

Report to: **Audit Committee**
Date: **28 October 2021**
Title: **Annual Statement of Accounts 2020/2021**
Portfolio Area: **Finance and Assets – Cllr H Bastone**
Wards Affected: **All**
Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: **28 October 2021**

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Recommendations:

It is recommended that Members approve:

1. The wording of the Letter of Representation (Appendix A)
2. The audited Statement of Accounts for the financial year ended 31 March 2021 (Appendix B).
3. The Annual Governance Statement post audit (Appendix C)

1. Executive summary

- 1.1 This report presents a summary of net revenue and capital expenditure for Members' consideration and seeks approval of the audited Statement of Accounts for 2020/21. **Following approval of the accounts, the Chairman of the Audit Committee is required to sign and date the accounts.** Members are also required to consider the content of the Letter of Representation. **Following approval of its wording, the Chairman of the Audit Committee and the Section 151 Officer (Director of Strategic Finance) are required to sign the Letter of Representation.**

- 1.2 The 2020/21 Audit has identified one adjustment to the Draft South Hams Accounts which were considered by the Audit Committee in September and this relates to the order in which the valuation adjustment was applied in respect of the Ivybridge depot. Capital additions were factored into the 2020 valuation but were double counted as they were added on top of this valuation in the Fixed Asset Register and Draft Statement of Accounts. A reduction of £1.229m has been made to Property, Plant and Equipment and the corresponding entry of £1.229m has been made to the Revaluation Reserve (Debit PPE £1.229m and Credit Revaluation Reserve £1.229m). This is detailed further in the Audit Findings report from Grant Thornton, a separate item on this Audit Committee agenda.
- 1.3 Therefore the Audited Accounts for 2020-21 presented to Members of the Audit Committee today, are essentially the same set of Accounts which the Audit Committee considered at their meeting in September, except for the one change on Ivybridge Depot and a few disclosure changes.

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. The Accounts and Audit (Amendment) Regulations 2021 require that the audited accounts and opinion is published by 30 September 2021. As at 30 September, the District Council's external auditor had not concluded the audit due to a combination of factors, comprising the following:
- the impact of Covid-19 on both the complexity of the audit and pace at which it can be completed;
 - the increased assurance work that auditors are required to carry out nationally with respect to pensions and asset valuations.

In line with the Accounts and Audit Regulations 2015, the Council published a set of draft accounts and a notice of the delay in the audit prior to 30th September. The Council will publish a final set of audited accounts following this meeting.

Despite the delay, South Hams will be one of the first Devon authorities to have their 2020/21 Accounts signed off. A recent press release from the PSAA confirmed that just 9% of all Local Authorities had their audit completed by 30 September 2021. The press release can be found at the following link:

<https://www.psa.co.uk/2021/10/news-release-2020-21-audited-accounts-psaa/>

- 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 (Appendix B) contains the Council's final accounts in full, including details of the Comprehensive Income and Expenditure Statement (CIES), 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 SOA. 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 C reflects the reporting requirements introduced by CIPFA/SOLACE's 2016 Delivering Good Governance in Local Government Framework. The 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.

The grey shading in Appendix C shows the changes to the Annual Governance Statement (AGS), following the audit of the Accounts and the AGS.

- 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.** The main variations from budget are shown on Page 9 of the Narrative Statement in the Statement of Accounts. The saving will go into the Council's Unearmarked Reserves which now stand at £2.12 million.

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)

Audit of Accounts

- 3.3 The Draft Statement of Accounts was considered by the Audit Committee on 2 September 2021. These accounts are required to be audited by the Council's external auditors Grant Thornton, who give their opinion on the draft accounts. The annual audit commenced at the beginning of August 2021 and was completed in the middle of October 2021. It was undertaken remotely again this year due to the impact of the pandemic. This has resulted in some audit challenges including additional procedures to verify the completeness and accuracy of information provided remotely.
- 3.4 In addition to the extended time that has been placed on the audit this year due to remote working, both increased regulatory expectations and focus have meant that officers have spent significant amounts of time completing the 2020/21 audit. This falls very heavily on the finance team, who have spent in the region of 1,100 hours on both the South Hams and West Devon Audits this year, at a total cost of just under £27,000 (**Around 660 hours of this time was spent on the South Hams Audit, costing approximately £16,000**). There will be various other officers who have spent time on the 2020/21 audit answering queries and providing evidence, a big draw on the Council's resources. This is in addition to the time the Finance team have spent preparing the 2020/21 Accounts between March and July 2021.
- 3.5 The 2020/21 Audit has only identified one adjustment to the draft South Hams Accounts and this relates to the order in which the valuation adjustment was applied in respect of the Ivybridge depot. This is detailed further in 1.2 and 1.3 and the Audit Findings report from Grant Thornton, a separate item on this Audit Committee agenda.

In essence, the audited accounts are the same set of accounts that were considered by the Audit Committee in September. There is only one adjustment to the draft accounts as detailed above and a few disclosure changes.

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

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

- 4.1 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.
- 4.2 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 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 as part of the Medium Term Financial Strategy for 2022/23 onwards.
- 4.3 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.
- 4.4 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 The Council Constitution delegates approval of the Accounts to the Audit Committee. The Council is also required to sign a Letter of Representation every year, which gives representations to the Council's external auditors. The Chairman of the Audit Committee and the Section 151 Officer (Director of Strategic Finance) are required to sign the Letter of Representation. The letter is attached at Appendix A. It is recommended that Members approve the wording of the Letter of Representation.

6. Implications

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 stated in Grant Thornton's 'Auditor's Annual Report', Grant Thornton have identified no significant weaknesses in the Council's arrangements for:-</p> <ul style="list-style-type: none"> • Improving economy, efficiency and effectiveness • Governance • Financial sustainability
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 Delivery Plans within the Council's strategic vision, 'Better Lives for All'.</p>
Climate Change - Carbon / Biodiversity Impact		<p>None directly arising from this report.</p>
Comprehensive Impact Assessment Implications		
Equality and		<p>None directly arising from this report.</p>

Diversity		
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

Appendix A – Letter of Representation

Appendix B – Audited Statement of Accounts 2020/21

Appendix C – Annual Governance Statement (post –audit) 2020/21

Background Papers:

None.

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off (draft)	Yes
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	N/A