AUDIT AND ASSURANCE COMMITTEE
Meeting date: 27th September 2021
From: Director of Finance (S151 Officer)

AUDITED STATEMENT OF ACCOUNTS OVERVIEW - 2020/21

1.0 EXECUTIVE SUMMARY

1.1 ***The Unaudited Accounts for the Council and the separate Cumbria Local Government Pension Scheme (Cumbria LGPS) 2020/21 were published on 1st July 2021 in line with the Accounts and Audit (Amendment) Regulations 2021.***

1.2 ***Grant Thornton have now substantially completed their audit work on the Council's 2020/21 Accounts and will present their Audit Findings Report to this meeting (Agenda Items 10a).***

1.3 ***Grant Thornton have completed their audit work for the Cumbria LGPS and will present their Audit Findings Report to this meeting (Agenda Item 10b).***

Key Messages

1.4 ***The key messages of the Audit Findings Reports are that Grant Thornton intend to issue an unqualified audit opinion on both the Cumbria County Council and the Cumbria Local Government Pension Fund (LGPS) 2020/21 Accounts.***

1.5 ***The Audit Findings Report for the Council conclude that again the Council has achieved a very high quality of financial reporting, with working papers being to a good standard. Grant Thornton positively commented on the effective response time to their audit queries. Overall, the very small number and the nature of the adjustments reflect the continuing and sustained improvement and substantial progress the Council has made in strengthening the accounts process over recent years.***

1.6 ***The Council's draft primary statements required adjustment in respect of the decrease in the net pension liability as a result of a change in the***

value of LGPS assets that arose after the unaudited accounts were published. There were also some minor amendments required to the disclosure notes to enhance the reader's understanding which are detailed in the Audit Findings Report. There are some areas of audit work to be completed, these are set out in the Audit Findings Report (Agenda Item 10a page 4) and may give rise to further amendments.

1.7 ***There are two recommendations for action in the Council's Audit Findings Report relating to the assessment of assets not revalued in year and the Minimum Revenue Provision.***

1.8 ***While the aim is to provide a completely "clean" set of accounts, it is exceptional for any Council not to have some amendments to their unaudited accounts given the scale of the exercise (resulting in a 268 page document) and the complex and technical requirements for completion.***

1.9 ***The Audit Findings Report highlights the continuing high standards that are being achieved in the quality of the Statement of Accounts. The production of the Statement of Accounts is an annual exercise and is the final piece of the jigsaw in relation to the financial management cycle for the Council. By its nature it is a very technical exercise but at its core it relies on the significant level of work that is carried out during the year across Finance and the wider organisation in managing and monitoring the Council's financial position. To maintain these high standards whilst resources are constrained across the Council and in Finance has been challenging.***

1.10 ***The key messages of the Audit Findings Report (AFR) for Cumbria LGPS are:***

1.10.1 ***that Grant Thornton intend to issue an unqualified audit opinion on the 2020/21 Accounts.***

1.10.2 ***that again a very high quality of financial reporting has been achieved, with working papers being to a good standard. Grant Thornton positively commented on the effective response time to their audit queries.***

1.10.3 ***There are no recommendations and the AFR confirms that the accounts contained no material errors to the primary statements. It does, however, identify a net understatement of approximately £19.8 million in respect of the valuation of six level 3 investments. This represents less than 0.65% of the assets published in the draft accounts and, in light of immateriality and the general short-term volatility of investment assets, the Fund considers it not necessary to adjust for these differences. This is consistent with the approach taken in previous years.***

1.10.4 ***In addition to this a few minor amendments were made to disclosure notes to further improve clarity and consistency. None of these issues had an impact on the primary financial statements of the***

Cumbria LGPS.

2.0 STRATEGIC PLANNING AND EQUALITY IMPLICATIONS

2.1 ***The delivery of action plans in response to the findings of audit reviews is essential to ensure the improvement in internal control systems and to ensure that the Council's resources are properly applied, risks are appropriately managed and Council Plan outcomes are achieved.***

3.0 RECOMMENDATION

3.1 ***Members are asked to:***

a) ***Note the contents of this report.***

b) ***Consider the matters set out by Grant Thornton in the Audit Findings Report in relation to Cumbria County Council (Agenda Item 7a). In particular, to note:***

I. The headlines (Pages 3)

II. Financial Statements (Pages 4 to 18)

c) ***Agree the Letters of Representation on behalf of the Council in respect of the Council's accounts to enable Grant Thornton to issue audit opinions on the accounts and authorise the Director of Finance, as the Council's Section 151 (Local Government Act 1972) Officer to sign the letters. (Agenda items 6a and 6b).***

d) ***Approve the Cumbria County Council Accounts 2020/21 which incorporates the Cumbria Local Government Pension Scheme Accounts on behalf of the Council. (Agenda item 7a).***

e) ***Authorise the Director of Finance, as the Council's Section 151 (Local Government Act 1972) Officer to sign the Council's accounts on behalf of the Council. (Agenda Items 7a).***

f) ***Agree the completed Action Plan to the Audit Findings Report for the Council (Agenda item 10a page 24 and 25.)***

g) ***Approve the Port of Workington Harbour 2020/21 Accounts (Agenda Item 8).***

4.0 BACKGROUND

4.1 The Unaudited Accounts for the County Council and the Cumbria Local Government Pension Scheme (Cumbria LGPS) were published on 1st July 2021 in line with the Accounts and Audit (Amendment) Regulations 2021. The Chair of the Committee has been briefed throughout the accounts closure process.

4.2 Grant Thornton has now substantially completed their audit work and at this meeting will present their Audit Findings Report for 2020/21 in respect of the Council's accounts. This covering report summarises Grant Thornton's findings. It does not add commentary or further explanation to their report, but summarises key messages and provides some context.

4.3 The Committee received a private briefing and training session on the Accounts of the Council, Cumbria LGPS and Port of Workington on 23rd September 2021.

Statement of Accounts – Cumbria County Council

4.4 In summary, the Audit Findings Report (contained at Agenda Item 10a on today's Agenda) comments that "the Accounts have been prepared to a very high standard and the finance team have produced good working papers and have been responsive to our audit queries".

4.5 The production of the Statement of Accounts is an annual exercise and is the final piece of the jigsaw in relation to the financial management cycle for the Council. By its nature it is a very technical exercise but at its core it relies on the significant level of work that is carried out during the year across Finance and the wider organisation in managing and monitoring the Council's financial position.

4.6 The unaudited accounts were amended following the change in Cumbria LGPS asset values in August 2021. This has given rise to a decrease in the Council's net pension liabilities of £11.499m which has been amended in the primary statements. In addition there were some changes required to disclosure notes to aid the reader's understanding. These are listed for completeness in the Audit Findings Report on pages 27 to 29.

4.7 The Audit Findings Report has not identified any items that the Council has chosen not to make adjustment for in the primary statements on the grounds of materiality.

4.8 The detailed Auditor's findings on the financial statements are set out on pages 4 to 18 of the Audit Findings Report.

4.9 The key messages of the Council's Accounts 2020/21 are set out in the Narrative Statement to the Statement of Accounts (Agenda Item 7a, pages 3-23).

4.10 Overall the Council, as at 31st March 2021 still has a negative Balance Sheet position with Total Net Liabilities of £102.303m, which is a deterioration of £68.255m from 31st March 2020. Members will remember that the Council has had a negative Balance Sheet position as at 31st March for a number of years now. The negative Balance Sheet is predominantly as a result of the Pension Liability, which is £986.847m at 31st March 2021. The pension liability is volatile and is impacted by changes in the financial assumptions used in the actuarial valuation of the liability as at the Balance Sheet date. The liability is calculated at a point in time (i.e. 31st March) using IAS 19 accounting requirements and is significantly impacted by Corporate bond yields.

4.11 The Total Reserves of (£102.303m) is made up of £149.835m of usable (cash backed) reserves offset by the negative unusable reserves position (£252.138m) which are not cash backed.

4.12 The unusable reserves position includes the negative Pensions Reserve which reflects the Pensions Liability position. The Council is in effect having to record all of its pension liability as at 31st March 2021 as if it was all due to be repaid on that day, equivalent to having an individual's total mortgage liability (repayment and interest) reported as all due on the same day. As with most people's mortgages the Council has an agreed period (13 years) to reduce the pensions liability as required by Statute. The Council, along with all other employers, are paying additional employer contributions annually to meet the shortfall as required by the CLGPS actuarial valuation of the Fund carried out as at 31st March 2019.

4.13 Grant Thornton's report contains two recommendations relating to the assets not revalued in year and the Minimum Revenue Provision. (Agenda item 10a page 25).

Assets not revalued in year

4.14 The Code of Practice requirements for valuing property, plant and equipment states explicitly that revaluations must be "sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period".

4.15 The Council needs to satisfy itself that the value of the assets in its Balance Sheet using the five year rolling valuation approach is not materially different to the fair value at the Balance Sheet date i.e. the value that would be given by a full valuation of all assets carried out on 31st March 2021.

4.16 In the past three years the Council has revalued 61.4% of the portfolio within the last two years, rising to 87.5% in the last 3 years. The BCIS "All in TPI index" has been used to estimate the current value of assets not revalued, this exercise concluded that there was a potential understatement of the Balance Sheet of £0.194m. When this is compared to the Council's materiality for audit purposes in 2020/21 of £12.396m it can be concluded that it is not materially different to the current value.

4.17 Grant Thornton consider that whilst it is appropriate to apply the BCIS "All in TPI index" to the Council's specialised assets, which are valued on a depreciated replacement cost basis, it is not appropriate to apply it to non-specialised assets which are carried at existing use value, so a different index should be used for these non specialised assets.

Recommendation	CCC Response
Use a specific market value index when assessing whether there is a material difference between the current and carrying value of the Council's non-specialised assets not revalued in year.	Non specialised buildings account for £78m (14.1% of the Net Book Value of all Land Buildings and for the assets not revalued within the last three years it is £29m. The difference between using the BCIS All in TPI index and a market index on this small proportion of assets would be immaterial. The BCIS All in TPI index will continue to be used for the remaining £475m (85.9%) of assets valued on a DRC basis and the use of a market value index will be introduced in 2021/22 to estimate the current value of the non specialised assets not revalued.

Minimum Revenue Provision (MRP)

4.18 The Council's MRP policy was revised in 2016 and January 2018, on both occasions the revision to the policy was considered by Audit & Assurance Committee and approved by full Council. The MRP policy is reviewed on an annual basis and approved by full Council as part of the budget setting process.

4.19 The change to the MRP policy for supported and pre 2008 borrowing from 4% reducing balance to 2% straight line results in a MRP charge more aligned with the period over which the underlying assets provide benefit. This does not affect the total amount of MRP the Council will pay in the longer term but results in a prudent re-profiling of the charge. In effect the Council is fixing the period over which the MRP charge will be made linked to the life of the assets the borrowing is paying for; similar to having a fixed mortgage period. This reduces the CFR over a fixed life of 50 years (rather than 400+ year life of the reducing balance policy) and therefore spreads the cost more evenly amongst the taxpayers that will benefit from the capital expenditure.

4.20 The 2017/18 revision updated the policy for supported and pre 2008 borrowing between 2009 and 2016 and MRP would be changed from 4% reducing balance to 2% straight line. If the Council had adopted the 2% straight line approach the total it would have paid off in that period (in accounting terms) would have been £57m instead of the £93m. This therefore gives an "over provision" of £36.8m. In order to transfer the full debt repayment from 31st March 2009 to a 2% straight line basis no further MRP payment would be required for the four financial years 2017/18 to 2020/21. This allows for re-scheduling of that over provision which was profiled as follows:

- 2017/18 £10m
- 2018/19 £10m
- 2019/20 £10m
- 2020/21 £6.8m

4.21 This does not affect the total amount of MRP the Council will pay in the long term but results in a prudent re-profiling of the annual charge. This is a more prudent approach and provides consistency in the treatment of MRP from 2008/9 onwards. It ensures that the historic debt is paid off (in Accountancy terms) over a fixed 50 year period. This is reflected in the Accounting Policy no iv. (Charges to Revenue for Non-Current Assets) in the Annual Statement of Accounts. For prudential borrowing from 2008/09 onwards the MRP is based on the asset life which is set out in the depreciation policy (Accounting policy xi Property, Plant and Equipment – Depreciation), for operational land and buildings this up to 60 years. The guidance does allow for asset lives to be more than 50 years if it is supported by an opinion from an appropriately qualified professional advisor that an asset will deliver service functionality for more than 50 years.

4.22 Grant Thornton have reviewed the Council's MRP charge which was £7.939m at 31st March 2021 (£3.304m at 31st March 2020). At 31st March 2021 this MRP represents 1.42% of the Council's overall Capital Financing Requirement. This has increased from 0.60% at 31st March 2020. This is a measure of the pace at which charges to revenue (GF) are being made to finance capital expenditure that has not previously been financed.

4.23 The overarching requirement is for authorities to determine a "prudent" provision, rather than to follow a particular basis of calculation. If MRP is too low, the burden of financing capital assets will fall on future generations of tax payers.

4.24 However the MRP charge includes the re-profiling of the over provision of MRP in prior years, when this is set aside, the annual MRP charge as a percentage of the Capital Financing Requirement for 2019/20 is 2.4% rather than 0.6%, and for 2020/21 is 2.65% rather than 1.42%.

Recommendation	**CCC Response**
Review the Council's Minimum Revenue Provision policy to ensure the provision continues to be prudent and is sufficient to finance capital expenditure that has not previously been financed through the application of capital receipts, capital grants or direct revenue charges.	The Council has commissioned a review of the MRP policy in 2021/22 and the outcome will be included in 2022/23.

4.25 The audit cannot formally be closed until the remaining audit work on the Accounts has been completed and Whole of Government Accounts (WGA) and Value for Money audit work has been completed.

Whole of Government Accounts

4.26 In pre-covid times HM Treasury would issue the data collection tool in March with submission for the unaudited Accounts by mid June and for the audited Accounts by the end of August.

4.27 For 2020/21 HM Treasury are still reviewing the data collection tool and guidance and in its June newsletter confirmed it expected this to be available for completion in Autumn 2021. In September 2021 HM Treasury confirmed that the earliest this would be available was now December 2021. Once the data collection tool is available, there will be a period of time for Councils to complete the return and for the audit work to be completed.

Value for Money

4.28 As in previous years the Auditors will provide a Value for Money (VFM) opinion which for this year will be reported to the Committee at its meeting on 3rd December 2021.

4.29 The new NAO Code of Audit Practice for England for 2020/21 onwards set out three reporting criteria for the value for money conclusion:

- *Governance* – how the Council ensures that it makes informed decisions and properly manages its risks.

- *Financial sustainability* – how the Council plans and manages its resources to ensure it can continue to deliver services.

- *Improving economy, efficiency and effectiveness* – how the Council uses information about its costs and performance to improve the way it manages and delivers services.

4.30 In a change from previous years the new Code requires a narrative VFM opinion, rather than the single unqualified or qualified opinion, it is intended that the commentary provided will be more useful to stakeholders.

4.31 The new Code will increase the focus on all three areas, particularly financial sustainability, and this is likely to have a significant impact on the evidence required by the external auditor and the impact on officer time.

4.32 The Council's approach to responding to the new VFM reporting criteria will be informed by the expectations of the Auditor in application of the NAO Code of Practice and this will be a priority of the team once the Auditor confirms the Audit Plan.

4.33 Meetings will be held with the Auditors and the relevant Assistant Directors and Senior Managers across the organisation to review the VFM arrangements for the Council. An initial review of high risk areas is being undertaken by the Auditors and this will determine the nature of these discussions. Given the change in emphasis and approach, clarification from the Auditor of the expectations with regard to evidence and working papers is expected.

Statement of Accounts – Cumbria Local Government Pension Scheme

4.34 The Council's Accounts contain the Statement of Accounts of the Cumbria Local Government Pension Scheme (Cumbria LGPS). The separate Audit Findings Report (AFR) (Agenda Item 10b) summarises the findings from Grant Thornton's review of the draft Cumbria LGPS Accounts for 2020/21.

4.35 The AFR for the Cumbria LGPS contains no recommendations for future improvements. The AFR also finds that the Accounts for 2020/21 contained no material errors affecting the primary statements and that the Accounts have been produced to a very high standard and the finance team have produced good working papers and have been responsive to our audit queries. It does, however, identify an understatement of approximately £19.8 million in respect of the valuation of six investment manager portfolios that impact upon level 3 investments. This represents 0.65% of the assets published in the draft accounts and, in light of the immaterial nature of the differences and the general volatility of asset values at any point in time, the Fund considers it not necessary to adjust for such immaterial differences. This is consistent with the approach taken in previous years.

4.36 In addition to this a few minor amendments were made to disclosure notes to further improve clarity and consistency. None of these issues had an impact on the primary financial statements of the Cumbria LGPS.

4.37 A comprehensive report on the performance of the Cumbria Local Government Pension Scheme in 2020/21 will be provided in the Annual Report which is to be published by December 2021 and will be available on the Council's website before this. Key headlines from the Cumbria LGPS accounts are as follows:-

- Net assets increased over year by £493m to £3.067bn.
- The Fund is primarily focussed on longer-term performance and has outperformed both its 5 and 10 year benchmark (5 year: 8.7% p.a. against a benchmark of 8.4%) and 10 year: 8.6% p.a. against a benchmark of 8.0%).

Letters of Representation

4.38 Before issuing the opinion upon the Council's Accounts, in accordance with auditing standards, the Auditor is required to ask the Council for its written representations about the Council's financial statements and governance arrangements. The Audit and Assurance Committee is asked to confirm on behalf of the Council that the letters has been discussed and agreed, and authorise the Director of Finance (s151 Officer) to sign the letters on behalf of the Council. To fulfil the International Auditing Standards two signatures will be required on the Letter of Representation, these will be the Director of Finance (s151 Officer) and Chief Executive. The draft letters of Representation in respect of the Council's Accounts are attached as Agenda item 6a and for the Cumbria LGPS as Agenda Item 6b. If any further amendments are required then these will be presented on the day.

4.39 Full copies of the updated audited Statement of Accounts 2020/21 are attached to this report (Agenda item 7b).

4.40 The draft, unaudited Accounts were published on the Council's website on 1st July. A Briefing on the Accounts will be provided to the Audit and Assurance Committee in private session on 23rd September.

4.41 The Audited Accounts 2020/21 will also be published on the website upon receipt of the signed Auditor's opinion. This is is dependent on the completion of the remaining audit work.

Statement of Accounts – Port of Workington Harbour Accounts 2020/21

4.42 The Harbours Act 1964 requires an annual statement of accounts but it doesn't specify a format; that is covered by the Companies Act 2006. The Companies Act accounting requirements depend on whether a body can be classified as small or not. Harbour authorities below the Companies Act turnover threshold of £6.5m are free to determine their own reasonable basis of financial reporting to comply with the requirement of the Harbours Act 1964 to prepare an annual statement of accounts relating to harbour activities.

4.43 The Port of Workington is below the £6.5m turnover Companies Act threshold. The Council has prepared a statement of accounts for the Port of Workington that includes the following:

- Profit and Loss Account,
- Balance Sheet
- Accounting Policies
- Notes to the Balance Sheet
- Statement of Responsibilities

4.44 Grant Thornton have performed a limited audit to provide the Council with assurance that the Accounts have been prepared on a reasonable basis and will also report, on an exception basis, any matters relating to the annual statement of accounts that they consider need to be drawn to the Council's attention.

4.45 This report presents the audited Port of Workington Harbour Accounts 2020/21 (Agenda item 8).

4.46 Finally, in order to meet the requirements of the Harbour Act 1964 a copy of the Port of Workington Harbour Accounts together with the Auditor's report will be sent to the Department for Transport (DfT) each year. Subject to Members' consideration today returns will be despatched to DfT.

2020/21 Statement of Accounts

4.47 The Port of Workington financial performance is included as part of the Economy & Infrastructure monthly budget monitoring to Directorate Management Team and the quarterly budget monitoring report to Cabinet. A more detailed financial report is presented to the Workington Harbour Board on a quarterly basis.

4.48 For 2020/21 the Port of Workington had a net income budget of (£0.151m), this was revised during the year to £0.016m. The outturn for the year was a deficit of £0.081m giving an overspend of £0.065m against the £0.016m net budget.

4.49 For statutory accounting purposes a number of technical accounting adjustments are added to the actual outturn, such as depreciation and loss on disposal of plant and equipment. For 2020/21 these technical adjustments totalled £0.987m. When these are deducted from the trading loss of £0.081m it gives a loss for the year of £1.068m.

4.50 The Balance Sheet reports Total Assets of £19.792m consisting wholly of Property, Plant and Equipment.

4.51 In respect of the Audit of the Harbour Accounts there are no issues to draw to Members attention.

Debt Management

4.52 The Council's Constitution requires the annual position in respect to debt recovery to be reported to the Audit and Assurance Committee as part of the year end reporting routines. The report highlights any significant debts (>£10,000) that have been written off for accounts purposes.

4.53 In respect of Adult Social Care debt the opening balance as at 1st April 2020 was £13.4m, and the closing balance as at 31st March 2021 was £13.1m (Note 26 Nature and Extent of Risks Arising from Financial Instruments – credit risk section - of the Statement of Accounts contains further details).

4.54 The Council's total non-Adult Social Care debt at the start of the year was £16.9m and ended the year at £20.4m. At 31st March 2020 there were 5 individual debtors over £0.5m which totalled £13.3m and included £11.4m from CCGs. At 31st March 2021 there were 3 debtors that owed in excess of £0.5m and with a total of £16.3m. Of this £16.3m, £15.6m was owed by CCGs. These debts are part of the balances shown in Note 26 Short Term Debtors and Prepayments of the Statement of Accounts.

4.55 A total of £0.012m (2019/20 £2.249m) debt was written off during the year, they were all individually less than £10,000.

Pam Duke
Director of Finance (s151 Officer)
22nd September 2021

APPENDICES

None

BACKGROUND PAPERS

None

Paul Turney, Senior Manager – Accountancy & Financial Planning
paul.turney@cumbria.gov.uk

Alison Clark, Senior Manager – Pensions & Financial Services
alison.clark2@cumbria.gov.uk

Fiona Parker, Group Finance Manager – Corporate Accounting
fiona.parker@cumbria.gov.uk

Pete George – Group Finance Manager – Pensions, Treasury and Investments
peter.george@cumbria.gov.uk