

Statement of Accounts 2020/21

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Ellie Dunnet, Head of Finance
Lead Officer and Report Author	Paul Holland, Senior Finance Manager (Client)
Classification	Public
Wards affected	All

Executive Summary

This report presents the updated Statement of Accounts, and requests that the Committee approves the 2020/21 financial statements, subject to the conclusion of the external audit and any further non-material changes that will be approved by the Director of Finance & Business Improvement. The external auditor's audit findings report will follow to be available for the meeting.

We understand that assuming no further significant issues are identified that the external auditor is intending to issue an unqualified audit opinion. A representative from the external audit team will be in attendance at the meeting to provide an update on their progress and to respond to any questions the Committee may have.

Purpose of Report

The Committee is asked to approve the updated 2020/21 statement of accounts (Appendix 1), and subject to any further non-material changes, note the external auditor's audit findings report (Appendix 2 – to follow) and approve the Letter of Representation (Appendix 3).

This report makes the following recommendations to this Committee:

1. That the Statement of Accounts attached at Appendix 1 is approved.
2. That delegation to approve any further non-material changes is given to the Director of Finance & Business Improvement in consultation with the committee chair.
3. That the external auditor's Audit Findings Report (Appendix 2 – to follow) is noted.
4. That the Letter of Representation attached at Appendix 3 is approved.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	15 November 2021

Statement of Accounts 2020/21

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council's overall achievement of its aims in demonstrating accountability and value for money.	Director of Finance and Business Improvement
Cross Cutting Objectives	There is no specific implication, however sound financial management does support the delivery of the Council's cross cutting objectives.	Director of Finance and Business Improvement
Risk Management	This is detailed within section 5.	Director of Finance and Business Improvement
Financial	The Statement of Accounts provides an overview of income and expenditure for the financial year to 31 March 2021, and details the council's assets, liabilities and reserves at this date.	Director of Finance and Business Improvement
Staffing	No implications identified.	Director of Finance and Business Improvement
Legal	Under section 151 of the Local Government Act (LGA 1972), the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including advising on the corporate financial position and providing financial information. It is a function of the Audit, Governance and Standards Committee to review and approve the annual statement of accounts and to consider if appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Policy and Resources Committee or Council.	Senior Lawyer Corporate Governance

Privacy and Data Protection	No implications identified.	Director of Finance and Business Improvement
Equalities	No implications identified.	Director of Finance and Business Improvement
Public Health	No implications identified.	Director of Finance and Business Improvement
Crime and Disorder	No implications identified.	
Procurement	No implications identified.	Director of Finance and Business Improvement
Biodiversity & Climate Change	The implications of this report on biodiversity and climate change have been considered and there are no direct implications on biodiversity and climate change.	Biodiversity and Climate Change Manager

2. INTRODUCTION AND BACKGROUND

2.1 The Council is required to have its audited Statement of Accounts approved by the Audit, Governance and Standards Committee by 30 September 2021 in accordance with the amended Accounts & Audit Regulations.

2.2 The Statement of Accounts consists of:

Narrative Report – this summarises the Council’s performance over the financial year 2020/21 and highlights the most significant elements of the financial statements.

Comprehensive Income and Expenditure Statement (CIES) – shows the accounting position of the council, and whether operations have resulted in a net surplus or deficit. The accounting position includes cash payments made to employees and for services, as well as non-cash expenditure such as depreciation and accruals. It also shows all sources of income received and accrued in the year. Accrued expenditure represents the value of goods or services received by the authority by 31 March 2021 which have not been paid. Similarly, accrued income represents income due, but not yet received.

Movement in Reserves Statement – this is a financial statement which details the balances the council held in reserves at 31 March 2021, analysed into usable reserves (such as the general fund, earmarked balances and capital receipts reserve) and unusable reserves (such as the pensions reserve, revaluation reserve and capital adjustment account).

Balance Sheet – this can be seen as a 'snapshot' of the authority's financial position at a specific point in time, showing what it owns and owes at 31 March 2021.

Cash Flow Statement – sets out the authority's cash receipts and payments during the year, and analyses them into operating, investing and financing activities.

Accounting Policies and Supporting Notes – additional information provided to add context to the numbers presented in the main financial statements, and details judgements made by management in preparing this information.

Collection Fund Statement – this sets out income and expenditure in relation to Council Tax and Business Rates, and represents the position of the Council's role as a billing authority in collection revenue on behalf of other bodies.

- 2.3 The council's financial statements must comply with CIPFA's Code of Practice on Local Authority Accounting, which is based on International Financial Reporting Standards (IFRS). Both frameworks require a number of complex and detailed disclosures which accompany the main financial statements.
- 2.4 Due to the continuing impact of the Covid-19 pandemic on local authorities the Government amended the deadlines for the publication and approval of the accounts. The date for publication was amended from 31 May to 31 July, and the date for formal approval amended from 31 July to 30 September.
- 2.5 External audit work on the 2020/21 financial statements commenced during late August. We were advised by the external auditors that due to their significant workload it was likely that a significant percentage of local government audit opinions would not meet the statutory deadline of 30 September, including Maidstone. Failure to meet the deadline does not pose any implications to the council in terms of financial penalties but does present a risk of reputational damage and operational issues to the finance team in the event of prolonged delays. At the time of writing this report the audit was still in progress and we will continue to work closely with the auditors to ensure that their work on the 2020/21 financial statements is completed as soon as possible
- 2.6 As the audit is still in progress the external auditors are not currently in a position to issue their Audit Findings Report. This will be issued and be available for consideration at the meeting as Appendix 2 to this report.
- 2.7 At this stage we are anticipating that an unqualified audit opinion will be issued. As the audit is still in progress this report seeks approval for any

further non-material changes to the accounts to be delegated to the Director of Finance & Business Improvement.

- 2.8 In the course of preparing the 2020/21 financial statements, officers identified that previous capital expenditure on Brunswick Street and Union Street housing developments had been recognised as Assets Under Construction. Given that a proportion of this development was constructed for disposal, accounting guidelines set out in the Code suggest that this element of the spend should technically have been presented as inventory on the balance sheet. To adopt this accounting treatment would require a restatement of prior year figures. The draft accounts presented for audit did not reflect this accounting treatment on the basis that the guidance contains enough flexibility to go beyond a purely technical approach. The rationale for the adopted accounting treatment is as follows:
- a) Given that the disposal of these properties is not considered to be in the ordinary course of business for the council, it was considered that presenting this expenditure as inventory does not give an accurate portrayal of the substance of the transaction;
 - b) There is service potential in the assets constructed for disposal in terms of meeting the demand for housing and affordable housing therefore the portrayal of these assets as inventory would be misleading;
 - c) The development has been treated as a single project within the Council's capital programme, and, as set out above was not constructed purely for the purposes of disposal;
 - d) Restatement of the prior year figures could impair the transparency and understandability of the financial statements;
 - e) The substance of transactions via either approach within the 2020/21 accounts and beyond would be essentially the same in terms of their impact on the general fund balance, as there is a statutory override which enables the council to treat the expenditure as capital in either scenario, with the impact of any losses on disposal being reversed out through the capital adjustment account.
- 2.9 Officers raised this matter with the auditors at the beginning of the audit and this is currently subject to consideration by Grant Thornton's technical advisors. Given point e. above, officers are content to adopt either accounting treatment as statutory arrangements which apply to local authorities mean that the impact on the council's financial position will be the same in either case. We are currently awaiting Grant Thornton's final judgement on this matter.
- 2.10 Should any material changes be identified during the remainder of the audit then it may be necessary to bring a further updated Statement to the Committee for approval again in January 2022.
- 2.11 The updated version of the Statement proposed for approval at this meeting is attached at Appendix 1. This includes the draft Annual Governance Statement and the narrative report. At the last meeting of the Committee a question was raised regarding the presentation of the table showing 'Key Facts about Maidstone'. The presentation was reviewed, and it is considered that the figures used are the most appropriate based on current information.

- 2.12 The draft Statement of Accounts has previously been presented to the Committee to give Members the opportunity to review them and ask questions. At the time of writing this report the audit is still in progress. A number of minor amendments to the draft Statement that was presented to the Committee in September have been identified and these are incorporated in the updated Statement. None of these changes are significant and there have been no changes to the primary statements other than some presentational amendments. The remainder of the changes are to the notes to the accounts.

3. PENSIONS LIABILITY

- 3.1 At the meeting on 28 September, members of this committee expressed their concerns at the scale of the pensions liability and the significance of the year-on-year variance and requested further information regarding the actuary's assumptions on this.
- 3.2 This section of the report will seek to provide members with some additional detail regarding the accounting treatment of the pensions liability, and to clarify the arrangements for funding the deficit.

Accounting Requirements

- 3.3 Local authorities are required to account for employee benefits under International Accounting Standard (IAS) 19. This standard requires that retirement benefits are recognised at the point at which the council becomes committed to them, irrespective of when the benefits will be paid out.
- 3.4 The measurement of the net defined benefit liability disclosed on the council's balance sheet is based on an accounting estimate, using information provided by the actuary to the Kent Pension Fund, Barnett Waddingham. In estimating future cash flows, the actuary applies a series of assumptions which are reviewed and updated annually. Where these assumptions are impacted by economic conditions, they must reflect the expected market conditions at the balance sheet date, i.e. 31 March 2021. The key assumptions used by the actuary in producing the IAS19 estimates used in the 2020/21 financial statements are as follows:
- **Discount Rate** – future cash flows are based on an estimated past service liability duration of 20 years. Corporate bond yields are used to derive the discount rate which is applied to the employer's liabilities to calculate their future values. The rates used are those that match the duration of the employer's liability.
 - **Inflation Expectations** – the assumed inflation rate is also based on corporate bond yields and Bank of England inflation data. For 2020/21 the actuary has applied a downward adjustment of 0.25% to the Retail Price Index (RPI) assumption. As future pension increases are expected to be based on the Consumer Prices Index

(CPI) rather than RPI, a further assumption has been made about CPI which is that it will be 0.40% p.a. below RPI i.e. 2.80% p.a

- **Salary and pension increases** - Salaries are assumed to increase at 1.0% p.a. above CPI. This is consistent with the approach at the previous accounting date.
- **Demographic Assumptions** – assumed life expectancy from the age of 65 is set out in the table below:

Life expectancy from age 65	31 March 2021	31 March 2020
Retiring today:		
Males	21.6	21.8
Females	23.8	23.7
Retiring in 20 years		
Males	22.9	23.2
Females	25.1	25.2

Life expectancy estimations, Barnett Waddingham

These estimates have been adjusted to remove the disproportionate impact of 2020 mortality rates which were exceptional due to the coronavirus pandemic. The actuary's view is that that placing too much weight on the 2020 mortality experience would not be appropriate given the abnormality of the 2020 data.

- **Expected return on assets** – the actuary has estimated the overall return on fund assets for the year to 31 March 2021 to be 30.02%. Maidstone Borough Council's share of these assets is £133m, which represents approximately 1.78% of fund assets.

3.5 Changes in the financial assumptions above, i.e., the assumed discount rate and inflation levels were the overarching factors which contributed to the significant increase in the pensions liability between 31 March 2020 and 31 March 2021. The balance sheet figures present the net position for Maidstone's share of the pension fund liability or asset, therefore the position does not clearly show that asset performance since 31 March 2020 has been strong, as the changes to the discount rate have resulted in an actuarial loss overall. Actuarial variations tend to give rise to significant year on year fluctuations in the balance sheet position due to the fact that they are heavily impacted by market conditions. The net defined liability at the balance sheet date over the last five years is shown in the table below for context:

31 March	2017	2018	2019	2020	2021
	£000	£000	£000	£000	£000
Balance sheet liability	81,534	77,618	71,481	73,677	89,783

Balance sheet position 31 March 2017 – 31 March

- 3.6 It should be noted that the disclosures in the financial statements under IAS 19 are accounting adjustments which are made to enable the Council's annual accounts to comply with International Financial Reporting Standards (IFRS) and do not represent the amount chargeable to the General Fund. The liability shown in the balance sheet is an estimate based on assumptions and would only become payable in the event that the Council were to cease operating as a going concern. This liability is an accounting entry which is offset by a corresponding entry to the pensions reserve.

Funding Arrangements

- 3.7 Annual employer contribution rates are determined in a triennial valuation undertaken by the actuary, which is a separate exercise to the annual IAS19 report. The last valuation as at 31 March 2019 set the employer contribution rates for the period from 1 April 2020 to 31 March 2023.
- 3.8 This valuation determined that Maidstone's funding deficit was £15.4m at 31 March 2019, relating to a funding level of 87.9%, compared to a funding deficit of £21m at 31 March 2016, relating to a funding level of 80.5%.
- 3.9 Contribution rates payable by employers consist of two elements, the primary rate and the secondary rate. The primary rate covers the cost of benefit accrual and the secondary rate is the adjustment required to recover the funding deficit. Secondary contribution rates are based on the assumption that the deficit will be repaid over a period of 16 years. Annual contribution rates for 2020 to 2023 are shown in the table below:

Year ending	31 March 2020	31 March 2021	31 March 2022	31 March 2023
Primary rate (of pay p.a.)	14.1%	17.6%	17.6%	17.6%
Secondary rate	£1.517m	£1.090m	£1.130m	£1.170m
Total estimated	£3.416m	£3.546m	£3.676m	£3.808m
Increase	-	3.8%	3.7%	3.6%

- 3.10 Full budget provision has been made to cover these contributions. The next valuation will take place as at 31 March 2022 and will set the rate of employer contributions from 1 April 2023 to 31 March 2026. The range of variables mean that it is difficult to forecast the impact of the results of this valuation, however, an allowance for annual increases of £0.15m has been made in the strategic revenue projections from 2023/24 onwards in order to offset the risk of future rises in contribution rates.

4. LETTER OF REPRESENTATION

- 4.1 The Letter of Representation attached at Appendix 3 is written from the Council to the external auditor and will be signed by the Director of Finance and Business Improvement and the Audit, Governance and Standards Committee Chair.
- 4.2 This is provided for the purpose of expressing an opinion as to whether the

Statement of Accounts gives a true and fair view in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

- 4.3 The letter confirms that the Council has fulfilled its responsibilities and provided the external auditor with access to all information of relevance to the financial statements audit including records, documentation and other matters. It also confirms that the Council is satisfied that any significant assumptions in the accounts have been made using sound judgements and are made in accordance with the accounting code of practice.
- 4.4 The letter also confirms that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. The appropriateness of this statement is evidenced by the fact that all services have full revenue budget provision for 2021/22 onwards and the capital programme, asset management plan and medium-term financial strategy for 2021/22 onwards consider only service efficiencies and growth in corporate or service objectives.

5. AVAILABLE OPTIONS

- 5.1 The recommendation being made to the Committee is to approve the Statement of Accounts for 2020/21, taking into consideration the work done to date by the external auditor.
- 5.2 If the Committee choose not to approve the Statement of Accounts, this would result in the Council failing to meet its statutory responsibilities under the Accounts and Audit Regulations.

6. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 6.1 The formal approval of the Statement of Accounts is a statutory requirement. Whilst the external audit is not yet complete this Committee can approve the Statement subject to any further non-material changes being approved under delegation by the Director of Finance & Business Improvement.
- 6.2 On this basis, it is considered appropriate for the Committee to approve the Statement of Accounts for 2020/21.

7. RISK

- 7.1 Failure to meet the statutory deadline for production and audit of the annual accounts would result in this being highlighted in Public Sector Audit Appointments Limited's report on the results of auditors' work. The impact of this risk materialising would have largely reputational repercussions for the Council, and would limit the Council's capacity to demonstrate accountability and value for money in its use of public funds. This risk has

been considered with reference to the Council's risk management framework, and is considered to be within acceptable levels.

8. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

8.1 Members of the public have legal rights to inspect, ask questions about and challenge items in the Council's accounts. Details of this were published on the Council's website and the statutory period ended on 10 September. One enquiry was received regarding Covid Grants and rent deferrals, and this was dealt with.

9. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

9.1 The external auditor is required to issue the audit opinion.

10. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix 1: Statement of Accounts 2020/21
 - Appendix 2: External Auditor's Audit Findings Report (to follow)
 - Appendix 3: Letter of Representation
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11. BACKGROUND PAPERS

None