

# **Title of report: 2020/21 statement of accounts**

**Meeting: Audit and governance committee**

**Meeting date: Wednesday 24 November 2021**

**Report by: Head of corporate finance**

## **Classification**

Open

## **Decision type**

This is not an executive decision

## **Wards affected**

(All Wards)

## **Purpose**

To approve the 2020/21 statement of accounts and associated letter of representation to Grant Thornton, the external auditors.

Changes to the statement of accounts following the external audit are listed in the audit findings report. The letter of representation attached at appendix B confirms that the group and parent council financial statements are free of material misstatements, including omissions.

## **Recommendation(s)**

**That:**

- a) **the 2020/21 statement of accounts (at appendix A) be approved; and**
- b) **the letter of representation (at appendix B) be signed by the chairman of the committee and the chief finance officer.**

## **Alternative options**

1. It is an annual statutory requirement to approve the accounts and sign the letter of representation.

## Key considerations

2. The Local Audit and Accountability Act 2014 requires the council to produce a statement of accounts in accordance with the Accounts and Audit Regulations 2015. The process requires the accounts to be approved by the audit and governance committee by 31 July. This deadline was extended via the Accounts and Audit (Amendment) Regulations 2021 to 30 September.
3. The statement of accounts (appendix A) have been drawn up in accordance with the Accounts and Audit Regulations 2015, and the Chartered Institute of Public Financial Accountancy (CIPFA) code of practice on local authority accounting in the United Kingdom (the code). The code consolidates the statutory requirements and accounting standards that the council is legally required to follow.
4. The most significant matters in the 2020/21 accounts and a summary of the council's financial position are set out in the introductory narrative report within the accounts. Key points include the following:
  - a. The UK went into lockdown on 23 March 2020 and further lockdowns in November 2020 and January 2021 followed. The recovery phase is now underway and council plans are continuing to evolve.
  - b. The council delivered a balanced outturn due to £9.9m of direct Covid-19 additional grant being provided by central government.
  - c. Adults & Communities Directorate delivered a net underspend of £2.0m due to certain areas of client expenditure reducing due to the impact of Covid-19.
  - d. The Childrens and Families Directorate overspend by £3.7m reflects the cost pressure in placements costs. During April 2021, the council received a court judgement identifying failings in relation to children in our care. Following this the Department for Education issued a non-statutory Improvement Notice to address serious concerns in respect of the council's children's services. An improvement board has been established and will ensure the improvement plan delivers improvements to children's services.
  - e. £0.8m overspend in Economy & Place Directorate reflects the reduction in income relating to Covid-19, this includes a significant loss in car parking income during the year.
  - f. The central, treasury management, capital financing and reserves underspend by £2.0m reflecting the delayed need to borrow from a combination of high cash balances and slippage in capital investment.

### 2020/21 statement of accounts

5. The financial statements are prepared in accordance with international financial reporting standards. These comprise: a narrative report, the movement in reserves statement, a comprehensive income and expenditure account, a balance sheet, a cash flow statement and supporting explanatory notes. The S151 officer is satisfied that the statement of accounts presents a true and fair view of the financial position of Herefordshire Council and its group as at 31 March 2021 and its income and expenditure for the year ended 31 March 2021.

### Movement in reserves statement

6. The movement in reserves statement shows the movements in reserves during the year, analysed into the different funds held by the council and classified as either “usable” reserves, which can be used to fund future expenditure, or “unusable” reserves which are maintained to meet specific statutory responsibilities.

### Usable reserves

7. Total usable reserves as at 31 March 2021 were £173.7m, an overall increase of £32.2m from 31 March 2020. A summary is provided in the table below. The main reason for the overall increase is due to £23.8m of Covid 19 funds being held in reserve as at the financial year end that are expected to be spent in 2021/22. Earmarked reserves are reviewed annually by Cabinet, the last review was on 30 September 2021.

	General Fund £m	Earmarked reserves £m	Capital receipts reserve £m	Capital Grants Unapplied Reserve £m	Total Usable Reserves £m
Balance as at 31 March 2021	9.1	105.6	44.6	14.4	173.7
Balance as at 31 March 2020	9.1	79.5	44.2	8.7	141.5
Overall increase / (decrease) in 2020/21	-	26.1	0.4	5.7	32.2

### Unusable reserves

8. Unusable reserves are not available to be spent. They are maintained to meet specific statutory responsibilities and include the pension reserve, revaluation reserve and capital adjustment account.
9. The unusable reserves totalled £122.4m at 31 March 2021 compared to £134.4m at 31 March 2020. The main movement being an increase in the pension deficit following a £13.0m re-measurement of the net defined liability by the external actuary, Mercer Limited.

### Comprehensive income and expenditure statement (CIES)

10. This statement shows the net cost of providing services when calculated in line with generally accepted accounting practice. The Expenditure and Funding Analysis, note 2 to the accounts, compares the CIES with the outturn reported to Cabinet, showing the adjustments made between the management and statutory reports.

### Balance Sheet

11. The balance sheet summarises the council’s assets, liabilities and reserve position at the end of the financial year. Net assets are matched by reserves which may be “usable” or “unusable”, see above.
12. At 31 March 2021 long term assets totalled £730.8m, compared to £705.1m at 31 March 2020. Long term assets include the current valuation of property, plant and equipment the council uses in the provision of its services and the inclusion of capital spend during the year.

13. Current assets totalled £119.3m at 31 March 2021, compared to £80.8m at 31 March 2020. The main increase representing an increase in short term investments held at the year-end, representing the receipt of Covid 19 funding carried forward into 2021/22.
14. Current liabilities totalled £85.3m at 31 March 2021, compared to £59.3m at 31 March 2020 with the increase mainly due to increased short term creditors which included £14.6m of funds held under agency terms for third parties.
15. Long term liabilities totalled £468.7m at 31 March 2021 compared to £450.7m at 31 March 2020. This is mainly due to an increase in the pension's liability as provided by the external actuary, Mercer Limited.

### **Impact of Covid-19 on asset valuations**

16. The Covid-19 pandemic created a large uncertainty in financial markets and the market for other assets. The Royal Institute of Chartered Surveyors subsequently issued guidance identifying that all valuations will have a material valuation uncertainty as at 31 March 2020. As at 31 March 2021 this material valuation uncertainty was contained to retail and specific trading related assets/sectors such as car parks, where we continue to be faced with an unprecedented set of circumstances caused by Covid-19 and an absence of relevant / sufficient market evidence on which to base critical judgements. This does not mean that the valuation cannot be relied upon. Rather to ensure transparency of the fact that less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is to serve as a precaution and does not invalidate the valuation. Given the unknown future impact of COVID-19 on many sectors and the difficulty in differentiating between short term impacts and longer term structural market changes, valuations will be kept under frequent review.

### **Cash flow statement**

17. The cashflow statement shows how the council generates and uses cash and cash equivalents, and explains the reasons for changes in cash balances during the year. During 2020/21 there was a net increase in cash and cash equivalents of £6.7m.

### **Group accounts**

18. The group accounts consolidate the performance of the council with its subsidiary Hoople Limited in 2020/21. The impact of the consolidation increases the council's reserves position by £2.7m (£2.4m in 2019/20) which includes a minority interest reserve balance of £0.4m (£0.4m in 2019/20).

### **The collection fund**

19. The collection fund demonstrates how income raised from local taxpayers has been re-distributed to the council and to other precepting authorities for the provision of services. Collection fund income from council taxpayers and business ratepayers totalled £156.9m in 2020/21 compared to £178.1m in 2019/20 with the decrease representing increased business rate reliefs related to Covid-19.
20. Expenditure includes precept payments to West Mercia Police (£15.7m), Hereford and Worcester Fire Authority (£6.5m) and parishes (£4.9m). These are paid from income collected from taxpayers on their behalf.

## **Annual Governance Statement**

21. The approved 2020/21 annual governance statement will be added to the statement of accounts attached at appendix A.

## **Letter of representation**

22. Attached at appendix B is the council's letter of representation confirming that, to the best of the council's knowledge and belief, the financial statements, at appendix A, give a true and fair view in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

## **Community impact**

23. Publication of the statement of accounts in accordance with statutory requirements helps the council to achieve its code of corporate governance commitment to behave with integrity, demonstrate strong commitment to ethical values, and respect the rule of law. The council is accountable for how it uses the resources under its stewardship, including accountability for outputs and outcomes achieved. In addition the council has an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies.

## **Environmental impact**

24. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
25. Whilst this is a decision on approving the 2019/20 statement of accounts and associated letter of representation to the external auditor of those accounts so will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the council's Environmental Policy. For example, the external audit has been completed remotely for the first time, reducing travel impact and paper usage.

## **Equality duty**

26. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:
27. A public authority must, in the exercise of its functions, have due regard to the need to –
  - a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
  - b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
  - c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

28. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a statement of factual information, we do not believe that it will have an impact on our equality duty.

## **Resource implications**

29. Contained in the report.

## **Legal implications**

30. Regulation 9 of the Accounts and Audit Regulations 2015 require the following:
31. The S151 officer must sign and date the statement of accounts, and confirm that he is satisfied that it presents a true and fair view of the financial position of the council at the end of the financial year to which it relates together with the income and expenditure for that financial year. This was completed on 30 July 2021.
32. The period of the exercise of public rights for the inspection of the accounts commenced on 2 August. The Accounts and Audit (Amendment) Regulations 2021 delay the deadline for relevant authorities to commence the period for the exercise of public rights, so that the relevant period must commence on or before the first working day of August in the financial year immediately following the financial year to which the accounts relate. These amendments apply only to the commencement of the relevant period for accounts relating to a financial year beginning in 2020 or 2021.
33. Following the conclusion of the period for inspection, the committee must approve the statement of accounts by a resolution and ensure that the statement of accounts is signed and dated by the person presiding at the committee. In order for the committee to do so the S151 officer has re-confirmed that he is satisfied that the statement of accounts presents a true and fair view.
34. The Accounts and Audit (Amendment) Regulations 2021 for local authorities the publication date for audited accounts moved from 31 July 2021 to 30 September 2021.

## **Risk management**

35. The external auditors have issued an unqualified opinion on the statement of accounts, see external audit findings report elsewhere on today's agenda.
36. The council is required to make arrangements for the proper administration of its financial affairs and to secure that the chief financial officer has the responsibility for the administration of those affairs. The council is also required to secure economic, efficient and effective use of resources which Grant Thornton provide a value for money opinion, this report will follow at a later date.

## **Consultees**

37. The statement of accounts were made available for public inspection between 2 August and 13 September 2021. No representations or objections were received.

## **Appendices**

Appendix A Statement of accounts 2020/21

Appendix B Letter of representation for 2020/21

## **Background papers**

None identified