

<b>SUBJECT:</b>	<b>DRAFT STATEMENT OF ACCOUNTS 2020/21</b>
<b>REPORT BY:</b>	<b>CHIEF EXECUTIVE AND TOWN CLERK</b>
<b>LEAD OFFICER:</b>	<b>COLLEEN WARREN, FINANCIAL SERVICES MANAGER</b>

## **1. Purpose of Report**

- 1.1 To present the draft Statement of Accounts for the financial year ended 31<sup>st</sup> March 2021, together with a short summary of the key issues reflected in the statutory financial statements, for scrutiny.

## **2. Executive Summary**

- 2.1 The Statement of Accounts (SOA) for 2020/21 provides a comprehensive picture of the Council's financial circumstances and are compiled to demonstrate probity and stewardship of public funds.
- 2.2 The Council is statutorily required to publish its Statement of Accounts for 2020/21 with an audit opinion and certificate by no later than 30<sup>th</sup> November 2021. This date has been extended from the ordinary deadline of 31<sup>st</sup> July as a result of Covid19.
- 2.3 The Audit Committee should note that the Statement of Accounts for 2020/21 are still subject to external audit. The audit of the accounts is being undertaken by Mazars, who have commenced the audit in July. Should any material changes be necessary as a result of this external audit work, these will be reported to a meeting of this Committee when the audited Statement of Accounts are presented for approval.
- 2.4 The Council must make the Statement of Accounts available for public inspection for 10 working days. Following notification from Mazars, this runs from 2nd August until 13<sup>th</sup> August 2021 and the External Auditor is available to answer questions during this period.
- 2.5 The Council is also required to provide a documented annual review of the effectiveness of its governance arrangements (Annual Governance Statement), which sits alongside the Statement of Accounts. The overall level of assurance provided in 2020/21 was substantial (green) and is in line with our Code of Corporate Governance. However, there are currently two defined significant issues. In respect of IT Disaster Recovery significant progress has been made, however due to the impact of COVID19 on working arrangements it was felt that this issue should remain on the list of significant issues, and this will be regularly reported by management to the Audit Committee. In respect of the second issue the Vision 2025 the strategy was adopted but due to COVID19 there has been no formal launch. Vision 2025 may also need to be

revised to take into account the impact of COVID19 on the people and the City. These will be regularly reported by management to the Audit Committee. There were no new significant issues identified in 2021.

### **3. Background**

3.1 The Accounts and Audit Regulations 2015 require the Statement of Accounts to be certified by the Council's Chief Finance Officer by the 31<sup>st</sup> May each year. However, due to the Covid19 pandemic this date has been relaxed to 31<sup>st</sup> July 2021. The Accounts are then released to be audited by the Council's external auditor, Mazars. After completion of the audit the accounts must be published with the audit opinion and certificate, and before that must have been approved by Full Council, by no later than 31<sup>st</sup> July each year, this date has also been relaxed to 30<sup>th</sup> September 2021. The timescales involved with the approval of the Statement of Accounts for 2020/21 are:

a) Report draft accounts to Audit Committee	22 <sup>nd</sup> July 2021
b) Report to Audit Committee	TBC September 2021
c) Report to the Executive	20 <sup>th</sup> September 2021
d) Approval by Council	21 <sup>st</sup> September 2021

3.2 In order to ensure that the statutory deadline of 30<sup>th</sup> September is met Mazars must complete their audit and issue the relevant audit opinion. Should any material changes be necessary as a result of this external audit work, these will be reported to a meeting of this Committee when the audited Statement of Accounts will be presented for approval. The Audit Committee will also receive the Audit Opinion from Mazars at that meeting.

3.3 There is a great deal of technical detail contained in the statutory rigid format of the Accounts that is not always easily understood by the reader unless they are familiar with accounting and audit standards. Training has been provided prior to this meeting to assist members in their understanding of the accounts and a short summary of the accounts will be produced to accompany the Final Statement of Accounts when it is presented to members in September. The remainder of this report sets out a short summary, which highlights the key figures in the financial statements which it is hoped will prompt questions in order for the Council to promote greater accountability and transparency for the significant sums of public money entrusted to the Council.

## **4. Summary of Key Issues in the Financial Statements**

### **4.1 The Comprehensive Income and Expenditure Statement**

4.1.1 **The Comprehensive Income and Expenditure Statement (CIES)** (SOA page 22) – in line with statutory accounting practice the Comprehensive Income and Expenditure Statement (CIES) shows the Council's actual performance for the year measured in terms of the resources consumed and generated over the last 12 months. It should not be misinterpreted as the financial outturn position of the Council as this statement contains a number of accounting entries required under International Financial Reporting Standards (IFRS). Regulation

allows local authorities to reverse these amounts out of the accounts before determining their outturn position. There is a note to the accounts (Expenditure & Funding Analysis (SOA page 53)) that adjusts the expenditure that is chargeable to general fund and the HRA balances (as per the actual outturn position) to the accounting entries in the CIES under IFRS. To further assist members interpretation of the CIES the table below summarises the reconciliation between the net surplus on the Provision of Services of £12.574m in the CIES to the outturn position of an increase in General Fund Balances of £0.432m and an increase on HRA balances of £0.075m as reported in the Financial outturn report (Executive 24<sup>th</sup> June 2021).

	£m	£m
<b>Net (surplus)/deficit on the Provision of Services</b>		<b>-12.574</b>

*Of which:*

<b>General Fund</b>	£m	£m
Net (surplus)/deficit on the Provision of Services		3.393
Adjust for:		
Depreciation, revaluation losses and gains & impairment of non-current assets	-5.567	
Revenue expenditure funded from capital under Statute	-0.97	
Direct Revenue financing of capital expenditure	0.034	
Contribution to/from the pensions reserve	-2.394	
Debt repayment and premiums & discounts on debt	1.507	
Short-term compensated absences	-0.167	
Contribution to Government's Housing Capital Receipts Pool	-0.529	
Capital grants & contributions unapplied credited to CI&ES	2.902	
Adjustment for Collection Fund	-11.768	
Adjustment for Financial Instruments	0.002	
Transfer to/from Earmarked reserves	13.125	
<b>Total Adjustments</b>		<b>-3.825</b>
<b>(Increase)/decrease in General Fund Balances</b>		<b>-0.432</b>

*Of which:*

<b>HRA</b>	£m	£m
Net (surplus)/deficit on the Provision of Services		-15.967
Adjust for:		
Depreciation, revaluation losses and gains & impairment of non-current assets	12.43	
Direct Revenue financing of capital expenditure	0.048	
Gain/loss on the sale of non-current assets	0.174	
Contribution to/from the pensions reserve	-1.298	
Short-term compensated absences	-0.142	
Capital grants & contributions unapplied credited to CI&ES	0.453	
Transfer to/from the HRA	2.898	
Transfer to/from Earmarked reserves	1.329	
<b>Total Adjustments</b>		<b>15.892</b>
<b>(Increase)/decrease in HRA Balances</b>		<b>-0.075</b>

<b>Overall (Increase)/decrease in Balances</b>		<b>-0.507</b>
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4.1.2 Clearly the most significant issue for Members to be aware of from the Comprehensive Income and Expenditure Statement is how the Council performed financially in 2020/21, in comparison to the revised budget for the year. As previously reported, there was a projected underspend against the General Fund budget of £122.7k at quarter 3, this underspend has increased and provisional outturn is now an overall budget surplus of £148.4k.

4.1.3 The Housing Revenue Account is reporting a provisional underspend against the revised budget of £74k. Allowing for this adjustment, HRA balances were £1.075m and the HRA Repairs Accounts balance was £1.250m as at 31<sup>st</sup> March 2021.

4.1.4 Further details on these are provided in the Narrative Report in the Statement of Accounts (*SOA page 3*) and were subject to a separate report to Performance Scrutiny Committee and Executive 22nd June 2021 and 24<sup>th</sup> June 2021 respectively.

## 4.2 **The Balance Sheet** (*SOA page 23*)

4.2.1 **The Balance Sheet** is fundamental to understanding the Council's financial position at the year-end. It shows the Council's balances and reserves, long-term indebtedness, and the non-current and current assets employed in the Council's operations. The key information for members to be aware of in the Balance Sheet as at 31<sup>st</sup> March 2021 are:

4.2.2 **General Balances** – General balances have increased by £0.507m during the year, as analysed below:

<b>Description</b>	<b>Opening Balance £m</b>	<b>Closing Balance £m</b>	<b>Increase/ (Decrease) £m</b>
General Fund balances	2.236	2.668	0.432
HRA balances	0.995	1.070	0.075
HRS	0	0	0
<b>Total</b>	<b>3.231</b>	<b>3.738</b>	<b>0.507</b>

4.2.3 **Earmarked Reserves** - in total monies carried forward to pay for specific future commitments (including the insurance fund) have increased by £14.454m, as analysed below:

Description	Opening Balance £m	Closing Balance £m	Increase/ (Decrease) £m
Other Specific Reserves	11.589	26.043	14.454

This is due to a number of contributions to and from earmarked reserves as reported as part of the 2020/21 Provisional outturn to the Executive 24<sup>th</sup> June 2021 and as detailed in Note 10 (Transfers to/ from Earmarked Reserves) in the Statement of Accounts (SOA page 62). The most significant of these contributions was in relation to timing differences arising from the receipt of funding from MHCLG for Business Rate Reliefs awarded in response to Covid19, and the subsequent declaration of a deficit on the Collection Fund. Funding of £11.388m was transferred to the Business Rates Volatility Reserve to be used to finance the Collection Fund deficits in 21/22, 22/23 and 23/24.

4.2.4 **Liquidity** – a reliable indication of liquidity is the ratio of current assets (excluding inventories) to current liabilities. The Council's current assets (excluding inventories) of £64.359m exceed current liabilities of £43.232 by a ratio of 1.49:1, which represents an increase from the previous year's ratio of 1.38:1. This is due to a decrease in short term borrowing (as per the Council's borrowing strategy).

4.2.5 **Debtors** – debtors have increased by £16.28m to £28.389m. The increase is mainly due to increases in balances on the Central Government and County Council shares of the Council Tax and Business Rates Collection Fund deficits (£15.1m). These deficits will be recouped during primarily in 21/22.

4.2.6 **Creditors** – have increased by £18.549m to £33.814m. This is mainly due to S31Grants and Business Rates adjustment account (£15.7m) which absorbs the timing differences between statutory accounting requirements and full accruals accounting on the Collection Fund, and Covid 19 Grants (£5.5m).

### 4.3 Cross Cutting Key Issues

4.3.1 There are a number of areas that have significant impacts or are of particular interest that sit both within the Comprehensive Income and Expenditure Statement and the Balance Sheet. To aid members understanding of the Accounts these are summarised below:

4.3.2 **Non-Current Assets** are shown in the Balance Sheet and represent the Council's land, building, heritage, community and intangible assets.

- **The value of non-current assets and assets held for sale in the Balance Sheet has increased by £14.7m (4%) to £430m between 31<sup>st</sup> March 2020 and 31<sup>st</sup> March 2021 (see the Balance Sheet and Notes 14,**

15 and 16 for further detail). This net increase is the result of a number of factors:

- **Revaluations** - The Council's Assets are valued on a rolling programme, which ensures each asset is re-valued every 5 years as at the 31<sup>st</sup> March. In addition to this, all assets are reviewed for any material change in their value at the end of each financial year. The results for 20/21 have seen an **overall increase in value of £7m**, which is the net result of valuation gains and losses across a range of assets.

Accounting rules require that where a balance has not built up on the Revaluation Reserve for an individual asset (a reserve which holds accumulated gains following previous revaluations upwards) then any revaluation losses (downwards revaluation in asset values) must be recognised in the Comprehensive Income and Expenditure Statement (CI&ES) and then reversed out in the Movement in Reserves Statement before it impacts on Council Tax payers. Accounting rules also require that where a revaluation loss previously recognised in the CI&ES on an individual asset is subsequently reversed by an upwards revaluation, then the revaluation gain should be recognised in the Comprehensive Income and Expenditure Statement up to the value of the original revaluation loss. Within the £7m net upwards movements due to revaluation gains and losses in 20/21, there were:

- **£9.4m of net revaluation gain** required to be charged to Cost of Services in the CIES. This is mainly due to reflecting the social housing value of housing stock (£12.4m).
- **£2.4m of net downwards revaluations** were reflected in the Revaluation Reserve (shown in Other Comprehensive Income and Expenditure in the CIES). This was mainly due to the downward revaluation (£3.2m) an increase in the council's land and buildings.
- **Additions - New capital investment in assets belonging to the Council totalled £18.6m.** The main areas of expenditure include £12m spent on the Council's new build and acquisition programme, £3.7m improving Council dwellings including re-roofing, kitchens and landscaping and £0.635m improving our parks and open spaces. To pay for this investment, the Council has used £3.74m of capital grants and contributions, £1.63m of capital receipts, £4.62m of the Major Repairs Reserve, £8.54m of unsupported borrowing, and £0.08m of direct revenue financing.
- **Depreciation** – a charge is made to the Comprehensive Income and Expenditure account for depreciation to reflect the use of assets in the provision of services during the year. The value of non-current assets in the Balance Sheet is reduced by an

equivalent amount. For General Fund services this charge is reversed out in the Movement in Reserves Statement (MiRS) and replaced with a statutory charge for the repayment of debt. In the HRA under self financing, depreciation is a real charge to the service however, it is set aside in the Major Repairs Reserve for future investment in the housing stock. **In 2020/21 total depreciation was £9.09m** (of which £2.2m was charged for non-HRA dwellings and was replaced in the MiRS with £1.5m for the repayment of debt and £6.7m depreciation was charged to the HRA which is available in the Major Repairs Reserve for future investment).

- **Disposals – assets valued at £1.395m in the Balance Sheet were disposed** of in 2020/21. This included 33 Right to Buy sales of council dwellings.

4.3.3 **Pensions** – the payments made by the Council to the Lincolnshire County Council Pension Fund each year as employer contributions to the scheme and any addition costs relating to pension strain etc are reflected in the financial outturn position of the Council. However, accounting practice requires that in the Statement of Accounts pension costs are shown when the Council is committed to give them, even if the actual giving may be years into the future. This means that:

- The costs of providing retirement benefits to employees are recognised in the accounting period in which the benefits are earned by employees, and the related finance costs and any other changes in value of assets and liabilities are recognised in the accounting periods in which they arise.
- The financial statements reflect the liabilities arising from the Council's retirement obligations.
- The financial statements disclose the cost of providing retirement benefits and related gains, losses, assets and liabilities

Full details are provided in Note 44 to the accounts – Defined Benefit Pension Schemes (*SOA page 101*). The impact of these accounting requirements in the core financial statements are:

- **Comprehensive Income & Expenditure Statement (CIES)** - The cost of retirement benefits in the CIES is shown as an actuarial estimate of £4.973m reflecting the retirement benefits earned during 2020/21 and to be funded in the future. This includes £6.477m current service costs and a net interest cost on the defined benefit obligations of £1.896m. This net cost is reversed out in the Movement in Reserves Statement (MiRS) and is replaced by the actual amount charged for pension contributions in the year of £4.681m.
- **Balance Sheet** – The Pension Reserve shows the underlying commitments

that the Council has in the long term to pay retirement benefits based on an assessment by the pension schemes actuary. The balance on the Pensions Reserve is the net position of the scheme's liabilities and assets. During 2019/20 the net liability has increased by £27.252m to £109.241m. The actuarial assumptions are detailed in note 44 to the accounts 'Defined benefit pension scheme'.

It is important for members to be aware that the statutory arrangements for funding the remaining liability of £109.241m means that this deficit will be made good by the increased level of annual employer contributions payable to the Pension Fund over the remaining estimated average working life of our employees in the Pension Scheme. The financial position of the Council remains healthy.

4.3.4 **Officer remuneration** – note 35 to the accounts (SOA page 92) details senior staff salaries and the number of employees receiving more than £50k remuneration during the year (this includes receipt of any redundancy payments). Also detailed within the note is the redundancy/pension/payment in lieu costs paid in year, in line with Executive approvals of Towards Financial Sustainability business cases and the Council's redundancy policy.

4.3.5 **Borrowing** – the Council takes borrowing to fund capital expenditure. It also occasionally takes short term borrowing for cash flow purposes.

- Between 31<sup>st</sup> March 2020 and 31<sup>st</sup> March 2021, the Council's total borrowing increased to £123.45m (excluding accrued interest which is shown in the Balance Sheet under short-term borrowing as at 31<sup>st</sup> March 2021).
- The total borrowing can be split between short term borrowing (payable within 12 months) of £7.71m and long term borrowing of £115.74m.
- The average rate of interest payable on borrowing was 3.25% which is a slight decrease on 2019/20 (3.62%) and due to the new low rate shorter-term loans taken being.
- The Comprehensive Income and Expenditure Statement for 2020/21 includes £3.9m interest payable on borrowing (excluding leases) of which £1.5m relates to the General Fund and £2.4m to the HRA.

The maturity profile of the outstanding borrowing as at 31<sup>st</sup> March 2021 is as follows:

Within	£m	% of Total Debt
1 year	7.7	6.20%
1 – 2 years	8.2	6.60%
2 – 5 years	6.1	4.90%
5 -10 years	10.7	8.70%
10 years and over	90.7	73.50%
<b>Total</b>	<b>123.4</b>	<b>100.00%</b>



4.3.6 **Investments** – in line with its Treasury Management Strategy, the Council invests surplus cash on the money markets, typically for periods less than one year to approved organisations, although core cash balances may be invested for periods over 1 year if interest rates and market conditions are favourable.

- As at 31<sup>st</sup> March 2021, total investments had increased by £3.35m from £30.55m to £33.9m compared to the previous year end.
- Average investment balances during 2020/21 were £35.8m, compared to £28.8m in 2019/20.
- The average interest rate received on investments in 2020/21 was 0.20% (a decrease of 0.64% on the average rate achieved in 2019/20 due to the low yield available on balances), which was 0.27% above the target average 7-day LIBID rate.

## 5. Strategic Priorities

5.1 The Council's Statement of Accounts are a financial summary of the Council's activities in support of its Vision 2025 and Strategic Priorities during the financial year 2020/21.

5.2 Communication - The draft Statement of Accounts is available on the Council's website and the period of public inspection has been advertised. The completion of the audit of the Council's Statement of Accounts will be published on the Council website by 30<sup>th</sup> November 2021. The Statement of Accounts will also be made available on the website with a summary version of the accounts published in the Council's Annual Report.

## 6. Organisational Impacts

6.1 Finance - The financial implications are contained throughout this report.

6.2 Legal - In accordance with the Accounts and Audit (Amendment) Regulations 2021 the Statement of Accounts must be approved and published by the Council, together with the audit opinion and certificate, by the 30<sup>th</sup> September 2021.

## 7. Risk Implications

7.1 There are no direct risk implications arising as a result of this report.

## 8. Recommendation

8.1 The Audit Committee are invited to scrutinise the Statement of Accounts.

**Key Decision**

No

**Key Decision Reference No.**

N/A

**Do the Exempt Information Categories Apply**

No

**Call in and Urgency:** Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?

No

**Does the report contain Appendices?**

Yes

**List of Background Papers:**

Medium Term Financial Strategy 2020-2025  
Financial Performance - Outturn 2020/21

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