

AUDIT COMMITTEE
27 July 2021

Statement of Accounts 2020/21

Leader	Cllr Bob Deed
Cabinet Member	Cllr Andrew Moore
Responsible Officer	Andrew Jarrett, Deputy Chief Executive (S151)
Reason for Report:	To present the <u>draft</u> version of the annual Statement of Accounts to Members published on the website and presented for external audit in May.
RECOMMENDATION:	That the draft Statement of Accounts be reviewed to conclude whether they reflect a true and fair view of the financial position of the Council as at 31 March 2021.
Relationship to Corporate Plan:	The financial resources of the Council impact directly on its ability to deliver the Corporate Plan. The Statement of Accounts indicates how the Council's resources have been used to support the delivery of budgetary decisions.
Financial Implications:	Good financial management and administration underpins the entire document.
Legal Implications:	It is a statutory requirement to follow the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) when producing the Statement of Accounts.
Risk Assessment:	The Section 151 Officer is responsible for the administration of the financial affairs of the Council. Adhering to the Code mitigates the risk of receiving a qualified set of accounts. The Finance Team has also reviewed its overall calculations/workings against the CIPFA published Disclosure Checklist for 2020/21 and entered into detailed discussions with the appointed Audit Manager prior to and during the completion of the accounts.
Equalities Impact Assessment:	No equality issues identified with this report.
Impact on Climate Change:	No impacts identified for this report.

1.0 Introduction

- 1.1 The Statement of Accounts for 2020/21 have been produced in full compliance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and all other relevant accounting legislation. There were no material changes for 2020/21.

2.0 The Statement of Accounts

- 2.1 The Unaudited Statement of Accounts 2020/21 were signed off by the Council's S151 Officer in May 2021 – within the statutory deadline and before the start of the external audit review. The draft accounts have been available on-line since the 28 May 2021.
- 2.2 The main highlights of the Statement of Accounts are to be found in the Narrative Report to the accounts beginning on page 5. 2020/21 has been a very challenging year due to the implications of Covid-19, both in terms of operational service delivery and the associated financial consequences. However, with only a small overspend whilst increasing some of our reserves, it should be considered to have been a successful year.
- 2.3 The detailed management accounts were included in the outturn report presented to the Cabinet on the 6 July 2021. This report provides a summary of the year-end position for the General Fund, the Housing Revenue Account, and the Capital Programme. It provides commentary on any variances against budget in excess of £20k. It also outlines how Covid-19 has impacted on the Council's finances.
- 2.4 The report also indicates the financial pressure that the Council faces due to Central Government's continuing austerity programme and the ongoing uncertainty surrounding our main funding sources. As a direct result this Council has focused on reducing expenditure and increasing income in a number of services and continues to maintain a "prudent" level of balances. It is also beginning to explore and accept some more commercial opportunities to either increase revenue or cut cost in order to protect frontline service provision.
- 2.5 In order to provide a summary financial position of how the Council ended 2020/21 a summary of the Useable Reserves is detailed below.

Balances held as at 31 March 2021

Useable Reserves	B/fwd 31/03/20 £k	In Year Movement (Surplus)/Deficit £k	C/fwd 31/03/21 £k
General Fund Balance	(2,252)	65	(2,187)
General Fund Earmarked Reserves	(13,688)	(6,559)	(20,247)
Housing Revenue Account Balance	(2,000)	0	(2,000)
HRA Earmarked Reserves	(18,310)	(2,464)	(20,774)
Capital Receipts Reserve	(5,157)	(340)	(5,498)
Capital Grants Unapplied	(1,646)	(978)	(2,625)

Total Useable Reserves	(43,053)	(10,277)	(53,329)
-------------------------------	-----------------	-----------------	-----------------

- 2.6 The main reason for the increase is the holding of S31 Grant received from Government to smooth the financial impact of the Collection Fund over the 3-year period in which the deficit will unwind.
- 2.7 As can be seen from the above balances, the Council remains in a strong position to deal with the funding challenges it faces. A strong culture of financial awareness is now embedded throughout the Council. This is enhanced with regular budget monitoring reports produced for Leadership Team meetings, meetings of the Cabinet and the Policy Development Groups.
- 2.8 This Council continues to take proactive steps to strategically plan for further reductions in Central Government financial support. The Cabinet have ongoing dialogue with Leadership Team, who in turn have discussions with Corporate Managers and service managers to discuss funding reduction scenarios in order to balance our ongoing expenditure needs associated with the current Corporate Plan.

3.0 Appraisal of Going Concern Concept at 31 March 2021

- 3.1 As with all principal local authorities, the Council is required to compile its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting for 2020/21 (hereafter referred to as the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code, the Council's Statement of Accounts is prepared assuming that the Council will continue to operate for the foreseeable future and that it is able to do so within the current and anticipated resources available.
- 3.2 If an authority were in financial difficulty, as has been the case for several authorities over the last 12 months, alternative arrangements have been made by Government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.
- 3.3 A net overspend for 2020/21 of £0.065m was reported to Cabinet in July 2021. However, Services requested a number of carry forward requests to assist with their commitments in 2021/22 and beyond.
- 3.4 Taking the carry forward requests into consideration, at 31 March the financial statements show a General Fund reserve standing at £2.186m, which equates to circa 20% of our net General Fund budget for 2020/21. These resources should be viewed against my estimated requirement to retain a minimum of £2.000m to meet unforeseen financial risks. General Reserves therefore remain almost 10% higher than required for this purpose. In addition there are also General Fund Earmarked Reserves amounting to £20.247m. (£13.688m 31 March 2020). This marked increase is largely to smooth the impact of the collection fund deficit over the 3-year period outlined by the Government.

- 3.5 The Council approved a balanced budget for 2021/22 that maintains the services provided without utilising any of the General Fund Reserves for on-going expenditure. The budget included meeting known inflationary pressures and unavoidable service cost pressures, all within the referendum limits for Council Tax increases. This shows steady progress in reducing the overall funding shortfall.
- 3.6 The Medium Term Financial Plan shows that even if no action were taken to balance the 2022/23 General Fund budget there would almost be sufficient General Reserves to balance that year's budget with only a minor realignment of Earmarked Reserves required. Although much of this money is earmarked for certain projects the Authority could, if required, change its priorities to ensure the long term viability of the organisation.
- 3.7 Clearly the Council will take action to identify further income generation or cost savings proposals linked to our Corporate Plan to balance the remaining shortfall and therefore is confident that it will remain a going concern at least until 2024/25. Progress on these will be brought to Cabinet for approval at the appropriate times.
- 3.8 The Council has reduced its external debt to £35.234m (£37.104m in 2019/20). The external loans have mixed maturity dates to ensure a balanced portfolio, with a further repayment of £1.870m planned to be repaid in 2021/22.
- 3.9 However, on the other hand the Council has increased the overall lending to 3 Rivers Developments Ltd by a net £1.102m to £10.163m in total. This consisted of a further £1.318m of loans against developments, and £0.424m or working capital. The company repaid £0.640m of loans and £0.496m in interest and contributed £0.125m to cover their draw on Council resources (officer time and office accommodation) during the year. A review of the impairment provision was undertaken which concluded that no further, or indeed reduction, in impairment was required. The latest Business Plan was approved by Cabinet in February 2021, which indicates the company expect to breakeven in 2023.
- 3.10 The balance sheet at 31 March shows that we have net current assets of £23.787m and the Council can meet its cash outgoings over the next twelve months. The Current Ratio¹ is favourable at 2.34. Short term liabilities at 31 March amounted to £17.681m whereas our short-term investments of £17.500m and cash equivalents of £10.860m exceed our liabilities.
- 3.11 The authority's net assets amounted to £123.924m (£130.460m in 2019/20). This includes the pension scheme liability of £75.401m (£58.765m in 2019/20). The year-on-year increase reflects the assumed increase in Salary and Pension costs. Although there were strong returns achieved on the investments, this is outweighed by the increased liability over the longer term. Excluding the pension liability, the current net worth is £199.325m (£189.225m in 2019/20).

¹ (current assets / current liabilities) – Greater than 1 is the target.

- 3.12 Covid19 – the impact of this global pandemic has been significant on the Councils costs and income streams. We have had to incur associated short term costs associated with enabling staff to work remotely, and directly supporting local businesses and communities. Our biggest financial issue has been the severe reductions in fees, from leisure and car parking in particular. However, the emergency payments from Government have mitigated these costs and the income compensation scheme has helped offset the lost income.
- 3.13 There is likely to be a degree of ongoing financial impact due to national restrictions and likely ongoing changes in working arrangements. A sum of £300k has been set aside to assist with the mitigation if required. The largest issue will be the unwinding of the collection fund deficits across the next 3 financial years. S31 Grant has been provided to smooth this impact, but whether this is sufficient is yet to be seen. The Council holds its own smoothing reserve for Business Rates should it prove necessary.
- 3.14 Regular financial monitoring will be provided to the Council to monitor the ongoing impact of Covid-19 and any funding we receive to mitigate some of the predicted losses. The fact that we still hold a General Fund Balance of £2.187m and Earmarked Reserves of £20.247m shows that the Council has sufficient balances to “weather” the current financial storm – but will clearly need to reflect on the financial challenges experienced in 2020/21 and how this may impact us in future years.
- 3.15 Major uncertainties around the future of the Local Government remain until such time as the outcome of the Fair Funding Review and the review of the Business Rates Retention scheme are known. Adding to this is the Government’s commitment to continuing its current austerity programme which is likely to extend for the foreseeable future to offset the significant financial implication of Covid-19 and the possible fall out from the changes in legislation and the economy following Brexit. These all place complex and inter-related difficulties in estimating the financial resources that will be available to the Council over the next 3 – 5 years.
- 3.16 Due to these uncertainties the Council has worked hard over the past few years to; reduce operational costs; increase income (including commercial acquisitions); explored more shared arrangements and increased its level of available reserves to mitigate. This therefore provides a financial “buffer” against some of these circumstances, which by their very nature are hard to predict and quantify.
- 3.17 We have already started our process of budget setting for 2022/23 in order to be able to explore all the options provided by Corporate Managers and the Leadership Team to deliver savings and maximise income, at the same time as reducing costs wherever possible.
- 3.18 Despite these challenges, there are no future obligations or circumstances that we can foresee that could cause the Authority to change its view of long

term stability and of the going concern of the Authority. It is therefore concluded that Mid Devon District Council is a going concern at 31 March 2021.

4.0 The Council's Governance Arrangements

4.1 The Annual Governance Statement has been reviewed taking into account external and internal audit reviews and feedback from the Senior Leadership Team. It includes a review of the effectiveness of the Council's governance arrangements and concludes that the existing arrangements remain fit for purposes and help provide reasonable assurance of their effectiveness.

5.0 The Audit

5.1 Our external auditors, Grant Thornton, began their audit on 21 June 2021. Although the bulk of the audit will be complete within the timeframe up to the date of this committee, their final audit opinion will not be available until the September committee as the review of the Devon Pension Fund will not be complete. Grant Thornton will be able to give a verbal update on progress and any findings to date at the committee.

5.2 In addition Grant Thornton will be reviewing our arrangements to secure economy, efficiency and effectiveness in our use of resources. This assessment has changed this year to encompass:

- more timely reporting of significant issues to local bodies;
- more meaningful and more accessible annual reporting on VFM arrangements issues in key areas;
- a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness; and
- clearer recommendations to help local bodies improve their arrangements.

5.3 Rather than form an opinion, the auditor will provide an annual commentary on arrangements. The commentary will enable auditors to explain the work they have undertaken during the year, and to highlight any significant weaknesses that they have identified and brought to the body's attention, along with their recommendations for improvement.

6.0 Conclusion

6.1 Members are asked to review the Statement of Accounts to conclude whether they reflect a true and fair view of the financial position of the Council as at 31 March 2021.

Contact for more information: Andrew Jarrett
01884 234242
ajarrett@middevon.gov.uk

Background Papers: Audited Statement of Accounts 2020/21

Circulation of the Report: Cllr Andrew Moore