



CONSTITUTION COMMITTEE – 27 NOVEMBER 2020

**SUPPLEMENTARY REPORT OF THE DIRECTOR OF CORPORATE
RESOURCES**

**STATEMENT OF ACCOUNTS, ANNUAL GOVERNANCE STATEMENT &
PENSION FUND ACCOUNTS 2019/20**

Purpose

1. The purpose of this report is to:
 - a) present the 2019/20 financial statements, Appendix A, for approval;
 - b) inform the Committee of the main areas of the financial statements; and
 - c) report the key findings from the external audit of the accounts.

Background

2. The Accounts and Audit Regulations 2015 require authorities to approve and publish their accounts, including the auditor's opinion by the end of July following the end of the financial year. Following the outbreak of Covid-19, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 were issued in April 2020 which amended the deadlines for the completion and external audit of the financial statements to allow additional time. The revised dates for 2019/20 only are: draft accounts to be published by 31 August 2020 and the External Audit to be completed by 30 November 2020. The draft accounts were published on 24 July 2020.
3. A copy of the external auditor's, Grant Thornton UK LLP, report on the financial statements is attached as Appendix B. Letters of representation for the Statement of Accounts and Pension Fund are attached, Appendix C and Appendix D.
4. The Corporate Governance Committee will consider the auditor's report at its meeting on 25 November 2020. The auditor is required to communicate the results of the audit to those charged with governance prior to certifying the financial statements. The minutes from that meeting will be reported to the Constitution Committee. The auditor anticipates issuing an unqualified audit opinion.
5. The Statement of Accounts is prepared under the International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounts.

Statement of Accounts

6. The main areas of the financial statements are set out below.

Narrative Statement

7. The purpose of the Narrative Statement is to offer interested parties an effective guide to the most significant matters reported in the accounts. It includes a summary of the economy, efficiency and effectiveness, and the financial and non-financial performance of the Authority, and an explanation of the contents of the accounts.

Movement in Reserves Statement (MIRS)

8. This statement shows the movement in year on the different reserves held by the County Council, analysed into 'usable reserves' i.e. those that can be applied to fund expenditure and 'unusable reserves' which cannot be used to fund services. Unusable reserves include reserves that hold unrealised gains and losses as well as adjustments for the differences between amounts charged in accordance with accounting standards and amounts charged for statutory purposes. An example is the short term accumulating compensated absences adjustment account (STACAAA). This account holds the estimated value of untaken annual leave and time-off-in-lieu as at the balance sheet date. The charge is recognised by accounting standards, but statutory mitigation allows it to be reversed out via the STACAAA to avoid it being a charge to the General Fund.
9. Overall, usable reserves which comprise the General Fund, Earmarked Funds and Capital Funds, have decreased as at 31 March 2020 to £159m from £184m as explained below.
10. The General Fund, which includes delegated funding for schools and the uncommitted balance of the County Council, increased overall to £27m as at 31 March 2020, from £24.5m as the same time in the previous year. Details are shown in Note 11 to the accounts and below:
- a) School balances - reduced by £0.7m to £8m, mainly due to academy conversions.
 - b) Uncommitted balance - held for unforeseen risks to the Council, increased by £7m to £23m overall. The fund is held to allow the Council to manage unforeseen financial events without the need to make immediate offsetting savings, with the potential real impact on County Council services. The balance at 31 March 2020 represents 6% of the net budgeted expenditure for 2020/21.
 - c) Temporary funding of the Dedicated Schools Grant deficit at year end, -£4.1m.
11. Earmarked funds totalled £129m as at 31 March 2020 (£141m 31 March 2019). The decrease was due mainly to the planned use of the capital financing reserve to fund the capital programme. Details of the earmarked funds can be found in note 12 to the accounts.
12. The significant earmarked funds held are:
- Capital Financing £54m. Holds MTFs revenue contributions to fund capital expenditure in the approved four year capital programme. It also holds funding

set aside for the future developments programme to fund projects that achieve ongoing revenue savings and support necessary service investment. Holding this fund is an essential part of the Council's approach to avoiding incurring additional debt where possible. The amount shown in the accounts is net of £25m investment in Pooled Property Funds. The investment is shown against the capital financing reserve, but in effect is funded from the overall balance of earmarked funds and can be realised in the future when required.

- Government Grant Cash Flow Funding £20m. At the end of March 2020 central government paid the first tranche of Covid19 grant which has been carried forward to fund expenditure in 2020/21.
 - Insurance Funds £12m. Funds held to meet future claims, or parts of claims, that are not covered by insurance policies. This could be due to policy limits and deductibles or claims relating to periods when the insurer has failed, such as Municipal Mutual Insurance or The Independent Insurance Company.
13. Capital reserves (capital receipts and unapplied capital grants) reduced by £15m to £3.5m at year end due to planned funding of the approved capital programme.
14. The required level of earmarked funds is kept under review during the year. Formal assessments are undertaken and reported during the autumn, in February as part of the Medium Term Financial Strategy (MTFS) and also at year end.

Comprehensive Income and Expenditure Statement (CIES)

15. The CIES shows the accounting cost of providing services in accordance with accounting standards rather than the amount funded from taxation and income. The County Council raises taxation to cover expenditure in accordance with statutory regulations which can be different from the accounting cost.
16. The headings used in the CIES align with the main reporting areas of the County Council. However, the CIES cannot be directly compared to the outturn position reported to the Cabinet because the financial accounts comply with various reporting standards whereas the management accounts are compiled on a slightly different basis. The key differences relate to the way depreciation, impairment and earmarked funds are reported.
17. The CIES shows a surplus on the Provision of Services for 2019/20 of £6.8m compared with a surplus of £5m in 2018/19.

Balance Sheet

18. The Balance Sheet shows the value of the assets and liabilities recognised by the County Council as at the balance sheet date. As at 31 March 2020 net assets of the County Council were £448m (31 March 2019, £258m). The principal reason for the increase is due to a decrease in the net pension liability of £135m.
19. As at 31 March 2020, the net deficit on the pension fund had improved to £607m from £742m at the same time last year. This was due to a decrease in the value of the County Council's pension fund liabilities of £230m, partly offset by a decrease in the value of investment assets of £95m over the same period. Reductions in the

assumptions relating to longevity, and pension and salary increase assumptions, have led to a decrease in the present value of future liabilities.

20. The pension fund balance represents all pension entitlements that have been earned to date, but which are not yet in payment and has a substantial impact on the net position of the balance sheet. However, statutory arrangements will result in the deficit being made good through increased contributions by the employer over the remaining working life of employees as assessed by the pension fund scheme's Actuary. The triennial fund valuation, most recently as at 1 April 2019, informs the levels of future contributions required. The County Council has agreed a strategy with the Actuary to achieve a funding level of 100% over the next 17 years.
21. The Balance Sheet also shows the valuation of Property, Plant and Equipment owned by the County Council. During 2019/20 the value increased by £68m to £1070m. This reflects capital additions in year through the capital programme, revaluation gains and losses, less depreciation.
22. Provisions total £7.4m (£7.8m 31 March 2019). Provisions are held to fund liabilities of uncertain timing or amount and are shown in greater detail in note 27 to the accounts. The main provision held is for Insurance, £4.9m, and represents the estimated value of outstanding unsettled claims at 31 March 2020. Provisions also include £2.3m for the County Council's 'notional' share of the seven Leicestershire District Councils Business Rates appeals and bad debt provisions, a decrease of £0.6m compared with the previous year. The element in the County Council's accounts is notional as it is required to be reversed out via the Collection Fund Adjustment Account (shown at the bottom of the Balance Sheet) in order that it is not a charge to the General Fund.
23. Investments include, Cash and Cash Equivalents (highly liquid investments that mature within 3 months or less from the date of acquisition) and short and long term investments. These total £287m as at 31 March 2020, comparable with £285m at the same time last year.
24. During 2019/20 the County Council set aside £10m in the minimum revenue provision (MRP) for the repayment of debt. This has the effect of reducing the capital financing requirement (CFR) and the ongoing MRP charge to the revenue budget. The financing costs of capital was £23m in 2019/20. The CFR is shown in note 40 to the accounts and totals £237m at the year end. The CFR is a measure of capital expenditure incurred historically that has yet to be financed. Actual debt as at the balance sheet was £264m. The difference between the CFR and actual debt is a temporary overborrowed position of £27m. This position will be reversed over the MTFS due to planned increases in the CFR from (internal) borrowing to fund the four year capital programme, £155m. This position is refreshed annually as part of the MTFS.

Annual Governance Statement

25. The financial statements are accompanied by the Annual Governance Statement (AGS) signed by the Chief Executive and Leader of the County Council. The statement sets out the purpose of the system of internal control, how it operates in the County Council and how its effectiveness has been reviewed. The AGS has been approved by the Corporate Governance Committee.

Pension Fund Accounts

26. The financial statements also include the Pension Fund Accounts for the Local Government Pension Scheme administered by the County Council.
27. The last available triennial actuarial valuation of the pension fund showed that as at 31 March 2019 the fund's assets covered approximately 89% of the liabilities accrued up to that date. This funding level was an increase on the 76% position reported in the 2016 valuation. The deficit puts significant upward pressure onto the contribution rates of employing bodies, but these were contained somewhat for tax raising bodies by using a smoothing mechanism and by the use of a 17 year deficit-spreading period.
28. To ensure that the fund remains financially sound to meet benefit payments, the Actuary will recommend the rate of employer contributions on an individual employer basis for each employing body in the fund for a three year period. In 2019/20 the average employer rate was 24.5% of pay (23.8% 2018/19). There were 268 employers within the fund and just over 102,000 members in the pension scheme as at the balance sheet date.
29. The overall net assets of the fund decreased slightly during the year from £4.3bn at the start to £4.2bn at year end. For all LGPS Funds, investment returns have been significantly lower than expected (particularly in the last 2 months of the financial year) due to the impact of Covid19 and the uncertainty on global investment markets. Details of investment held are shown in note 12 to the Pension Fund Accounts.

Key Findings of the External Auditor

30. The external auditor has reviewed the financial statements and has concluded that there are no material accounting issues. The external auditor anticipates issuing an unqualified opinion for:
 - a) the Statement of Accounts and Pension Fund Accounts – give a true and fair view of the financial position of the authority as at 31 March 2020 and have been prepared in accordance with proper accounting practice, the CIPFA Code of practice on Local Authority Accounting in the United Kingdom 2019/20.
 - b) Value for Money arrangements – putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of those arrangements.
31. Two recommendations were raised within the auditor's report. These relate to a minor issue with the timing of school bank account reconciliations (completed early in readiness for the planned new financial system at the time) and recommendations from the information technology audit.
32. The IT audit related to the audit of the financial system, Oracle EBS. Issues raised related mainly to a) the timely removal of the systems administration team's access to Oracle EBS which is used to support user queries, and b) use of the generic system administrator account, used by core ICT staff to maintain and update the system. The recommendations will be addressed as part of the implementation of

Oracle Fusion Cloud which was due at the start of April 2020, but due to the outbreak of Covid-19 is now taking place in November 2020.

33. The External Auditor has also proposed an increase in their fees for the audit due to additional work on the audit arising from the impact of Covid-19 on the financial statements and the consequence of remote working on the efficiency of the audit. An increase of 15% is proposed; revised fee for the County Council of £81,767 and for the Pension Fund £29,360.

Recommendation

34. The Committee is recommended to approve the financial statements for 2019/20.

Background Papers

Provisional revenue and capital outturn, Cabinet - 23 June 2020

<http://politics.leics.gov.uk/documents/s154027/2019-20%20MTFS%20prov%20outturn%20report%20Cabinet%20-%20Final.pdf>

Circulation under the Local Issues Alert Procedure

None.

Equality and Human Rights Implications

None.

Appendices

Appendix A – Financial Statements 2019/20

Appendix B – External Auditors Report

Appendix C – Letter of Representation – County Council

Appendix D – Letter of Representation – Pension Fund

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