AUDIT COMMITTEE
2 August 2022

DRAFT Statement of Accounts 2021/22

Leader	Cllr Bob Deed
Cabinet Member	Cllr Andrew Moore, Cabinet Member for Finance
Responsible Officer	Andrew Jarrett, Deputy Chief Executive (S151)
Reason for Report:	To present the draft version of the annual Statement of Accounts to Members published on the website and presented for external audit.
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 2022.**
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 2021/22.
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 2021/22 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 2021/22 in the Accounting Standards.

2.0 The Statement of Accounts

2.1 The Unaudited Statement of Accounts 2021/22 were signed off by the Council's S151 Officer in May 2022 – well within the currently relaxed statutory deadline and before the start of the external audit review due to begin in September. The draft accounts have been available on-line since the 01 June 2022. The period of public inspection ran between 6 June to 15 July 2022 and no requests were made to view the accounts or objections have been received.

2.2 The main highlights of the Statement of Accounts are to be found in the Narrative Report to the accounts beginning on page 12. 2021/22 continued to be a very challenging year due to the implications of Covid-19, both in terms of operational service delivery and the associated financial consequences. However, a small under spend was achieved resulting in a small increase in reserves.

2.3 The detailed management accounts were included in the outturn report presented to the Cabinet on the 14 June 2022. This report provides a summary of the year-end position for the General Fund (£29k underspent), the Housing Revenue Account (£67k underspent), and the Capital Programme (£30,763k carried forward).

2.4 Key Differences from the prior year

2.4.1 Movement in Reserves Statement (page 54)

In order to provide a summary financial position of how the Council ended 2021/22 a summary of the Useable Reserves is detailed below.

Balances held as at 31 March 2022:

Useable Reserves	B/fwd 31/03/21 £k	In Year Movement (Surplus)/Deficit £k	C/fwd 31/03/22 £k
General Fund Balance	**(2,186)**	(29)	**(2,215)**
General Fund Earmarked Reserves	**(20,247)**	(408)	**(20,655)**
Housing Revenue Account Balance	**(2,000)**	0	**(2,000)**
HRA Earmarked Reserves	**(20,774)**	(1,876)	**(22,650)**
Capital Receipts Reserve	**(5,498)**	(1,031)	**(6,529)**
Capital Grants Unapplied	**(2,625)**	(72)	**(2,697)**
Total Useable Reserves	**(53,329)**	**(3,416)**	**(56,745)**

The main reason for the increase in the HRA Earmarked Reserves is a result of planned contributions to the Housing Maintenance Fund and the Premium Deficit on the Self Financing Loan. The increase in the Capital Receipts Reserve reflects the sale of Council Houses that will be applied to future planned Housing Developments. As can be seen from the above balances, the Council remains in a strong position to deal with the funding challenges it faces. Notes 6 provides further breakdown of the Earmarked Reserves and Note 42 described what each category of reserve is.

2.4.2 Comprehensive Income and Expenditure Statement (Page 56)

The Outturn Report provides commentary on any Service variances against budget in excess of £20k. It also outlines how Covid-19 has again impacted on the Council's finances. In summary, the notable variances include:

- significantly reduced income in some areas, particular car parks, leisure, rental income and Business Rates;
- lower levels of offsetting Government Grant support;
- higher temporary staffing costs to cover both additional requirements and absences;
- significant quantities and value of Government grants awarded to local businesses and residents.

In addition, Other Operating Expenditure and Financing and Investment expenditure is lower due to gains on the disposal of non-current assets. Further detail is shown in Notes 8 and 9. The other notable differences from 2020/21 is the revaluation of the Pension liability arising from a lower return on investments and changes in assumptions (see page 84), and the revaluation Property Plant and Equipment (explained in Note 22).

2.4.3 Balance Sheet (page 57)

The first notable difference is the £9,500k increase in the Short-Term Investments held at the year-end resulting from higher cash balances being held. Note 33 shows where these investments were placed and the interest rate applicable. The movement in Other Long-Term Liabilities and Unusable Reserves is again due to the revaluation of the Pension liability (see Note 47).

2.4.4 Cash Flow Statement (page 58)

Note 50 explains the adjustments to net surplus or deficit on the provision of services for non-cash movement. The main year-on-year movement is in Debtors. Note 52 shows the variance movements in the Covid-19 Grants. The final notable movement is again the increase in Short-Term Investments.

2.4.5 Housing Revenue Account (page 130)

The only notable movement is once again due to the Revaluation of Council Dwellings primarily attributable to the increase in house prices during the year.

2.4.6 Collection Fund (page 143)

The Council Tax collected increased by £4,437k due to both an increase in the Band D charge and a higher than budgeted collection rate. This results in a surplus of £303k for MDDC.

The Business Rates receivable also increased, by £4,088k mainly due to fewer reliefs awarded by the Government is respect of Covid-19. This has halved the collection deficit with MDDC's share being £1,739k. This is covered by the Business Rates Smoothing Reserve in line with the Governments instruction to spread the deficit over 3 financial years.

2.4.7 Group Accounts (page 148)

The accounts of the Council's wholly owned company, 3 Rivers Developments Ltd, are incorporated into the Council's Accounts to provide the full financial picture of the Council. Transactions between MDDC and 3 Rivers Developments Ltd are stripped out to avoid double counting.

The net impact is a reduction in the total reserves of £2,416k. This reflects the incorporation of the company's losses to date, interest due on their work in progress and adding back to current impairment.

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 2021/22 (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 recent years, 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 <u>2021/23 Financial Position</u>

3.3.1 A net under spend for 2021/22 of £29k was reported to Cabinet in June. However, Services requested a number of carry forward requests to assist with their commitments in 2022/23 and beyond.

3.3.2 Taking the carry forward requests into consideration, at 31 March the financial statements show a General Fund reserve standing at £2,215k, which equates to circa 20% of our net General Fund budget for 2022/23. These resources should be viewed against my estimated requirement to retain a minimum of £2,000k to meet unforeseen financial risks. General Reserves therefore remain over 10% higher than required for this purpose. In addition there are also General Fund Earmarked Reserves amounting to £20,655k. (£20,247k 31 March 2021). This increase is largely to offset the impact of the current cost of living pressures.

3.3.3 The Council approved a balanced budget for 2022/23 that maintains the services provided without utilising any of the General Fund Reserves for on-going expenditure. The budget included meeting inflationary pressures (at that time) and unavoidable service cost pressures, all within the referendum limits for Council Tax increases. This shows steady progress in reducing the overall funding shortfall.

3.3.4 The Council has external debt of £35.234m across a mix of four external loans that have a variety of maturity dates to ensure a balanced portfolio, with a further repayment of £43k planned to be repaid in March 2023.

3.3.5 However, on the other hand the Council has increased the overall lending to 3 Rivers Developments Ltd by a net £3,372k to £13,536m in total. This consisted of a further £4,581k of loans against developments and repayments of £1,209k. During the year £558k interest was paid to the Authority in respect of these loans. 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 November 2021, which indicates the company expect to breakeven in 2023.

3.3.6 The Balance Sheet at 31 March shows that we have net current assets of £29,838k (£22,929k in 2020/21) and the Council can meet its cash outgoings over the next twelve months. The Current Ratio[1] is favourable at 2.45. Short term liabilities at 31 March amounted to £20,625k whereas our short–term investments of £27,000k and cash equivalents of £9,831k exceed our liabilities.

3.3.7 The authority's net assets amounted to £138,426k (£122,176k in 2020/21). This includes the net pension scheme liability of £69,572k (£75,401k in 2020/21). Excluding the pension liability, the current net worth is £207,998k (£197,577k in 2020/21).

3.4 <u>Covid-19</u>

3.4.1 The Covid-19 Pandemic continued to have a significant impact on the Councils finances. During the year, the country has been in various degrees of restrictions – ranging from full lock down and cautious social distancing measures. This has affected our staffing levels with additional short term agency support often required to continue to deliver services such as waste collection. Income generated in services such as Leisure and Car Parking was also reduced. Also, the Council has continued to be the vehicle chosen by Government to distribute various grants to local businesses and residents affected by the pandemic. This has significantly diverted team's attention and required additional staffing to cope with the additional requirements placed upon the Council.

3.4.2 Despite these significant impacts, the financial support from Government has been markedly lower in 2021/22 than in the first year of the pandemic. Unring-fenced grant support reduced to £408k (£1,184k in 2020/21) and income compensation was only available during the first quarter of the year. Therefore the amount of compensation reduced from £2,019k in 2020/21 to just £363k in 2021/22. There has however been a number of one-off grants to mitigate the impact on staffing costs arising from the additional requirements such as the grant distribution. These requirements, and the associated financial support, looks set to continue in 2022/23.

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

3.4.3 However, the easing of restrictions from the 1 April 2022 hopefully signals the phasing out of these issues and encourages a return to “normal” pre-pandemic activity levels. The economic effects of Covid-19 will continue into 2022/23 and probably beyond. In the medium term, external income levels will need to return to pre-pandemic levels, as without this, it will be necessary for the service budgets within the MTFP to be adjusted in future years.

3.5 Medium Term Financial Plan

3.5.1 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.

3.5.2 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 has enabled it to protect frontline service provision and maintain a “prudent” level of balances. The reserves held provides a financial “buffer” against some of these circumstances and “weather” the current cost of living crisis, which by their very nature are hard to predict and quantify. However, the Council will clearly need to focus on the future financial challenges.

3.5.3 The Medium Term Financial Plan indicates the future financial pressure that the Council faces due to Central Government’s continuing austerity programme and the ongoing uncertainty surrounding our main funding sources. The report shows that even if no action were taken to balance the 2023/24 General Fund budget there would be sufficient General Reserves to balance that year’s budget. This would require some realignment of Earmarked Reserves, but although this money is earmarked for certain projects the Authority could, if required, change its priorities to ensure the long term viability of the organisation.

3.5.4 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.

3.5.5 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.

3.5.6 The Council has already started its process of budget setting for 2023/24 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.

3.5.7 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 2022.

4.0 The Council's Governance Arrangements

4.1 The Annual Governance Statement was reviewed by the Committee at its meeting on 7 June 2022. The report was written by Devon Audit Partnership 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, will undertake their audit in September. Therefore, their final audit opinion will not be available until the November Committee. This will include the annual commentary on our arrangements to secure economy, efficiency and effectiveness in our use of resources. Grant Thornton will be able to give a verbal update on current progress and any findings from the Interim Audit to this committee.

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 2022.

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

Background Papers: **Audited Statement of Accounts 2021/22**

Circulation of the Report: Cllr Andrew Moore