

Report to: **Audit Committee**

Date: **2 September 2021**

Title: **Draft Statement of Accounts and Draft Annual Governance Statement 2020/2021**

Portfolio Area: **Support Services – Cllr H Bastone**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: **30th September 2021**

Author: **Alexandra Walker** Role: **Finance Business Partner**
Pauline Henstock **Head of Finance Practice and Deputy S.151 Officer**

Contact: **01803 861345** alexandra.walker@swdevon.gov.uk
01803 861377 pauline.henstock@swdevon.gov.uk

Recommendations:

1. The Draft Statement of Accounts and the Draft Annual Governance Statement (AGS) for the financial year ended 31 March 2021 are noted.

1. Executive summary

- 1.1 The report advises Members that an under spend of £112,000 was generated in 2020/2021 which was transferred to the General Fund Balance (un-earmarked revenue reserve). The level of this reserve stands at £2.12 million at 31 March 2021.
- 1.2 The Narrative Statement to the Accounts gives a summary of the main items in the Statement of Accounts for 2020/2021.

2. Background

- 2.1 The Accounts and Audit (England) Regulations 2015 set out the requirements for the production and publication of the local authority's annual Statement of Accounts (SOA). These regulations introduced revised procedures for the approval and publication of accounting statements. In line with common practice in the commercial sector, local authorities are now required to approve the accounts following the completion of the audit.

- 2.2 The statutory timetable relating to the production and publication of the final accounts was brought forward from 2017/18. Since then the Council has been required to publish the draft SOA by 31 May, one month earlier than previously. However, due to the Covid-19 pandemic the 2020/21 statutory timetable was extended. In accordance with statute the draft Accounts for 2020/21 were published by 31 July 2021.
- 2.3 The SOA is an essential feature of public accountability, since it provides the stewardship report on the use of funds raised from the public. The closing of accounts is also important to the budgetary process, since it confirms the availability of reserves and balances for future use.
- 2.4 The attached booklet in Appendix A contains the Council's final accounts in full, including details of the Comprehensive Income and Expenditure Statement (CIES), the Balance Sheet and Collection Fund together with statements setting out movements in reserves and cash flow.
- 2.5 The accounts have been prepared in accordance with all relevant and appropriate accounting standards, including International Accounting Standard (IAS) 19 which deals with pension costs. This standard ensures that the full cost of employing people is recognised systematically in the accounts and that creditors reflect the Council's liability to pay money into the pension fund. A full explanation of the pension's liability is included in the Council's Statement of Accounts. Members are advised that the accounting arrangements for IAS 19 are for reporting purposes only. Indeed the required entries are reversed out of the accounts and consequently, IAS 19 has no impact on the Council's surplus for the year.
- 2.6 The Annual Governance Statement (AGS) for 2020/21 shown in Appendix B reflects the reporting requirements introduced by CIPFA/SOLACE's 2016 Delivering Good Governance in Local Government Framework. The new requirements include:
- An acknowledgement of responsibility for ensuring there is a sound system of governance
 - A reference to and assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment.
 - An opinion on the level of assurance that the governance arrangements can provide.
 - An agreed action plan.
 - A conclusion.
- 2.7 The CIPFA/SOLACE 2016 Framework recommends that the Council carries out annually a self-assessment of the extent to which it complies with seven core principles of good governance. Examples

of the framework the Council adopts to comply with the Code's key principles are included within the AGS, as well as an accompanying assurance statement.

3. Outcomes/outputs

Revenue Expenditure

- 3.1 Revenue expenditure represents the ongoing costs of carrying out day-to-day operations, and is financed from council tax, business rates, fees and charges, government grants and interest earned on investment activity. The under spend on the General Fund in 2020/2021 of £112,000 is essentially a break-even position. ***The Amended 2020/21 Budget was £9.41 million and therefore the saving of £112,000 means that the actual spend was 1.2% less than the budget.*** This saving will go into the Council's Unearmarked Reserves which now stand at £2.12 million. The main variations from budget are shown on Page 9 of the Narrative Statement in the Statement of Accounts.

Capital Expenditure

- 3.2 Capital expenditure represents monies spent on the purchase, construction or major refurbishment of assets. The Council's capital expenditure amounted to £5.6 million in 2020/21. The main areas of expenditure were as follows:

- waste vehicles for the implementation of the Devon Aligned Service – new recycling scheme (£1.6m)
- waste depot at Ivybridge (£1.2m)
- residential renovation grants including disabled facilities grants (£1.1m)
- recycling boxes and containers for the implementation of the Devon Aligned Service – new recycling scheme (£0.6m)
- affordable housing scheme (£0.3m) – this was funded by a Homes England Grant
- coastal defence scheme at Beesands (£0.3m)
- purchase of future IT (£0.18m)
- new play areas (£0.07m)
- Dartmouth Health and Wellbeing Hub (£0.03m) – this capital project will mainly happen from 2021/22 onwards

The capital programme is funded from capital receipts, capital grants, external contributions and earmarked reserves (see Note 32 of the Statement of Accounts for 2020-21)

4. Other items within the Final Accounts for 2020-21

Asset Valuations

- 4.1 In line with 2019/20, the outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of the value of the Council's property, plant, equipment and investment properties. There is an unprecedented set of circumstances on which to base a judgement. Asset Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS (Royal Institution of Chartered Surveyors) Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation.
- 4.2 At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid. *This is a national issue and the 'material valuation uncertainty' is a common theme in all Local Authority Accounts for both 2019/20 and 2020/21.*

Outturn for the 2020-21 year, COVID funding and Reserves

- 4.3 Due to the Covid-19 pandemic, the Council undertook more regular budget monitoring in 2020/21. The main variations from the budgeted amounts are detailed on Page 9 of the Narrative Statement in the Statement of Accounts. The analysis of variations (outturn at year end) show the amount of Covid-19 Government grant support the Council received in 2020/21 of £1.121m and the compensation from the Government income guarantee scheme for sales, fees and charges of £1.079m.
- 4.4 Unearmarked Reserves have increased by £112,000 in 2020/21 and total £2.122 million at 31 March 2021. Unearmarked Reserves haven't needed to be reduced by £200,000 as part of the Amended Budget for 2020/21, due to the amount of COVID funding the Council has received and the compensation which the Council has claimed from the Government sales, fees and charges income compensation scheme for 2020/21. Unearmarked Reserves therefore won't need to be replenished by £200,000 as part of the Medium Term Financial Strategy for 2022/23 onwards.
- 4.5 Earmarked Reserves have increased by £7.496 million in 2020/21 and total £21.494 million at 31 March 2021. This is mainly due to the new Earmarked Reserve set up in 2020/21 to hold the S31 Business Rates compensation grants (£6.28m) which will be released to the Collection Fund to smooth the impact of the Business Rates deficit over the next 3 years.

4.6 The increase in Earmarked Reserves of £6.28m (S31 Business Rates compensation grants) is due to a technical accounting adjustment where Councils were compensated for the business rates holidays that were announced by the Government for the retail, hospitality and leisure sectors in 2020/21. This temporary increase in reserves will reverse back out again in the 2021/22 Accounts, to fund the deficit on the Collection Fund. Therefore this is not money which is available for the Council to spend and it is important that this is not misinterpreted in the Accounts, as this is a national issue.

5. Proposed Way Forward

5.1 Members are advised that the accounts will be audited by our External Auditors, Grant Thornton during August and September 2021. Following the Audit, the Statement of Accounts will be brought back to the Audit Committee for approval in September.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		<p>The Statutory Powers that apply to this report are Section 151 Local Government Act 1972 Section 21 (12), Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015.</p> <p>The Accounts and Audit (England) Regulations 2015 requires all relevant bodies to prepare an Annual Governance Statement (AGS).</p> <p>The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 (SI 2020 No 4040)</p>
Financial implications to include reference to value for money		<p>The financial implications to this report are that an under spend of £112,000 was generated in 2020/2021. This means that the Council's actual spend for 2020/2021 was 1.2% less than the budget set for the year.</p> <p>As part of Grant Thornton's external audit of the Statement of Accounts for 2020/2021, they will assess the arrangements the Council has in place for:-</p> <ul style="list-style-type: none"> • Improving economy, efficiency and effectiveness • Financial Sustainability • Governance <p>The outcome of Grant Thornton's work in this area will be reported to Members at the Audit Committee meeting on 30th September 2021.</p>

Risk		<p>Public Accountability – the accounts have been drawn up in strict accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 which is recognised by statute as representing proper accounting practice.</p> <p>Resource Planning – the Council takes into account any significant issues when developing the Council’s Medium Term Financial Strategy.</p>
Supporting Corporate Strategy		<p>The Annual Statement of Accounts and Annual Governance Statement support all of the six Corporate Strategy Themes of Council, Homes, Enterprise, Communities, Environment and Wellbeing, as both encompass and summarise everything that the Council does in monetary terms.</p> <p>In particular for the ‘Council Theme’, the Accounts summarise how the Council is delivering efficient and effective services and demonstrating strong financial management and strategic financial planning. Our Guiding Principles of the Corporate Strategy are ‘to provide value for money and good customer service’. See comments above on the annual Value for Money audit opinion.</p>
Climate Change - Carbon / Biodiversity Impact		None directly arising from this report.
Comprehensive Impact Assessment Implications		
Equality and Diversity		None directly arising from this report.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

Supporting Information

Appendices:

Appendix A – Draft Statement of Accounts 2020/21

Appendix B – Draft Annual Governance Statement 2020/21

Background Papers:

None

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed/sign off	Yes
SLT Rep briefed/sign off	Yes
Relevant Heads of Practice sign off (draft)	Yes
Data protection issues considered	Yes
Accessibility checked	N/A