

Report to: **Audit Committee**

Date: **30 July 2020**

Title: **Draft Statement of Accounts and Draft Annual Governance Statement 2019/2020**

Portfolio Area: **Support Services – Cllr H Bastone**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: **September 2020**

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Recommendations:

That the Draft Statement of Accounts and the Draft Annual Governance Statement (AGS) for the financial year ended 31 March 2020 are noted.

1. Executive summary

- 1.1 The report advises Members that an under spend of £112,000 was generated in 2019/2020 which was transferred to the General Fund Balance (un-earmarked revenue reserve). The level of this reserve stands at £2.01 million at 31 March 2020.
- 1.2 The Narrative Statement to the Accounts gives a summary of the main items in the Statement of Accounts for 2019/2020.

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 2019/20 statutory timetable was extended. On 22 April 2020 the Ministry for Housing, Communities & Local Government wrote to all Local Authority Chief Executives in England, confirming that the draft accounts must be approved by 31 August 2020 at the latest. This is prior to the period for exercise of public rights which must commence on or before the first working day of September 2020. The letter also stated that local authorities in England must publish their audited SOA by 30 November 2020. This deferral of the publication dates amending the 2015 Regulations for 2019/20 is detailed in The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 (SI 2020 No 4040).
- 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 in Appendix A contains the Council's final accounts in full, including details of the Comprehensive Income and Expenditure Statement (CIES), the 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 Statement of Accounts. 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 2019/20 shown in Appendix B reflects the reporting requirements introduced by CIPFA/SOLACE's 2016 Delivering Good Governance in Local Government Framework. The new 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.
- 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 2019/2020 of £112,000 is essentially a break-even position. ***The 2019/20 budget was £8.83 million and therefore the saving of £112,000 means that the actual spend was 1.3% less than the budget.*** This saving will go into the Council's Unearmarked Reserves which now stand at £2.01 million. The main variations from budget are shown on Page 9 of the Narrative Statement in the Statement of Accounts.

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 £9.7 million in 2019/20. The main areas of expenditure were as follows:
- Purchase of an investment property (£5.0m)
 - Residential renovation grants including disabled facilities grants (£1.8m)
 - New industrial units (£0.8m)
 - Scheduled replacement of plant, vehicles and marine infrastructure (£0.6m)
 - New play areas (£0.4m)
 - Affordable housing and investments in the community (£0.3m)
 - Coastal defence schemes (£0.2m)
 - Land purchase (£0.2m)

4. Options available and consideration of risk

- 4.1 The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of the value of the Council's property, plant, equipment and investment properties. There is an unprecedented set of circumstances on which to base a judgement. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS (Royal Institution of Chartered Surveyors) Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation.
- 4.2 At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.
- 4.3 Due to the Covid-19 pandemic the Council is undertaking monthly budget monitoring reports. The budget monitoring report for May showed a projected shortfall of £2.588 million which was predominantly due to income losses such as car parking income and treasury management income. Since this report was prepared the Government has announced a new comprehensive package of support for Councils, to address spending pressures and losses in sales, fees and charges. An updated position including this projected Government support will be presented to the Executive meeting on 30 July 2020.
- 4.4 An amended budget for 2020/21 will be presented to the September cycle of Committee meetings. One of the options that Members could consider as to how to meet the budget shortfall in 2020/21 would be to use the 2019/20 underspend of £112,000 towards the projected budget shortfall.

5. Proposed Way Forward

- 5.1 Members are advised that the accounts will be audited by our External Auditors, Grant Thornton during June, July and August 2020. Following the Audit, the Statement of Accounts will be brought back to the Audit Committee for approval in September.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
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 2019/2020. This means that the Council's actual spend for 2019/2020 was 1.3% less than the budget set for the year.</p> <p>As part of Grant Thornton's external audit of the Statement of Accounts for 2019/2020, they will give an opinion on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. (An unqualified audit opinion was issued by Grant Thornton in July 2019 for the 2018/19 financial year).</p>
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 2019/20 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 six Corporate Strategy Themes of Council, Homes, Enterprise, Communities, Environment and Wellbeing, as both encompass and summarise everything that the Council does in monetary terms.</p>

		<p>In particular for the 'Council Theme', the Accounts summarise how the Council is delivering efficient and effective services and demonstrating strong financial management and strategic financial planning.</p> <p>Our Guiding Principles of the Corporate Strategy are 'to provide value for money and good customer service'. See comments above on the annual Value for Money audit opinion.</p>
Climate Change - Carbon / Biodiversity Impact		None directly arising from this report.
Comprehensive Impact Assessment Implications		
Equality and Diversity		None directly arising from this report.
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

Appendices:

Appendix A – Draft Statement of Accounts 2019/20

Appendix B – Draft Annual Governance Statement 2019/20

Background Papers:

Finance Community of Practice final accounts working papers.