

To: Audit and Governance Committee

Date: 20 October 2021

Report of: Head of Financial Services

Title of Report: Statement of Accounts for the Year Ending 31st March 2021

Summary and Recommendations

Purpose of report: To submit the Council's Statement of Accounts and Letter of Representation for approval and authorisation.

Key Decision No

Cabinet lead member Councillor Ed Turner

Policy Framework: Efficient and Effective Council

Recommendations: That the Committee:

a) Approve the audited 2020/21 Statement of Accounts as agreed by the Head of Financial Services and authorise the Chair of the Committee to sign the Accounts after any emerging non-material changes

b) Approve the Letter of Representation to enable it to be signed and dated on date of signing and to enable the opinion to be issued (paragraph 28)

Appendices

Appendix 1 –Statement of Accounts 2020/21

Appendix 2 – Letter of Representation

Background

1. The Statement of Accounts for 2020/21 (the Statements) are attached at Appendix A. The Accounts and Audit Regulations 2015 which revoke and replace the 2011 Regulations invoke earlier dates for the preparation, approval and publication of the Statements. Accounts normally now have to be completed and published in draft form by 31st May and audited, approved and published by 31st July. The Accounts and Audit (Amendment) Regulations 2021 amended the second date for the 2020/21 Statements only to 30th September 2021.

2. On the 16th June 2020 the draft Statements were certified by the 'Responsible Officer', the Head of Financial Services as a true and fair view of the financial position of the authority at the 31st March 2021. The accounts were duly authorised to be released for audit.
3. Following audit by Ernst and Young the Statements have been agreed by the Head of Financial Services and are presented to this Audit and Governance Committee for final approval (subject to any non material amendments to be made).
4. The 2020/21 audit is complete with some specific matters outstanding as reported in the Audit Results Report elsewhere on this agenda but it is anticipated that all matters will be substantially complete by the date of the Audit Committee so that the accounts can be agreed to be signed off.
5. The auditors made some recommended changes, in line with the Code of Practice, which have been incorporated into the final version of the Statements and have also issued a draft report on the outcome of the audit. This report appears elsewhere on the meeting agenda.
6. The auditors are expected to issue an unqualified opinion on the financial statements.

Uncorrected Misstatements

7. There are uncorrected misstatements in the accounts relating to the pension fund figures. There have been some agreed adjustments on the Oxfordshire Pension Fund audit which have been communicated to the Council's auditors by the auditors of the Pension Fund.
8. The adjustments agreed were all in respect of an understatement of assets on the following Level 3 categories:
 - Pooled Property Investments of £3.010 m
 - Pooled Investments of £9.365 m
9. The Pension Fund has agreed to make the adjustments and this would therefore impact the IAS 19 disclosures and associated entries for all members of the pension fund. Oxford City Council has a share of approximately 12% of the pension fund values and this would therefore equate to an asset misstatement share of around £1.485 million. This is less than the Council auditors' error threshold and therefore must be reported but does not need to be adjusted in order to gain an unqualified opinion.
10. Since the pension figures will have no impact on the Council resources overall (with any amendments to the Comprehensive Income and Expenditure figure being reversed in the Movement in Reserves statement) and since the changes necessary would impact on various disclosures, adding to both officer time taken to make the changes (which could only be done after receiving a revised report from the pension fund actuary) and also add to the audit time needed to verify the revised figures, a decision has been taken not to adjust the figures.

Changes to the Statements

11. During the audit the external auditors identified a number of changes to the accounts which the Council have made. These changes do not have any material impact on the Council's overall financial position as they relate to disclosure notes, Balance Sheet items or items which are reversed out of the Comprehensive Income and Expenditure Statement (CIES) under normal accounting practice. There are also some changes in the accounts of the Council's group entities which have been reflected in the Council's group accounts.
12. The Statements attached at Appendix 1 include the adjustments that have been agreed to be made as a consequence of the audit. The changes included are:

Changes to the single entity accounts

- a) The covered market last had a full valuation in 2018/19 as part of the 5 year rolling programme of valuations and on all intervening years, as with other assets, it is subject to a desktop review. The desktop review didn't take account of the capital spend of around £2 million undertaken over the last few years on the covered market which increased the asset's Gross Book Value (GBV) in the accounts. Review of the revised value by the external auditor's valuers identified a potential over-valuation of £1.9 million. This has been accepted by the Council's valuer and the GBV has been amended to £7.75 million.
- b) There has been a reclassification of £43k investment property income from the service area to Financing and Investment Income and Expenditure. This changes the line on the CIES where this income appears.

Changes to Group Accounts

Oxford Direct Services (ODS)

- c) ODS finance processed an accrual for redundancy costs of £300k which was not a proper accrual since the expenditure had not been committed. This accrual has been reversed with the effect of decreasing the expenditure in the accounts.
- d) ODS finance processed a journal of £232k the wrong way around and this has now been reversed and re-entered resulting in an additional £464k credit in the accounts.
- e) A credit note reversal of £28k was made in the 2021/22, however the credit note related to an invoiced expense in 2020/21 and should have been accrued for by ODS finance. This results in an additional credit to the accounts of £28k.
- f) There were also £2k of minor adjustments.

The total adjustment on the ODS accounts led to adjustments of £794k meaning that the final revenue position for the year moved from a pre-tax loss of £104k to a pre-tax surplus of £690k

Oxford Direct Services Trading (ODST)

- g) Invoices and credit notes issued by ODS to ODST had been recognised in ODS but ODS finance had not processed an accrual in ODST to reflect them in the accounts of that company. The net effect of these adjustment are £74k which increased the pre-tax surplus in ODST from £158k to £232k.

13. The changes to ODS and ODST also meant that Financial Services had to recalculate the tax computation and post those changes into the accounts.

14. There were also some minor presentational and disclosure amendments which have been corrected and are below the reporting thresholds.

15. A verbal update will be given at Audit and Governance Committee if there are any subsequent changes that need to be made.

The Statements

16. The Statement of Accounts consists of the following:

- The Statement of Responsibilities, setting out the general responsibilities of both the City Council, and the Section 151 Officer (The Head of Financial Services). The Head of Financial Services has to sign a statement that the Accounts present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for that year then ended (page 6 and page 26).
- The Core Financial Statements and Expenditure and Funding Analysis (pages 21 to 27) and supplementary statements (pages 90 to 98) and group accounts (pages 99 to 126) incorporating:
 - a. A Movement in Reserves Statement (MIRS) - a statement used to adjust International Financial Reporting Standard accounting practice to Local Government proper practice to ensure the accounting changes do not impact on Council Tax and create any additional burden to the tax payer.
 - b. The Comprehensive Income and Expenditure Statement - a statement which incorporates all revenue income and expenditure relating to the year.
 - c. Expenditure and Funding Analysis - a statement that supports and provides more information on the Comprehensive Income and Expenditure Statement.
 - d. A Balance Sheet – a statement which records all the assets and liabilities at the Balance Sheet date of 31 March.
 - e. A Cashflow Statement - a statement that shows the inflows and outflows of cash during the year reconciled to the year end cash position.
 - f. The Housing Revenue Account - a statement which brings together all transactions during the year in relation to the management and maintenance of the Council's 7,682 dwelling stock.
 - g. Collection Fund - a statement which brings together all transactions during the year relating to the collection of Business Rates and Council Tax income together with payments and receipts from Government and

payments made to the preceptors; the County Council, Police and Crime Commissioner (Thames Valley) and Parish Councils.

- h. Group Accounts - statements which reflect the Council's 50% interest with Grosvenor Developments Limited in a joint venture for the construction of dwellings at Barton, a 50% interest with Nuffield College in a joint venture for the regeneration of the West End area of Oxford, (OxWED) and the Council's wholly owned companies, the Housing Company Group, Oxford City Housing Ltd (OCHL), Oxford Direct Services Limited (ODSL) and Oxford Direct Services Trading Limited (ODSTL). The Council's share of the assets and liabilities of these entities are required to be incorporated into the Council's accounts.
- The Statement of Accounting Policies, setting out the detailed rules under which we account for assets, liabilities, income and expenditure (pages 129 to 146).

Summary of Information Found Within the Statements

17. Some Key information can be gained from the Statements:

Comprehensive Income and Expenditure Statement (CI&E) (page 23)

18. There is a deficit of £74.1m compared to a surplus of £83.1m in the previous year. However surplus is based on standard accounting practice and doesn't reflect the statutory basis under which the Council has to manage its finances. The actual position after applying the statutory adjustments is summarised on the Movement in Reserves Statement (page 25).

Movement in Reserves Statement (MiRS) (page 25)

19. The MiRS shows the movement between the accounting position shown in the CI&E and the overall balances available to the Council to meet future capital and revenue expenditure. The adjustments are shown in more detail in note 8 (pages 39 to 43) which are made that result in the allocation of the surplus between usable and unusable reserves.

20. The overall balances available to the Council to meet future capital and revenue expenditure are shown below:

	2020/21 £'000	2019/20 £'000	Variation £'000
General Fund Balance	3,622	3,622	-
Earmarked General Fund Reserves	68,375	40,384	27,991
Housing Revenue Account Balance	4,000	4,000	-
Earmarked Housing Revenue Account Reserves	39,633	32,091	7,542
Major Repairs Reserve	5,646	-	5,646
Capital Receipts Reserve	6,137	17,856	(11,719)
Capital Grants Unapplied Reserve	13,015	14,051	(1,036)
Total Usable Reserves	140,428	112,004	28,424

21. More detail regarding the earmarked reserves can be seen in note 9 on pages 44 to 46.

The Balance Sheet (page 26)

22. The Balance Sheet shows an increase in the net worth of the Council which can be summarised as below:

	2020/21 £'000	2019/20 £'000	Variation £'000
Value of Land and Property Owned	1,016,510	1,014,022	2,488
Cash Investments, Assets Held For Sale and Stock	79,061	93,427	(14,366)
Money the Council Owes	(526,298)	(408,087)	(118,211)
Money the Council is Owed	197,391	141,462	55,929
Net Worth of Council at 31st March	766,664	840,824	(74,160)

23. The main changes relate to the amounts owed by and owed to the Council, arising predominantly from a change in the pension fund liabilities and grants received from the government in respect of expenditure that will occur in 2021/22. The pensions change is an actuarial estimate and is not available for use by the Council but could affect future pension contributions. Further details of the pensions information held can be found in notes 27d and 40 on pages 69 and 82 to 85 respectively.

24. The net worth is held in usable and unusable reserves:

	2020/21 £'000	2019/20 £'000	Variation £'000
Usable Reserves	(140,427)	(112,004)	(28,423)
Unusable Reserves	(626,237)	(728,820)	102,583
Total Reserves	(766,664)	(840,824)	74,160

25. Useable reserves are detailed above at paragraph 20 and more detail of unusable reserves can be found in note 27 on pages 67 to 71.

Group accounts

26. The Council owned or had interests in 5 operational entities as at 31st March 2021:

- Oxford City Housing Limited (OCHL)
- Oxford Direct Services Limited (ODSL)
- Oxford Direct Services Trading Limited (ODSTL)
- Oxford West End Development Limited (OxWED)
- Barton Oxford LLP

The Council's share in these entities is shown below:

Wholly Owned

	ODSL 2020/21 £'000	ODSTL 2020/21 £'000	OCHL 2020/21 £'000	Sub-Total 2020/21 £'000
Council's share of Net Assets	15,444	296	43,285	59,025
Capital classified as a liability	(13,155)	-	(41,706)	(54,861)
Council's Share shown in the Group Accounts	2,289	296	1,579	4,164
	ODSL 2019/20 £'000	ODSTL 2019/20 £'000	OCHL 2019/20 £'000	Sub-Total 2019/20 £'000
Council's share of Net Assets	13,887	107	15,516	29,510
Capital classified as a liability	(12,211)	-	(13,998)	(26,209)
Council's Share shown in the Group Accounts	1,676	107	1,518	3,301

Joint Ventures and Total

	OxWED 2020/21 £'000	Barton LLP 2020/21 £'000	Sub-Total 2020/21 £'000	Total 2020/21 £'000
Council's share of Net Assets	8,027	-	8,027	67,052
Capital classified as a liability	(11,260)	-	(11,260)	(66,121)
Council's Share shown in the Group Accounts	(3,233)	-	(3,233)	931
	OxWED 2019/20 £'000	Barton LLP 2019/20 £'000	Sub-Total 2019/20 £'000	Total 2019/20 £'000
Council's share of Net Assets	8,883	-	8,883	38,393
Capital classified as a liability	(10,760)	-	(10,760)	(36,969)
Council's Share shown in the Group Accounts	(1,877)	-	(1,877)	1,424

27. The Council's share as at 31st March 2021 was a net asset of £0.931 million compared to a net asset of £1.424 million on 31st March 2020. Key elements of this net position relates to interest owing to the Council on loans that the Council has made to the entities. No dividends have been declared or paid in respect of the financial years ending 31st March 2020 or 31st March 2021. More detail can be found on pages 99 to 126 of the Statement of Accounts.

Letter of Representation

28. Attached at Appendix 2 is a draft Letter of Representation which the Committee is asked to approve in principle. This is a letter from the Council's Section 151 Officer and the Chair of Audit and Governance Committee setting out the processes and procedures the Council adopts to ensure that it is in compliance with its statutory requirements and that it has a sufficiently robust control framework to prevent and detect fraud and irregularities. Ernst and Young require this letter before they issue their opinion but should be signed and dated on the day that the external auditors issue their opinion.

Financial Implications

29. These are covered within the main body of the report.

Legal Implications

30. In accordance with the Accounts and Audit Regulations 2015 (as amended), the accounts must be audited, approved and published by 30th September 2021. In the absence of the accounts being audited by that date, the Council must place a notice explaining the position. This notice was placed on the Council website in accordance with the regulations.

Risk Implications

31. There are no risks associated with the recommendations in this report.

Communication

32. The Council's accounts are subject to external audit by Ernst & Young LLP and within the period of audit, from Thursday Monday 21st June 2021 to Friday 30th July 2021 between 9.30am and 4.30pm any person may inspect the accounts of the Council for the year ended 31st March 2021 and certain related documents (comprising books, deeds, contracts, bills, vouchers and receipts). They may also make copies of the accounts and documents.

33. During the same period a local government elector for the area of the Council or their representative may make an appointment to ask the auditor questions about the accounts. In addition they may object to the Council's accounts, asking that the auditor issue a report in the public interest or which is contrary to law (under section 28 of the Local Audit and Accountability Act 2014). Written notice of a proposed objection and the grounds on which it is made must be sent to the auditor at the address provided on the Council's website.

34. There were no objections lodged.

35. The Audited Statement of Accounts for 2020/21 will be published on the Council's website after approval along with a notice confirming the conclusion of the audit and alongside the Annual Governance Statement for the year.

Name and contact details of author:-

Name: Bill Lewis

Job title: Financial Accounting Manager

Service Area / Department: Financial Services,

Tel: 01865 252607 e-mail: blewis@oxford.gov.uk

Background papers: None

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