

Draft Cambridgeshire County Council Statement of Accounts 2020/21

To:	Audit and Accounts Committee
Meeting Date:	22 nd July 2021
From:	Chief Finance Officer and Director of Resources
Electoral division(s):	All
Key decision:	No
Forward Plan ref:	Not applicable
Outcome:	This report presents the draft Cambridgeshire County Council (CCC) elements of the Council's Statement of Accounts 2020/21 for review. The draft Accounts are provided as Appendix A to this report.
Recommendation:	The Audit and Accounts Committee is recommended to note and comment on the draft CCC elements of the Council's Statement of Accounts 2020/21 prior to their incorporation into the Council's full draft Statement of Accounts 2020/21 which are due to be published by 31 st July.

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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 2020/21 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 full Statement of Accounts includes:
 - the accounts related solely to the Council;
 - group accounts consolidating the accounts of the Council with those of the Council's wholly owned Housing Company, This Land Ltd;
 - the accounts of the Cambridgeshire Pension Fund; and
 - the Annual Governance Statement
- 1.3 This paper only covers the accounts reporting the activities of the Council itself. The accounts for This Land Ltd are currently being audited and a consolidated set of group accounts will be produced ready for publication by 31st July. The draft accounts of the Cambridgeshire Pension Fund are being reviewed by the Pensions Committee on 22nd July prior to their incorporation into the full draft Statement of Accounts. The draft Annual Governance Statement is the subject of a separate agenda item for consideration by this committee.
- 1.4 Accounts are prepared under the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting 2020/21, which is based on International Financial Reporting Standards (IFRS) adapted for public sector use.
- 1.5 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 approval by the Audit Committee at the conclusion of the audit; any material changes arising from the audit will be reported back to future meetings 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.
- 1.6 The timelines in the Accounts and Audit Regulations 2015 were amended by Statutory Instrument for financial years beginning in 2020 and 2021 only. The revised timelines, which apply to these 2020/21 accounts, require the draft Statement of Accounts to be published by 31st July, and the audited Statement of Accounts to be completed by the 30th September 2021.

2. Main Issues

- 2.1 This section of the report outlines some of the key matters for the Audit Committee's attention.

Audit & Accounts Committee review

- 2.2 The revised deadlines for the publication of the draft accounts for 2020/21 mean that the Committee has the opportunity to comment on the draft accounts this year prior to their publication. The Chief Finance Officer must clear the draft accounts for publication before

31st July and will take into account comments raised by the Committee.

Public Inspection

- 2.2 The Accounts and Audit (Amendment) Regulations 2021 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 August 2021.
- 2.3 During this period electors may also raise questions to the Council's external auditor, Ernst and Young LLP (EY LLP), on the 2020/21 Statement of Accounts as part of the public inspection process.

Process for completion of the Accounts

- 2.4 2020/21 follows on from a difficult process to complete the 2019/20 accounts, which were not finalised until 31st March 2021. This has therefore significantly shortened the period available to the closedown team to focus on preparing for the 2020/21 accounts, including implementing any changes to processes and procedures that were established as necessary following on from previous years. 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 In particular, significant progress has been made working with the Strategic Assets team to quality review the underlying data used by, and output property valuations provided by, the Council's external valuers before their inclusion in the Accounts.
- 2.6 The Redmond review of Local Authority financial reporting and external audit in 2019 raised issues around capacity and market fragility within the sector. These issues are reflected in the proposed audit timing for the audit of CCC's accounts for 2020/21. The audit will not commence until October 2021 with the main work undertaken in October and November. This means that the final audited accounts will not be published to the 30th September deadline set out in the Accounts and Audit (Amendment) Regulations 2021. In this circumstance, the regulations require the Council to publish a notice stating that it has not been able to publish the statements of accounts and the reasons for this until such time as the audited accounts can be published.

The Statement of Accounts 2020/21

- 2.7 The CCC element of 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;
 - 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 2020/21 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 continuing impact of Covid-19 on the Council's accounts.
- 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 2021. 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 2.15 to 2.23 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 2020/21.

Highlights from the Accounts and Key Considerations

- 2.14 The draft Statement of Accounts 2020/21 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

- 2.15 For the year ended 31 March 2021 the Council experienced a revenue budget underspend of £6.3m which has been transferred to the General Fund to balance the financial position for 2020/21. 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.
- 2.16 The Council's Earmarked Reserves (that is reserves set aside for a specific purpose) increased by £62.1m during the year to £142.2m as at the 31st March 2021. This is largely as a result of levels of unspent grant which have been transferred to earmarked reserves for use in 2021/22 and beyond. This includes £43.2m of unspent grants received for ongoing expenditure in relation to the Covid-19 pandemic.

Balance Sheet

- 2.17 The Council has Net Assets as at 31st March 2021 of £517.4m.
- 2.18 The net asset position is predominantly due to the value of long-term assets at £2,071.4m, and within that the value of Plant, Property and Equipment is £1,604.8m. Current assets total £236.0m.
- 2.19 The Council's liabilities (both current and long-term) total £1,409.4m with the largest components both being long-term liabilities related to the Pension Fund liability (£708.2m) and long-term borrowing (£562.4m).
- 2.20 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 £375.5m and

Unusable Reserves of £141.9m.

Pension Fund Liability

- 2.21 The pension liability calculated by the actuary has increased by £216.6m in 2020/21.
- 2.22 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.
- 2.23 Movements in the Pension Fund liability do not affect the Council's General Fund or other Usable Reserves.

Audit Fees

- 2.24 CCC's accounts for 2019/20 were signed on 31st March 2021. EY have reported that additional fees were incurred for the audit of these 2019/20 accounts, prior to the commencement of the value for money work (see below). In particular, specific one-off work was required for the assessment of the Council's going concern position in light of the Covid-19 pandemic, and increased procedures were required for asset valuations. These additional costs totalled £54k.
- 2.25 The scale fee for the audit of the 2020/21 accounts is £72k. The Redmond review of local authority financial reporting and external audit made recommendations around the fee structures for local audit which nationally have reduced by 40% since 2015. The government has committed to provide £15m of additional funding in 2021/22 to relevant local bodies to meet the anticipated rise in audit fees in 2021/22, driven by new requirements on auditors including the 2020 Code of Practice, and to enable local authorities to develop standardised statements of service information and costs as recommended by the review.

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 March 2021 meeting of this Committee, BDO LLP gave the financial statements opinion for 2017/18 on 6 August 2018, with the value for money opinion to follow at a later date. The Council has repeatedly pressed BDO to progress their conclusions in this area since then and in November 2019, the then Chairman of this Committee wrote formally to BDO to express significant concern at the delay in concluding the process. BDO replied formally to Cllr Shellens in September 2020, apologising for the delay, and setting out the remaining steps with a report to this Committee anticipated in January 2021. During the first months of 2021 BDO advised that a key team member had been unwell and that they had also sought legal advice on their final conclusions.

- 2.27 At the beginning of March 2021, a manager at BDO contacted the Council to raise further queries about two contracts that the Council had entered into: one commencing in 2015 and another relating to 2015 and 2016. The Council replied to BDO and the firm stated that they anticipated reporting on value for money shortly, with the determination of objections lodged in 2017 and 2018 happening subsequently and separately. The Chief Finance Officer formally requested an update from BDO on 21st May and BDO replied on 27th May. A further brief query was received from BDO on 1st June which the Council replied to on 3rd June. The Chief Executive and the Chief Finance Officer are scheduled to meet the Partner responsible at BDO on 27th July 2021 where we expect to hear more about the value for money conclusion BDO are reaching with respect to 2017/18.
- 2.28 One objection in relation to the 2018/19 accounts, and the value for money opinions for 2018/19 and 2019/20 are also yet to be concluded. These are matters for EY to consider, and whilst matters have progressed sufficiently for EY to have begun some areas of their value for money work, progress is required with the preceding years' work by BDO before these items can be concluded.

3. Next Steps

- 3.1 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 2021/22 financial year.
- 3.2 Following review of the draft CCC accounts and Annual Governance Statement by the Audit and Accounts Committee, the draft accounts will be updated and combined with the other elements of the full draft Statement of Accounts which the Chief Finance Officer must certify before 31st July. The draft accounts will then be published on the Council's website and the public inspection notice will be published.
- 3.3 EY LLP have scheduled the main audit fieldwork for October and November 2021. 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 2021.
- 3.4 Updates on the status of the audit will be provided at future Committee meetings as the audit progresses.

4. Alignment with corporate priorities

- 4.1 Communities at the heart of everything we do

There are no significant implications for this priority.

- 4.2 A good quality of life for everyone

There are no significant implications for this priority.

4.3 Helping our children learn, develop and live life to the full

There are no significant implications for this priority.

4.4 Cambridgeshire: a well-connected, safe, clean, green environment

There are no significant implications for this priority.

4.5 Protecting and caring for those who need us

There are no significant implications for this priority.

5. Source documents

5.1 Source documents

None