

 COTSWOLD DISTRICT COUNCIL	<b>COTSWOLD DISTRICT COUNCIL</b>
Name and date of Committee	<b>AUDIT COMMITTEE – 22 JULY 2021</b>
Report Number	<b>AGENDA ITEM 12</b>
Subject	<b>DRAFT STATEMENT OF ACCOUNTS 2020/21</b>
Wards affected	N/A
Accountable member	Cllr Mike Evemy, Deputy Leader and Cabinet Member for Finance Email: <a href="mailto:mike.evemy@cotswold.gov.uk">mike.evemy@cotswold.gov.uk</a>
Accountable officer	Jenny Poole, Deputy Chief Executive and Chief Finance Officer Tel: 01285 623313 Email: <a href="mailto:jenny.poole@cotswold.gov.uk">jenny.poole@cotswold.gov.uk</a>
Summary/Purpose	This report complements the Council's Statement of Accounts for the period 1 April 2020 to 31 March 2021 and presents to the Committee the draft Statement of Accounts for 2020/21 to consider.
Annexes	<b>Annex A – Statement of Accounts 2020/21 (unaudited)</b>
Recommendation/s	That the Committee notes the:  (a) The draft unaudited Statement of Accounts 2020/21 (as attached at Annex A)  (b) The key balances and messages from the Statement of Accounts 2020/21.
Corporate priorities	Priority - Ensure that all services delivered by the council are delivered to the highest standard  Principle - Value for money - we will use the Council's resources wisely, but will invest in the fabric and future of the district
Key Decision	NO
Exempt	NO
Consultees/ Consultation	None

## I. BACKGROUND

- I.1 The Council's Chief Finance Officer is responsible for ensuring that the statement of accounts are prepared and published in line with statutory timescales. Due to the coronavirus pandemic, the government has extended the timescales for the production and audit of the accounts. This change anticipated the impact of potential staff absences, closed offices and staff involved in the production of the accounts working from home or working on priorities connected to the coronavirus pandemic. The publication date for draft accounts has moved from 31 May to 31 July (31 August 2020 in 2019/20). The deadline to publish audited accounts has moved from 31 July to 30 September 2021 (30 November 2020 in 2019/20) for all local authority bodies.
- I.2 The statement of accounts appended to this report is draft at this stage and has been presented to the Council's auditors for review. The audit of the Statement of Accounts is underway but not yet complete.
- I.3 An audited version of the accounts will be presented to the Committee at its September meeting for final sign off. The accounts will be available for public inspection prior to final sign off.
- I.4 The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ('the Code'). The Council is statutorily obliged under the Accounts and Audit Regulations 2015 to prepare its Statement of Accounts in accordance with the Code.

## 2 COMPOSITION OF THE STATEMENT OF ACCOUNTS

The four core statements within the Accounts are:

### Comprehensive Income and Expenditure Statement:

- 2.1. The statement shows the accounting cost of services in accordance with generally accepted accounting practices, rather than services funded purely from taxation. The 'below the line' funding and accounting entries that bring the statement back to the movement on the General Fund (reversing items such as depreciation and impairment and accounting for pension contributions) form part of the Movement in Reserves Statement below.

### Movement in Reserves Statement

- 2.2. The statement details the movement in the year between reserves, from the surplus/deficit on provision of services in the Comprehensive Income and Expenditure Statement, to the position on the Balance Sheet at 31 March, splitting the reserves into the usable reserves (which are available to spend) and unusable reserves which represent reserves held for accounting purposes (and are not available for use).

### Balance Sheet

- 2.3. The balance sheet depicts the assets and liabilities of the Council, with the overall positions representing the Council's 'net worth'.

### Cash Flow Statement

- 2.4. The statement shows the year on year change in cash and cash equivalent (i.e on demand deposits) available to the Council, rather than simply showing the movement in the bank balance.

### Notes to the Accounts

- 2.5. The ‘notes to the accounts’ provide additional breakdown and disclosure of balances to support the primary statement.
- Accounting Policies
- 2.6. The Council’s Financial Rules state that the Chief Finance Officer is responsible for setting the Council’s accounting policies. The Statement of Account is prepared based upon these policies.
- 2.7. Whilst it is the Chief Finance Officer’s responsibility to set the policies, it is seen as best practice for this Committee to also approve the policies. The policies have a significant influence upon the Accounts which the Committee has responsibility for approving, following completion of the external audit process.
- 2.8. At the April 2021 meeting of this Committee, the draft accounting policies were shared with Audit Committee members providing Members with the opportunity to review and approve the policies in advance of the preparation of the Statement of Accounts. No further changes have been made to the policies presented and approved at that meeting.

## **3 REVENUE OUTTURN AND PERFORMANCE**

- 3.1. The financial impact of the pandemic has resulted in additional expenditure incurred by the Council in its response, falls in income from sales, fees and charges and savings being delayed or no longer deliverable.
- 3.2. The impact of the pandemic has been mitigated by the support provided to local authorities by Government including Covid-19 grant funding and the sales, fees and charges income compensation scheme. This has provided the Council with £2.6m of income during the year.
- 3.3. For 2020/21, the Council was planning to **increase** its General reserve by £0.2 million. Due to the impact of Covid-19 on the Council's finances, Council approved a revised budget in September 2020. The revised budget changed the position to a **use of** £0.2 million of the General Fund and the net impact of Covid-19 was expected to cost the Council £0.4 million. The outturn position resulted in a contribution to the General Fund of £21k, a decrease of £244k on the revised budget use of General Fund.
- 3.4. In 2020/21, the Council budgeted for a transfer of £3.6m from the General Fund to the Gloucestershire Local Government Pension Fund. The investment providing annual savings of £184k.
- 3.5. The revenue outturn position has been formally reported to Cabinet on 5 July 2021.

## **4 RECONCILING THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT TO THE REVENUE OUTTURN POSITION REPORTED TO CABINET**

- 4.1. The Comprehensive Income and Expenditure Statement (page 11 of the Accounts) shows the accounting cost in the year of providing services. A net surplus on provision of services of £398,333 is reported. The figures differ from the revenue outturn report (a surplus of £20,356) as the statement is prepared based upon International Accounting Standards while the management accounts are prepared based upon internal reporting practices.
- 4.2. Note B1 “Expenditure and Funding Analysis” on page 15 of the Accounts reconciles the difference between the statutory financial reporting and management reporting. The accounting transactions, which are not reported to Members as they do not impact upon the Council tax payer financing of the Council, are set out in the column headed ‘Adjustments Between accounting and funding basis’ and amount to £4,761,246. Once adjustments for net

transfers to earmarked reserve of £8,740,224 are taken into account, the net contribution from the Council's General Fund Balance is £3,580,644 (£3,601,000 planned transfer of General Fund balance to the Gloucestershire Local Government Pension Scheme, less £20,356 in year surplus)

## **5 BALANCE SHEET MOVEMENTS**

- 5.1.** The Balance Sheet represents the value or ‘net worth’ of the Council at 31 March. At 31 March 2021, the Council’s net worth was £42.8m compared to £60.6m the previous year. The key movements in the balance sheet between 31 March 2020 and 31 March 2021, and reasons for the largest changes, are summarised below.
- 5.2.** The value of Property, Plant and Equipment decreased by £9.5m. This is primarily due to falls in asset values of car parks due to falls in level of income achievable over the last twelve months, leisure centres and Council office have also experienced falls in value as a result of the Coronavirus pandemic.
- 5.3.** Non-current debtors have increased by £0.9m. Each year, the Council purchases waste and recycling vehicles for use on the Council contract. The movement represents the increased value of assets which are subject to the lease arrangement with Ubico Ltd in respect of these vehicles.
- 5.4.** Short term investments have reduced by £8.0m due to a reduction in balances held with other local authorities and banks/building societies whilst there has been a £5.7m increase in cash and cash equivalents as cash held in ‘call accounts’. The value of non-current investments increased by £0.9m as the value of investments “bounced back” following the economic shock at the start of the pandemic in March 2020. The change in overall level of cash and investments represents the Council use of available balances to deliver against its aim and priorities.
- 5.5.** Creditors have increased by £16.4m. This is a result of the inclusion of an ‘Agency Creditor’ of £6.0m in respect of government grant funding for Covid-19 Business Grants received and not spent at 31 March 2021; where the Council is acting as an ‘agent’ in the distribution of the grants. ‘Government department’ creditors have also increased by £8.9m due to £10.3m of excess grant received from MHCLG to compensate for expanded retail reliefs awarded in 2020/21 which needs to be returned to Government. £1.3m of Public Sector Decarbonisation grant funding has been received in advance in 2020/21, conditions and restrictions are attached to its use. Creditors with ‘Other Local Authorities’ have also increased by £0.9m due to the “levy” payment payable to the Business Rate Pool which is operated through Stroud District Council.
- 5.6.** Short term debtors have increased by £14.8m, this is due to a £10.0m increase in ‘Government Department’ debtors largely a result of a £10.0m balance due from Government in respect of the Business Rates element of the deficit on the Collection Fund at 31 March 2021. ‘Other Local Authority’ Debtors have also increased by £4.6m due to the Business Rates and Council Tax balances due from the County Council. The Collection Fund deficit for 2020/21 is much larger than in previous years, particularly in relation to Business Rates.
- 5.7.** The value of the pension fund net liability, which is shown under “Other Long Term Liabilities”, has reduced by £6.2m. Although the Council’s share of assets increased by £22.0m, the overall net liability has increased due to a significant increase in the pension fund liabilities of £28.2m. The future value of pension liabilities is based on the discount rate, which is based on the yield on investment grade corporate bonds. As the spread on corporate

bonds has reduced, it has led to a decreased discount rate, which in turn has a negative effect on the pension liability.

- 5.8. The Council's earmarked reserves' represent resources that have been set-aside by the Council for specific projects or money to provide specific schemes in the future. Overall contributions to earmarked reserves amounted to £9.6m, whilst expenditure amounted to £0.9m, the value of earmarked reserve therefore increased by a net £8.7m. Transfers included £7.4m in Business Rates compensation which will be used to fund the forecast Collection Fund deficit in 2021/22. £0.5m of new burdens grant funding has also been transferred to earmarked reserves.
- 5.9. The General Fund balance has reduced by £3.6m from 1 April 2020 to 31 March 2021. The movement represents the budgeted transfer from the General Fund in respect of lump payments to the Local Government Pension Fund and the under spend against budget in year of £20,356. The general fund balance represents the unallocated revenue reserves of the Council. At 31 March 2021, the balance stood at £894,613. Outside of the impact of funding revenue budget deficit, the General Fund is expected to increase by £3.2m over the next two years as a transfer is made to the General Fund of £1.6m in both 2021/22 and 2022/23 as a result of making a lump sum contribution to Gloucestershire Local Government Pension Fund in 2020/21.
- 5.10. As explained through section 5 of this report, the 'Net Assets' or 'Net Worth' of the Council has reduced by £17.8m during the year. This change is largely due to valuation fluctuations and unusual changes to debtors and creditors which are a direct result of the Covid-19 pandemic.
- 5.11. Although the Council faces significant challenges in 2021/22, the Council is generally in a healthy position at the end of the 2020/21 financial year with an appropriate level of reserves. The Council remains financially secure and sustainable for the foreseeable future.

## **6 APPROVAL AND PUBLICATION OF THE STATEMENT OF ACCOUNTS**

- 6.1. The Audit Committee is responsible for formally approving the audited Statement of Accounts on behalf of the Council.
- 6.2. At this point in time, the Accounts have not yet been audited. The statutory deadline for completing the 2020/21 audit is 30 September 2021.
- 6.3. On completion of the audit, the Committee will be asked to approve the signing of the Statement of Accounts and Letter of Representation. At this point the Accounts can be formally approved by the Committee and the external auditor (Grant Thornton UK LLP).
- 6.4. Once approved a copy of the audited Statement of Accounts will be published on the Council's website along with the notice of completion of Audit.

## **7 FINANCIAL IMPLICATIONS**

- 7.1. There are no direct financial implications arising from this report.

## **8 LEGAL IMPLICATIONS**

- 8.1. None.

## **9 RISK ASSESSMENT**

- 9.1.** The main risks arise from lack of financial control and poor accounts preparation processes. The Council has appropriate controls in place to mitigate these. In addition, any recommendations made by the External Auditor which have been accepted will be implemented within agreed deadlines.

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**10 BACKGROUND PAPERS**

- 10.1.** 29 April 2021 – Audit Committee approved the Draft Accounting Policies.  
5 July 2021 – Cabinet received the 2020/21 Financial, Council Priority and service Performance Report.