



Report to Audit Committee

Subject: Annual Governance Statement and Statement of Accounts 2019/20

Date: 24 November 2020

Author: Chief Financial Officer

1 Purpose

To seek approval of the Council's Annual Governance Statement for 2019/20 and the Statement of Accounts for 2019/20.

Recommendations:

THAT:

- 1) Members approve the Annual Governance Statement for 2019/20 (Appendix 1);
- 2) Subject to approval of the Annual Governance Statement at recommendation 1, Members approve the Statement of Accounts for 2019/20 (Appendix 2), with the inclusion of the additional wording set out at 3.3.4 below if such addition is necessary, as detailed in this report.
- 3) Members note the Narrative Statement on pages 3 to 16 of the Statement of Accounts for 2019/20 (Appendix 2);
- 4) Members agree the Letter of Representation (Appendix 3);

2 Background

2.1 Overview

- 2.1.1 The Accounts and Audit Regulations 2015 require the Council to conduct a review of the effectiveness of the system of internal control and to prepare an Annual Governance Statement (AGS). The Council's AGS for 2019/20 is attached at Appendix 1, and also accompanies the Statement of Accounts at pages 98 to 107 of Appendix 2. The Regulations require that the Annual Governance Statement must be approved in advance of the approval of the Statement of Accounts and accordingly the AGS will be signed by the Leader of the Council and the Chief Executive following its approval at this meeting.
- 2.1.2 In normal circumstances the Regulations also require the responsible financial officer to sign and date the Council's Statement of Accounts by 31 May 2020, and to certify that the Statement presents a true and fair view of the position of the authority and the authority's income and expenditure for the year. In view of the global Covid-19 pandemic, amended Regulations require that this certification is undertaken by 31 August 2020. Accordingly the Assistant Director – Finance (the Chief Financial Officer) signed and certified the Council's Statement of Accounts on 10 August 2020.
- 2.1.3 Again, in normal circumstances, the Regulations further require that by 31 July 2020 the Statement of Accounts must have been considered and approved by Members, and at Gedling this is within the remit of the Audit Committee. Following approval, the Statement of Accounts must be re-signed by the Chief Financial Officer prior to being signed and dated by the Chair of the Audit Committee. The amended Regulations require that this consideration and CFO certification must be undertaken by 30 November 2020.
- 2.1.4 The Statement of Accounts for 2019/20 has now been audited by Mazars and is attached at Appendix 2. The accounts should be considered giving due regard to any comments made by the auditor in the Mazars External Audit Report, which is an item elsewhere on this agenda.
- 2.1.5 Please note that at the time of writing this report the final External Auditor's Report had not been received from Mazars, therefore the attached Statement of Accounts remains subject to audit adjustment. If any final changes are made, these will be highlighted for Members at the meeting.
- 2.1.6 In addition to the Annual Governance Statement and Statement of Accounts, the Council is required to prepare a Narrative Statement which includes comment on the Council's financial performance and the economy, efficiency and effectiveness of its use of resources over the financial year.

This forms part of the Statement of Accounts and can be found at pages 3 to 16 of Appendix 2.

- 2.1.7 Once approved, the Council is required to publish the Annual Governance Statement, Statement of Accounts and Narrative Statement on its website.

2.2 The Economy

- 2.2.2 The expectation within the treasury strategy for 2019/20 (the TMSS) was that because of Brexit uncertainty the Monetary Policy Committee (MPC) was unlikely to increase Bank Rate from 0.75% until May 2019, This was expected to be followed by a further increase in February 2020.

- 2.2.3 However, having maintained Bank Rate at 0.75%, in response to the developing Covid-19 pandemic the MPC cut the rate first to 0.25% on 11 March 2020 and then to 0.10% on 19 March, and this rate remains in force. In the face of the huge economic damage caused by the pandemic, and continuing uncertainty, the Council's treasury advisers, Link Asset Services (LAS), currently predict that the next rate rise is unlikely to be before March 2023.

- 2.2.4 The Council will continue to monitor the external environment to develop and refine its strategies to counter any threats from the wider economy. Ongoing pressures on costs and income streams were experienced during 2019/20 and these are expected to continue, especially in the light of the ongoing Covid-19 pandemic.

- 2.2.5 The Council's continuing robust financial position, combined with the recently updated medium term financial plan projections for reserves and balances, means that it remains relatively well placed to deal with ongoing challenges and worldwide uncertainty, albeit that there are significant challenges ahead.

2.3 Accounting Practice Changes

- 2.3.2 There were no major changes to the CIPFA Accounting Code of Practice in 2019/20.

- 2.3.3 The most significant issues addressed in CIPFA's Closure of Accounts bulletin were related to the impact of the Covid 19-pandemic on financial reporting, and the changes to the financial reporting deadlines for 2019/20, ie for the draft Statement of Accounts to be signed by the Chief Financial Officer by 31 August 2020 rather than 31 May, and for approval of the Accounts by Members by 30 November 2020 rather than 31 July.

3 Proposal

3.1 Annual Governance Statement

- 3.1.1 The Council is responsible for ensuring that its business is conducted in accordance with the law and with proper standards; that public money is safeguarded and properly accounted for; and that it is used economically, efficiently and effectively. In accordance with the Accounts and Audit Regulations the Council conducts an annual review of the effectiveness of the system of internal controls and prepares an Annual Governance Statement (AGS).
- 3.1.2 Following the 2019/20 review of the system of internal control, the Audit Committee considered the draft AGS at its meeting on 7 July 2020. In the light of the ongoing Covid-19 pandemic some minor changes have been made to the report since that date simply to reflect a more up to date position of the financial impact, and it is proposed that the AGS for 2019/20, attached at Appendix 1, is now approved. Following such approval, the AGS will be signed by the Leader of the Council and the Chief Executive prior to its publication with the Statement of Accounts.

3.2 Statement of Accounts 2019/20

3.2.1 Financial Performance

The General Fund outturn figures for 2019/20 were reported to Cabinet on 2 July 2020. Net expenditure totalled £11,733,435, a minor overspending of £57,435 or 0.49%, when compared with the current approved estimate for 2019/20 as detailed below. Together with slightly lower income from business rates of £23,621 partially offset by grants of £10,360, this overspending resulted in the contribution required from the General Fund balance being £70,696 higher than estimated.

General Fund Revenue Outturn 2019/20	Current Estimate 2019/20 £	Actual 2019/20 £	Variance £
Community Development	1,885,500	1,818,629	(66,871)
Housing, Health & Well-being	2,508,800	2,418,471	(90,329)
Public Protection	1,578,900	1,639,001	60,101
Environment	4,952,100	4,995,586	43,486
Growth & Regeneration	930,900	811,290	(119,610)
Resources & Reputation	1,203,600	863,404	(340,196)
Net Portfolio Budget	13,059,800	12,546,381	(513,419)
Transfers to/(from) Earmarked Reserves	(1,383,800)	(812,946)	570,854
Net Council Budget	11,676,000	11,733,435	57,435

Continued:	Current Estimate 2019/20	Actual 2019/20	Variance
	£	£	£
Financing:			
Revenue Support Grant	0	(10,320)	(10,320)
Business Rates	(3,978,300)	(3,954,679)	23,621
Council Tax	(6,034,700)	(6,034,700)	0
New Homes Bonus	(482,000)	(482,040)	(40)
Transfer (from)/to General Fund Balance	(1,181,000)	(1,251,696)	(70,696)
Total Financing	(11,676,000)	(11,733,435)	(57,435)

The General Fund Balance at 31 March was £3,909,200 and this level of balances remains above the minimum required in the medium term financial plan.

3.2.2 Major Variations 2019/20

Full details of net portfolio budget variances were reported to Members on 2 July 2020. A reduction of £65,000 in employee expenses due to staff vacancies was offset by an increase in impairment loss allowance for bad debts. Additional income of £313,200 from the Nottinghamshire Business Rate Pool was offset by a matching transfer to reserves, intended to fund future expenditure on economic development programmes. Reductions in income included rent allowance overpayment recoveries and an increase in the impairment loss allowance, partially offset by a transfer from reserves.

In the light of the Covid-19 pandemic there was an immediate impact from the loss of leisure income in March, and this totalled £33,000. Additional costs for personal protective equipment for waste staff totalled £24,000 and this was met from the Transformation Reserve.

3.2.3 Capital Outturn 2019/20

Capital investment during 2019/20 totalled £3.107m and this was financed by the use of capital receipts, grants and contributions, General Fund revenue contributions and borrowing. The Council's total external debt at 31 March 2020 was £9.812m, all held with the Public Works Loan Board.

3.2.4 Collection Fund

Council Tax - The Council collects its own council tax and, as billing authority, for Nottinghamshire County Council, the Nottinghamshire Police and Crime Commissioner, the Combined Fire Authority and twelve parish

councils. This has a significant impact on cashflow with nearly £73m collected but only around £6m retained for spending on services.

Business Rates - Under the Business Rates Retention Scheme the proportion of a local authority's income that arises from business rates will change according to movements in its local business rates income, providing an incentive for supporting local business growth. The Council's share of its business rates income in 2019/20 was £3.955m compared to an estimate of £3.978m.

3.2.5 Balance Sheet

The Council's net worth decreased during the year from a net liability of £9.304m on 1 April 2019 to one of £13.780m at 31 March 2020.

➤ **Pensions**

The pension deficit increased by £2.194m to £49.177m during 2019/20, mainly due to losses on plan assets and technical calculations based on actuarial assumptions. Whilst the deficit has a significant impact on the Council's net worth (see above) it will be made good by increases in future contributions, and the technical valuation bears no relation to the cash position on the Pension Fund. Due to the requirements of local authority accounting, changes in the pension fund valuation do not have an immediate impact at taxpayer level.

➤ **Property, Plant and Equipment (PPE)**

The value of Property, Plant and Equipment, Investment Property and Intangibles reduced by £0.166m to £2.794 in 2019/20.

3.2.6 Earmarked Reserves

The balance on earmarked reserves at 31 March 2020 was £5.982m, a decrease of £0.813m due to the drawdown from reserves during the year to fund specific expenditure.

3.3 Significant Issues arising in 2019/20

3.3.1 There were no significant technical accounting issues arising in 2019/20 that required inclusion in the draft Statement of Accounts signed by the Chief Financial Officer and published on 10 August 2020, however where appropriate, explanation of the impact of Covid-19 on the Statement of Accounts for 2019/20 has been provided with the key impact being on property valuations, some of which have been reported by the valuer on the basis of material valuation uncertainty due to the property market activity being affected by the pandemic. This is disclosed in the note 4 (assumptions made about the future and other major sources of estimation

uncertainty), note 13 (property, plant and equipment) and note 14 (investment property).

- 3.3.2 All local authorities have been affected by the McCloud accounting issue which impacts on the valuation of pension liabilities following a Supreme Court ruling that changes made to the pension schemes for judges and firefighters were unlawful on the grounds of age discrimination. Many councils, including Gedling, obtained a revised actuary's report in 2018/19 and amended the Statement of Accounts for that year. As the estimated McCloud impact was therefore included in the deficit calculations brought forward, no further adjustments have been made to the Statement of Accounts for 2019/20.
- 3.3.3 The Council's pension liability of £49.177m represents a significant amount and requires a statement of assurance from the Nottinghamshire Pension Fund auditors. Gedling's external auditors, Mazars, have advised that this has not yet been received, and that until they receive such assurance they cannot sign off the Council's accounts for 2019/20.
- 3.3.4 There is an expectation that there will be material valuation uncertainty (MVU) disclosed on the Pension Fund's holding of property assets due to the effect of the Covid-19 pandemic. If this is the case, due to the materiality of the Gedling's share of the net pension liability, there will be a requirement for the Council to also disclose the MVU. Should this disclosure be required in the Council's accounts, the following wording will need to be added to note 4 (assumptions made about the future and other major sources of estimation uncertainty) and to note 32 (post-employment benefits):

The Council participates in the Nottinghamshire Local Government Pension Fund. The property asset valuation within the Fund at 31 March 2020 includes a material valuation uncertainty (MVU) clause, which explains that market activity in many sectors is being impacted by Covid-19, and that the property valuation is reported on the basis of MVU as per VPS3 and VPGA10 of the RICS Red Book Global, as the valuers do not consider that they can rely on previous market evidence to fully inform opinions of value at the valuation date. Consequently, less certainty and a higher degree of caution should be attached to the Council's share of Pension Fund property assets at 31 March 2020. The Council's share of property assets subject to the MVU declaration by the Nottinghamshire Pension Fund is £11.008m, as set out in note 32, which is material to the Council's financial statements.

Should the above wording be required the external auditor has suggested that an additional "emphasis of matter" paragraph will be required in their Audit Report. This is defined as a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial

statements that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

- 3.3.5 The audit completion report identifies an unadjusted misstatement identified by Mazars during the course of the audit. This relates to the first tranche of Covid-19 funding, which whilst expected on 3 April was received by the Council on 27 March. However, the Council's S151 Officer view is that the judgement applied in the treatment of this funding as a receipt in advance is reasonable. The Council's rationale for this treatment, in common with most other Nottinghamshire authorities, is that the significant impact of Covid-19 has been in 2020/21 and the grant notification from Government indicated that the payment was due in April. The value of the grant was £54,182, which is not material, and the Accounts have not been adjusted for this.

3.4 Audit of Accounts Process

The Accounts are scrutinised by the Council's external auditors, Mazars, with whom the Chief Financial Officer discusses progress frequently.

Mazars requires each authority to provide a letter of representation, providing certain assurances about the completeness and accuracy of its Statement of Accounts. A copy of the draft letter of representation for 2019/20 is attached at Appendix 3.

The procedures that Mazars expects authorities to follow in providing a letter of representation are that it should be dated on or near the date that the auditors sign the audit opinion, and that it is signed by the person with responsibility for the financial statements after consultation with the Monitoring Officer on legal matters, and other matters as appropriate. It must be agreed by an appropriate committee of the Council, and in Gedling's case this is the Audit Committee.

As noted at 2.1.3 above, once the Audit Committee has considered and approved the Statement of Accounts, the Chief Financial Officer re-signs it prior to its signature by the Chair of the Audit Committee. The final External Auditors' Report, and the Auditors' Opinion, cannot be issued until this has been done. Furthermore, the External Auditor's Report and the Auditor's Opinion cannot be issued until the necessary assurances from the Nottinghamshire Pension Fund have been received. The external auditor has therefore indicated that there is a possibility that the final External Auditor's Report and Opinion will not be issued by 30 November 2020, in which case publication of the Statement of Accounts will be delayed.

In addition to the Opinion, an Audit Certificate is issued by the external auditor to confirm the conclusion of the Audit. The external auditor has indicated that the National Audit Office has not yet issued its Group

Instructions in respect of Whole of Government Accounts, and whilst the Council is expected to be below the threshold for detailed audit review, the issue of the audit certificate is likely to be delayed. This delay does not however preclude the publication of the Statement of Accounts.

4 Financial Implications

One of the significant findings in Mazars' Audit Completion Report focuses on audit fees, and identifies a potential permanent uplift of £6,194 in fees as a result of the requirements of the Financial Reporting Council. There is the potential for a further £7,000 increase due to additional work and audit testing. These increases are subject to further negotiation following consultation with Public Sector Audit Appointments (PSAA).

There are no other financial implications directly arising from this report.

5 Legal Implications

The approval of the Annual Governance Statement and the Statement of Accounts is a process that is set out in statute namely the Accounts and Audit Regulations 2015, as detailed in the report. The Council is required to comply with this statutory process which ensures openness and transparency in financial management.

6 Equalities Implications

There are no equalities implications directly arising from this report.

7 Carbon Reduction/Environmental Sustainability Implications

There are no carbon reduction/environmental sustainability implications arising from this report.

8 Appendices

1. Annual Governance Statement 2019/20;
2. Statement of Accounts 2019/20;
3. Draft Letter of Representation.

Statutory officer Approval:

Drafted by: Chief Financial Officer

Date: 19 November 2020

Approved by: Deputy Monitoring Officer

On behalf of the Monitoring Officer

Date: 16 November 2020