DF/22/103
Audit Committee
29th November 2022

Statement of Accounts & Annual Governance Statement 2021/22
Report of the Director of Finance

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

1. Recommendations – it is recommended that members:

1.1. Review and approve the Annual Governance Statement for 2021/22;

1.2. Review and approve the Authority's Statement of Accounts for 2021/22;

1.3. Review and approve the Pension Fund Statement of Accounts for 2021/22;

2. Background

2.1. The purpose of this report is to ask Members to approve the Annual Governance Statement and Statement of Accounts for 2021/22 for the County Council and Devon Pension Fund.

2.2. The Statement of Accounts has been prepared according to CIPFA's Code of Practice on Local Authority Accounting 2021/22. There are no significant changes to the Code.

2.3. For a third year, Parliament amended the deadlines in the Accounts and Audit Regulations for the 2021/22 accounts. The publication deadline for the unaudited accounts was 31st July 2022 (31st July 2021 and 31st August 2020) and the date by which the Audit Committee has to approve the accounts is 30th November 2022 (30th September 2021 and 30th November 2020).

3. Annual Governance Statement

3.1. The Council is required, annually, to prepare and publish a Governance Statement in accordance with CIPFA/SOLACE guidance and comply the Accounts and Audit (England) Regulations 2015, reviewing its system of internal controls in line with best practice. The Council is required to publish the statement alongside the Annual Statement of Accounts.

3.2. In recommending the approval of the Annual Governance Statement (attached at the end of the Statement of Accounts document) the Senior Leadership Team, Chief Officers and Heads of Service confirm that the organisational, financial, compliance and operational key controls referred to in the Statement continue to be appropriate and have operated, effectively, during the year in question.

4. Key Messages – Authority's Accounts

4.1. At the beginning of the financial year, earmarked reserves (excluding schools and non-schools carry forwards) stood at £137.5 million. During the year earmarked reserves have reduced by a net £1.5 million to just under £136 million. The reason for this movement is explained in the following table:

	£000	£000
Underspend on Public Health Ring-fenced Grant		3,983
Transfer from Budget Management Reserve	(5,551)	
Transfer from Business Rates Risk Management Reserve	(2,276)	
		(7,827)
Spend from Business Rates Pilot Reserve	(2,385)	
Spend from Regeneration and Recovery Reserve	(898)	
Spend on Transformation	(778)	
Spend from Budget Management Reserve	(467)	
Spend from On Street Parking Reserve	(304)	
Spend from Climate Change Emergency Reserve	(86)	
		(4,918)
As reported in Outturn to Cabinet 8th June 2022		**(8,762)**
Adjustments following receipt of District business rates outturns		
Compensating Government Grant to meet business rates deficit 2023/24	6,677	
Additional Pooling Gain (in excess) of estimate in outturn report	526	
Additional renewable energy income above NNDR1 at budget	65	
Transfer to Business Rates Risk Management Reserve for the additional income notified by Districts since Outturn Report		7,268
Net reduction in earmarked reserves in 2021/22		**(1,494)**

4.2. In addition, the Authority holds a working General Fund balance of just over £14.8 million at 31 March 2022, unchanged during the year. Capital grants unapplied have increased by just over £4 million and capital receipts have decreased by just over £4 million.

4.3. The SEND element of the Dedicated Schools Grant year-end position is a shortfall of £37.5 million. When combined with £49.0 million deficit brought forward from 2020/21 the cumulative deficit is just over £86.5 million. The table below sets out the balances on this new account.

Dedicated Schools Grant Adjustment Account

	1 April 2020 £000	Movement £000	31 March 2021 £000	Movement £000	31 March 2022 £000
High Needs Block - SEND	(19,772)	(29,226)	(48,998)	(37,531)	(86,529)
De-delegated, Central and Early Years Block	3,627	1,815	5,442	(327)	5,115
Total (Deficit)	**(16,145)**	**(27,411)**	**(43,556)**	**(37,858)**	**(81,414)**

4.4. The Authority has a negative Balance Sheet at 31st March 2022 which means that the Authority's liabilities are just over £14 million greater than its assets (£233 million at 31st March 2021). Although it may appear that this is a concern it is not as the Pension Liability of just over £1,179 million (£1,304 million at 31 March 2021) does not represent an immediate call on the Authority's reserves and is a snap-shot valuation in time based on assumptions. The true value of the deficit is assessed on a triennial basis with contribution rates set to recover the balance over the longer-term.

4.5. No new borrowing has taken place this year with capital expenditure due to be met from borrowing being financed from internal resources.

4.6. The audit is still in progress but any non-trivial changes that the auditors have requested up to mid-November (when the papers were written) have been incorporated into the Statement of Accounts.

4.7. There are proposals to introduce legislation (statutory instrument) regarding the partial replacement of infrastructure assets. This will affect the 2020/21 Statement of Accounts (on which the auditors have not yet issued an opinion) as well as the 2021/22 Statement of Accounts.

4.8. In addition, the auditors may request further changes to the Statement of Accounts. Should this be the case these changes – either required by legislation or audit findings will be disclosed at the next Audit Committee in February 2023, when the auditors will present their findings.

5. Key Messages – Pension Fund Accounts

5.1. During 2021/22 the value of Devon Pension Fund increased from just over £5 billion (31 March 2021) to just over £5.4 billion (31 March 2022). In the first nine months to December 2021, equities continued to recover from the impact of the Covid-19 pandemic but fell back in the final quarter of 2021/22 because of geo-political concerns over

Russia’s invasion of Ukraine. The investment return for Devon Pension Fund (net of fees) was +7.7% but below the LGPS average of 8.2%.

5.2. The Actuary’s key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities.

5.3. The Actuary’s revised financial assumptions include an increase in the discount rate applied (from 2% to 2.6%) and therefore decreased the projected pension liabilities and pension fund liability.

5.4. The Fund is required to have an actuarial valuation conducted every three years. The most recent triennial valuation, as at 31 March 2019, carried out by the Fund Actuary, Barnett Waddingham determined that the Devon Pension Fund had a funding level of 91%.

5.5. At the end of December 2021, a funding update provided by the Fund Actuary, based on rolling forward the data from the 2019 valuation, updating it for subsequent investment returns, pension and salary increases, and revised assumptions on future investment returns, suggested that the funding level was broadly similar at around 92%.

5.6. However, work on the next scheduled triennial valuation, as at 31 March 2022, is now underway. The 2022 valuation will comprise a more detailed analysis and updating of the Fund’s liabilities, based on revised data as at 31 March 2022 and revised assumptions.

5.7. The auditors are finishing their work on the Pension Fund Statement of Accounts and have been able to issue an Audit Findings Report, included in the papers to this Audit Committee.

6. Conclusion

6.1. The Committee is recommended to approve the Annual Governance Statement and the Statement of Accounts, contained in the attachment to this report.

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This Report has no specific equality or sustainability implications.
The legal requirements for the Council to comply with the Accounts and Audit Regulations are set out in the report.