

Report to the Audit & Governance Committee



**Epping Forest
District Council**

Report reference:

Date of meeting: 15th July 2021

Portfolio: Finance & Economic Development

Subject: (Audited) Statement of Accounts 2019/20

Responsible Officer: Andrew Small (01992 564278)

Democratic Services: Laura Kirman (01992 564273)

Recommendations/Decisions Required:

- (1)** To consider and comment upon the audited Statement of Accounts 2019/20 in the context of the Deloitte audit report for the year ended 31 March 2020 presented elsewhere on this agenda (**Appendix A**)
- (2)** To approve the proposed accounting adjustments (**summarised in Table 1 below**) – recommended by the Council's Section 151 in the light of updated information – in order to help manage the impact on the General Fund Reserve.
- (3)** That a report be submitted to the Council recommending that the Statutory Statement of Accounts for 2019/20 be adopted.

Executive Summary:

The audit of the Council's Statement of Accounts 2019/20 has now concluded, and the findings of the external auditor have been reported elsewhere on this agenda.

The preparation of the draft Statements for 2019/20 was a challenging exercise, given the substantial problems encountered in the preparation of the 2018/19 Statements and the ongoing shortfall in established professional resources following the sudden loss of several qualified Finance officers in 2019; this left a major knowledge gap. The pressure was added to by the impact of the Covid-19 pandemic and remote working.

Despite the circumstances, as acknowledged by the external auditors, very good progress was made in developing both the standard of the Statement of Accounts and the supporting records. At the time of preparing this covering report, Finance officers are concluding the preparation of the draft Statements for 2020/21, which should further build on the progress made in 2019/20. Future progress on the Council's Statement of Accounts in 2021/22 and beyond is one of the core principles at the heart of the new Corporate Finance function that is currently being implemented (scheduled completion 1st October 2021).

Nevertheless, the audit process did identify a need to adjust the draft Statements for 2019/20. Notably, a material adjustment was required to the Council's NNDR (Business Rates) Appeals Provision on the Balance Sheet. The Balance Sheet Provision represents the Council's 40% share of the total provision in the Collection Fund.

The 2019/20 financial year was a difficult one for the Council's Collection Fund with in-year deficits recorded on both Council Tax (£1.2 million) and Business Rates (£3.8 million). The most notable pressure common to both Council Tax and Business Rates was the requirement to make additional provision for bad debts, with the necessary assessment being undertaken during the early days of the Covid-19 pandemic. In addition, the outturn on Business Rates was further impacted by the loss of a major Appeals case during the year (£1.1 million), which contributed to significant volatility on the Provision in the year; this added to the overall need to make a significantly larger Provision for Appeals in 2019/20 (£2.2 million) compared to 2018/29 (£0.2 million).

Finance officers were required to make a range of complex accounting adjustments in preparing the draft Statement of Accounts in order to correctly reflect the (exceptional) movements on the Collection Fund. Prompted by a subsequent audit enquiry on the Provision held on the draft Balance Sheet (£2.7 million) in November 2020, officers identified a mis-posted journal, which – once corrected – had a material impact (£4.8 million) on the Trial Balance, and the Council's General Fund Reserve in particular. However, the audit was unavoidably paused at this point due to the need for Finance officers to prioritise the preparation of the 2021/22 budget.

Finance officers resumed the review of the Statement of Accounts in February 2021 upon completion of the budget. The work confirmed a further (partially compensating) error in the accounting treatment of a Treasury Share payment made to the Government in July 2020 of £1.3 million as part of the Council's pooling obligations for Housing capital receipts received as part of the (tenants) "Right to Buy" (RTB) scheme; the payment included missed payments from 2017/18 and 2018/19.

The net effect of the foregoing adjustments led to a Section 151 reassessment of the assumptions made on provisions, and reserve transfers, in the light of both the updated accounting adjustments and further intelligence (due to the passage of time) on the financial impacts of the Covid-19 pandemic.

Once processed, the overall impact of the adjustments leads to a net reduction in the General Fund Reserve of £1.4 million (from £7.8 million to £6.4 million). There are a range of reasons for the net reduction in the Reserve, including a missed accrual in 2018/19 of £0.718 million (for the Business Rates Levy) which had to be charged in 2019/20, as well as previously unknown budget pressures (on Insurance and Pensions) identified by officers (and reported to Cabinet in February 2021) as part of the 2021/22 budget preparation process.

Members of the Committee are therefore recommended to approve the proposed (discretionary) adjustments to the draft Statement of Accounts for 2019/20. The adjustments are summarised in the table below.

Table 1: Proposed Discretionary Adjustments to draft Statement of Accounts 2019/20

Title	Description	Value (£'s)	Comment
Bad Debt Provision (BDP)	Reduction in BDP	315,410	Reflects updated intelligence on Commercial Property Rents outstanding as at 31st March 2020
Future Staff Incentive	Remove earmarked funding for staff incentives	345,000	Funds originally earmarked based on anticipated large budget surplus in December 2019 – Balance is uncommitted
Insurance Reserve	Reduce Insurance Reserve	849,921	Surplus provision identified in Insurance Reserve
District Development Fund (DDF)	Reduce DDF earmarked balance	873,722	Review of project commitments by Cabinet in the light of Covid-19 allows temporary reduction in DDF

In the view of the Section 151 Officer, the discretionary adjustments presented in the table above are prudent in protecting and maintaining the relative stability of the General Fund Reserve and are therefore recommended to the Committee on the following basis:

- The outcome better enables the Council to meet its current financial commitments to the approved 2021/22 budget (which assumes a £1.35 million contribution from the General Fund Reserve) and a range of priority projects, many aimed at supporting the district's recovery from the pandemic; and
- At the same time, the recommended adjustments also provide for a £4.0 million contingency balance in the event of unexpected financial pressure as recommended by the Section 151 Officer in accordance with Section 25 of the Local Government Act 2003 and adopted by full Council on 25th February 2021.

Reasons for Proposed Decision:

To ensure that the Committee maintains robust oversight of the Council's duty to prepare annual financial statements that comply with proper accounting practice as defined by Section 21(2) of the Local Government Act 2003.

To ensure the continued stability of Council reserves, through targeted accounting adjustments based on updated intelligence and professional judgement.

Legal and Governance Implications:

The local government financial reporting and audit regime exists within in a tightly regulated framework.

For the accounting period 2019/20, this includes the:

- Local Government Act 1972 (Section 151)
- Local Government Act 2003 (Section 21(2))
- Local Audit and Accountability Act 2014 (various); and
- Accounts and Audit (Coronavirus) Amendments Regulations 2020.

Safer, Cleaner and Greener (SCG) Implications:

None.

Background Papers:

Epping Forest District Council "*Statement of Accounts 2019/20*" (draft) published August 2020.

CIPFA/LASAAC "*Code of Practice on Local Authority Accounting in the United Kingdom 2019/20*" (Guidance Notes).

National Audit Office "*Code of Audit Practice 2015*" (valid for accounting periods 2015/16 to 2019/20).

Risk Management:

There are a range of risks associated with local authority accounting and audit ranging from reputational damage to the Council through to the loss of public funds through fraud and error and a lack of accountability; the accounting and audit regime acts as a key mitigating control.