

By: Deputy Leader and Cabinet Member for Finance and Traded Services – Peter Oakford
Corporate Director of Finance – Zena Cooke

To: Governance and Audit Committee – 21 July 2020

Subject: DRAFT STATEMENT OF ACCOUNTS 2018-19

Classification: Unrestricted

Summary: This report asks Members to consider and note the draft Statement of Accounts for 2019-20.

FOR INFORMATION

1. INTRODUCTION

1.1 The draft Statement of Accounts of the County Council for 2019-20 follows this report. The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 state that;

... the publication date for final, audited accounts will move from 31 July to 30 November 2020. The authority must, following the conclusion of the period of public inspection, in the following order:

- i) consider, either by way of a Committee or by the Members meeting as a whole, the Statement of Accounts;
- ii) approve the Statement of Accounts by a resolution of that Committee or meeting;
- iii) ensure that the Statement of Accounts is signed and dated by the person presiding at the Committee or meeting at which that approval was given;

1.2 The audit of the accounts has commenced and the public inspection period is due to conclude on 11 August 2020. The draft Statement of Accounts attached to this report are for comment and review; and the final audited accounts will be brought back to this committee for decision and approval on 1 September 2020.

1.3 Letters of Representation will be provided in connection with the audits of the financial statements for the Council and the Kent Superannuation Fund; and they will be required to be formally minuted by the Committee in September that they are approved.

1.4 Members are encouraged to scrutinise these Accounts and ask questions.

- 1.5 There have been two briefing session held on the Statement of Accounts ahead of this report coming to this Committee meeting. If any Member of this Committee has any questions in relation to these Accounts, then they can be raised prior to the meeting of the Committee with Emma Feakins, Chief Accountant, who will be happy to meet with any Member or group of Members to give a more detailed explanation of these Accounts. Alternatively, questions can of course be asked at this meeting.

2. STATEMENT OF ACCOUNTS - CONTENTS

- 2.1 The content and format of the Accounts is as prescribed in the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and is known as the Code.
- 2.2 The Statement of Accounts for 2019-20 is prepared on an International Financial Reporting Standards (IFRS) basis.
- 2.3 The remainder of Section 2 of this report highlights the key facts, figures and issues from the attached draft Accounts.

Narrative Pages 3-15

- 2.4 The narrative provides clarification on the relationship between the Statement of Accounts and other financial information that the Council reports on externally. The 2019-20 narrative provides information on the funding strategy applied during 2019-20 and the direction of travel for 2020-21 onwards.
- 2.5 We have been required to report the impact of Coronavirus in the narrative section. This can be found on page 11. The financial impact of COVID-19 on the 2019-20 Statement of Accounts is minimal and the true impact will be reported in 2020-21 onwards.
- 2.6 The details of the revenue outturn are shown on Pages 9 to 12. This shows an underspend of £6.2m against the non-schools budgets. Details of underspends within the directorates have been detailed in the monitoring reports throughout the year and were reported in the Final Outturn report which went to Cabinet on 22 June. After committed roll forwards and bids approved by Cabinet on 22 June, the resulting underspend was £3.1m.
- 2.7 The level of general revenue reserves remains at £37.2m. The Corporate Director of Finance deemed this to be an acceptable level of general reserves based on the current budget, and the Council's identified risks.
- 2.8 Capital expenditure excluding that incurred by schools under devolved arrangements was £150.3m less than the latest revised cash limits. Of this, £148.9m reflects re-phasing of capital expenditure plans across all services and £1.4m was due to variations on a small number of projects. These unspent capital resources will be carried forward into 2020-21 and beyond in order to accommodate the revised profiles of capital expenditure.

2.9 The 2019-20 IAS 19 report shows an increase in the Pensions Reserve deficit of £29m. This year we have recognised £25m relating to the impact of the McCloud judgement in the Comprehensive Income and Expenditure Statement. See Paragraph 2.19 for more information.

Statement of Responsibilities Page 16

2.10 This statement sets out the respective responsibilities of the Authority and the Corporate Director of Finance in relation to the production of the final accounts.

Financial Statements Pages 17-22

Comprehensive Income and Expenditure Statement

2.11 The Comprehensive Income and Expenditure Statement (CIES) consolidates all the gains and losses experienced by an authority during the financial year. As authorities do not have any equity in their Balance Sheets, these gains and losses should reconcile to the overall movement in net worth.

2.12 The CIES has two sections:

- i) Surplus or Deficit on the Provision of Services – the increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.
- ii) Other Comprehensive Income and Expenditure – shows any changes in net worth which have not been reflected in the Surplus or Deficit on the Provision of Services. Examples include the increase or decrease in the net worth of the authority as a result of movements in the fair value of its assets and actuarial gains or losses on pension assets and liabilities.

Movement in Reserves Statement (MiRS)

2.13 This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The unusable reserves are required due to accounting practices and are not cash-backed. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. Usable reserves have decreased by £31m in 2019-20. The main movements are:

	£m
Unapplied Capital Grants, reflecting use of reserve to fund capital project	-57
Capital Receipt Reserve	-8
COVID-19 Reserve – emergency funding received 27 March 2020.	37
Total of major movements in usable reserves	<u><u>-28</u></u>

2.14 The MiRS is a summary of the changes that have taken place in the bottom half of the Balance Sheet over the financial year. It does this by analysing:

- i) The increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.
- ii) The increase or decrease in the net worth of the authority as a result of movements in the fair value of its assets.
- iii) Movements between reserves to increase or reduce the resources available to the authority according to statutory provisions.

Balance Sheet

2.15 The Balance Sheet summarises the Council's financial position at 31 March each year. In its top half it contains the assets and liabilities that it holds or has accrued with other parties. As local authorities do not have equity, the bottom half is comprised of reserves that show the disposition of an authority's net worth, falling into two categories:

- i) Usable Reserves, which include the revenue and capital resources available to meet future expenditure (e.g. the General Fund Balance and the Capital Receipts Reserve), and
- ii) Unusable Reserves, which include:
 - unrealised gains and losses, particularly in relation to the revaluation of property, plant and equipment (e.g. the Revaluation Reserve);
 - adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure (e.g. the Capital Adjustment Account and the Pensions Reserve).

2.16 Property, Plant & Equipment has increased by £519m. This includes revaluation increases of £540m.

- 2.17 Current assets decreased by £78m. Short-term investments reduced by £40m and our cash equivalents reduced by £36m this is in part due to additional emergency spending due to COVID-19.
- 2.18 Current liabilities increased by £43m. Temporary borrowing increased by £18m due to the value of loan principal maturing in 2020-21 and interest accrued on borrowing. Creditors increased by £24m this includes almost £13m relating to the 2020-21 Business Rates Compensation Grant which was paid in advance to help with local authorities cash flow due to the coronavirus emergency.
- 2.19 Long term liabilities have decreased by £22m. Long-term borrowing decreased by £41m which predominately relates to borrowing transferring to temporary borrowing and the fluctuations in the maturity profile. The pension liability increase by £29m which is related to defined benefit pensions schemes under IAS 19 reporting. The note to explain the increase can be found in Note 38 from page 107 of the Accounts.
- 2.20 Our net worth has increased from a surplus of £386m to a surplus of £843m. This is mainly due to the revaluation increases explained in paragraph 2.16.

Cash Flow Statement

- 2.21 This statement summarises the changes in cash and cash equivalents by classifying cash flows as operating, investing and financing activities. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

The Expenditure and Funding Analysis

- 2.22 The Expenditure and Funding Analysis detailed on pages 23 to 24 shows how the Council's expenditure is allocated for decision making purposes between the directorates. It also shows how the annual expenditure is used and funded from resources by the Council compared with the resources consumed or earned in accordance with generally accepted accounting practices.

Significant Notes to the Accounts pages 25-126

Adjustments between accounting basis and funding basis under regulations

- 2.23 This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. It also supports the line in the MIRS and provides more detail on how this is split across usable and unusable reserves.

Officers Remuneration

2.24 Note 6 on pages 30-40 provides details of officers' remuneration over £50,000 and details on exit packages in bands of £20,000 split between compulsory redundancy and other departures.

Note to the Expenditure and Funding Analysis

2.25 Note 10a on pages 42 to 45 provides an analysis and explanation of the main adjustments to the Net Expenditure Chargeable to the General Fund and Adjustments between the Funding and Accounting Basis that were set out in the Expenditure and Funding Analysis explained in paragraph 2.23.

Property, Plant and Equipment

2.26 Note 17 on pages 52-68 shows the movements on these assets, which have increased in value (relatively) from £2.49bn to £3.01bn.

Reserves

2.27 Details of reserves can be found in the following notes, usable reserves in Note 23 which also include earmarked reserves, unusable reserves in Note 24, and earmarked reserves in Note 25. Earmarked reserves have increased by £47.2m; the remainder of usable reserves have decreased by £78.2m and unusable reserves have increased by £488.3m.

Pension Fund Accounts pages 127-155

2.28 Pages 127-155 contain a summarised extract of a more detailed statement produced for the Pension Fund.

Glossary

2.29 A glossary of some of the terms used within the Accounts is provided on pages 163 - 164.

3. RECOMMENDATION

Members are asked to:

3.1 Consider and note the Statement of Accounts for 2019-20.

3.2 Note that the approval of the Letters of Representation will be required at the September Committee

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