

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

To: Governance and Audit Committee – 30 November 2021

Subject: DRAFT STATEMENT OF ACCOUNTS 2020-21

Classification: Unrestricted

Summary: This report asks Members to consider and note the draft Statement of Accounts for 2020-21.

FOR INFORMATION

1. INTRODUCTION

1.1 The draft Statement of Accounts of the County Council for 2020-21 follows this report. The Accounts and Audit (Amendment) Regulations 2021 state that;

... the publication date for final, audited accounts will move from 31 July to 30 September 2021. 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 It is recommended that the Accounts are finalised and signed today, on the basis that the audit is completed.

1.3 The draft Statement of Accounts attached to this report are for comment and review; and reflect known required changes.

1.4 The public inspection period concluded on 11 August 2021.

1.5 As required by the Accounts and Audit Regulations 2015 – Regulation 10 as amended by the Accounts and Audit Regulations 2021, the Council has published a 'Delayed Opinion Notice' on the website.

- 1.6 Letters of Representation are 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 to confirm they are approved.
- 1.7 The Committee's Terms of Reference set out the Committee's responsibilities in relation to the accounts as follows:
- (a) to ensure the Council's financial affairs are properly and efficiently conducted and;
 - (b) the Council's financial statements (including the pension fund accounts) comply with relevant legislation and guidance and the associated financial reporting processes are effective,
 - (c) any public statements in relation to the Council's financial performance are accurate and the financial judgements contained within those statements are sound,
 - (d) accounting policies are appropriately applied across the Council.
- 1.8 In order to ensure sufficient time and focus on the Statement of Accounts a workshop was held with Members of the Governance and Audit Committee on 30 September 2021. The training covered the main statements and key areas; and provided the opportunity for questions and comments to be made.

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 2020-21 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 3-20

- 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 2020-21 narrative provides information on the funding strategy applied during 2020-21 and the direction of travel for 2021-22 onwards.
- 2.5 We are required to report the impact of Coronavirus including Covid-19 related specific grants in the narrative section. This can be found on pages 13 and 14.

- 2.6 The details of the revenue outturn are shown on pages 11 and 12. This shows an underspend of £70.0m (£14.4m business as usual and £55.6m covid related underspends) before roll forwards 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 was considered by Cabinet on 24 June. After committed roll forwards and bids approved by Cabinet on 24 June, the resulting underspend was £27.5m (£0.8m business as usual and £26.7m covid related underspends).
- 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 £184.9m less than the latest revised cash limits. Of this, £175.3m reflects re-phasing of capital expenditure plans across all services and £9.6m was due to variations on a small number of projects. These unspent capital resources will be carried forward into 2021-22 and beyond in order to accommodate the revised profiles of capital expenditure.
- 2.9 The 2020-21 International Accounting Standard (IAS) 19 report shows an increase in the Pensions' Reserve deficit of £272m. See Paragraph 2.19 for more information.

Statement of Responsibilities Page 21

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

Financial Statements Pages 22-27

Comprehensive Income and Expenditure Statement

- 2.11 The Comprehensive Income and Expenditure Statement (CIES) consolidates all the gains and losses experienced by a council during the financial year. As councils 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 council 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 council 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 increased by £119m in 2020-21. The main movements are:

	£m
S31 Grant Compensation for Covid-19 related Business Rate Reliefs	26
Earmarked reserve to support future year's budget – as agreed in MTFP	22
School Budget Deficit transferred to Adjustment Account	21
Increase in Schools Reserves due to surplus Schools Balances	21
Covid-19 Reserve – emergency funding to support ongoing impact of Covid-19.	18
Kings Hill development smoothing reserve	13
Rolling Budget Reserve – to cover roll forward requests	11
S31 Grants Compensation for irrecoverable Business Rates and Council Tax Losses	7
Public Health reserve – to meet eligible spend in future years	5
Unapplied Capital Grants, reflecting use of reserve to fund capital project	-27
Total of major movements in usable reserves	<u>117</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 council as a result of incurring expenses and generating income.
- ii) The increase or decrease in the net worth of the council 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 council 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 councils do not have equity, the bottom half consists of reserves that show the disposition of a council'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 £150m. This includes revaluation increases of £126m.

2.17 Current assets increased by £222m. Cash and cash equivalents increased by £87m which is in part due to additional emergency funding for COVID-19 measures and reduced expenditure as a result of lockdowns. Liquid investments increased to enable agility in response to any pick-up in demand. Short-term debtors increased by £78m this is in part related to an increased level of grant income, most significantly the S31 Compensation Grants.

2.18 Current liabilities increased by £125m. Temporary borrowing increased by £47m due to the value of loan principal maturing in 2021-22, including LOBO loans with options in 2021-22, and interest accrued on borrowing. Creditors increased by £76m this includes £37m relating to the 2020-21 Collection Fund deficit and £35m of specific grants mainly in respect of Covid-19 received in advance.

2.19 Long term liabilities have increased by £266m. Long-term borrowing decreased by £78m which predominately relates to borrowing transferring to temporary borrowing and the fluctuations in the maturity profile. The pension liability increased by £272m 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 112 of the Accounts.

- 2.20 Net worth has decreased from a surplus of £843m to a surplus of £792m. This is mainly due to the pension liability increase explained in paragraph 2.19.

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 28 to 29 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 30-131

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 this 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 35-45 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 47 to 50 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 57-73 shows the movements on these assets, which have increased in value (relatively) from £3.01bn to £3.16bn.

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 £127m; the remainder of usable reserves have decreased by £7.8m and unusable reserves have decreased by £170m.

Group Accounts pages 132-147

2.28 The Group Accounts section contains:

- i) Group Comprehensive Income and Expenditure Statement on pages 136 to 137
- ii) Group Movement in Reserves Statement on pages 138 to 139
- iii) Group Balance Sheet on page 140
- iv) Group Cash Flow Statement on page 141

All of the above statements are presented in the same format as the single entity account. Each entity's financial position has been consolidated by elimination of inter-company balances and the realignment of accounting policies where required.

2.29 Notes to the Group Accounts are provided where there are material differences to the single entity accounts.

Pension Fund Accounts pages 148-176

2.30 Pages 148 to 176 contain a summarised extract of a more detailed statement produced for the Pension Fund.

Glossary

2.31 A glossary of some of the terms used within the Accounts is provided on pages 184 to 185.

3. RECOMMENDATION

Members are asked to:

3.1 Consider and approve the Statement of Accounts for 2020-21.

3.2 Approve the Letters of Representation

3.2 Note the recommendations in the Audit Finding Report.

Emma Feakins
Chief Accountant
Ext: 416082

Cath Head
Head of Finance Operations
Ext: 416934