

# Audit and Performance Committee Report

<b>Date:</b>	14 July 2021
<b>Classification:</b>	General Release
<b>Title:</b>	2020/21 Annual Accounts
<b>Wards Affected:</b>	All
<b>City for All Summary</b>	The accounts detail the Council's financial performance for 2020/21. Further detail regarding City for All, opportunities and risks can be obtained in the Narrative Statement and Annual Governance Statement
<b>Financial Summary:</b>	This report presents the draft Statement of Accounts for the Council for the financial year ended 31 March 2021
<b>Report of:</b>	Gerald Almeroth, Executive Director – Finance & Resources

## 1. Executive Summary

- 1.1 This is a report summarising the key aspects of the 2020/21 statement of accounts. The statement of accounts appended to this report are draft at this stage and an audited version of the accounts will be presented to the Committee for sign-off in September 2021. These will be after the public inspection period which is due to end on 5 August 2021. The published draft accounts can be found at Appendix 1.
- 1.2 The Council reported its financial outturn position at Audit and Performance Committee on 17 June. The draft statement of accounts underpins that financial outturn position and reports the Council's financial position in line with CIPFA reporting requirements and International Financial Reporting Standards.

- 1.3 The 2020/21 draft accounts report some large year-on-year variances compared with the previous year. This is mostly due to the accounting regulations for the Collection Fund, whereby timing differences between collection of Council Tax and Business Rates and the Covid-related s31 grant compensation received will not be matched until 2021/22. Therefore, local authority accounts must report an increase in both earmarked reserves and current debtors and creditors at the end of 2020/21.
- 1.2 The total value of the net assets on the balance sheet as at 31 March 2021 was £2.598bn. Overall there has been a decrease of £77.2m in comparison to last year. There has been an increase in current liabilities, mainly relating to £197.1m of s31 grants made by Government respect of compensation for business rates reliefs given to businesses during the Covid pandemic, which are passported to the Council's preceptors.
- 1.3 Current assets have increased by £203.9m, primarily resulting from the business rates accounting treatment. The decrease in net asset position is further enhanced by an increase in long term liabilities – primarily an increase in the Council's pension liability and long-term provisions.

## **2. Recommendations**

- 2.1 That the Audit and Performance Committee approve the draft 2020/21 statement of accounts subject to the public inspection period and the audit currently underway.
- 2.2 That the Audit and Performance Committee approve the draft Annual Governance Statement included in the statement of accounts subject to the public inspection period and the audit.

## **3. 2020/21 Accounts Balance Sheet**

- 3.1 The balance sheet in the table below shows the Council has net assets of £2.598bn. A decrease of £77.2m in comparison to 2019/20.
- 3.2 The accounts follow CIPFA reporting requirements for valuation and depreciation of non-current assets. CIPFA regulations create accounting overrides of IFRS to ensure that valuation or depreciation movements are not chargeable to the General Fund.
- 3.3 The CIPFA Code also makes accounting overrides for the recognition of post-employment benefits, whereby the charge payable to the General Fund is the cash payable each year. The real cost (i.e. the cost on an accruals basis) of post-employment benefits must be reversed out through the Movement in Reserves Statement to avoid being chargeable to Council Tax.

31 March 2020		Note	31 March 2021
£'000			£'000
<b>ASSETS</b>			
<u>Non-current</u>			
2,677,424	Property, plant and equipment	Note 18c	2,781,226
44,578	Heritage assets	Note 19	44,578
499,382	Investment property	Note 20	467,386
1,313	Intangible assets		2,861
88,104	Long-term investments	Note 21a	47,261
70,623	Long-term debtors	Note 27	89,957
<b>3,381,424</b>	<b>Total long-term assets</b>		<b>3,433,269</b>
<u>Current</u>			
543,945	Short-term investments	Note 21a	237,853
116	Inventories		130
97,970	Short-term debtors	Note 27	560,869
35,522	Cash and other cash equivalents	Note 22	80,402
-	Assets held for sale		2,202
<b>677,553</b>	<b>Current assets</b>		<b>881,456</b>
<b>LIABILITIES</b>			
(16,828)	Short-term borrowing		(7,128)
(349,341)	Short-term creditors	Note 28	(556,886)
(687)	Short-term provisions	Note 29	(971)
(11,484)	Revenue receipts in advance	Note 13	(10,643)
<b>(378,340)</b>	<b>Total current liabilities</b>		<b>(575,628)</b>
<u>Long term</u>			
(52)	Long-term creditors	Note 28	(7,317)
(72,299)	Long-term provisions	Note 29	(108,988)
(206,143)	Long-term borrowing		(200,696)
(642,316)	Other long-term liabilities	Note 30	(722,126)
(84,541)	Capital receipts in advance	Note 13	(101,890)
<b>(1,005,351)</b>	<b>Long-term liabilities</b>		<b>(1,141,017)</b>
<b>2,675,286</b>	<b>Net assets</b>		<b>2,598,080</b>
(831,306)	Total Usable Reserves		(1,241,678)
(1,843,980)	Total Unusable Reserves	Note 16	(1,356,402)
<b>(2,675,286)</b>	<b>Total Reserves</b>		<b>(2,598,080)</b>

- 3.4 There has been a significant increase in current liabilities, mainly relating to £197.1m of s31 grants made by Government to the Council. These need to be paid back to CLG in line with Collection Fund accounting.
- 3.5 The draft statement of accounts carries an additional £444m in earmarked reserves. This is due to the receipt of s31 grant which compensated authorities for business rates reliefs given during the Covid pandemic. This reserve will be discharged against any Covid-related business rates deficits in 2021/22 in line with accounting regulations.
- 3.6 Current assets have increased by £203.9m including a £462m increase in short-term debtors. £400.3m of which is due to the large WCC share of the collection fund deficit and year end arrears. This is offset by £306.1m decrease in short-term investments, due to fewer funds available.
- 3.7 Despite of an overall decrease in the net assets, there is an increase in long term assets which have increased by £51.8m resulting from property plant and equipment assets increasing by £103.8m, this reflects the expenditure outlined in the Council's ambitions capital programme.
- 3.8 This decrease in net asset position is further enhanced by an increase in long term liabilities – due to an increase in the Council's pension liability and long-term provisions.

### **Comprehensive Income and Expenditure Statement and Movement in Reserves Statement (MiRS)**

3.9 Local government accounting requires the production of a comprehensive income and expenditure statement and movement in reserves statements, using International Financial Accounting Standards (IFRS). The movement in reserves statement is designed to adjust for technical transactions such as depreciation which does not impact the bottom line of local authority accounts.

3.10 A reconciliation of the CIES with budget monitoring is shown below.

	<b>General Fund Balance</b>	<b>Housing Revenue Account</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Surplus of Provision of Services (CIES)	35,446	(23,286)	12,160
Technical Accounting Adjustments (MiRS)	(501,634)	23,077	(478,557)
Use of Earmarked Reserves	470,068	(1,808)	468,260
Net surplus Against Budget	3,880	(2,017)	1,863

The technical accounting adjustments consist of movements for:

- Neutralisation of depreciation
- Revaluation gain/losses for the Council's property portfolio

- The transfer of capital grants to be capital grants reserve
- Revenue expenditure funded from capital under statute
- Adjustments to the pension reserve which neutralises the current service costs and ensures that the actuarial estimates are not charge to council tax

## Cash Flow Statement

3.11 There was a £44.880m increase in the Council's cash and cash equivalents (investments that mature in no more than three days) rising to £80.402m.

2019/20		Note	2020/21
£'000			£'000
(57,085)	Net (surplus)/deficit on the provision of services		12,160
(62,759)	Adjustments to net (surplus)/deficit on the provision of services for non-cash movements	Note 32	(201,332)
138,880	Adjustments for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	Note 32	122,059
<b>19,036</b>	<b>Net Cash Flows from Operating Activities</b>		<b>(67,113)</b>
<b>36,825</b>	<b>Net Cash Flows from Investing Activities</b>	Note 33	<b>(233,787)</b>
<b>(41,479)</b>	<b>Net Cash Flows from Financing Activities</b>	Note 34	<b>256,020</b>
<b>14,382</b>	<b>Net (increase)/decrease in cash and cash equivalents</b>		<b>(44,880)</b>
49,904	Cash and cash equivalents at the beginning of the reporting period		35,522
<b>35,522</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>80,402</b>

3.12 The increase in the Council's cash position is mainly due to current need for cash liquidity, due to current financial climate, which is obtained through investments in Money Market Funds which are instant access.

## 4. Objections

4.1 At the time of writing the auditors have not received any objections in relation to the 2020/21 statement of accounts.

## 5. COVID-19

5.1 The 2020/21 financial year has been unique for Westminster with the world experiencing its first global pandemic in 100 years. Since the first lockdown at the end of March 2020 the Council had very quickly established services to protect residents and businesses. This has included:

- Support for vulnerable communities and those who were requested to shield from the virus.
- Supporting rough sleepers off the street.
- Supporting our care homes and care providers throughout the City.
- Supporting the City's schools through various Covid-19 restrictions.
- Creating new community forums to engage with key stakeholders.

- Supporting businesses throughout the City through a series of grants and reliefs.

5.2 The financial impact of the pandemic has been felt across all local government. The impact on Westminster City Council has been three-fold:

- The Council has incurred additional expenditure in its response to the pandemic
- The impact on the local economy has led to significant falls in income from sales, fees and charges.
- Saving proposals have been delayed or are considered no longer deliverable.

5.3 The impact of the pandemic has been mitigated by the support provided to local authorities by Central Government. The most considerable of these is the general Covid-19 grant funding and the income compensation scheme. Collectively these two sources of funding have provided the Council with £55m of income during the year, which means along with other service specific Covid-19 grants the net impact on the general fund is £3.8m. This has meant that the Council has been able to maintain a healthy level of reserves as at the end of this financial year.

5.3 There is still uncertainty surrounding the impact of pandemic on the UK's – and by extension – the Council's medium to long-term finances. Due to the Council's reliance on commercial income and fees and charges and consequently its exposure to the economic cycle, the Council has sought in recent years to build up the general fund balance to ensure the Council is financially resilient in a recession. The call on general fund balances this year has been fairly low given all factors considered and the Council is therefore in a sound financial position to draw upon its general fund reserve balance in 2021/22 if required. This is a similar approach to the one the Council took during the last economic crisis in 2008, before it then proceeded to build back reserves over the subsequent decade.

## 6. Conclusion

6.1 The statement of accounts appended to this report are draft at this stage and an audited version of the accounts will be presented to the Committee at its September meeting for final sign off following the finalisation of audit.

**If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:**

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## BACKGROUND PAPERS:

*Statement of Account 2020-21*