

Audit & Accounts Committee – 28th September 2021

Public question regarding Draft Statement of Accounts - Grant income and useable reserves overstated by £160 million

Background and Introduction

Cambridgeshire County Council (CCC) states in its draft 2020/21 financial statements that it recognises £200 million of government City Deal grant income in the single year of account even though the grant is to be paid in five tranches of £40 million/yr up to 2024/25.

On pages 48 and 49 of the latest draft accounts, the Section 151 Officer asserts that this is the correct interpretation of the CIPFA Code of Practice for grant recognition, on the grounds that receipt of the full £200 million is unconditional. That is incorrect. Receipt of each £40 million tranche is conditional. The conditions are clearly stated in the first two grant determination documents issued by central government, dated May and September 2020 (£20 million received on each occasion).

Prematurely recognising the next four annual tranches of City Deal grant is also incorrect for a different reason. As the CIPFA Code (Below) specifies, grants should be accounted for on an accruals basis. That means one year at a time - each tranche to be recognised in the financial year in which it is receivable – not up to four years in advance.

2.3.2.8 Grants and contributions relating to capital and revenue expenditure shall be accounted for on an accruals basis, and recognised immediately in the comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition(s) (as opposed to restrictions) that the authority has not satisfied.

The word “immediately” in the code plainly refers to each tranche matched to its respective financial year. The accounts cannot recognise future conditional grant income in 2020/21 that may or may not be received until 2024/25. That revenue and those reserves do not yet exist.

I accompanied Mr. Andrew Rowson at a public inspection of this year’s statement and supporting documents in connection with his objection to the 2020/2021 accounts and noted that he had requested copies of grant determination documents issued by MHCLG and HM Treasury, but was told by officers that no such document existed. Both the May and September documents were however eventually provided. They arrived less than three hours after Mr. Rowson’s formal objection to the accounts was submitted to the external auditor – the fifth objection in as many years. Four years ago, I challenged the same incorrect accounting treatment in respect of the previous five-year City Deal grant scheme at a meeting of the Greater Cambridge Partnership Assembly. The then Section 151 Officer in reply stated that he had been instructed to account for the GCP Grant in this manner by the former external auditor Lisa Clampin. I maintained my objection to this misstatement of useable reserves in a second objection in 2018. Despite being written to by the former Chairman, Cllr Shellens, in 2018, the auditor at the time (BDO) has still not addressed this issue of false accounting and other matters raised at that time, with the result that the accounts for years 2016/17 and 2017/18 cannot be finalised. That year, 2017, the overstatement was £60 million. This year, the overstatement of revenue and useable reserves is £160 million. Twelve months ago the previous Auditor, Lisa Clampin, promised in writing that her determination of the 2017 and 2018 objections and VFM Conclusion would be with the objector and the A&A Committee by January

2021. At the time of writing the current auditor – Ernst and Young LLP, has also failed to answer Mr. Rowson's questions, put during the inspection period on this material matter. The Ernst and Young audit partner, Mr Hodgson, has also failed to let Mr. Rowson know whether his objections this year, last year or in 2019 are eligible. The NAO's Code of Audit Practice states that auditors are required to consider objections "*in a timely manner*" and use their best endeavours to determine whether an objection is eligible "*within one week of receipt.*"

If left uncorrected, the £160 million overstatement of revenue and reserves in 2020/21 risks producing reputational damage for the authority. The draft accounts plainly do not give a true or fair view of the council's 2020/21 revenue or of its financial position at 31st March 2021. They are instead materially incorrect and highly misleading to stakeholders, including lenders and potential lenders. Such material misstatements may have adverse legal consequences for the authority.

THE QUESTION that members need to address is as follows:- Will members now withhold Committee Approval of the DRAFT Statement of Accounts, instruct the Chief Finance Officer to correct the misstatements and false accounting listed above and re-publish the corrected FINAL Statement of Accounts as a "true and fair" reflection of the authority's financial position as at 31st March 2021?

Mike Mason 22nd September 2021

Question

Will the Audit and Accounts Committee please ask the auditor for his opinion of the authority's accounting treatment of the £200 million City Deal grant – as currently set out in the General Accounting Policies and Judgements section of the draft accounts? Will the Committee ask the auditor whether he will be recommending to the S151 Officer that the authority correct the financial statements so that they only reflect the £40 million City Deal grant receivable in 2020/21 itself?