

Report to: **Audit Committee**

Date of Meeting: **15 February 2021**

Report Title: **Final Accounts 2019/20**

Report By: **Peter Grace**
Chief Finance Officer

Purpose of Report

The Audit Committee is asked to approve the Statement of Accounts (2019-20) on behalf of the Council in accordance with the Accounts & Audit Regulations 2015.

Recommendation(s)

1. The draft Statement of Accounts be approved and a copy signed by the Chair of the Audit Committee in accordance with the Accounts & Audit Regulations 2015.

Reasons for Recommendations

Compliance with statutory requirements and good practice. The Council is accountable for the use of public money and continuously seeks to improve Value for Money.

Introduction

1. The Accounts & Audit Regulations 2015 would normally require the Council to approve the Statement of Accounts by the 31st July each year. This year the Council had until 30th September 2020 to publish its accounts, which it did achieve and posted them on the Council's website. The deadline for final audit of the accounts was revised to 30 November, but due to the ongoing demands of Covid-19 only 44% of councils nationally had their audits completed by this date.
2. This Committee has delegated authority to approve the accounts on behalf of the Council. The audited Financial report including the Statement of Accounts is attached.
3. The Council's external auditors (Grant Thornton) are required to report on the audit and amendments from the draft Statement of Account and the Auditors Report is contained elsewhere on the agenda. The statements will be incorporated within the final Statement of Accounts upon receipt of the final signed audit certificate.

Statement of Accounts

4. The Statement of Accounts as defined in the regulations and CIPFA Code of Practice comprises:
 - Comprehensive Income and Expenditure Statement
 - Movement in Reserves Statement
 - Balance Sheet
 - Cash Flow Statement
 - Notes to the Core Financial Statements
 - The Collection Fund Income and Expenditure Account
5. The Statement of Accounts, in common with those for all other local authorities, is compiled in line with International Financial Reporting Standards (IFRS).
6. The Statement of Accounts is contained within the financial report in the attached Appendix.

The Accounting Statements

7. The Movement in Reserves 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 line entitled "Net Increase / Decrease before Transfers to Earmarked Reserves" shows the statutory

General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

8. The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations, and this may be different from the accounting cost.
9. The Balance Sheet shows the value of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first grouping is of usable reserves, i.e. those reserves that the Council may use to provide services. The second grouping includes reserves that hold unrealised gains or losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".
10. The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of the services provided by the Council. Investing activities represent the amount to which cash outflows have been made for resources which are intended to contribute towards the Council's future service delivery. Cash flows arising from financing activity are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.
11. Interpretation of the accounts highlighting key issues is contained within the explanatory foreword of the Statement of Accounts.

Financial Position

12. The outturn position in respect of Direct Service Expenditure within the accounts shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.
13. The reconciliation between the cost of services in the Comprehensive Income and Expenditure Statement and the cost for taxation purposes can be found in the notes to the accounts (Expenditure and Funding Analysis).

Reserves

14. Reserves total £17.877m as at 31 March 2020 as detailed in Note 12 (Earmarked Reserves), this is a slight change to the £17.618m identified in the draft accounts published at 30 September 2020. This figure includes £2.186m of Disabled Facilities Grant that was received in 2019/20 and prior years but not yet spent.
15. The Medium Term Financial Strategy identified the need for any underspend to be used as an opportunity to strengthen reserves, and given the estimated budget reductions required in 2021/22 and beyond there remains a strong case for doing so. The 2021/22 budget contains the latest budget projections for the next 3 years and the Medium Term Financial Strategy will be reviewed again in September 2021; this will include a further review of reserves in the light of future government funding and expenditure pressures.

Pensions

16. An accounting standard (IAS19) requires Councils (and businesses) to disclose the deficits/surpluses in their pension funds on an annual basis and to include the deficit within the Balance sheet. This necessitates actuaries identifying the assets and liabilities of the respective institutions investing within the fund on a point in time basis i.e. what the value of Pension Fund investments were worth on 31 March. It should be noted that this is a snap shot of the pension fund on just one day and that equities and bond prices go up and down on a daily basis.
17. Despite Covid-19 there has been a strengthening in the balance sheet position. This is principally because financial assumptions at 31 March 2020 are slightly more favorable than they were at 31 March 2019. This has the effect of decreasing liabilities. The overall effect is that the pension fund has moved from a deficit of £46.014 million to a deficit of £37.266 million.
18. East Sussex County Council administers the pension scheme. Full actuarial valuations are carried out on a three yearly basis (last carried out as at 31st March 2020 and Council contribution rates are determined at that time for a three year period. New contribution rates were applicable from 1 April 2020 and have not been amended for 2021/22 as a result of the pandemic.

Financial Strategy

19. Over the next two financial years, 2020/21 and 2021/22, budget deficits have been identified in the draft budget report to cabinet on 8 February 2021 amounting to £500,000 and £1,483,000 respectively. Given that funding reductions look set to continue for many years and given that major uncertainties remain in the world economy, the Council needs to identify further efficiencies, invest to save opportunities, generate more

income, and cut costs in order to further transform itself to a lower spending Council and to achieve a balanced budget in this very challenging environment. However, the Council is able to balance its budget in both 2020/21 and 2021/22 by using its Reserves. The Council could be near to holding its minimum recommended level of reserves by the end of 2021/22 unless it identifies further savings, increases income, or receives additional funding from the government in future settlements.

Timetable of Next Steps

1. Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
Publication of audited Statement of Accounts on Council website,	Completion of audit and receipt of final audit certificate	3 March 2020	Chief Accountant

Wards Affected

None

Implications

Relevant project tools applied? Yes

Have you checked this report for plain English and readability? Yes. This has been done as much as possible considering the complex financial issues involved. Flesch-Kincaid grade level 24.5.

Climate change implications considered? N/A

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	No
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No

Additional Information

Appendix A – Financial Statements 2019-20

Officer to Contact

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