Shropshire Council

Committee and date	Item
Audit Committee 30 July 2021	 Public

STATEMENT OF ACCOUNTS 2020/21

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1. Summary

The timetable for producing the 2020/21 Statement of Accounts has been amended by the Accounts and Audit Regulations due to the impact of the COVID-19 pandemic, so that all local authorities are required to publish the audited Statement of Accounts by 30th September 2021, with the draft accounts approved by 31st July 2021. Therefore, the Council's Draft Statement of Accounts for 2020/21 will be certified by the Section 151 Officer as a true and fair view of the financial position by 31st July 2021 and it is intended that the audited Statement of Accounts will be published by the 30th September 2021.

Furthermore, as a result of the global pandemic and its direct impact on the Council's external valuers to provide the Asset valuation report and the Pension Fund valuation report, the Draft Statement of Accounts for 2020/21 is not available at the time of this report being published. The following approach has been adopted:

i. This cover report has been made available with the Audit Committee Agenda
ii. The Draft Statement of Accounts will be completed (pre-Pension Fund amendments – see paragraph 6.2 - The Pension Fund Accounts) and an electronic-only version will be sent 'to follow' before Audit Committee meet.
iii. The Analytical Review (providing details of the reasons for the most significant changes between the 2019/20 Accounts and the 2020/21 Accounts) will be partially completed (and pre-Pension Fund amendments) and an electronic-only version will be sent 'to follow' before Audit Committee meet.
iv. A revised Draft Statement of Accounts and Analytical Review (final draft and post-Pension Fund amendments) will be completed enabling the final draft Statement of Accounts to be signed by the Section 151 Officer and published before the deadline of 31 July 2021.
v. A final set of electronic-only papers (final draft Statement of Accounts and completed Analytical Review) will be sent electronically to Audit Committee Members week commencing 2 August 2021 for consideration and comment (via email) by 14 August 2021.

Due to the unusual circumstances surrounding the Draft Statement of Accounts this year (and the delayed release of the papers meaning that Members will have insufficient time to read and consider the reports), additional time will be spent at the Audit Committee meeting to take Members through the report, draft Statement of Accounts and Analytical Review to enhance the value of any further review undertaken by Members prior to the 14 August deadline.

The financial impact of the pandemic has been felt across all local government but despite the 2020/21 financial year being an unprecedented year, the Council's financial year revenue outturn is an underspend of £0.764m on a gross budget of £575.462m. The final capital outturn shows a spend of £65.738m, representing 96% of the re-profiled budget.

The authority's Earmarked Reserves and Provisions have increased by £26.122m (includes £22.074m S31 Business Rate Relief funding). The general fund balance has increased by £0.580m. Delegated Schools' balances have increased by £4.104m (This includes the impact of moving the Dedicated Schools Grant deficit of £2.247m to an unusable reserve). Full details of the revenue and capital outturn position and the reserves, provisions and balances held by the authority are set out in a separate report on the Agenda for this meeting.

2. Recommendations

It is recommended that Members:

A. Receive and comment on this report, the draft Statement of Accounts and the attached Analytical Review of the draft Statement of Accounts.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1. Details of the potential risks affecting the balances and financial health of the Council are detailed within the Draft Statement of Account.

4. Financial Implications

4.1. This report considers the outturn position for the 2020/21 revenue budget and the implications on the level of general fund balances of any underspend or known spending pressures.

5. Background

5.1. The external audit by Grant Thornton will begin 2nd August 2021 and it is expected to be completed in September, after which the Statement of Accounts will be formally published, and a final report brought back to Audit

Committee for approval. This report will detail any material changes required as a result of the audit as agreed with the External Auditor.

5.2. In accordance with the Accounts and Audit (Amendment) Regulations 2021, the statutory deadline for the formal publication of the audited 2020/21 Statement of Accounts is 30th September 2021.

6. Statement of Accounts

6.1. The purpose of the Statement of Accounts is to give electors, those subject to locally levied taxes and charges, Members of the Authority, employees and other interested parties clear information about the Authority's finances. The format of the Statement of Accounts is governed by the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code") issued by the Chartered Institute of Public Finance and Accountancy. To make the account as useful as possible to its audience and so as to make meaningful comparisons between authorities possible. The Code requires:

- All Statement of Accounts to reflect a common pattern of presentation, although at the same time not requiring them to be identical.
- Interpretation and explanation of the Statement of Accounts to be provided.
- The Statement of Accounts and supporting notes to be written in plain language.

6.2. All of the above has been taken into consideration when producing the authority's own Draft Statement of Accounts. These accounts comprise various sections and statements, these are all briefly explained below:

- **Narrative Report** – this provides an explanation of the authority's financial position for 2020/21 and details the performance of the Council during the financial year.

- **The Statement of Responsibilities** – this details the responsibilities of the authority and the Section 151 Officer concerning the authority's financial affairs and the actual Statement of Accounts.

- **The Audit Opinion and Certificate** – this is provided by the External Auditor following the completion of the annual audit, this document is therefore draft pending the outcome of the audit.

- **The Core Financial Statements,** which comprises:

    - **The Movement in Reserves Statement** – this shows the movement in the year on the different reserves held by the authority which is analysed into 'usable reserves' and other reserves.

- **The Comprehensive Income and Expenditure Statement** – this is fundamental to the understanding of a Council's activities. It brings together all the functions of the Council and summarises all of the resources that the Council has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Council, before allowing for the concessions provided by statute to raise council tax according to different rules and for the ability to divert particular expenditure to be met from capital resources. The 2020/21 Income and Expenditure Statement reports a deficit for the year of £226.912m, however, this is not cash as this takes into account a number of significant theoretical amounts for matters relating to pensions and use of assets. The actual movement on the General Fund Balance was an increase of £0.580m which reflects the year end underspend on the revenue budget.

- **The Balance Sheet** – this is fundamental to the understanding of the authority's financial position as at the 31 March 2021. It shows the balances and reserves at the authority's disposal, long term liabilities and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held. The authority's total equity amounts to £174.324m, a decrease of £226.912m which is analysed in the Movement in Reserves Statement. Assets have decreased as a result of a decrease in the value of Property, Plant & Equipment which has decreased due to a decrease in valuations of assets held.

  The pandemic and the steps taken nationally and globally to respond to the Covid-19 pandemic have and continue to effect global, national and local economies. The current economic climate and property landscape has seen dramatic change over a very short period of time with certain sectors experiencing significant volatility and uncertainty. This has impacted upon market values, insurance values and asset values for many organisations both in the private and public sector.

  The Royal Institute of Chartered Surveyors released new Global Standards at the end of January 2020. The Council has transitioned to a reputable national external advisor to provide a report and valuation for the financial year ending March 2021.

  The values of the Council's assets have as a result seen some significant variances on previous years values in part due to market changes as set out above but in some areas due to differences in valuation methodology applied by the external valuers to the Council's previous approach, and changes in valuation approach from more widely used traditional methods. The external advisors have adopted changes which have been recognised both nationally and in response to an evolving market which in certain sectors is operating very differently.

These variances have been seen more particularly in relation to the Council's specialised assets where the differences in valuation methodology have seen some significant decreases in value. In addition the Council's external valuers have adopted a different approach to the valuation of schools, which form a significant part of the Council's total assets, than traditionally seen again resulting in significant decreases but bringing the valuations in line with the adopted approach of the Department for Education.

The valuations of the Council's car park assets have also been impacted by a change to valuation approach, with the external valuers employing a notional rent approach that, whilst resulting in decreases in value in the current year, should result in more valuation stability in future years as this would not then be affected by large swings in income received such as seen during the past year.

- **The Cash Flow Statement** - this consolidated statement summarises the authority's inflows and outflows of cash and cash equivalents arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand and deposits repayable on demand less overdrafts repayable on demand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash.

- **The Notes to the Core Financial Statements,** which provides supporting and explanatory information on the Core Financial Statements and includes the Council's accounting policies.

- **The Group Accounts** – these are prepared to account for the Council's share in IP&E Limited, Shropshire Towns & Rural Housing, West Mercia Energy, West Mercia Supplies Pension, Jersey Property Unit Trust, SSC No.1 Limited and Cornovii Developments Limited.

- **The Pension Fund Accounts** – the Shropshire County Pension Fund is administered by this Authority, however, the pension fund has to be completely separate from the Authority's own finances. The statement and supporting notes are an extract from the pension fund annual report and summarises the financial position of the Shropshire County Pension Fund, including all income and expenditure for 2020/21 and assets and liabilities as at 31 March 2021.

Valuations for harder to value investments (classified as Level 3 investments) within Shropshire County Pension Fund are received on a quarterly basis between 12-14 weeks after the quarter end. Due to the time lag and strict deadlines when Shropshire Council and the Pension Fund are required to close their accounts, accounting estimates for these investments are required.

This year due to the substantial recovery in equity markets following the global pandemic, the Private Equity valuation from Harbourvest increased in value by £45m in the last 6 months of the year. As the Pension Fund accounts are closed based on September valuations for Private equity (which is the latest available information at that time) and adjusted for known capital calls and cash distributions, once the March valuations are received in mid-July the impact is assessed. In previous years, the increase or decrease had not been material and the accounts were not adjusted as the values were within the overall materiality levels set by external audit. Due to the very strong performance in Private Equity in 2020/21, which is an excellent result for the Pension Fund, the increase between 1st October – 31st March 2021 was an increase of £45m which is above the materiality limit of £21m. The accounts will be amended to reflect this before the Draft Statement of Account is approved by the Section 151 Officer.

An updated IAS19 statement for Shropshire Council will be provided by the Fund's Actuary, Mercer, and an updated Pension Fund financial statements and notes to the accounts will be provided to the Council which will be incorporated in the Draft Statement of Accounts before the Section 151 Officer certification.

- **The Housing Revenue Account** – the authority is required to account separately for local authority housing provision, as defined in the Local Government and Housing Act 1989 as amended. The account details the income and expenditure relating to the local authority housing provision and details of the movement on the Housing Revenue Account Balance for the year.

- **The Collection Fund Account** – this account shows the transactions of the billing authority in relation to non-domestic rates and the council tax and illustrates how these have been distributed to preceptors and the General Fund.

The Draft Statement of Accounts for the year ended 31 March 2021 has been prepared in accordance with the Accounts and Audit Regulations 2015 and the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code") issued by the Chartered Institute of Public Finance and Accountancy.

7. Accounting Policies

7.1. The accounting policies that the Council uses to determine the treatment of items within the Statement of Accounts are detailed in Note 1 to the Core Financial Statements.

7.2. The Council has not adopted any other new accounting standards or amendments with a significant impact on the Council's position. At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority in the United Kingdom.

- Interest Rate Benchmark Reform amendments to IFRS 9, IAS 39 and IFRS 7 have an impact on hedge accounting if interest rates change. The amendments will not have an impact on the council, as the council's debt is fixed rate and all the council's investments are in sterling and low risk.

- Interest Rate Benchmark Reform – Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relate to issues that arise if an existing interest rate is replaced by an alternative one. This is unlikely to have an impact as interest rate benchmark reform is rarely applied. In addition, financial instruments are valued in the accounts at amortised cost rather than fair value.

8. Analytical Review

8.1. An analytical review has been carried out on each element of the Draft Statement of Accounts, this is a final check that provides assurance that the Statement of Accounts is free of material errors and misstatements. The analytical review focuses on figures within the Statement of Accounts that have changed materially when compared with the previous year's accounts. For 2020/21 the materiality threshold (i.e. the level of change between 2019/20 and 2020/21) used was 10% or £8m, which is used to ensure that all questions that the external auditors are likely to raise have been reviewed and explanations are readily available. Details of the significant changes between the two years are shown in Appendix 1.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) CIPFA's Code of Practice (Code) on Local Authority Accounting CIPFA/SOLACE guidance on the Annual Governance Statement Revenue and Capital Budget 2020/21
Cabinet Member (Portfolio Holder) Brian Williams, Chair of Audit Committee

Local Member

All

Appendices

1. Analytical Review of the Draft Statement of Accounts
2. Draft Statement of Accounts – to follow

Analytical Review of Shropshire Council's Statement of Accounts for 2020/21

The analytical review for 2020/21 highlighted a number of areas where there were material changes (Variances over £8m or over 10%), the most significant are detailed below along with an explanation of why these changes have occurred:

- **Balance Sheet Non-Current Assets – Property, Plant and Equipment**

	2020/21	2019/20	Decrease (Value)	Decrease
	£000	**£000**	**£000**	**(%)**
Expenditure	979,681	1,138,479	(158,798)	-14

This reflects the overall movement in property, plant and equipment. The movement consists of additions, disposals, revaluations (upwards and downwards), depreciation charges and impairments. There has been a net revaluation decrease in 2020/21 which is predominantly due to the current economic climate and the dramatic change in property landscape as a result of the global pandemic. The global economic climate and the change in valuation approach and methodology has led to the valuation decreases on assets revalued. The areas of significant movement are in Transfers and Disposals/Derecognition. Following the onshoring of the shopping centres, these assets are now accounted for as Property, Plant and Equipment rather than a long-term Investment. The transfer of schools to Academy status and the associated writing out of the assets. In 2019/20 three Schools transferred to Academies, one of which was a Secondary School, compared to 2020/21 only one school transferred to Academy.

- **Balance Sheet Non-Current Assets – Investment Property**

	2020/21	2019/20	Increase (Value)	Increase
	£000	**£000**	**£000**	**(%)**
Expenditure	59,261	47,652	11,609	24

The value of Investment properties has increased by £11.61m in 2020/21 mainly as a result of additions of new Investment properties, in terms of the acquisition of the Pride Hill Shopping Centre - Gap Site and the Former Morrison's Supermarket Site, Oswestry and completion of the Tannery site in Shrewsbury. The net movement on valuations has been a net gain of £0.08m, although at the individual asset level, there have been some significant revaluation gains and losses.

- **Balance Sheet Non-Current Assets – Intangible Assets**

	2020/21	2019/20	Decrease (Value)	Decrease
	£000	**£000**	**£000**	**(%)**
Expenditure	6,393	7,376	(983)	-13

Intangible assets are subject to a relatively short asset life, the annual amortisation charge leads to a significant reduction in the net book value annually. Therefore, the reduction in the balance sheet value of intangible assets in 2020/21 reflects the reduction in expenditure under the Digital Transformation Programme which had resulted in a higher level of expenditure on intangible assets in previous years.

- **Balance Sheet Long Term Assets – Long Term Investment**

	2020/21	2019/20	Decrease (Value)	Decrease
	£000	£000	£000	(%)
Expenditure	400	20,206	(19,806)	-98

In 2020/21 the onshoring of the shopping centres required the assets that were previously accounted for as a Long-Term Investment to be transferred to Property, Plant and Equipment, debtors and creditors.

- **Balance Sheet Long Term Assets – Long Term Debtors**

	2020/21	2019/20	Increase (Value)	Increase
	£000	£000	£000	(%)
Expenditure	22,628	19,857	2,771	14

The increase in long term debtors is due to a new drawdown of £3.250m from the loan facility by Cornovii.

- **Balance Sheet Current Assets – Current Held for Sale Investment Properties**

	2020/21	2019/20	Decrease (Value)	Decrease
	£000	£000	£000	(%)
Expenditure	250	740	(490)	-66

In 2019/20 one Investment Property fell into the category of Current Held for Sale Investment Properties based on the agreement in place to sell the site at the year end. That disposal did not complete in 2019/20 as expected, but is still expected to complete in 2020/21, but for a reduced amount based on the new agreement now in place.

- **Balance Sheet Current Assets – Current Assets Held for Sale**

	2020/21	2019/20	Decrease (Value)	Decrease
	£000	£000	£000	(%)
Expenditure	1,132	3,102	(1,970)	-63

The balance sheet value of assets in this classification reflects the position the Council are at with regards disposing of assets and whether they meet the criteria to be classified as Asset Held for Sale at the balance sheet date. Of the asset within the category in 2019/20, the Lacon Childe School Caretaker`s House, the Wharf site at Ellesmere, Westgate in Bridgnorth and the two HRA new build development disposals have all completed. There have also been falls in the estimates on the two school sites, most significantly Ifton Heath and the only assets to transfer into this category in 2020/21 is the former Shrewsbury Training & Development

Centre and two HRA New Build Purchased Properties for shared ownership sale, one of which has completed.

- **Balance Sheet Current Liabilities – Short Term Borrowing**

	2020/21	2019/20	Increase (Value)	Increase
	£000	**£000**	**£000**	**(%)**
Expenditure	(13,893)	(6,013)	(7,880)	131

The increase in short term borrowing of £7.880m is due to 2 loans totalling £12m which are due for repayment within the next 12 months and have therefore been transferred from long term to short term less the repayment of one loan of £4m.

- **Balance Sheet Long Term Liabilities – Long Term Borrowing**

	2020/21	2019/20	Decrease (Value)	Decrease
	£000	**£000**	**£000**	**(%)**
Expenditure	(291,568)	(303,568)	12,000	-4

The reduction in long term borrowing of £12m is due to 2 loans which are due for repayment within the next 12 months and are now classed as short term.