

# **East Herts Council Report**

## **Audit and Governance Committee**

**Date of Meeting:** 28 July 2020

**Report by:** Bob Palmer, Head of Strategic Finance and Property

**Report title:** Draft Statement of Accounts 2019/20

**Ward(s) affected:** All

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### **Summary**

The Council is required to prepare, and have audited, an annual Statement of Accounts. Due to the current pandemic, the timetable that the Council has to comply with has been amended.

### **RECOMMENDATIONS FOR AUDIT AND GOVERNANCE COMMITTEE:**

- (a) That Members note the amended timetable for the production and auditing of the annual Statement of Accounts.**
- (b) That Members scrutinise the following report and the draft Statement of Accounts.**

#### **1.0 Proposal(s)**

- 1.1 This report proposes that the Committee should scrutinise the draft Statement of Accounts for 2019/20.

#### **2.0 Background**

- 2.1 Under the Accounts and Audit Regulations 2015, the Council was required to publish draft accounts by 31 May and audited

accounts by 31 July. The accounts have to include an Annual Governance Statement, which summarises the annual review of internal controls.

2.2 Those regulations have been amended and now require that:

- (a) The draft statement of accounts is approved by 31 August 2020.
- (b) The Council publishes the audited accounts by 30 November 2020.

2.3 The requirement to publish draft accounts has been satisfied by their inclusion on this agenda. The external audit is now underway and is being conducted remotely. Assuming the audit is concluded as planned, the audited version of the Statement of Accounts will be presented to the next meeting of the Committee on 22 September.

2.4 The Council's Annual Governance Statement is submitted for consideration and approval as part of this agenda and is included in the Council's draft accounts.

2.5 The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting 2019/20 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.6 The presentation of the Statement of Accounts is determined by the CIPFA Code of Practice which is based on International Financial Reporting Standards (IFRS). In scrutinising the draft Statement of Accounts, Members should include as part of their considerations:

- (a) Critical accounting policies and practices and any changes to them;
- (b) Decisions requiring a major element of judgement; and
- (c) The extent to which the financial statements are affected by

any unusual transactions in the year and how they are disclosed.

Critical accounting policies and practices and any changes to them

- 2.7 It had been anticipated that these accounts would have been prepared to include the requirements of IFRS 16 on leases. However, as part of easing the burden on local authority finance teams, the implementation of this accounting standard has been moved back a year. This delay means there have been no changes to critical accounting policies.
- 2.8 There has been a significant change to one accounting practice. Millstream Property Investments Limited (MPIL) has been included in the Council's accounts for the first time, requiring the preparation of group accounts.
- 2.9 Last year MPIL was still establishing itself and operating at a level that meant it was not material to the Council's accounts. As MPIL has expanded during 2019/20 and now has property assets with a value exceeding £2.3 million it is appropriate to include it within the Council's accounts. The audit of MPIL has been conducted by Ensors Accountants LLP and is close to conclusion.
- 2.10 In preparing group accounts, you are required to show the combined position of the entities and eliminate any balances between them. This means that the long term debtor for loans to MPIL shown on the Council's own balance sheet is replaced with the assets and liabilities (excluding that borrowing from the Council) of MPIL. It is necessary to produce a full set of statements for the group and these are presented after the Council's own accounts.

## Decisions requiring a major element of judgement

- 2.11 In preparing a set of accounts at a point in time it is inevitable that some of the information required will not yet be available. If an actual amount is uncertain an estimate is used. The estimate will be based on the assessment of information available at the time the accounts are closed. When the actual figures are determined any difference is usually accounted for in the following year. If the estimate was wrong by a material amount it would be necessary to consider re-stating the figures, this does not happen often.
- 2.12 The first issue requiring a major element of judgement is determining whether the accounts should be prepared on a going concern basis. As set out on page 9 of the draft accounts, management have a reasonable expectation that the Council has adequate resources to continue in operational existence for the foreseeable future. Therefore, it is appropriate to use the going concern basis in preparing the accounts. If this were not the case it would be necessary to consider any assets that would be affected and any consequent impairment of their values.
- 2.13 Most of the other items involving a major element of judgement are set out in note 4 "Assumptions made about the future and other major sources of estimation uncertainty", starting on page 32 of the draft accounts. This note provides information about the pension liability, the valuation of fixed assets and the provisions made for appeals against non-domestic rate bills.
- 2.14 It is evident from the substantial annual fluctuations in the Council's pension liability that the actuary exercises a significant element of judgement in calculating the pension figures. The largest creditor on the Balance Sheet is the Council's liability to the pension fund. The Balance Sheet shows that the pension liability for the Council has decreased in the year from £34.562 million to £23.546 million. This reduced deficit is due to the

reduction in projected liabilities of £14.440 million being greater than the £3.424 million reduction in scheme assets.

2.15 One of the key factors in calculating the projected liabilities is the rate of inflation (CPI), as this determines the rate of increase in individual's pensions. The higher the anticipated rate of inflation, the more pensions increase and so the greater the projected liabilities of the fund become. In this instance we have a reduction in the anticipated rate of inflation from 2.5% last year to 1.9% this year, and this is the primary cause of the almost 10% reduction in the projected liabilities.

2.16 The figures shown in the table below illustrate how the overall deficit has changed over time.

	2019/20 £m	2018/19 £m	2017/18 £m	2016/17 £m	2015/16 £m
Liabilities	(131.676)	(146.116)	(134.640)	(133.496)	(117.750)
Assets	108.130	111.554	105.250	100.787	88.954
Deficit	(23.546)	(34.562)	(29.390)	(32.709)	(28.796)

2.17 The inclusion of this amount in the Balance Sheet shows the extent of the Council's liability if the pension fund had closed on 31 March 2020. It does not mean that this full liability will have to be paid over to the pension fund in the near future.

2.18 The second area covered by note 4 is asset valuations, Property, Plant and Equipment (PPE) dominates the Balance Sheet with a value of £63.315 million and Investment Properties adding another £15.486 million.

2.19 The Council's assets are shown in the accounts at either fair value or market value, depending on the class of asset. The valuations are carried out by the internal property team in accordance with the Royal Institution of Chartered Surveyors (RICS) valuation professional standards and International Financial Reporting Standards (IFRS). Note 4 provides an

illustration of a 5% movement in valuation which would change the value of PPE by £5.7 million and the associated annual depreciation charge by £80,000.

- 2.20 The final area covered by note 4 is the provision for business rate appeals. Historically the rateable values for non-domestic property have been updated every five years. If an occupier is unhappy with the valuation set by the Valuation Office Agency (VOA) they can appeal. The VOA have been unable to keep up with the number of appeals, despite changing the system for checking and challenging bills to discourage speculative appeals.
- 2.21 The Collection Fund includes a provision for appeals of £7.1 million, down from £8.9 million. This provision was calculated with the help of an external firm of rating experts who analysed each outstanding appeal and gave a projected value for settlement. The VOA has made some progress during the year in settling appeals but we still have several hundred outstanding. To date the appeals that have been settled are similar in total to the provisions that were held against them and it appears the provision is not materially misstated.
- 2.22 Where it has been necessary to exercise judgement in the interpretation of the Code of Practice, advice has been sought from CIPFA and colleagues have liaised closely with other Hertfordshire authorities.

#### Unusual transactions and their disclosure

- 2.23 The financial statements for the Council have not been affected by any unusual transactions in the year. There have been no extraordinary items and no prior year adjustments.
- 2.24 The financial statements for MPIL include a prior year adjustment. The audit of the accounts for 2019/20 highlighted that the assets had not been correctly valued as at 31 March

2019 and so this value was re-stated. The unrealised gain in value in 2018/19 created a deferred tax liability which will only become payable if a property is disposed of and a gain realised. The external auditors of MPIL (Ensors Accountants LLP) have confirmed that the valuations are now correct and that the prior year adjustment has been properly disclosed and accounted for.

### **3.0 Reason(s)**

3.1 This meeting of the Committee would normally receive the audited Statement of Accounts. The audit is underway but not yet complete as the timetable has been extended for this year. The report sets out the changes to the timetable.

3.2 One of the key functions of the Committee is to scrutinise financial information and documents, including the Statement of Accounts.

### **4.0 Options**

4.1 The Committee can ask for any clarifications or explanations necessary to assist with the scrutiny of the draft Statement of Accounts.

### **5.0 Risks**

5.1 The scrutiny of the accounts should reduce the risk of there being a material misstatement or insufficient information about a key transaction or activity.

### **6.0 Implications/Consultations**

6.1 It would not be appropriate to consult Leadership Team on the draft Statement of Accounts.

## **Community Safety**

No

## **Data Protection**

No

## **Equalities**

No

## **Environmental Sustainability**

No

## **Financial**

The draft Statement of Accounts sets out the Council's financial position as at 31 March 2020 and its financial performance for the year then ended.

## **Health and Safety**

No

## **Human Resources**

No

## **Human Rights**

No

## **Legal**

The Accounts and Audit Regulations 2015 require the construction of an annual Statement of Accounts and set out the associated timetable for their production and auditing.

## **Specific Wards**

No

## **7.0 Background papers, appendices and other relevant matters**

None

**Contact Member**

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