

Draft Annual Financial Report and Audit Findings for 2021/22

For Audit & Governance Committee on 27 September 2022

Summary

Lead Member: Councillor Christopher Hall – Member for Finance and Performance

Lead Director: Lee Colyer – Director of Finance, Policy & Development (Section 151 Officer)

Head of Service: Jane Fineman – Head of Finance, Procurement & Parking

Report Author: Jane Fineman – Head of Finance, Procurement & Parking

Classification: Public document (non-exempt)

Wards Affected: Not Applicable

Approval Timetable	Date
Management Board	Verbal Update
Audit & Governance Committee	27 September 2022

Recommendations

Officer / Committee recommendations as supported by the Portfolio Holder:

1. That the Audit Committee note Grant Thornton's Audit Findings Report – Appendix B.
2. That the Audit Committee approve the draft Statement of Accounts and the Annual Governance Statement – Appendix A.
3. The Audit Committee authorise the Chairman and the Director of Finance, Policy & Development to sign a Letter of Representation based on Appendix A and the Audit Findings Report.

1. Introduction and Background

- 1.1 The draft Annual Financial Report (AFR) for 2021/22 (which contains the Statement of Accounts) was uploaded to the Council website on the 20th June 2022. There have been no material changes since then and the audit is almost complete, as outlined in Grant Thornton's Audit Findings Report (Appendix B). This Committee now needs to give its formal approval in order that the Annual Financial Report can be published before the 2021/22 statutory deadline of 30 November 2022. The statutory deadline has been extended from the 30 September in 2021 to aid auditor resourcing. In 2020/21, this council was one of only 9% of councils in England and one of the first in the South East, who published their accounts by the deadline of 30 September 2021.

2. Draft Annual Financial Report for 2021/22

The Annual Financial Report

- 2.1 The complete document published at the end of the audit process is termed the "Annual Financial Report" (Appendix A), while the term "Statement of Accounts" comprises the formal accounting statements, including the Collection Fund statement, together with the notes to these accounts. The Annual Financial Report consists of:
- Narrative Report
 - The Annual Governance Statement
 - The Statement of Responsibilities
 - The Independent Auditor's Report
 - The Statement of Accounts

Changes to Accounting Standards and other Major Impacts

- 2.2 IFRS (International Financial Accounting Standard) 16 leases should have been implemented on 1 April 2020 with impact to the statements in 2020/21. This has subsequently been deferred for 4 years due to Covid and audit pressures. The effective date for implementation is now 1 April 2024, which would impact the statements in 2024/25. A note will be included in the 2023/24 accounts to lay out the likely impact upon the 2024/25 accounts.

Headline figures in the Statement of Accounts

- 2.3 The revenue accounts, as summarised in paragraph 5 of the Narrative Report, show that the Council achieved a Cost of Services underspend of £552,000 compared to budget. This was due mainly to £897,000 of staff cost savings resulting from unfilled vacancies. Income from Garden Waste collection was below budget by £764,000 as services were suspended for a period due to the national shortage of HGV drivers, although this was partially offset by a reduction in contractor costs. Similarly, the Assembly Hall Theatre income was below budget by £664,000 as they were still suffering from pandemic restrictions, but this was offset by £640,000 of associated cost savings. There were also some other smaller income successes, including the Ice Rink, which made a £170,000 surplus to budget, the best year it has ever had. Interest received was also above budget by £132,000 and the council received additional grants of £2,170,000, mostly due to Government Covid support. The council also achieved an unbudgeted Business Rates surplus and after some movements to/from reserves, eventually transferred a residual £35,000 to the General Fund. Meeting the revenue budget is a considerable achievement made possible by Government Grants, the dedication of officers to claim every element of financial support possible and the very tight control of costs throughout the year. It emphasises the Council's commitment to balancing its budget year on year.
- 2.4 The Usable Reserves fell by £6.9m during the year, from £39.4m to £32.5m. £6,976,000 of the £32.5m however, is really unusable, as it is set aside to repay the Collection Fund in 2022/23 for losses resulting from Business Rates Reliefs, for which the Council has already received Section 31 Grants. The reduction in Usable Reserves in year is mainly due to the Collection Fund repayment for 2021/22 of £8,422,000. The remaining £1.5m net increase in Earmarked reserves were funds transferred from revenue to pay for projects that either have been committed but not yet paid for, or approved by Cabinet but not yet committed.
- 2.5 The value of Property, Plant and Equipment increased by £7.4m in the year. This was mainly due to the capitalisation of The Amelia Scott costs of £7.2m. There was no material valuation movement in the other property categories in the year, except the multi-storey car parks, which experienced a revaluation loss totalling £3.0m due to the reduced income following the Covid pandemic. £215,000 of capital receipts were achieved, £160,000 from a piece of land already on the Balance Sheet as a surplus asset and £55,000 from a piece of land that had previously been considered to be of immaterial value and was not valued on the Balance Sheet.

- 2.6 There has been a decrease in the Council's net liability for future pension costs, of £4.1m (£7.96m increase in 2020/21, £3.24m increase in 2019/20, £5.56m reduction in 2018/19 and £3.6m reduction in 2017/18). In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the judicial (McCloud) and fire fighter's (Sergeant) schemes as part of the reforms, breached age discrimination rules. There is still some liability risk associated with the implementation of the ruling, but the actuary believes that any further impact will be immaterial to the accounts. The Fund Assets have performed adequately over the period to 31 March 2022, increasing by £916,000. Whilst expected lifespans have remained much unchanged since last year, both salaries and pensions are expected to increase by 0.4% increasing the pension liabilities considerably (see page 104 of the AFR). This has been more than offset however, by an improvement in the discount rate for the scheme of 0.6%. This means that the expected rate of return on pension investments has increased by 0.6%. The total deficit is measured correctly in line with accounting standards, but does fluctuate quite considerably from year to year as actuarial assumptions change. Actual pension contributions made by the council are reviewed by the actuaries on a triennial basis, with the last review being the 31 March 2019. The estimated cash contribution for 2022/23 is £2,865,000 compared with the actual contribution of £2,627,000 for 2021/22, so the impact is £238,000 on the annual revenue budget of the council.

Accounting Issues

- 2.7 The new 2017 Business Rating list for National Non Domestic Rates, applicable from 1 April 2017, is subject to a new and significantly more complex appeal process. This has meant that far fewer appeals have been made than would normally have been expected. The low number of appeals thus far is not anticipated to be the case indefinitely and the amounts appealed could be significant and retrospective. The Ministry of Housing, Communities and Local Government has provided an estimate that 2.1p in every £1 of the annual Rateable Value would be appealed. This estimate has then been further refined to specifically recognise those businesses that are in receipt of the various business rate reliefs, which means they are less likely to appeal their rateable value. A provision has been made for these appeals in the Collection fund, which is now calculated to be £11,458,668. The Council's 40% share of the total provision is now £4,583,467 (£4,106,338 at 31 March 2021).
- 2.8 Accounting for the Business Rates Reliefs through the Collection Fund, via Section 31 Grants spread over the 3 years has been a technical challenge. It has also distorted the Usable Reserves, artificially inflating them with the Government compensation for the Business Rates Relief provided. This has needed to be carefully explained.

- 2.9 Managing, reconciling and accounting for the Government Business grants has been challenging again this year. Compliance with the Code of Practice and IFRS 15 Revenue from Contracts with Customers, has determined the accounting treatment. If the Government determined the terms of the grant then the Council would be considered an “Agent” and the grants would affect only the cash, debtors and creditors on the Balance Sheet. If, however, the grants were determined by the Council (as with the Discretionary Grants), then it would be considered a “Principal” and the grants would need to be taken through the Comprehensive Income and Expenditure Account, onto the Balance Sheet and then reversed out through the Movement in Reserves, so as not to distort the Council’s accounts.
- 2.10 This year the Financial Conduct Authority has significantly increased the amount of documentary evidence required for the audit process and has asked for detailed verification of any assumptions made, in particular with reference to the valuation of Property, Plant and Equipment. This has put significant pressure on the Council’s Finance Team, Grant Thornton’s audit team and the Council’s external surveyor. This is unsustainable with the current resources. If the Financial Conduct Authority cannot be persuaded to take a “lighter touch” approach to local government accounting, additional human resources will be needed for the Finance Team and a budget increase will be necessary to pay for the cost of audit and property valuation, in order to manage the audit process in 2022/23.

3. The Audit Findings Report 2021/22

- 3.1 The Audit Director from Grant Thornton has issued a draft Audit Findings Report (Appendix B attached) which she will introduce at the meeting. The report states that she expects to issue an unqualified audit opinion and no adjustments have been identified. She records her appreciation of the assistance provided by the Finance team and other staff.
- 3.2 The Value for Money Review is aimed at assessing the Council’s arrangements for delivering economy, efficiency and effectiveness in its use of resources. Grant Thornton have provided the Chair with a letter stating that the National Audit Office’s revised timeframe for the VFM reviews is 3 months from the audit opinion date. Grant Thornton will provide their assessment within that timeframe.
- 3.3 Appendix A of the Audit Findings Report indicates that there are a few outstanding tasks to be completed, but all are anticipated to be completed by this meeting. The representation letter will be signed after the Committee meeting.
- 3.4 Appendix B shows that the completion date of the Camden Centre had been recorded as 1996 rather than 1992, reducing the life and therefore the value of

the building. The change in value has not been adjusted in the accounts however, as the amount is immaterial.

Role of Committee and timetable to publication of the Annual Financial Report

- 3.5 As noted in the Audit Findings Report, the audit is almost complete. This Committee has a duty to approve the Statement of Accounts, which will then be published as part of the Annual Financial Report. It is anticipated that this Committee will also give their statutory approval to the Annual Governance Statement at this meeting.

4. Options Considered

- 4.1 The Committee could decide not to approve the accounts.

5. Preferred Option and Reason

- 5.1 That the Committee approve the accounts in order that the statutory obligations and deadlines are met.

6. Consultation on Options

- 6.1 In line with the Accounts and Audit Regulations, a formal advertisement was placed on the internet drawing the attention of the public to the availability of the draft accounts, and the legal right of interested parties to inspect the accounts and the supporting documentation. The inspection period ended on the 29th July. There were no requests to inspect the accounts during this period.

7. Implementation

- 7.1 Once the Independent Auditor's Report is signed the Statement of Accounts will be published on the Council's website.

8. Appendices and Background Documents

The following documents are to be published with this report and form part of the report:

- Appendix A: Draft Annual Financial Report for 2021/22
- Appendix B: Draft Audit Findings Report for 2021/22

9. Cross Cutting Issues

A. Legal (including the Human Rights Act)

The Audit Committee has a legal duty of oversight for the Council's corporate governance arrangements. Under section 151 of the local government act (LGA 1972), the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including advising on the corporate financial position and providing financial information. There are no consequences arising from the recommendation that adversely affect or interfere with individuals' rights and freedoms as set out in the Human Rights Act 1998.

Senior Lawyer (Corporate Governance)

B. Finance and Other Resources

The Annual Financial Report details the overall unaudited financial position of the authority and is for information only.

Jane Fineman, Head of Finance, Procurement & Parking

C. Staffing

There are no specific implications.

Jane Fineman, Head of Finance, Procurement & Parking

D. Risk Management

The reporting of the draft Report at this stage is designed to improve scrutiny of the Council's draft accounts and therefore to reduce the risk of material error.

Head of Audit Partnership, Deputy Head of Audit Partnership or Audit Manager

E. Environment and Sustainability

There are no specific implications.

Jane Fineman, Head of Finance, Procurement & Parking

F. Community Safety

There are no specific implications.

Jane Fineman, Head of Finance, Procurement & Parking

G. Equalities

There are no specific implications.

Jane Fineman, Head of Finance, Procurement & Parking

H. Data Protection

There are no specific implications.

Jane Fineman, Head of Finance, Procurement & Parking

I. Health and Safety

There are no specific implications.

Jane Fineman, Head of Finance, Procurement & Parking

J. Health and Wellbeing

There are no specific implications.

Jane Fineman, Head of Finance, Procurement & Parking