

Committee: Governance & Audit Committee

Date of meeting: 02 November 2021

Report Subject: Statement of Accounts 2020/2021

Report Submitted by: Rhian Hayden, Chief Officer, Resources

Report Written by: Tony Hagland, Senior Business Partner
- Finance

Reporting Pathway							
Directorate Management Team	Corporate Leadership Team	Governance & Audit Committee	Democratic Services Committee	Scrutiny Committee	Executive Committee	Council	Other (please state)
		02/11/2021					Statutory Returns; Financial Governance

1. Purpose of the Report

1.1 To present for approval the 2020/2021 Statement of Accounts.

2. Scope and Background

2.1 The requirements for preparation, inspection, audit, approval and publication of Local Authority annual accounts are specified in the Public Audit (Wales) Act 2004 [the 2004 Act] and the Accounts and Audit (Wales) Regulations 2014 [the 2014 Regulations] as amended by the Accounts and Audit (Wales) (Amendment) Regulations 2018.

2.2 Section 25 of The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 specifies that the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting ("the Code") represents proper practice in preparing local authority accounts in compliance with section 8(1) of the 2014 Regulations.

2.3 In recognition of the continuing impact of the Covid-19 pandemic, Welsh Government acknowledged that additional work could be required to finalise local authority accounts for the 2020/2021 financial year. Consequently, Authorities are again able to utilise the extended timetable initially implemented for 2019/2020. This recommends preparation of draft accounts by 31 August 2021 and publication of final audited accounts by 30 November 2021.

2.4 The Council's Draft Statement of Accounts were reported to the Governance & Audit Committee on 27 July. Since that time a number of adjustments have been identified and these are being reported to Committee before approval of the Final Accounts.

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Date signed off by the Monitoring Officer: N/A

Date signed off by the Section 151 Officer: N/A

- 2.5 Section 11 of the 2014 Regulations and Section 29 of the 2004 Act require that the Accounts and other documents are made available for public inspection for 20 working days. The documents were made available from Monday 5 July until Friday 30 July 2021 inclusive. No requests for information or inspection were received during that period.
- 2.6 Section 31 of the 2004 Act provides for local electors to make objections to the External Auditor regarding any item of account that is contrary to law or any matter that could result in a report in the public interest. The auditor appointed 2 August 2021 as the date on or after which these rights could be exercised.
- 2.7 The External auditor (i.e. Audit Wales) has now finalised the detailed financial audit of the accounts and disclosure notes that comprise the overall Statement. Audit Wales has prepared its statutory Audit of Accounts Report (International Standards on Auditing or ISA 260 report) and this forms part of today's agenda.
- 2.8 The Authority anticipates receiving an unqualified (i.e. clear or satisfactory) signed audit opinion from the Appointed Auditor. At this stage, Audit Wales are unable to issue a certificate of completion of audit for 2020/2021, pending the certification of audits in respect of prior financial years.
- 2.9 Following this Governance & Audit Committee, if agreed, the Statement of Accounts will need to be signed by the Chief Officer Resources and the Chair of the Committee (as the person presiding over the meeting).
3. **Options for Recommendation** *To include Recommendation(s) / Endorsement by other groups, e.g. CMT/Committees/Other groups)*
- 3.1 **Option 1 (preferred)**
On consideration of this report and the External Auditor's report, the Accounts **are approved** by the Governance & Audit Committee under the delegated authority of the Council.
- 3.2 **Option 2**
The Governance & Audit Committee considers and does not approve the Statement of Accounts.

4. Evidence of how does this topic supports the achievement of the Corporate Plan / Statutory Responsibilities / Blaenau Gwent Well-being Plan

4.1 Statutory Responsibilities

The Statement of Accounts is prepared in accordance with relevant statutory and regulatory provisions, accounting codes of practice and accounting standards. It details the financial transactions of the Authority for the 2020/2021 financial year and the value of assets, liabilities and reserves at the balance sheet date (31 March 2021).

5. Implications Against Each Option

5.1 Impact on Budget (*short and long term impact*)

5.1.1 The Final Statement of Accounts includes a number of adjustments to the Draft Accounts previously presented.

5.1.2 Two of these adjustments have a significant or material impact on the Authority's Balance Sheet Reserves:

- Correction of Agency Income and Expenditure (see 6.1.10 for further detail); and
- Post Balance Sheet Event – Ebbw Valley Railway Loan (see 6.1.14 for further detail).

5.1.3 The changes to Usable Reserves as a result of these adjustments is as follows:

Usable Reserves	Draft Accounts 2020/2021	Increase/ (Decrease)	Final Accounts 2020/2021
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Council Fund	7,820	(267)	7,553
Earmarked Reserves	20,781	0	20,781
Usable Capital Reserves	8,933	48,024	56,957
Total Usable Reserves	37,534	47,757	85,291

5.1.4 Further to the audit of the Accounts, the Council's Usable General and Earmarked Reserves have reduced by £0.267m from the Draft position. This represents an increase of £13.660m compared with 2019/2020.

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- 5.1.5 Significant elements of earmarked reserves held at 31 March 2021 relate to grant funding in respect of specific projects or services that will be utilised in delivering the relevant service outcomes.
- 5.1.6 In future years it is possible that there will be restrictions on public spending in order to mitigate the extraordinary levels of borrowing incurred by Central Government in dealing with Covid-19. It would therefore be prudent to retain appropriate levels of earmarked and general reserves to assist with a funding situation potentially similar to that experienced during the last decade.
- 5.1.7 It should also be noted that the £48.024m increase in reserves in respect of the Ebbw Valley Railway Loan is an accounting adjustment and this sum is ring-fenced for utilisation solely in relation to this project over the next three years.

5.2 Risk including Mitigating Actions

- 5.2.1 Achievement of the statutory requirements in relation to the annual Accounts is important in demonstrating that the Authority has the appropriate governance arrangements in place to manage the reporting of its strategic financial affairs. Failure may result in reputational damage for the Council. A planned approach has ensured that statutory requirements have been met.
- 5.2.2 A clear audit opinion indicates that the Statement of Accounts presents a 'true and fair view' of the Council's financial position as at 31 March each year and that the accounting statements have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

5.3 Legal

- 5.3.1 The requirements for preparation, inspection, audit, approval and publication of Local Authority annual accounts are specified in the Public Audit (Wales) Act 2004 [the 2004 Act] and the Accounts and Audit (Wales) Regulations 2014 [the 2014 Regulations] as amended by the Accounts and Audit (Wales) (Amendment) Regulations 2018.

5.4 Human Resources

- 5.4.1 There are no direct personnel/staffing implications arising out of this report.

6. Supporting Evidence

6.1 Performance Information and Data

Statutory Deadlines

6.1.1 The Accounts and Audit (Wales) (Amendment) Regulations 2014 stipulates the following deadlines for preparing, approving and publishing the Accounts:

Requirement	Deadline
A provisional (i.e. pre-audit) Statement of Accounts to be fully prepared and certified by the Chief Officer - Resources as presenting a true and fair view of the Authority's financial position and its income and expenditure for the year ended 31 March 2021	31 May 2021
Publication of a final audited Statement of Accounts	31 July 2021

6.1.2 As previously reported, the Draft Statement of Accounts was prepared and certified by 18 June 2021 and as the initial statutory deadline was not met, the required notice was published on the Council's website outlining the reasons for the lack of certification at 31 May 2021 and the intended course of action to be taken to resolve the situation.

6.1.3 As the Final Statement of Accounts was not completed and audited by the 31 July 2021 deadline, the Draft Statement of Accounts was published on the Council website ahead of that date together with the required statutory notice stating the position and intended action at that date.

6.1.4 The Council therefore complied with the statutory requirements in relation to preparing, approving and publishing the Accounts.

6.1.5 In recognition of the continuing impact of the Covid-19 pandemic, Welsh Government implemented the following extended timetable implemented for preparation and publication of the 2020/2021 Accounts:

Requirement	Deadline
A provisional (i.e. pre-audit) Statement of Accounts to be fully prepared and certified by the Chief Officer - Resources as presenting a true and fair view of the Authority's financial position and its income and expenditure for the year ended 31 March 2021	31 August 2021
Publication of a final audited Statement of Accounts	30 November 2021

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- 6.1.6 The Authority prepared and certified its Draft Accounts by 18 June 2021, ahead of the 31 August deadline.
- 6.1.7 Subject to approval by Committee and subsequent receipt of an Audit Opinion from the Auditor General for Wales, the Final Audited Accounts should be published ahead of the 30 November deadline.

Unadjusted Misstatements

- 6.1.8 As noted in the *Audit Wales Audit of Accounts Report*, there are no significant or material unadjusted misstatements in the final 2020/2021 Accounts.

Adjusted Misstatements

- 6.1.9 Since the Draft Statement of Accounts was reported to Audit Committee, the audit of the Accounts has resulted in the correction of a number of misstatements. These are detailed in Appendix 3 of *The Audit Wales Audit of Accounts Report*, the most significant of which are:

6.1.10 ***Agency Income & Expenditure- NNDR Rate Relief (£3.530m Income; £3.263m Expenditure)***

- 6.1.10.1 In March 2020, Welsh Government initiated a scheme to provide non-domestic rate relief to specific businesses to mitigate the impact of Covid-19 pandemic lockdown measures.

- 6.1.10.2 During the year, £3.530m of grant was received to fund these reliefs, of which £3.263m had been applied by 31 March 2021. In the Draft Accounts, these amounts were included in the Income and Expenditure Account, resulting in a net credit to the General Reserve of £0.267m.

- 6.1.10.3 However, in applying this relief the Council was acting as an agent of Welsh Government and the transactions should therefore have been excluded.

- 6.1.10.4 The impact of this adjustment in the Final Accounts is a decrease in the previously reported Council Fund General Reserve figure of £0.267m.

6.1.11 ***Overstatement of Revaluation Increases/Decreases (£3.049m)***

- 6.1.11.1 Due to an error in the Fixed Asset Register System, the revaluation increases calculated in respect of two assets revalued during 2020/2021 were overstated by £3.049m.

- 6.1.11.2 In the Property, Plant & Equipment disclosure (Page 63), 'Revaluation Increases recognised in the Revaluation Reserve' was overstated by £3.049m, and 'Revaluation Decreases recognised in the Provision of Services' was also misstated by this amount.

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6.1.11.3 In correcting this error, the Revaluation Reserve has been reduced by £3.049m and the Capital Adjustment Account increased by a compensating amount. There has been no impact on the value of assets or the Council's General Reserve.

6.1.11.4 As part of the evidence provided to Audit Wales during their audit of the accounts it was confirmed that these were the only two assets with this specific revaluation error that impacted on the 2020/2021 Accounts.

6.1.12 ***Understatement of Capital Grant Received and Applied (£2.089m)***

6.1.12.1 The Draft disclosure of Capital Grants Unapplied in the Reserves Note (page 99) did not include transactions related to General Capital Grant and Heritage Lottery Fund, totalling £2.089m.

6.1.12.2 As these grants were received and applied during the year, the balance of reserves at 31 March 2021 was unaffected, but 'Transfers to Reserves' and 'Transfers from Reserves' were both understated by the same amount.

6.1.12.3 Correction of this misstatement results in an adjustment between two unusable reserves and has no impact on the overall level of the Council's reserves.

6.1.13 ***Misstatement of Remuneration Ratio***

6.1.13.1 In the Draft Accounts, the Remuneration Ratio (note 14.2, page 46) repeated the 2019/2020 ratio for 2020/2021 in error.

6.1.13.2 This has been corrected to correctly disclose the 2020/2021 position.

6.1.14 **Post Balance Sheet Event - Ebbw Valley Railway Loan**

6.1.14.1 During March 2021 the Council agreed to accept a £70 million interest free loan from WG to progress infrastructure works on the Ebbw Valley Railway project. The acceptance of the loan was subject to the development and acceptance of a quadripartite agreement between Blaenau Gwent Council, Welsh Government, Transport for Wales and Transport for Wales (Rail).

6.1.14.2 At the time of preparing the Draft Accounts, this loan was included as Current (Short-Term) Borrowing, as it would have been repaid during 2021/2022 if no agreement had been reached.

6.1.14.3 An agreement was signed by all parties by September 2021, with the loan to be repaid over a 50-year period after the scheduled conclusion of the infrastructure works in 2023/2024. In order to meet the loan repayments, the Council will receive a guaranteed sum on an annual basis, generated

from the projected increase in income resulting from increased train frequency.

- 6.1.14.4 The agreement to undertake infrastructure works on the Ebbw Valley Railway project that was signed by September 2021 represents a material adjusting post-balance sheet event. In the Final Accounts for 2020/2021, the loan has been reclassified as non-current (long-term) borrowing as it will be repaid over a 50-year period commencing in 2024/2025. The loan has been discounted to its fair value in 2020/2021 and the sum in excess of the fair value has been included as capital grant unapplied.
- 6.1.14.5 The required change in accounting treatment has the following impact on the Authority's Balance Sheet:

	Draft Accounts	Adjustment	Final Accounts
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cash and Cash Equivalents	70,000	0	70,000
Current Borrowing	(69,829)	69,829	0
Current Grants Receipts in Advance	(171)	171	0
Non-Current Borrowing	0	(21,976)	(21,976)
Total	0	48,024	48,024
Usable Reserves: Capital Grants Unapplied	0	(48,024)	(48,024)
Total Usable Reserves	0	(48,024)	(48,024)

- 6.1.14.6 The £48.024m increase in usable reserves is an accounting adjustment and this sum is ring-fenced for utilisation solely in relation to the Ebbw Valley Railway Project over the next three years.

6.1.15 In addition, there have been a number of minor amendments to information included in the disclosure notes. In overall terms, these changes would not substantially alter the reader's interpretation and understanding of the Accounts compared to the Draft Accounts considered by Governance & Audit Committee in July 2021.

6.1.16 **Matter Arising**

6.1.16.1 Audit Wales have identified one matter arising from their audit of the Accounts, being errors in the Historic Cost Valuations of assets held in our Asset Register.

6.1.16.1 Assets are typically held at their current or fair value in the Statement of Accounts, but a record of Historic Cost is retained in the Asset Register.

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- 6.1.16.1 The most significant potential impact that incorrect Historic Cost Valuations has on the Accounts is in a technical accounting adjustment between the Capital Adjustment Account and the Revaluation Reserve.
- 6.1.16.2 During the Audit, Officers undertook an exercise to demonstrate that neither of these reserves was materially misstated. The Audit Wales report notes that, after review and testing of the work undertaken, they agree that the Accounts are not materially misstated as a result of this issue.
- 6.1.16.3 Nevertheless, the Chief Officer Resources has accepted that work needs to be undertaken to identify and correct errors in the Asset Register within the next financial year.

6.2 **Expected outcome for the public**

- 6.2.1 Preparation, publication and approval of statutory accounts helps demonstrate stewardship of the Authority's resources and its ability to provide services to the local community in the short and long term.

6.3 **Involvement** (*consultation, engagement, participation*)

- 6.3.1 The Statement of Accounts is presented to the Governance & Audit Committee for approval subsequent to consideration of the draft version.

6.4 **Thinking for the Long term** (*forward planning*)

- 6.4.1 Preparation of statutory accounts helps demonstrate stewardship of the Authority's resources and its ability to provide services to the local community in the short and long term.

6.5 **Preventative focus**

- 6.5.1 Not applicable.

6.6 **Collaboration / partnership working**

- 6.6.1 Not applicable.

6.7 **Integration** (*across service areas*)

- 6.7.1 Not applicable.

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6.8 Decarbonisation and Reducing Carbon Emissions

6.8.1 The Statement of Accounts is currently not required to include information relevant to decarbonisation and reduction of carbon emissions.

6.9 Socio Economic Duty Impact Assessment *(complete an impact assessment to consider how the decision might help to reduce the inequalities of outcome associated with socio-economic disadvantage).*

6.9.1 A Socio Economic Duty Impact Assessment has not been completed for the Statement of Accounts, which provides an objective and audited report of the Authority's transactions for the financial year and balance sheet position at the year-end. This information can be utilised in making decisions that might help to reduce the inequalities of outcome associated with socio-economic disadvantage.

6.10 Equality Impact Assessment *(screening and identifying if full impact assessment is needed)*

6.10.1 An Equality Impact Assessment has not been prepared as this report provides an actual outturn position in relation to the Authority's transactions and year-end balances for the financial year, on an objective basis in accordance with relevant accounting standards, codes, concepts, principles, guidance and legislation.

7. Monitoring Arrangements *(State how the work will be monitored e.g. through scrutiny or directorate performance management arrangements)*

7.1 The Council continues to take into consideration the financial standing of the Authority as reported within the Statement of Accounts for 2020/2021 when monitoring budgets for 2021/2022, setting a Revenue Budget for 2022/2023 and in developing future medium term spending plans.

Background Documents /Electronic Links

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