

AGENDA ITEM: 6

DRAFT CAMBRIDGESHIRE COUNTY COUNCIL (CCC) STATEMENT OF ACCOUNTS 2019/20

To: **Audit and Accounts Committee**

Meeting Date: **30 July 2020**

From: **Chief Finance Officer and Deputy Chief Executive**

Electoral division(s): **All**

Forward Plan ref: **Not applicable** *Key decision:*

No

Outcome: **This report presents the draft Cambridgeshire County Council (CCC) Statement of Accounts 2019/20. Also included are the Annual Governance Statement and Pension Fund accounts. The draft Accounts are provided as Appendix A to this report.**

Key Issues: **The draft accounts presents the financial position of the Council as at the 31 March 2020 but are currently unaudited. The next stage is for the accounts to be audited with a final version being presented back to the Audit Committee for sign off after consideration of the external auditor's report. This is likely to be in October.**

Recommendation: **The Audit Committee is recommended to note and comment on the draft Statement of Accounts 2019/20 presented in this report.**

<i>Officer contact:</i>		<i>Member contact:</i>
Name:	Ellie Tod	Chair
Post:	Strategic Finance Manager	Cllr M Shellens
Email:	Eleanor.tod@cambridgeshire.gov.uk	shellens@waitrose.com
Tel:	01223 715333	Vice-Chair
		Cllr T Rogers
		Terry.Rogers@cambridgeshire.gov.uk

1. BACKGROUND

- 1.1 The annual Statement of Accounts is the financial representation of all activities that the Council has been directly or indirectly involved with, over the course of the 2019/20 financial year. The publication of the Statement of Accounts is an essential feature of public accountability and stewardship, as it provides an annual report on how the Council has used the public funds for which it is responsible.
- 1.2 The Accounts are prepared under the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting 2019/20, which is based on International Financial Reporting Standards (IFRS) adapted for public sector use.
- 1.3 The signing, approval and publication of the Accounts is set out in Section 9 of the Accounts and Audit Regulations 2015. The Accounts will require further certification and also approval by the Audit Committee at the conclusion of the audit; any material changes arising from the audit will be reported back to the October meeting of the Audit Committee, prior to approval. The independent auditor's report (ISA 260 report) will also be provided for the Audit Committee to consider. The Accounts and Audit (Coronavirus)(Amendment) Regulations 2020 require the audited Statement of Accounts to be completed by the deadline of 30 November 2020, which has been extended from the 31 July 2020 due to Covid-19.

2. MAIN ISSUES

- 2.1 This section of the report outlines some of the key matters for the Audit Committee's attention. The draft accounts were certified by the Chief Finance Officer on 19 June 2020.

Public Inspection

- 2.2 The Accounts and Audit (Coronavirus)(Amendment) Regulations 2020 determine that the accounts and other related documents have to be made available for public inspection for 30 working days which must commence on or before the first working day of September 2020. The public inspection for Cambridgeshire commenced in June and will be until 3 August 2020 to ensure that there is a full 30 working days available after publication for inspection or objections.
- 2.3 During this period electors may also raise questions to Ernst and Young LLP (EY LLP) on the 2019/20 Statement of Accounts as part of the public inspection process.

Process for Completion

- 2.4 2019/20 follows on from a difficult process to complete the 2018/19 accounts, which were not finalised until 14 February 2020. This has therefore significantly shortened the period available to the closedown team to focus on

preparing for the 2019/20 accounts, including implementing any changes to processes and procedures that were established as necessary following on from the first year of using the new resource system ERP Gold (Agresso) in 2018/19. However, the team has worked hard to implement the high priority changes required, including those with the most significant impact. This has resulted in some significant steps forward in the efficiency of the production process, as well as the resulting output.

- 2.5 Despite this progress, it was still necessary for the Council to agree a short extension of time permitted for production and review of the accounts, within the window permitted by the Regulations, up to 19 June. The main reasons for this were:
- A significantly reduced preparation time due to the late completion of the 2018/19 audit process.
 - Additional time required to upload fixed asset data to the system, over that originally anticipated. Due to the repatriation of the closedown function from LGSS back to CCC, the team were performing some systems tasks that had not previously been undertaken by CCC officers. Combined with an upgrade to the ERP system, this resulted in some specific issues arising that had not been foreseen, some of which required more time consuming workarounds to be implemented, and as such delayed the process by around a week. Some of these issues need further investigation and resolution ahead of the 2020/21 process; the rest need to be documented with the various solutions in order to provide business continuity moving forward. In addition, the team will also look to pursue obtaining additional support from the Business Systems team regarding the fixed assets module.
 - Despite the delays, the Council did not want to compromise on the quality of the accounts and the time available for management review.
- 2.6 As a result, EY agreed to commence their audit two weeks later than originally planned on the 29th June; the missing two weeks will be caught up during October (a period of time EY had set aside for contingency should any of their audits be delayed). As such, both the Council and EY still anticipate at this point that the audit will be completed and the accounts available to be signed and approved at the end of October as per the original timetable, and in compliance with the statutory regime.

The Statement of Accounts 2019/20

- 2.7 The Statement of Accounts is comprised of the following sections:
- The Narrative Statement;
 - Statement of Responsibilities;
 - The Core Financial Statements:
 - Comprehensive Income and Expenditure Statement (CIES);
 - Balance Sheet;
 - Movement in Reserves Statement (MIRS);
 - Cash Flow Statement;
 - Notes to the Core Financial Statements;

- Group Accounts;
- Local Government Pension Scheme Accounts;
- Accounting Policies; and
- Glossary.

- 2.8 The Narrative Statement is required by the Code and provides a summary of the most significant matters reported within the accounts, and of the Council's financial position. It is intended to outline the overall context within which the Council is operating by providing commentary on the Council's priorities, its performance in 2019/20 and the inclusion of a summary of the medium term outlook and approach to value for money. This year, it also includes information about the impact of Covid-19 on the Council's accounts (there are further details in section 3 of this report).
- 2.9 The Core Financial Statements provide the overview in financial terms on an accounting basis of the Council's performance, financial worth, reserves and cash flow as at 31 March 2020. The highlights from the core statements can be found in the Executive Summary to the Narrative Report with more detail provided within the Narrative Report itself. Paragraphs 2.16 to 2.25 also outline some of the key highlights for the Committee's consideration.
- 2.10 There have been no significant changes to the accounting policies for 2019/20 – please see Appendix B for a list of changes.
- 2.11 There is one significant change in accounting treatment that the Committee need to be aware of. The Council appointed a new firm, Bruton Knowles LLP, for 2019/20 to undertake the Council's asset valuations. Following discussion with Bruton Knowles, the valuation technique for school assets has changed so that these assets are now valued on a Modern Equivalent Asset basis. This brings the Council's valuations more closely in line with the guidance issued by The Chartered Institute of Public Finance and Accountancy (CIPFA) and Royal Institute of Chartered Surveyors (RICS).

Group Accounts

- 2.12 In addition to the Council's single entity accounts outlined above, the Council is required to prepare Group Accounts alongside its own financial statements where it has material interests in subsidiaries, associates, and / or joint ventures. The Group Accounts reflect the activity of any such arrangements where appropriate to do so in addition to the Council's 'single entity' accounts.
- 2.13 The Council's Group Accounts consolidate the accounts of the This Land Group (comprising of This Land and all of its associated subsidiaries). These are prepared in accordance with the CIPFA Code of Practice, and comprise the following:
- Group Comprehensive Income and Expenditure Statement;
 - Group Balance Sheet;
 - Group Cash Flow Statement;
 - Group Movement in Reserves Statement; and

- Notes to the Group Accounts.

2.14 In essence, the consolidation within the Group Accounts removes any 'inter-company/organisation' transactions on a line by line basis. This has the effect of eliminating in full balances, transactions, income and expenses between the Council and This Land.

Highlights from the Accounts and Key Considerations

2.15 The draft Statement of Accounts 2019/20 are presented in Appendix A to this report. The following sections set out some of the more significant items in the draft accounts and provide additional commentary.

General Fund Reserves and Earmarked Reserves

2.16 For the year ended 31 March 2020 the Council experienced a revenue budget pressure of £0.2m which required a draw down from the General Fund and Earmarked reserves of £0.2m to balance the financial position for 2019/20. The Council has a strategy which is applied to restore the General Fund reserve to its planned level as part of its annual business planning process.

2.17 The Council's Earmarked Reserves (that is reserves set aside for a specific purpose) increased by £12.4m during the year to £76.5m as at the 31st March 2020.

Balance Sheet

2.18 The Council has Net Assets as at 31st March 2020 of £705.0m.

2.19 The net asset position is predominantly due to the value of long-term assets at £2,082.2m, and within that the value of Plant, Property and Equipment is £1,759.5m. Current assets total £143.4m.

2.20 The Council's liabilities (both current and long-term) total £1,520.5m with the largest components both being long-term liabilities related to the Pension Fund liability (£486.6m) and long-term borrowing (£592.4m).

2.21 The sum of the total assets and total liabilities provides the net asset position of the Council which is matched by the total reserves comprising Usable Reserves of £141.4m and Unusable Reserves of £563.7m.

Pension Fund liability

2.22 The pension liability calculated by the actuary has decreased by £126.5m in 2019/20.

2.23 Liabilities have been assessed on an actuarial basis using the projected unit credit method which is an accrued benefits funding method in which the

Actuarial Liability makes allowance for projected earnings, providing an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels and so on. The liability is therefore outside the control or influence of the Council and is reported in accordance with International Accounting Standard 19 – Employee benefits.

- 2.24 Movements in the Pension Fund liability do not affect the Council's General Fund or other Usable Reserves.

Audit Fees

- 2.25 EY have reported that additional fees have been incurred for the audit of the 2018/19 accounts, prior to the commencement of the value for money work (see below). For 2019/20, EY have also presented a significant proposed increase in fee above the scale published by the Public Sector Audit Appointments (PSAA), principally related to an increase in audit risk (across local government) and an increase in regulatory requirements. The Council is considering its position in relation to these costs. For the most part, these relate to sector wide issues; the Redmond review of local authority financial reporting and external audit is ongoing.

Outstanding matters relating to previous years of account

- 2.26 One objection to the accounts in 2016/17, one objection to the accounts in 2017/18, and the value for money opinion on the accounts in 2017/18 are currently not concluded. These are matters for the previous auditor, BDO LLP. As reported at the January 2020 meeting of this Committee, the Committee's Chairman had written to BDO's East Anglia Office, which was responsible for the CCC audit, formally in November 2019 (link in source documents below). This letter was briefly acknowledged in December 2019. As far as the Council is aware BDO have not undertaken any further fieldwork on these matters during 2020. Since February the Chairman has attempted to raise concern about the delay further with the London headquarters of BDO on a number of occasions. The Council has also notified PSAA, who appoint CCC's auditor and ensure quality and effective audit nationally, about the delay in May 2019, November 2019 and July 2020. We understand that PSAA have in turn requested that BDO provide an update on progress and timescales.
- 2.27 In relation to 2018-19, there is one objection and the value for money opinion that are yet to be concluded. These are matters for EY to consider, and the Council understands that EY assess that progress is required with the preceding year's work by BDO before this can substantially move forward.

3. GOING CONCERN AND IMPACT OF THE PANDEMIC

- 3.1 The concept of a '*going concern*' assumes that the Council, its functions and services will continue in operational existence for the foreseeable future. This assumption underpins these accounts drawn up under the Local Authority

Code of Accounting Practice. The Code presumes a going concern basis because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies. External Auditors to public sector bodies are required by the Financial Reporting Council to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern.

- 3.2 This year, as a result of the Covid-19 pandemic meaning that the large parts of the economy are facing heightened financial risks and difficulties, the Council anticipates additional attention towards the going concern presumption. This is consistent with accounting standards and will be commonplace across many different types of entity subject to statutory audit.
- 3.3 The Council is continually assessing the impact of Covid-19 on our future finances and has prepared the draft accounts as a going concern. In the next sections we provide in outline form the considerations relevant to our assessment; we fully expect to be able to confirm this in detail and for not less than the twelve months ahead of the date on which audited financial statements are ready for signature. Similar information will form the basis of an additional disclosure note to be included within the final accounts to address going concern, should this prove necessary. This is supplementary to the detail already included in the narrative statement describing the impact on Services and some of the financial consequences known in mid-June.
- 3.4 **Financial consequences of the pandemic** – the Council has responded to all of the requested reporting returns convoked by the Ministry of Housing, Communities & Local Government (MHCLG) and also regularly reported to Members through Committees. Further to the Narrative Statement description, details of the Council's latest assessment of the in-year financial consequences are summarised on pages 24 and 25 of the agenda papers for the July meeting of the General Purposes Committee (GPC) available at - https://cambridgeshire.cmis.uk.com/ccs_live/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1405/Committee/2/Default.aspx . This sets out that:
- Additional spending / commitments as a result of the pandemic could amount to £35.9m, with £21.9m of this within Adult Social Care
 - Income is expected to be £9.2m lower than budget, with this principally in Highways and Education, with some impact on Commercial budgets.
 - Achievement of savings planned at the beginning of the year will be lower than expected, by as much as £7m
 - The Council is scheduled to receive a number of funding streams to mitigate this position, including from the NHS and through ringfenced grants for Infection Control, Active Travel and Test & Trace.
 - Unringfenced funds from MHCLG amount to £29.8m (a £3.7m increase since the July GPC report following the most recent announcement).
 - This would leave an unfunded deficit of financial consequences in excess of grant funding of £9m. However, further support has recently been announced for reduced levels of sales, fees and charges which

has not yet been calculated. Additionally, internal forecasts based on actual spending suggest demand has not increased on Social Care to the extent projected, suggesting the anticipated increases are still in the future.

- 3.5 To date, central government financial support to the sector has been announced incrementally. Our in-year estimates at this stage do not anticipate a “second peak” of the virus, were this to occur, and in any case, the Council would expect there to be further government support. On this basis we view there are reasonable grounds to expect the 2020/21 Outturn position should not worsen significantly. Looking further ahead, the policy announced by government that impacts of the pandemic on local taxation can be handled across three years is also likely to prove helpful in smoothing the financial impact of the crisis.
- 3.6 **Liquidity and cashflow:** Since March, the Council has adopted a defensive position in terms of cash management in case of a tightening of funds available to local authorities. Healthy cash balances are evident in the financial statements with note 28 illustrating an increase in cash and cash equivalents of more than £27m as at March 2020 compared to a year earlier. In actuality the Council has continued to meet its cashflow needs without difficulty and has refinanced all loans due for maturity through to November 2020. Grant income from government has increased and precept income from District Councils has continued without interruption (as collection risks remain with billing authority in the year of receipt). There also continues to be significant internal borrowing (meeting capital investment needs from surplus cash) indicating secure working capital and reserve balances.
- 3.7 **Underlying financial position and balance sheet:** Prior to the full extent of the pandemic, the financial results for the year ending 31 March 2020, were the most favourable for at least three years: the year-end overspend for 2019/20 was just £0.2m (see paragraph 2.16); robust plans were in place for savings in 2020/21 and budgetary projections were broadly on track for both children’s and adults social care and unidentified savings for 2021/22 amounted to £4m. The Council has a strong balance sheet with an upcoming capital receipt expected from the Cambs 2020 programme in relation to Shire Hall, and numerous other assets, including a large farms estate. There is a reasonable provision for doubtful debts, an adequate general fund reserve of £18m and funds earmarked for transformation (that could be re-allocated in an emergency) of over £20m.
- 3.8 **Projected financial position and planning:** The future outlook is uncertain and has worsened significantly since Full Council set the budget in February. In particular the comprehensive spending review and the funding reforms which the Council hopes will recognise historic underfunding of the County has been further delayed. Prudently however, the Council had not included any favourable upside from funding reform in its Medium Term Financial Strategy (MTFS) assumptions. There is also scope available to Members, within the MTFS assumptions, to increase the Council tax planned in future years above the baseline of an Adult Social Care (ASC) precept only. The

Business Planning process has begun for 2021/26 adopting a scenarios based approach to aid services in structuring different budgetary projections and demands given current unknowns. In a simplistic and pessimistic scenario, were no further government funding to be announced, the unfunded deficit could more than double in size and still be funded from a re-allocation from the transformation fund before troubling the general fund balance in-year.

- 3.9 **Governance, regulatory and control environment:** these arrangements are set out in more detail in the Annual Governance Statement. The Joint Management Team Gold Command Structure referred to in the Narrative Report continues and through the well embedded Committee system there is regular reporting of and challenge to financial projections, meaning that issues should be detected early and subject to management action where additional budgetary controls are required.

4. NEXT STEPS

- 4.1 The importance of the Statement of Accounts to the authority is high and although it is a historical backward facing document, the closing of the accounts is vital to the financial planning process as it confirms the starting position for the 2020/21 financial year.
- 4.2 The audit fieldwork commenced on 29 June 2020 by EY LLP. Assuming the audit progresses to plan and there are no significant issues identified it will conclude in EY issuing an opinion on the Statement of Accounts and certification that the final document presents fairly the financial position of Cambridgeshire County Council for the year ending 31 March 2020.
- 4.3 A further update on the status of the audit will be provided at the Committee meeting itself.

Source Documents	Location
Draft Statement of Accounts 2019-20 and Public Inspection Notice BDO Letter (A&AC January 2020)	Council Website Meeting Documents Link (Appendix C)