worcestershire
countycouncil

AUDIT AND GOVERNANCE COMMITTEE
3 DECEMBER 2021

STATUTORY ACCOUNTS UPDATE

Recommendation

1. **The Chief Financial Officer recommends that:**

   a) **The Updated Audit Findings Report at Appendix 1 be noted;**

   b) **The Final Accounts Pack at Appendix 2, including the Statement of Accounts for the financial year ended 31 March 2021 be approved;**

   c) **He be authorised to sign the Letters of Representation on behalf of the County Council; and**

   d) **The Annual Governance Statement 2020/21 at Appendix 3 be approved.**

Introduction

2. Following the delegations agreed at the last committee meeting on 24 September 2021, it has unfortunately not been possible to complete the Accounts sign off as anticipated. Late technical queries nationally relating to local government weaknesses particularly around accounting for capital meant further audit testing was required. Nationally this meant only 9% of all audits were signed off by 30 September 2021 deadline. The latest information from the National Audit Office (NAO) at late November identifies that 77% of audits remain unsigned.

3. As such an updated Audit Findings Report (AFR) from the external auditor and the Council's accounts are re-presented to this Committee for sign off at its meeting on 3 December 2021. There are principally a few changes to the accounts presented at the September Committee to the Notes and one Statement – The Group Movement in Reserves (MIRS). The reasons are set out in the following sections and Grant Thornton's report to Committee on the same agenda.

4. Nationally the deadline for the Value for Money (VFM) opinion has been deferred from the end of the 2021 calendar year and is now 28 February 2022. There remains, as planned, some audit fieldwork around the completion of the VFM conclusion and the Whole of Government Accounts statistical return before the Audit Certificate can be issued. An update will be provided by external audit at Committee but this is now expected to be concluded by February 2022 with an update to this Committee in March.

2020/21 Statutory Accounts adjustments

5. Since the last committee meeting on 24 September 2021, the audit process has continued with further queries arising from Grant Thornton's ethical and technical reviews performed in addition to the fieldwork completed by the external audit local team over the summer months. The Council's Finance Team has worked with the external audit team to resolve all such queries and update relevant disclosures in the 2020/21 Statement of Accounts.

6. The very late audit testing requirements brought in the final week before the deadline were in response to findings at other councils (Slough and Croydon) relating to weaknesses in capital financing and reporting. It was therefore important that the quality of all local authority accounts was tested to ensure that the confidence of members and local residents could be maintained and provide an opportunity for amendments to be made. We are pleased to say that overall Grant Thornton's findings recognise that Worcestershire County Council's arrangements are strong.

7. There are two main issues that have arisen from this late review that the Committee need to be aware of and both are reflected in Grant Thornton's AFR (Appendix 1), they are:

(a) The treatment of the financing of the energy from waste site has been amended, but note comments below about the exceptional nature of this; and

(b) The accounting treatment of two sites when calculating the Minimum Revenue Provision (MRP).

Both of these are discussed in the following paragraphs and the amendments are set out in both the following sections and Grant Thornton's AFR on this agenda.

8. With regard to the energy from waste site, members may be aware that the contracts with Mercia Waste to run this site and the Envirosort facility were due to be funded originally through a Private Finance Initiative (PFI) scheme. However, due to the financial position in 2009 a separate deal was struck with both Government and the Provider to manage the funding risk whereby the Council would borrow the funds, but that the Council would still receive credits as if it were a PFI scheme. Whilst technically this remains a PFI scheme, uniquely the Council borrowed the money to provide financing instead of that being sourced by the provider from an external financial institution.

9. This is an important distinction as the Council has already borrowed the funds and the project is complete, with Mercia Waste making repayments on this loan. However, the Prudential and Accounting Codes require that the underlying liability in respect of PFI assets is excluded from the Capital Financing Requirement (CFR) (Note 14.9). The CFR is a note to the Accounts that discloses the Council's underlining need to borrow for capital purposes**,** i.e. its borrowing requirement. The CFR is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue. It is important that users of the accounts asses this to appraise the Council's likely future capital expenditure and how this will be funded. In the case of other local authorities, public reports have identified that the level of CFR and treatment of MRP was incorrect and led to significant weaknesses and inadequate level of funds. As such the accuracy of the CFR is important.

10. Grant Thornton's technical team identified that Worcestershire County Council have not included the PFI liability for the Mercia Waste sites within its CFR. In previous years, the CFR was reduced by the value of the PFI Liability to show the waste contract was already financed to reflect the arrangement in paragraph 9. It is recognised that the Council's arrangement is unique, and following the additional technical audit review the Council has agreed to amend this disclosure, showing separately the CFR and the Council's underlying need to borrow. There have been a number of consequential disclosure amendments which have been made as a result of this. There are no changes to the Council's balance sheet as a result of this change.

11. The second issue relates to the MRP, that is the minimum amount which a Council must charge to its revenue budget each year, to set aside a provision for repaying external borrowing (loans). This is an annual revenue expense in a Council's budget. Putting this simply, if the Council is not prudent in its calculation of MRP it will under-provide for future repayment which could, as it has in some other local authorities, lead to concerns over financial standing.

12. Grant Thornton have therefore carried out significant additional further testing of WCC's approach to calculating its MRP. In just two instances they have found that the calculations may be understated. These are both concerning PFI assets where the Council has assessed the asset life as 90 years. This was done on the basis that under PFI, at the end of the PFI (40 years) the assets are due to return to the Council in the state they were on day one. As such it was assumed a reasonable further life of 50 years could be expected. Whilst we feel that is reasonable it has not been confirmed by a qualified surveyor as the buildings of course are not yet at the handover stage (c17 years away). As such we will review our policy for 2021/22, however the adjustments themselves for this shorter period of MRP calculation are not material and as such we have not amended the accounts for this fact.

13. The revisions to disclosures are set out in more detail below**; these adjustments do not have an impact on the main statements (Income & Expenditure, Balance Sheet, Cashflow and Movement in Reserves Statement) nor do they affect the reported net expenditure or the Council's earmarked reserves and General Fund balances for the year ended 31 March 2021 and thus there is no impact for the Council Taxpayer.**

14. The adjustments to the Accounts and changes to Grant Thornton's AFR are reported elsewhere on the same agenda as this report is presented and have been highlighted in yellow to draw attention for Councillor's ease of reading.

Disclosure adjustments to the 2020/21 Statement of Accounts

15. The 2020/21 Statement of Accounts, presented to committee at the meeting held on 24 September 2021, has been updated for the following disclosure items, as agreed with our external auditors:

- **Capital Financing Requirement (CFR) and Minimum Revenue Provision (MRP)** (Notes 11, 12, 13, 14.5 and 14.9): disclosure of the CFR has been revised to include the Council's PFI liability balance and the related MRP charge and capital loan repayments in respect of PFI assets. As a result of these adjustments, the closing Capital Financing Requirement at 31 March 2020 has been restated from £600.0 million to £767.6 million. Supporting notes have been revised to ensure internal consistency of disclosure of these items in the accounts.

  This adjustment combines the Council's underlying need to borrow and its PFI liability within one disclosure. There is no increase in liability as a result of these revisions.

- **Details of payments due to be made under Private Finance Initiatives (PFI) contracts (Note 15.5)** in 2020/21 have been revised to reflect the amounts due represented by the repayment of the liability, service charge and interest over the term of such contracts.

  This disclosure now presents the Council's liability between principal and interest elements of the contract.

- **Fair Value of Assets and Liabilities (Note 16.2)**: the fair value of the Council's PFI liabilities has been restated to reflect the discounted present values of future cashflows for the lease and interest repayments, in accordance with IFRS13.

  This disclosure presents the value at the Balance Sheet date of the total future cash outflows in respect of this liability.

- **Cashflow Statement: Investing Activities (Note 23.2)**: Disclosures to note the 'Purchase of short-term & long-term investments' and 'Proceeds from short-term & long-term investments' have been restated to exclude amounts represented by cash equivalents as per the Council's accounting policy.

  Treasury management investments held for less than three months are considered as cash in accounting terms and therefore are excluded from this disclosure note.

- **Group Movement in Reserves Statement (MIRS)**: The Group MIRS 2019/20 and 2020/21 have been adjusted to disclose reserve movements in accordance with the CIPFA Code.

16. The updated 2020/21 Statement of Accounts is included at Appendix 2 to this report.

Annual Governance Statement (AGS) 2020/21

17. The AGS has been reviewed but has remained unchanged from what was presented to the September 2021 committee meeting.

18. It is included at Appendix 3 and recommended for final approval today, independently from but commensurate with approval of the 2020/21 Statement of Accounts.

Progress on 2021/22 Statutory Accounts Preparation

19. The Council's Finance Team has well established processes around the production of the accounts and we are expecting to complete our plan to prepare accounts in time for them to be audited and ready for committee approval in advance of the statutory deadline of 30 September 2022.

20. It is planned that draft accounts for the year ending 31 March 2022 will be presented to the meeting of this committee in July 2022 for approval.

21. We will continue to work with Grant Thornton around these assumptions and will agree a plan that will be flexible to cater for changing circumstances.

IFRS16: Leases

22. Due to the impact of COVID-19, the effective date for the implementation of IFRS 16: Leases has been deferred to 1 April 2022.

23. Under the new standard, which replaces IAS 17, leases will no longer be classified as finance or operating leases and all leases will be recognised on balance sheet with the exception of short-term leases (leases of 12 months or less) and low value assets (where the right-of-use asset is less than £10,000).

24. Our approach and proposed IFRS 16 disclosures will be subject to review by Grant Thornton as part of planned audit work in 2021/22. We continue activity to monitor and record the Council's lease arrangements to ensure complete and accurate disclosure in future reporting periods which is compliant with the requirements of the new standard.

2021/22 Accounts planning

25. In response to the recommendations included in the Action Plan presented by Grant Thornton in the Audit Findings Report for the year ended 31 March 2021, we have identified areas for improvement in our working papers and, alongside our regular planning processes, will continue to strengthen supporting information in respect of our key accounting estimates and judgements.

26. We have already planned our approach to asset valuations for 2021/22 and have reappointed Wilks Head & Eve to undertake valuations in line with our rolling programme. A work instruction has been issued and planning discussions will take place with the external valuers over forthcoming months.

Legal, Financial and HR Implications

27. There are no significant implications other that mentioned directly in this report.

Supporting Information

- Appendix 1: 2020/21 External Audit Findings Report
- Appendix 2: 2020/21 Statement of Accounts
- Appendix 3: 2020/21 Annual Governance Statement

Contact Points

Specific Contact Points for this report

Michael Hudson, Chief Finance Officer, 01905 84**5560**, mhudson@worcestershire.gov.uk

Rachael Hart, Financial Reporting Manager, 01905 84**3165**, rhart@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case the Chief Finance Officer) there are no background papers relating to the subject matter of this report.