to provide a Letter of Representation signed by both the Head of Finance and a member on behalf of 'those charged with governance'.

## **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 2022 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 the 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 2022 on behalf of the Council.

## **3. Preparation of Statement of Accounts**

- 3.1 Draft unaudited accounts were published on 29 July 2022, in line with the timetable for 2021/22 set out by central government.
- 3.2 In June 2022, further changes were made to the Accounts and Audit Regulations extending the deadline for publication of the audited accounts by two months from 30 September 2022 to 30 November 2022. This extension only applies to the 2021/22 Statement of Accounts. From 2022/23 onwards the deadline for publication of the audited accounts is 30 September 2022.
- 3.3 A revised Statement of Accounts is attached at Appendix 1. The revised statements incorporate a small number of audit and management adjustments which are detailed in section 6.3 of this report. There are two further non-material adjustments not yet reflected in the accounts which are explained on the following page:

Receipts in Advance

- 3.4 Sample testing undertaken by EY identified an error relating to receipts in advance. Balances relating to revenue from ticket sales connected to events which took place before 31 March 2022 were recognised as receipts in advance within the year-end Balance Sheet. This treatment was incorrect as the balance should either have been recognised in creditors or in comprehensive income and expenditure depending on whether conditions had been met for revenue to be recognised. Further work by officers has also identified some events where errors relating to the treatment of VAT has resulted in balances being incorrectly recognised as a receipt in advance. Having considered all of the affected codes in the Council's general ledger, officers are satisfied that the error does not materially impact the Council's Statement of Accounts. Work is ongoing to quantify the error and agree the resulting adjustments to the accounts. Officers and colleagues from EY will provide a verbal update on this issue at the meeting.

#### Valuation of Pension Fund Assets Attributable to Cambridge City Council

- 3.5 Officers and colleagues from EY are also anticipating a non-material change to the net pension liability recognised on the Balance Sheet. The auditors of the Cambridgeshire Pension Fund (also EY) identified a non-trivial difference between the estimated pension asset values used by the actuary to calculate 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). The Council is awaiting a revised report from the actuary with updated asset values. When this is received officers will update the Statement of Accounts. 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.

#### Other Outstanding Matters

- 3.6 Officers and EY will work closely following today's meeting to facilitate the publication of the Council's audited Statement of Accounts prior to the deadline. 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.
- 3.7 The most significant risks to delivery relate to additional assurance the auditors have sought in relation to the Council's approach to

recognising infrastructure assets and the approach taken by the Council's appointed expert to value General Fund land, buildings and investment property. The issues surrounding infrastructure assets are complex and relate to the extent to which individual infrastructure assets can reasonably be split into components with differing asset lives. All local authorities with such assets are potentially affected. However, upper tier authorities and unitary authorities tend to have more infrastructure assets as a proportion of their asset base than lower-tier authorities. Officers have self-assessed that the City Council is not materially impacted by the issues which have been raised nationally.

#### **4. Council Financial Results for 2021/22**

- 4.1 The Council's financial performance is summarised in the main financial statements.
- 4.2 The Movement in Reserves Statement shows an overall decrease in the Council's usable reserves of £13.6 million to £188.5 million.
- 4.3 The movement in usable reserves includes net decreases of £2.3 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 £11.3 million.
- 4.4 General Fund unallocated reserves increased by £8.9 million to £25.5 million, whilst General Fund earmarked reserves decreased by £21.4 million to £29.8 million. The net decrease in earmarked reserves includes £25.4 million set aside to cover part of the Council's share of the forecast collection fund deficit in 2020/21 caused by the Covid-19 pandemic and the government's response to it (for example, the expanded retail rates relief scheme). The deficit is being repaid over 3 financial years, starting in 2021/22, and has largely been funded by compensatory grants from central government which were received during 2020/21 and placed in an earmarked reserve.
- 4.5 HRA reserves increased by £1.2 million to £19.6 million. HRA earmarked reserves increased by £0.1 million to £17.4 million.
- 4.6 A more detailed analysis of the movement of both General Fund and HRA earmarked reserves is shown in Note 13 to the Statement of Accounts.

- 4.7 There is a table on page 8 of the Narrative Report within the Statement of Accounts 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 £25.7 million, compared to a net surplus of £29.1 million in 2020/21. The most significant changes year-on-year were:
- Revaluation gains of £6.7 million were charged to HRA expenditure in respect of council dwellings, compared with losses of £8.2 million in 2020/21. Note that whilst 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 gain / 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).
  - Finance and Resources income includes Covid-19 related grants of £1.5 million, versus £6.2 million in 2020/21.
  - The Planning, Policy and Transport portfolio includes income of £9.3 million from car parks in 2021/22, compared with £3 million in 2020/21. This movement is due to the impact of Covid-19.
  - Other operating income includes £6.2 million in respect of gains on the disposal of non-current assets, compared with losses of £0.4 million in 2020/21.
  - Financing and investment income includes £2.5 million gains in respect of the fair value of financial instruments (relating to an increase in the valuation of the Council's investment in a Pooled Property Fund), compared with gains of £0.1 million in 2020/21.
  - Taxation and non-specific grant income includes capital grants of £9.5 million, compared with £36.3 million in 2020/21. It also includes other Covid-19 grants of £1.8 million, compared with £8.4 million in 2020/21. The business rates income retained by the Council under the business rates retention scheme is a net £4.4 million payment to government compared to a net payment of £15.7 million in 2020/21. Retained business rate income for both years is negative, essentially

it is a payment to government. This is 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 the cost of awarding these reliefs and other losses caused by changes in government policy. The receipt of business rate relief grants totalling £11.0 million (compared with £23.4 million in 2020/21) is recognised separately from the business rates retention scheme and disclosed 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 £136.8 million, to £963.3 million. Key movements to note include:

- Net revaluation gains of £70.5 million on property, plant and equipment, consisting of a net gain of £64.9 million on Council dwellings, a net gain of £5.8 million on other land and buildings and a net loss of £0.2 million on surplus assets.
- Net revaluation gains of £1.7 million on investment properties, consisting of a loss of £0.2 million on the central Cambridge shopping centre portfolio, and a net gain of £1.9 million on other investment properties.
- A decrease in the net pension liability of £39.9 million, which includes actuarial gains of £47.6 million and net interest costs of £2.8 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 £251k. 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 £444k.

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 £0.4

million (£0.7 million in 2020/21), Mill Road posted a profit of £6.5 million (£3.3 million in 2020/21) and Cromwell Road posted a profit of £3.4 million (loss of £6k in 2020/21). Orchard Park L2 reported a loss of £3k (£5k in 2020/21), reflecting the fact that development is ongoing.

- 5.4. The Council's share of the net assets of the joint venture entities totals £5.4 million, compared with only £0.8 million in 2020/21.

## **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. Representatives from EY will be present at today's 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 opinion. 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 extremely low which reflects the progress made in improving the quality of the draft accounts and supporting working papers. The adjustments required, as set out below, only impact disclosure notes in the accounts and not the Council's reserves:
- Restating the prior year debtor and creditor balances to gross up balances with central government relating to business rates;
  - Minor corrections to the related party transactions note (note 26);
  - Including prior year comparators as part of the provisions note (note 20);
  - Additional narrative to the income and expenditure analysed by nature note (note 7) to detail material housing benefits expenditure; and
  - Additional narrative added to the HRA Statement of Accounts to state rent arrears balances.

## **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 audit 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 Due to the current uncertainties regarding infrastructure assets referred to in paragraph 3.7, a final version of the Letter of Representation has not been prepared by EY for formal sign-off by the Committee. In all material respects, the final content and form of EY's letter is not expected to differ from that set out in Appendix C of EY's Audit Results Report. Subject to feedback from Members of the Committee at today's meeting, officers will arrange with the Chair of the Committee to provide a signed Letter of Representation once EY have indicated they are ready to issue their audit opinion.

## **8. Audit Fee**

- 8.1 EY have provided an update on their fee proposal on page 40 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 2021/22

**12. Appendices**

- Appendix 1 – Statement of Accounts 2021/22
- Appendix 2 – EY Audit Results Report

**13. Inspection of papers**

To inspect the background papers or if you have a query on the report please contact:

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