



Havering
LONDON BOROUGH

AUDIT COMMITTEE

28th OCTOBER 2021

Subject Heading:

Statement of Accounts 2020/21

SLT Lead:

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Policy context:

Audit Committee responsible for
approving accounts

Financial summary:

There are no direct financial implications
to the report

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[x]
Places making Havering	[x]
Opportunities making Havering	[x]
Connections making Havering	[x]

SUMMARY

The Council's audited Statement of Accounts is required to be published after the conclusion of the external audit of accounts. The draft accounts were published on the Council website on 27 July 2021. At present the external audit is continuing and

at the time of publication of this report, it is likely the auditor's opinion will be published later this year.

Members are invited to ask questions on the accounts. It would be appreciated if any questions are emailed in advance of the meeting to provide an opportunity to provide a response at the committee meeting.

Note the annual audit letter for 2019/20 is included for noting. The contents were discussed by the Committee at the meeting where the accounts were approved.

The Committee is also asked to note that the Council is likely to participate in the PSAA's joint tender process to appoint and auditor from 2023/24 onwards.

RECOMMENDATIONS

The Committee is asked to:

- a) Consider the contents of this report and the Statement of Accounts (Appendix A),
- b) Note the Annual Audit Letter for 2019/20 (Appendix B).
- c) To note the Council will be considering participation in the PSAA's joint tender exercise to appoint the next external auditor from 2023/24 onwards for a period of up to five years (Appendix C).

REPORT DETAIL

1. Statement of Accounts 2020/21

The Accounts and Audit Regulations 2015 require that the authority must prepare and publish its approved draft and audited accounts by 31st May and 31st July respectively. However due to disruption caused by the COVID 19 virus, legislation was passed in 2021 to delay the statutory publication date until 1st August 2021 and the audit opinion until the 30th September 2021. The audit plan was tabled at the last Committee

The Council published the draft accounts on the website on 27 July 2021. These were approved for issue by the Chief Operating Officer. The Council auditors, Ernst and Young, are currently undertaking their main audit programme. It had been hoped the work would have been completed in time for this Audit Committee but the audit is still ongoing. The final audit opinion will be presented to this committee later in 2021. This will also include a Value for Money opinion.

The final draft Statement of Accounts and Annual Audit report are attached to this report to the Audit Committee. The longer publication and audit timetable has provided scope to present the draft accounts to this meeting of the Audit Committee.

Audit Committee, 28 October 2021

The purpose of the Statement of Accounts is to provide clear information about the authority's finances and should answer such questions as:

- What did the authority's services cost in the year?
- Where did the money come from?
- What were the authority's assets and liabilities at the year-end?
- Is the Council financially stable?

The Statement of Accounts reflects a common pattern of presentation to facilitate comparison with the accounts of other organisations.

The Council's 2020/21 outturn report, detailing net expenditure against individual service budgets, was reported to Cabinet on 29th June 2021.

The Statement of Accounts is a long, complex document. For 2020/21, there are no significant format or contents changes from the 2019/20 document.

Matters to draw to the attention of this committee are:

- 1.1 The contents of the accounts are largely determined by statutory requirements and mandatory professional standards as set out within the 'Code of Practice on Local Authority Accounting' and 'Standard of Professional Practice on Financial Reporting' published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The CIPFA Code of Practice is based on International Financial Reporting Standards (IFRS).
- 1.2 The Auditor's opinion just applies to the Statement of Accounts section of the document. Although the Auditor will consider the Narrative Report and Annual Governance Statement as part of auditing the Accounts for consistency, strictly speaking these are outside the scope of the opinion.
- 1.3 Set out below are the main elements of Statement of Accounts with a brief explanation of the information contained in each element:
- 1.4 **Comprehensive Income and Expenditure Account** - This summarises the revenue activities of the Council during 2020/21 and shows the day-to-day costs of services provided by the Council together with charges made to the revenue accounts in respect of the use of assets, costs of borrowing and income from investments. This includes the activities of the General Fund and the Housing Revenue Account.
- 1.5 The draft accounts show gross revenue service spend in 2020/21 of £539.5 million (£535 m in 2019/20). After taking into account service income of £373m and grant, Council Tax and NNDR income of £231.9m, the surplus on the provision of service was £36.4 million.
- 1.6 **Other Comprehensive Income and Expenditure** includes technical accounting adjustments including a loss of £119.6 m due to changes in the pension fund actuarial assumptions (this is largely a reversal of the gains in 2019/20 due to changes in the net present value factor). Note that this calculation does not set the pension contribution rates (contribution rates

- are reviewed as part of the triennial valuation). Increased property values has also generated a book increase in values of £99.6m.
- 1.7 This leaves an overall total comprehensive income & expenditure gain for the year of £16.3m, but after the accounting adjustment gains are removed in the Movement in Reserves Statement (MiRS), **the General Fund reserve has decreased by £1.8m to £10.936m** and the HRA reserve increased by £7.2m to £17.0m.
- 1.8 **Earmarked Reserves** - note that £21.1m of earmarked reserves were created during 2020/21 – this is mainly £16.8m of s31 grant placed into the NNDR reserve to fund the Council’s share of the 2020/21 collection fund deficit payable in future years and £3m to the Covid reserve. Note that a negative DSG reserve of £2.36m has been created to separate the DSG deficit from Council reserves.
- 1.9 The Council continues to review its financial stability as part of the increased pressures COVID is putting on Council services. Earmarked Reserves are those that have been set aside to cover a particular risk, or are ring fenced for particular purposes.
- 1.10 **The Movement in Reserves Statement (MiRS)** combines the total Comprehensive Income and Expenditure for the year along with adjustments between the accounting basis and funding basis to arrive at movements in reserves as they appear on the balance sheet.
- 1.11 **The Balance Sheet** shows the assets and liabilities of the Council as at 31st March 2021. The value of the assets of the Council must equal the value of its liabilities plus reserves.
- 1.12 Assets include property, plant and equipment, cash and investments and any debts owing to the Council. Property, plant and equipment have increased to £1.432 billion in value, an increase of £186.9 m due to expenditure on capital schemes (per note 37 of the accounts) and increases in valuations.
- 1.13 **The net assets of the Council (assets less liabilities) was £798.5 million**, which was an increase from the £782 million at 31st March 2020. The main reason for the increase is the increase in property values though this has been partly offset by the pension deficit increase. The notes to the accounts labelled in the balance sheet provide more detail.
- 1.14 **The Housing Revenue Account** is a separate ring-fenced account showing the expenditure and income relating to the management and maintenance of the Council’s social housing stock of some 9,325 dwellings. The HRA balance as at 31st March 2021 is £17.0 million, up £7.2 million due to lower expenditure in the year.
- 1.15 **The Collection Fund** is a separate account detailing Council Tax collections (including those collected on behalf of the Greater London Authority) and National Non-Domestic Rates (NNDR) part of which is retained by the Council with the remainder being paid to the GLA and the Government. The statement includes the effect of supplementary business rates raised on larger organisations which is payable to the GLA to fund the Crossrail project.
- 1.16 Any surplus or deficit on the Fund for Council Tax is distributed between the Council and the GLA in proportion to their share of tax income drawn from the fund. The Fund showed a £3m deficit at 31st March 2021 for Council

Tax which was in line with the January 2021 forecast. The deficit was due to providing for delays in collection of Council Tax due to Covid, however with collection rates forecast to increase, this additional provision can be released back to the collection fund in future years. Due to significant additional reliefs, the net collectable NNDR debt was £24.288m, down from the £79.362m forecast in January 2020. This has caused a deficit in the collection fund of £55m. However additional s31 Government grants have been received which will be used to fund the Council's 30% share (£16.7m) of the deficit in 2021/22. Government legislation also allows for this exceptional deficit to be spread over three years rather than being funded in 2021/22. The s31 grants have been transferred to an earmarked reserve in 2020/21 and will be released to fund the deficit when it is charged to the Council.

- 1.17 **The Cash Flow Statement** details the overall cash movements (inflows and outflows) over the year.
- 1.18 **Group Accounts** – the Council has historically published Group Accounts to include Mercury Land Holdings. From 2019/20, the Council has included its 50% share of its property joint ventures; Bridge Close Regeneration LLP, Havering and Wates Regeneration LLP and Rainham & Beam Park LLP Joint Venture. During 2020/21, the Council oversaw the purchase of the remaining 50% share of the Bridge Close project. These joint ventures are still in the early stages of development and once inter-group balances are offset, the difference in the group balance sheet compared to the single entity Council balance sheet is minimal.
- 1.19 **The Pension Fund** accounts are separate from the rest of the Councils accounts and show the income (pension contributions and investment returns) and expenditure (pension payments) for the year together with the assets and liabilities of the Pension Fund as at 31st March 2021. The Fund is audited at the same time as the Council's main accounts but are subject to a separate audit opinion. The Pensions Fund Annual Reports will be considered by the Pensions Committee later in the year.
- 1.20 The market value of the assets of the pension fund at the end of the year was £874.2 million, an increase from £728.9m at the start of the year, this was mainly due to increases in investment values. The results of the triennial revaluation completed during 2019 estimated a funding deficit of £320 million (an increase from £284m in 2016) and a funding level of 70% (up from 67% in 2016). The next triennial valuation will be in 2022.
- 1.21 **Inspection of the Accounts by the public** - As part of the six week process for the inspection of the Council's Accounts, the public was able to ask questions on the Accounts and request information. Local electors also have the right to raise objections to the Statement of Accounts with the external auditors. The inspection period commenced at the start of August.
- 1.22 **2019/20 Audit recommendations** - The 2019/20 Accounts were signed off by the auditors on 28 May 2021.

2. Accounting Policies

The Audit Committee meeting of 28th January 2020 noted the accounting policies to be applied to the financial year 2020/21, and these are reflected in the draft Statement of Accounts. The implementation of IFRS16 to bring leased assets onto the balance sheet has been deferred until 2022/23.

3. EY 2019/20 Report

The annual audit letter from EY for 2019/20 is being tabled at this Committee for noting. It covers the issues discussed at the Committee earlier in 2021 that approved the Statement of Accounts for 2019/20. This report is being tabled for completeness and to show the 2019/20 audit has ended. The report is included as appendix B to this report.

4. Retender of External Audit Contracts

The current external audit contract, procured through Public Sector Audit Appointments Limited (PSAA), is coming to an end and the Council will need to decide on a new route to procurement shortly.

The Council has received a letter from the Local Government Association in relation to this matter. The full correspondence is attached as Appendix C to this report. The LGA's letter says:- 'The way external audit has operated over the last couple of years has been extremely disappointing. This has led to many audits being delayed and dozens of audits remain uncompleted from 2019/20. Dealing with these issues is not a quick or easy fix. Nevertheless, the LGA's view is that the national framework remains the best option for councils. There are many reasons for favouring the national arrangements and we think those reasons have become more compelling since 2016/17 when councils were last asked to make this choice.'

The final decision whether to use the PSAA is one for Full Council. The s151 Officer is minded to recommend that the Council continues to contract its external audit via PSAA, for the reasons set out in the LGA's letter, but seeks the views of Audit Committee on this matter prior to the decision at Council early in the new year. The PSAA have set a deadline of 11 March 2022 for councils to decide whether or not to opt in to their procurement.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications arising from the publication or approval of accounting policies. There are no material changes to policy impacting upon the Council's financial position.

Legal implications and risks:

The Audit Committee is the decision making body in relation to the approval of the Annual Statement of Accounts which is one of the miscellaneous functions not to be the responsibility of the Executive.

As stated above the Accounts and Audit (Amendment) Regulations 2022/263 amended the timetable for Local Authority accounts.

There are no apparent legal implications in adopting the recommendations set out in this Report.

Human Resources implications and risks:

There are no direct Human Resources implications in this report.

Equalities implications and risks:

There are no direct equalities implications in this report.