# Audit and Risk Committee Agenda

## 27 April 2022 at 7pm

## Marconi Room, Civic Centre, Chelmsford

### Membership

Councillor N.M. Walsh (Chair)
Councillor M. Sismey (Vice Chair)

### and Councillors

D.J.R. Clark, N.A. Dudley, J. Galley, J.M.C. Raven, E.J. Sampson, A.B. Sosin and A. Thorpe-Apps

Local people are welcome to attend this meeting, where your elected Councillors take decisions affecting YOU and your City. There will also be an opportunity to ask your Councillors questions or make a statement. These have to be submitted in advance and details are on the agenda page. To find out more about attending please email daniel.bird@chelmsford.gov.uk or telephone on Chelmsford (01245) 606523

# Audit and Risk Committee

# 27 April 2022

# AGENDA

## 1. Apologies for Absence and Substitutions

## 2. Minutes

To consider the minutes of the meeting held on 16 March 2022

## 3. Declaration of Interests

All Members are reminded that they must disclose any interests they know they have in items of business on the meeting's agenda and that they must do so at this point on the agenda or as soon as they become aware of the interest. If the interest is a Disclosable Pecuniary Interest they are also obliged to notify the Monitoring Officer within 28 days of the meeting.

## 4. Public Question Time

Any member of the public may ask a question or make a statement at this point in the meeting. Each person has two minutes and a maximum of 20 minutes is allotted to public questions/statements, which must be about matters for which the Committee is responsible.

The Chair may disallow a question if it is offensive, substantially the same as another question or requires disclosure of exempt or confidential information. If the question cannot be answered at the meeting a written response will be provided after the meeting.

Any member of the public who wishes to submit a question or statement to this meeting should email it to committees@chelmsford.gov.uk 24 hours before the start time of the meeting. All valid questions and statements will be published with the agenda on the website at least six hours before the start time and will be responded to at the meeting. Those who have submitted a valid question or statement will be entitled to put it in person at the meeting.

## 5. Announcements

## 6. Statement of Accounts 2020/21 Progress report

## 7. Statement of Accounts 2021/22 Progress Update

Verbal report by Council Officers, with input from BDO

## 8. Urgent Business

To consider any other matter which, in the opinion of the Chair, should be considered by reason of special circumstances (to be specified) as a matter of urgency.

# MINUTES OF THE

# AUDIT AND RISK COMMITTEE

# held on 16 March 2022 at 7pm

Present:

Councillor N.M. Walsh (Chair)
Councillor M. Sismey (Vice Chair)

Councillors D.J.R. Clark, J.M.C. Raven, E.J. Sampson, A.B. Sosin and A. Thorpe-Apps

## 1. Attendance and Apologies for Absence

Apologies for absence were received from Councillors Dudley and Galley.

## 2. Minutes

The minutes of the meeting on 15 December 2021 were confirmed as a correct record.

## 3. Declarations of Interests

All Members were reminded to disclose any interests in items of business on the meeting's agenda and that they should do so at this point on the agenda or as soon as they became aware of the interest. They were also obliged to notify the Monitoring Officer of the interest within 28 days of the meeting, if they had not been previously notified.

## 4. Public Questions

There were no questions or statements from members of the public.

## 5. Announcements

No announcements were made.

## 6. External Audit Verbal Update

The Section 151 officer updated the Committee on the progress made by the external auditors. It was noted that further deadlines had been missed by the external auditors and officers therefore felt that them attending the meeting was not the best use of their resources. The Committee was informed that the continued missed deadlines had led to a much higher workload for Council staff and that the budget had been set on unaudited accounts. It was noted that Chelmsford was not alone however and that only 9% of Council's had completed their audits on time.

The Committee heard that a new deadline had been agreed of 31st March 2022 with the external auditors. Officers believed this was a realistic deadline but noted that the high workloads remaining. It was noted therefore that an additional meeting of the Committee would be required in late April for the Committee to sign off the accounts. The Committee heard it would be very important for the external auditors to explain anything they've found and for them to also explain the delays and how deadlines would be met in the future. The Committee agreed to hold an additional meeting on 27th April 2022.

RESOLVED that

1. the update be noted and;
2. an additional meeting of the Committee be held on 27th April 2022.

(7.02pm to 7.07pm)

## 7. Internal Audit Annual Plan 2022/23 and Internal Audit Charter 2022

The Committee received a report detailing the Annual Internal Audit Plan for 2022/23, and were asked to take into account the budget and resourcing required for delivery, as well as note and approve the Internal Audit Charter. The Committee was informed that the attached plan was based on a prioritisation of the audit universe. This included using a risk-based methodology, with input from the 'Our Chelmsford Our Plan' document, the principal risk register, discussions with staff and consideration of local and national issues and risks. The Committee noted that discussions had been held with senior management during the start of 2022 and that Management Team had approved the plan on the 23rd of February 2022.

The Committee heard that the plan focused resources where it would be needed most and that the service was provided by a small in-house team. It was also noted that an additional budget was available for contingency purposes or if specialist resources were required. It was also noted that a small-time contingency had been built into the plan for any ad hoc or urgent requirements. Deferrals from 2021/22 have also been included in the 2022/23 Plan. The Committee was also informed that the Internal Audit Charter was included in the report.

RESOLVED that the Annual Internal Audit Plan for 2022/23 and the Internal Audit Charter be noted.

(7.07pm to 7.13pm)

## 8. Accounting policies for the 2021/22 Statement of Accounts

The Committee received a report updating them on the Accounting Policies which would be used in completing the 2021/22 Statement of Accounts. It was noted that these were approved annually for each statement of accounts and that they represented the specific principles applied in producing the Statement of Accounts. It was noted that no significant changes had been made to the 2021/22 code. The report also updated members on the Government's emergency proposals for a code update, due to concerns about the number of audits not being delivered on time. It was noted that if the consultation led to any changes then the policies would need to be updated and if required they would be brought to the June meeting for further discussion. The Committee also noted the revised audit publication deadlines.

RESOLVED that

1. the accounting policies to be used in the preparation of the accounts be noted and;
2. the Committee note the proposed new national publication deadlines for the Statement of Accounts and their audit.

(7.14pm to 7.20pm)

## 9. Audit and Risk Committee Work Programme

The Committee received a report updating them on the rolling programme of work. It was noted that the previously discussed additional meeting on 27th April 2022 would be added to the programme. The Committee also heard that a further training questionnaire would be circulated soon

RESOLVED that the programme be agreed, with the additional 27th April 2022 meeitng added.

(7.21pm to 7.23pm)

## 10. Urgent Business

There was no urgent business for the meeting.

The meeting closed at 7.23pm
Chair

# Chelmsford City Council Audit and Risk Committee

## 27th April 2022

## Audit Completion Report 2020/21

Report by:
Accountancy Services Manager, Section 151 Officer

Officer Contact:
Zuzana Clarke, Principal Accountant, 01245 606324,
zuzana.clarke@chelmsford.gov.uk

### Purpose

The purpose of this report is to seek Members' approval for the Council's Statement of Accounts for 2020/21 and to draw the Committee's attention to the findings of the Council's external auditors, BDO LLP, in carrying out their audit work to date in relation to the 2020/21 financial year.

### Recommendations

1. Verbal update from the Accountancy Services Manager, Section 151 Officer be noted,

2. The draft Audit Completion Report – ISA 260 (Appendix1) be noted,

3. Approve the Statement of Accounts 2020/21 (Appendix 2) and that the subsequent material changes identified to date as stated in the report, should be made by the Section 151 officer after the meeting, and

4. That authority is delegated to the Chair of the Audit and Risk Committee, in consultation with the Section 151 Officer, to approve any additional amendments to the Statement of Accounts and the letter of representation,

arising out of any outstanding audit work, and to publish the final Statement alongside the audit opinion.

## 1. Introduction

1.1. The Council published its draft Statement of Accounts for 2020/21 by 31st July in accordance with the Accounts and Audit Regulations 2015 as amended, in order to meet the requirements for public access to, and inspection of, the accounts. The Regulations require the Council to obtain an independent, external audit opinion of its Accounts. Then following consideration of the opinion by this Committee, to publish both the final approved Statement of Accounts and the audit opinion by the 30th September. Where an audit of the Accounts has not been concluded before this date, the authority must publicly advertise a notice stating the reasons why the audit has not taken place. The Council placed its advert on the 30th September, stating that "Our external auditors, BDO LLP, were unable to complete their audit in time for the publication deadline due to pressures on their resources.".

1.2. An authority must publish its Statement and audit opinion as soon as reasonably practical after receipt of the auditor's report.

1.3. The draft Audit Completion Report – ISA 260 has been prepared by the external auditors, BDO and agreed with the Accountancy Services Manager (Section 151 officer).

1.4. The report covers the Accounts for 2020/21.

## 2. Audit Completion Report findings and next steps

2.1. The audit is not yet complete but the external auditor (BDO) has provided a draft Audit Completion Report.

2.2. The external auditor's conclusions to date on the audit of the 2020/21 financial year are set out in the draft Audit Completion Report attached at Appendix 1. No significant weaknesses or material uncorrected errors have been identified in the report and it is expected that an unqualified audit opinion will be issued, subject to finalising the outstanding audit points set out in the report. Following a change in the new Audit code of practice, the auditors will now provide a separate "value for money" commentary on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources, as part of their Auditor's Annual Report. They are required to do so within three months of issuing the audit opinion. A representative from BDO will present the Audit

Completion Report to the Committee and provide a verbal update on the outstanding audit matters.

2.3. Following consideration of the auditor's draft Audit Completion Report, the Committee will be asked to approve the Statement of Accounts for publication, alongside the previously approved Annual Governance Statement. As there are a number of audit areas still in progress, and amendments are still being agreed with the auditor, the Committee is asked to consider and approve the draft statement of accounts in Appendix 2 and the known to date material amendments as stated on pages 27 to 29 of the Draft Completion Report (Appendix1) detailed further in section 3 of this report. Due to time constrains, we were unable to produce an amended set of accounts, as the updated set of accounts will need to be reviewed by the audit team who are focusing on completing the audit. Therefore, these amendments, subject to approval, will be applied to the accounts after the meeting.

2.4. It is expected that some areas of audit work will remain outstanding at the time of the meeting, and subsequent work may require further amendment to the Accounts. It is recommended that delegation is made to the Chair of the Audit and Risk Committee, in consultation with the Accountancy Services Manager, to approve such amendments. Final publication of the Accounts will then take place on receipt of the signed audit opinion.

## 3. Corrected material misstatements

During the audit, following material adjustments were identified:

- An asset disposed of in 19/20 was not fully removed by the asset register software, therefore it was retained in the 20/21 accounts. As this asset was fully depreciated on demolition in 19/20, the net value brought into 20/21 was zero. However, the asset note (table) 14, closing figures for 2019/20 and 2020/21 opening figures showed a gross value of the asset of £9,454k and a compensating £9,454k of depreciation (resulting in the nil net value) disclosure. The published accounts in July last year included a correction to remove the asset fully from the 2020/21 closing figures. It has been agreed with the audit team that the adjustment needed to be applied to the 2019/20 accounts as the asset was disposed of during 2019/20. The adjustment made during 2020/21 was therefore reversed and instead applied to 2019/20 figures.
- The Council includes in its accounts a provision to cover the potential costs of refunding business rates payers if they successfully appeal their business rating valuations. It is difficult to predict the speed the Valuation Office will deal with business rate valuation appeals, as the settlement periods can vary significantly depending on complexity of the appeal. During March 2022, nearly a year after completing the accounts, the actual settled appeals were reviewed against the provision provided and

it was agreed that £4,251k of the appeals provision was still oustanding at the end of March 2022 and will therefore need to be reclassified from short-term provision into a long-term provision.

- For many years we have classified our trading accounts as operational income due to nature of their provision. However, this year that was challenged by the audit team as it does not strictly adhere to the code classification. It was agreed to reclassify the trading accounts, Net spend £21k, from the ‘Other operating expenditure’ to ‘Financing and investment’ line of the Comprehensive income and expenditure statement.
- The Council administered several grants during 2020/21 to support businesses and council tax payers during the pandemic. Some of these grants were subject to reconciliation by the Government and any unspent grants were to be returned to the Government. These unreturned grants were shown as a creditor (money owed to the Government) in our Balance sheet. At the time of the accounts closure, there was no reason to believe that this reconciliation would not take place within the next 12 months and the outstanding grants were classified as a short-term creditor. An audit review in March 2022, identified that the reconciliation was yet to be completed and some of these grants were still outstanding. Due to value of these grants, 100% review of all short-term creditors transactions was requested which identified that £4,316k needed to be reclassified to long-term creditors.

## 4. Letter of Representation

4.1. It is recommended that delegation is made to the Chair of the Audit and Risk Committee, in consultation with the Accountancy Services Manager, to approve responses to be included in the Letter of Representation, which is requested by the auditors to provide assurance about information contained within the Statement of Accounts, once all the audit work is complete.

## 5. Conclusion

5.1. Based on the reported findings of the external auditor, the Council is expected to achieve an unqualified audit opinion on its Statement of Accounts.

## List of appendices:

Appendix 1 BDO – Audit Completion Report – Year ended 31 March 2021

Appendix 2 Statement of Accounts 2020/21

## Background papers: Nil

## Corporate Implications

Legal/Constitutional:

The Statement of Accounts have been prepared in line with Cipfa's Code of Practice on Local Authority Accounting, under International Financial Reporting Standards (IFRS) and in accordance with the Accounts and Audit Regulations 2015, as amended. The Audit Completion Report has been prepared in accordance with the provisions of the International Standard on Auditing (ISA) 260 and the Local Audit and Accountability Act 2014, which requires the Council's External Auditors to report to those charged with governance those relevant matters arising from the audit prior to issuing the Statement of Accounts.

Financial:

The Statement of Accounts 2020/21 sets out the financial position of the Council for the year, including key transactions and balances and associated explanatory notes. The Audit Completion Report provides and independent view of the true and fair nature of the accounts.

Potential impact on climate change and the environment: N/A

Contribution toward achieving a net zero carbon position by 2030: N/A

Personnel: N/A

Risk Management:

Consideration of risk is an important part of the management of the Council's financial resources, as well as being a key part of the audit planning process and delivery of the audit opinion.

Equality and Diversity: N/A

Health and Safety: N/A

Digital: N/A

Other: N/A

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## Consultees:

N/A

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## Relevant Policies and Strategies: N/A

The Statement of Accounts are the financial representation of the operation of all of the Council's Policies and Strategies throughout the year. The Accounting Policies which shape the Statements are set out in the notes to the Statement of Accounts. Other key strategies considered as part of the Accounts and auditors' report include:

Medium-Term Financial Strategy 2020/21

Treasury, Capital and Investment Strategy 2020/21

Risk Management Strategy

Report to the Audit and Risk Committee

# CHELMSFORD CITY COUNCIL

## Audit Completion Report: year ended 31 March 2021

IDEAS | PEOPLE | TRUST

BDO

# CONTENTS

# WELCOME

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We have pleasure in presenting our Audit Completion Report to the Audit and Risk Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the progress in completing the planned audit approach for the year ended 31 March 2021, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Risk Committee. At the completion stage of the audit it is essential that we engage with the Audit and Risk Committee on the results of our audit of the financial statements comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit and Risk Committee meeting and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

This report contains matters which should properly be considered by the Council as a whole. We expect that the Audit and Risk Committee will refer such matters to the Council, together with any recommendations, as it considers appropriate.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

Rachel Brittain

22 April 2022


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This summary provides an overview of the audit matters that we believe are important to the Audit and Risk Committee in reviewing the results of the audit of the financial statements for the year ended 31 March 2021.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

## Overview

Our audit work on the financial statements is ongoing. Nothing has come to our attention from the work we have completed to date that would result in a modification of our audit opinion.

Outstanding matters are listed on page 47 in the appendices.

We presented our Audit Planning Report to the Audit and Risk Committee in December 2021. There have been no significant changes to the planned audit approach and no additional significant audit risks have been identified.

Our work on the Council's value for money arrangements remains in progress. We will report the results of our work to those charged with governance in our Auditor's Annual Report.

No restrictions were placed on our work.

## Audit report

Subject to satisfactory completion of the matters listed on page 47, we anticipate issuing an unmodified audit opinion on the financial statements.

We have no exceptions to report at this stage in respect of the Council's value for money arrangements.

Our audit certificate will be issued when we have completed our work on the Council's value for money arrangements and completed the required procedures for the Whole of Government accounts (WGA).

# THE NUMBERS
## Executive summary

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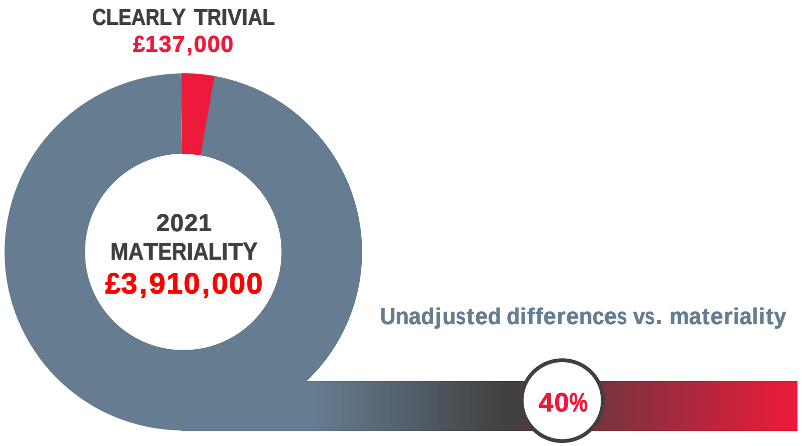
### Final materiality

Materiality was determined based on 2.5% of gross expenditure.

There have been no changes to the basis used to determine materiality and triviality from those reported in our Audit Planning Report.




### Material misstatements

As a result of the work completed to date, we have identified one material prior period misstatement that impacts the line classifications in the property, plant and equipment note only.

We have identified two further material misclassifications.

Further details can be found on page 27.

### Unadjusted audit differences

We identified audit adjustments that, if posted, would decrease the deficit on the provision of services for the year by £1.550 million. £1.472 million of these adjustments would be reversed from the General Fund through the Movement in Reserves Statement. If posted, the impact on the general fund would be £78,000.

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### Financial reporting

- We have not identified any non-compliance with accounting policies or the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
- No significant accounting policy changes have been identified impacting the current year
- Going concern disclosures are deemed sufficient
- Report if the Annual Governance Statement complies with relevant guidance and is not inconsistent or misleading with other information we are aware of.

When the relevant work is complete, we will:

- Report if the Narrative Report is consistent with the financial statements and our knowledge acquired in the course of the audit.

### Other matters that require discussion or confirmation

- Control deficiency identified in relation to logical access controls over the general ledger
- Control deficiency identified in relation to logical access controls over the iTrent, Omnileger and Civica IT applications
- Confirmation on fraud, contingent liabilities and subsequent events
- Letter of representation

### Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Council in accordance with the Financial Reporting Council's (FRC's) Ethical Standard.

# AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 24 November, we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the engagement team.

| Audit Risk | Risk Rating | Significant Management Judgement Involved | Use of Experts Required | Error Identified | Control Findings to be reported | Discussion points / Letter of Representation |
|---|---|---|---|---|---|---|
| Management override of controls | Significant | No | No | No | Yes | No |
| Revenue recognition and expenditure cut off | Significant | No | No | No | No | No |
| Valuation of land, buildings and investment properties | Significant | Yes | Yes | Yes, unadjusted | No | Yes |
| Valuation of pension liability | Significant | Yes | Yes | No | No | Yes |
| Valuation of Non-Domestic Rates appeals provision | Significant | Yes | Yes | Yes, adjusted and unadjusted | Yes | Yes |
| Related party transactions | Normal | No | No | Yes, additional disclosure required | Yes | Yes |

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# MANAGEMENT OVERRIDE OF CONTROLS

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**ISA (UK) 240 notes that management is in a unique position to perpetrate fraud.**

- **Significant risk**
- **Normal risk**
- **Significant management judgement**
- **Use of experts**
- **Unadjusted error**
- **Adjusted error**
- **Additional disclosure required**
- **Significant control findings to be reported**
- **Letter of representation point**

## Risk description

Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.

## Work performed

We carried out the following planned audit procedures:

- Reviewed and verified journal entries made in the year, agreeing the journals to supporting documentation; determined key risk characteristics to filter the population of journals; and used our IT team to assist with the journal extraction
- Evaluated estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

## Results

We used our data analytics tool, BDO Advantage, to analyse journals processed throughout the year and as part of the financial reporting.

We identified a number of journal entries that we considered to be high risk.

Our work is in progress to agree all high-risk journals to supporting documentation. To date, no evidence of management override has been identified.

We have assessed and corroborated significant management estimates and judgements in the following key areas:

- Depreciation/Amortisation
- Accruals and accrued income
- Valuation of land and buildings
- Pension liability
- NDR provision
- Other bad debt provisions
- Going concern assumptions

To date, we have found no evidence of management override in these estimates, although work in a number of these areas is still ongoing.

# REVENUE RECOGNITION AND EXPENDITURE CUT-OFF



**Auditing standards presume that income recognition presents a fraud risk.**

**For public sector bodies the risk of fraud related to expenditure is also relevant.**

| | |
|---|---|
| **Significant risk** | ■ |
| **Normal risk** | |
| **Significant management judgement** | |
| **Use of experts** | |
| **Unadjusted error** | |
| **Adjusted error** | |
| **Additional disclosure required** | |
| **Significant control findings to be reported** | |
| **Letter of representation point** | |

## Risk description

Under auditing standards there is a presumption that income recognition presents a fraud risk. For the Council, we consider the risk of fraudulent revenue recognition to be in respect of the accuracy and existence of revenue grants subject to specific performance conditions.

For net-spending bodies in the public sector there is also risk of fraud related to expenditure. For the Council, we consider the risk of fraud to be in respect of the cut-off of expenditure at year-end.

## Work performed

We carried out the following planned audit procedures:

- Tested an increased sample of grants included in income to supporting documentation from grant paying bodies and check whether recognition criteria have been met
- Confirmed that expenditure is recognised in the correct accounting period by substantively testing a sample of expenditure items around year-end. A financial threshold will be set to determine the samples to be selected for this testing. A lower threshold will be used to account for the significant risk.

## Results

Our audit work on expenditure cut off has tested a sample of items around the year-end, by agreeing them to supporting documentation, and confirming that the expenditure has been recognised in the correct year, with accruals/creditors or prepayments recognised where necessary.

No issues were identified in the cut-off testing.

# VALUATION OF LAND, BUILDINGS AND INVESTMENT PROPERTIES

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**The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.**

| | |
|---|---|
| Significant risk | ■ |
| Normal risk | |
| Significant management judgement | ■ |
| Use of experts | ■ |
| Unadjusted error | ■ |
| Adjusted error | |
| Additional disclosure required | |
| Significant control findings to be reported | |
| Letter of representation point | ■ |

## Risk description

Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the current value (operational assets) or fair value (investment properties) at the balance sheet date.

The Council undertakes an annual review of its asset base alongside market data to identify assets whose value may have moved by a material amount. This exercise determines which assets will be subject to a formal revaluation in the current year, alongside material assets which are valued every year. The Council uses an external valuer to undertake the valuation exercise and, as a minimum, aims to revalue each asset once every three years.

There is a risk over the valuation of these assets due to the high degree of estimation uncertainty and where updated valuations have not been provided for a class of assets at the year-end.

## Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we can rely on the management expert
- Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage
- Assessed the accuracy and completeness of information provided to the valuer, such as rental agreements and sizes
- Assessed assumptions used by the valuer and movements against relevant indices for similar classes of assets
- Followed up valuation movements that appear unusual
- Confirmed that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct.

## Results

From our review of the instructions provided to both the internal and external valuers, and our assessment of the expertise of the valuers, we are satisfied that we can rely on their work.

We are satisfied that the basis of the valuation for each asset is appropriate.

Our work on valuations is still in progress as we discuss the underlying assumptions used with the valuer and verify the final source data inputs. An analysis of the key assumptions tested to date is presented on the following pages.

# VALUATION OF LAND, BUILDINGS AND INVESTMENT PROPERTIES 2

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## PPE Valuations: Auditors Expected Range

### Overview

As part of our testing of valuation, an expected range for year-on year movements was determined, based on expert knowledge of price movements. Where a property valuation fell outside of this range, explanation was provided by the valuer. Where no sufficient explanation has been provided, the difference from the upper or lower bound of expected range has been classified as an error.

For non specialised assets valued under the Existing Use Value (EUV) methodology, MSCI capital values were used to determine an acceptable range of movement. Assets that fell out of the expected range did so because there had been a decrease in the rental income that is considered in the valuation - as a result of covid.

For specialised assets valued using the Depreciated Replacement Cost (DRC) method of valuation, we used BCIS Tender Price indices to build our expectations. Assets that fell out of range did so, for the most part, as a result of a change in the floor area being valued, a change in the BCIS cost index used to value the asset, or due to a decrease in the remaining useful life of the asset.

For assets that the valuers have measured using a Market Value (MV)/Fair Value approach, we used the movement in the MSCI sector rental value index to set our expectations. Deviations from the expected range were individually trivial.

Overall, asset valuations were higher than our expectations by £225,000. The total of assets valued in the year was £238 million. The error therefore represents less than 1% of the valuation.

### Impact

**< lower** **higher >**

# VALUATION OF LAND, BUILDINGS AND INVESTMENT PROPERTIES 3

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## DRC Valuations

### Overview

DRC valuations are calculated with reference to a number of inputs that include; floor area, BCIS replacement cost, location weighting, cost allowances and the assumed remaining building life.

We tested the inputs for a sample of assets by agreeing to floor plans and BCIS reference costs. We have consulted with internal property valuation experts to assess the appropriateness of judgemental factors such as cost allowances.

### Discussion

In our testing we identified

- one asset where no floor plan could be provided – it was later confirmed that this asset was actually a piece of plant and machinery and should not be included in the valuation
- Five further assets where the floor plans differed to the floor areas used in the valuations. Floor area errors have been extrapolated over the population
- Three types of assets where the incorrect BCIS replacement cost had been used in the valuation, only one of these was of a significant value.

Overall, we project that DRC assets are understated by £1.3 million.

< lower | higher >

## EUV Valuations

### Overview

EUV valuations are primarily driven by the rental income associated with the asset, and a yield. Where assets are not income generating, a market rent has been established based on comparative properties.

We checked income used in the valuation to actual income received, and agreed floor areas to floor plans. We reviewed comparatives to assess the reasonableness of rent and yields and consulted with internal property valuation experts as to the appropriateness of the assumptions made.

### Discussion

Management were required to provide forecast income for the valuation of a number of properties. We have recalculated the valuation with actual 20/21 income and reported the difference as an error.

These errors have been extrapolated over the population.

Overall, we project that EUV assets are overstated by £341,000

< lower | higher >

# VALUATION OF LAND, BUILDINGS AND INVESTMENT PROPERTIES 4

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## MV Valuations

### Overview

Market Value valuations are performed using an income approach (based on a yield and a market rent) or a market approach (based on site area and a land value).

Yields were compared to comparative yields for similar properties. We have also consulted with internal property valuation experts to gain assurance over the appropriateness of the yields used.

Land values were also compared to comparatives.

Rents have been agreed to relevant supporting documentation. Assets with a ground lease were based on information in the rental agreement, which we have obtained and agreed.

Site areas were checked using software that measures the area of the plot from satellite images.

One asset was valued using comparatives of other residential properties that are similar in nature.

### Discussion

Work is ongoing to agree all of the inputs to the relevant information.

< lower ... higher >

# VALUATION OF PENSION LIABILITY



**The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty**

| | |
|---|---|
| Significant risk | ■ |
| Normal risk | |
| Significant management judgement | ■ |
| Use of experts | ■ |
| Unadjusted error | |
| Adjusted error | |
| Additional disclosure required | |
| Significant control findings to be reported | |
| Letter of representation point | ■ |

## Risk description

The valuation of the defined benefit obligation is a complex calculation involving a number of significant judgements and assumptions. The actuarial estimate of the pension fund liability uses information on current, deferred and retired member data and applies various actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the net present value of the liability.

There is a risk that the membership data and cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Council's share of the scheme liability.

## Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary
- Reviewed the competence of the management expert (actuary)
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data
- Reviewed the controls in place for providing accurate membership data to the actuary
- Contacted the pension fund auditor and requesting confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data
- Checked that any significant changes in membership data have been communicated to the actuary.

## Results

No issues were found in assessing the competency of managements experts, or in the agreement of disclosures to information provided by the actuary.

We have compared the key financial and demographic assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the National Audit Office (NAO), on the following pages.

We are awaiting the results of the audit of the pension fund, from the pension fund auditor.

# VALUATION OF PENSION LIABILITY 2

**Comparison of assumptions used to PWC's report**

| Assumption | Chelmsford Council | Range quoted by PwC for Barnett Waddingham | Range quoted by PwC for all actuaries | PwC Conclusion |
|---|---|---|---|---|
| Rate of inflation - RPI | 3.20% | 3.15% - 3.35% | 3.15% - 3.35% | Within expected range |
| Rate of inflation - CPI | 2.80% | 2.80% - 2.85% | 2.40% - 2.85% | Within expected range |
| Rate of increase in salaries | 3.80% | LGPS CPI +1% | 3.60% - 4.20% or CPI + 1% - 1.5% | Within expected range |
| Rate of increase in pensions | 2.80% | 2.80% - 2.85% | 2.40% - 2.85% | Within expected range |
| Discount rate | 2.00% | 1.95% - 2.05% | 1.95% - 2.20% | Within expected range |
| **Assumed life expectancy from age 65** | | | | |
| Assumed longevity retiring at current date | | | | |
| - Males | 21.6 | 20.5 - 23.1 years | 20.5 - 23.2 years | Within expected range |
| - Females | 23.4 | 23.3 - 25 years | 23.3 - 25.8 years | Within expected range |
| Assumed longetivity retiring in 20 years | | | | |
| - Males | 22.9 | 21.9 - 24.4 years | 21.9 - 24.7 years | Within expected range |
| - Females | 24.7 | 24.8 - 26.4 years | 24.8 - 27.7 years | Outside of expectation - Impact reviewed based on sensitivity provided by actuary. Impact on gross liability of £690k is immaterial, therefore the 24.7 years applied is still deemed reasonable |
| Duration of liabilities | 20 years | 15-22 years | 15 - 30 years | Within expected range |
| LGPS take up of tax free sum - pre 2008 scheme | Not disclosed | 50% will commute to HMRC maximum | 25% - 85% will commute to HMRC maximum | PwC state that the assumptions proposed by the actuaries regarding the amount of tax free cash to be taken on retirement are reasonable. |
| LGPS take up of tax free sum - post 2008 scheme | Not disclosed | 50% will commute to HMRC maximum | 25% - 85% will commute to HMRC maximum | |
| 50:50 take up rate | Not disclosed | Assume that members remain in section as at the most recent valuation date. | Assume that members remain in section as at the most recent valuation date. | PwC state that they are comfortable with the approach taken. |

Contents

# VALUATION OF PENSION LIABILITY 3

| Assumption<br>*Assumption change and effect on liability* | Chelmsford Council | Range quoted by PwC for Barnett Waddingham | PwC Conclusion |
|---|---|---|---|
| Discount rates: +0.1% | -1.90% | +/- 0.1% = -/+ 2% of liability | PwC state an approximate effect on the liability of -2% - actuary movement is therefore consistent with PwC's assessment of the likely impact of the change. |
| Discount rates: -0.1% | 1.94% | +/- 0.1% = +/- 2% of liability | PwC state an approximate effect on the liability of +2% - actuary movement is therefore consistent with PwC's assessment of the likely impact of the change. |
| Long term salary: +0.1% | 0.17% | +/- 0.1% = +/- 0.5% of liability | PwC state an approximate effect on the liability of is up to 0.5% - actuary movement is therefore consistent with PwC's assessment of the likely impact of the change. |
| Long term salary: -0.1% | -0.17% | +/- 0.1% = +/- 0.5% of liability | PwC state an approximate effect on the liability of is up to 0.5% - actuary movement is therefore consistent with PwC's assessment of the likely impact of the change. |
| Pension increase & deferred revaluation: +0.1% | 1.75% | +/- 0.1% = +/- 2% of liability | PwC state an approximate effect on the liability of +2% - actuary movement is therefore consistent with PwC's assessment of the likely impact of the change. |
| Pension increase & deferred revaluation: -0.1% | -1.71% | +/- 0.1% = +/- 2% of liability | PwC state an approximate effect on the liability of +2% - actuary movement is therefore consistent with PwC's assessment of the likely impact of the change. |
| Life expectancy: +1y | 5.02% | +/- 1 year = +/- 3% of liability | The assumption change and effect on liability is outside the range suggested by PwC for life expectancy. The increase and decrease by 1 year leads to a 4.7% and 4.5% change respectively which is outside the +/- 3% range suggested by PwC. PwC were contacted regarding this and confirmed that not all actuaries will fall within this range. We are satisfied that this does not suggest that there is an issue with the disclosure. |
| Life expectancy: -1y | -4.76% | +/- 1 year = +/- 3% of liability | |

We consider that the assumptions and methodology used by the Pension Fund actuary are appropriate, and will result in an estimate of the net pension liability which falls within a reasonable range.

We note that the consulting actuary has stated that the assumptions used by Barnett Waddingham could result in a liability being between 95.2% and 100.8% of the average liabilities of all actuaries. The consulting actuary has concluded this is within a reasonable range.

Contents

# VALUATION OF NON-DOMESTIC RATES APPEALS PROVISION

Contents



**There is a risk in relation to the estimation of the provision due to potential incomplete data and assumptions used in calculating the likely success rate of appeals.**

| | |
|---|---|
| **Significant risk** | |
| **Normal risk** | |
| **Significant management judgement** | |
| **Use of experts** | |
| **Unadjusted error** | |
| **Adjusted error** | |
| **Additional disclosure required** | |
| **Significant control findings to be reported** | |
| **Letter of representation point** | |

### Risk description

The council is required to estimate the value of potential refund of business rates arising from rate appeals, including backdated appeals. The Valuation Office Agency (VOA) provides information regarding the appeals currently being assessed and settled.

Management use this information to calculate a success rate for specific business types for settled appeals, and applies an appropriate rate to each type of business appeal still outstanding at year end. The council engage an expert to provide evidence on appeals.

There is a risk that the provision is not based on the appropriate data, or that the assumptions used are not appropriate.

### Work performed

We carried out the following planned audit procedures:

- Reviewing the competence of the management expert (Analyse Local)
- Reviewing the accuracy of the appeals data to confirm that it is complete based on the VOA list, and that settled appeals are removed
- Reviewing the assumptions used in the preparation of the estimate including the historic success rates to confirm that the rates applied are appropriate.

### Results

No issues were found in assessing the competency of managements experts.

Our work to test the accuracy of the data included comparing the provision to the latest data available on appeals and settlements.

- The provision is expected to be overstated by £248,000 as a result of not accounting for reliefs. This is an estimated error based on actual reliefs granted over the last 3 years
- Other individually trivial errors totalling £61,000 were also identified as overstatements to the provision.

Overall, we project the provision to be overstated by £309,000.

These errors have been reported as unadjusted misstatements on page 23, along with the balance sheet impact of £463,000 on total collection fund debtors.

In addition to the above we also considered the classification between long term and short term provisions. In the draft accounts, no estimate of a split between long and short term was made, although it is not expected that all settlements will take place within one year of the year end. We compared the Rateable Value reduction settlements made in the 2021/22, to the provision set at 31/03/21. It was established that £1.029 million had been settled in year. The remining balance of £4.251 million should be reclassified as long term.

This error has been reported as an adjusted misstatement on page 27. A recommendation has been raised for management to estimate this split going forwards.

# RELATED PARTY TRANSACTIONS

Contents



**There is a risk that related party disclosures are not complete or accurate.**

| | |
|---|---|
| Significant risk | |
| Normal risk | ■ |
| Significant management judgement | |
| Use of experts | |
| Unadjusted error | |
| Adjusted error | |
| Additional disclosure required | ■ |
| Significant control findings to be reported | |
| Letter of representation point | ■ |

## Risk description

We are required to consider related party transactions in the context of fraud, as they may present greater risk for management override or concealment or fraud.

There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting requirements.

## Work performed

We carried out the following planned audit procedures:

- Reviewed management processes and controls to identify and disclose related party transactions
- Reviewed relevant information concerning any such identified transactions
- Discussed with management and reviewed councillors' and management declarations to ensure that there are no potential related party transactions which have not been disclosed
- Undertook Companies House searches for potential undisclosed interests.

## Results

Our work on related parties identified an over disclosure of transactions with parish councils that did not constitute related party transactions. We also identified related party transactions with Essex County Council that had not been disclosed. The note has been revised for these findings.

# GOING CONCERN

Contents



**We are required to highlight any judgements about events or conditions that may cast significant doubt over the entity's ability to continue as a going concern**

## Management's assessment of going concern

It is the officers' responsibility to make an assessment of the Council's ability to continue as a going concern to support the basis of preparation for the financial statements and disclosures in the financial statements. This is a requirement of the accounting standards.

This assessment should be supported by detailed cash flow forecasts with clear details of the key underlying assumptions, consideration of available finance throughout the forecast period, and a consideration of the forecast's sensitivity to possible variations in those assumptions along with any other relevant factors.

The going concern assessment should cover a minimum of 12 months from the date of the directors' approval of the financial statements. However, consideration should also be given to any major events or circumstances that may fall outside this period.

We have received managements assessment, and our evaluation is in progress.

## Judgements noted

We will review the judgements applied by management.

## Summary of support measures taken into account

We will review the support measures considered.

## Material uncertainty

Based on our knowledge of the council and its financial position, we do not expect to conclude that there is any material uncertainty in respect to going concern.

# OTHER MATTERS

Contents



The following are additional significant and other matters arising during the audit which we want to bring to your attention.

| Issue | Comment |
|---|---|
| Trading accounts | Per the CIPFA code, the surplus or deficit on trading operations that are not allocated back to services should be recognised in "financing and investment income and expenditure". In the draft accounts, the income and expenditure is incorrectly recognised as "other operating income and expenditure". This misclassification has been reported as an adjusted misstatement on page 27. |
| Current and prior period disposal error | In March 2020, a fully depreciated asset was demolished. At this point the correct accounting treatment would be to remove it from the fixed asset register. However, the demolished asset was not removed from the prior period fixed asset register, or financial statements, and therefore was inflating both the asset cost and accumulated depreciation figures in the accounts 'property plant and equipment' note by £9.454 million.<br><br>In the current year, the asset has been disposed of and is showing as an in-year movement on the note.<br><br>As the error is material , we have requested that management correct both the current year and prior period notes, to show the disposal in the correct financial period. The current year impact is shown on page 27. |
| Creditor misclassification | As part of our creditors testing we identified two items totalling £106,000 that should have been net off against a debtor figure, rather than recognised as creditors.<br><br>As part of our sample testing of creditors transactions, we also identified 3 sampled items where an estimate was made, and the post year end evidence suggests a different figure should have been recognised. The errors total £28,000. As the errors were identified as part of a sample, the errors have been extrapolated over the population. The extrapolated impact on expenditure is £77,000.<br><br>These combined errors have been included in the unadjusted error schedule on page 23. |

# OTHER MATTERS

Contents



| Issue | Comment |
|---|---|
| Debtor/Creditor timing | As part of debtors sample testing, we identified errors totalling £199,000 that had been misclassified as short term debtors, despite not yet being settled at 31/03/2022. This error has been extrapolated across the sampled population and reported as an unadjusted misstatement on page 23.<br><br>Due to the timing of the audit, we are able to test if a sample was settled within one year of the reporting date. When preparing the accounts, this would have been a judgement made by management, based on the best information available at that time.<br><br>Similar errors were found in the creditors sample testing, however, due to the size of the errors identified; management were asked to perform a 100% review of all manual creditor balances to ensure the short term classification was accurate. Management identified short term creditors of £4.251 million that had not yet been settled at 31/3/2022, and should therefore be classified as long term. The majority of this balance relates to government grants, for which the Government's year end reconciliation process has taken longer than was originally expected by management. This has been reported as an adjusted misstatement page 26. |
| Backdated rental Income | As part of our testing of rental income we found one transaction for £104,000 that related to rent backdated to 2018. Although the rent was reviewed and adjusted retrospectively, as the income relates to services provided in prior years, the sample has been classified as an error and extrapolated over the population.<br><br>An extrapolated error of £148,000 has been reported as an unadjusted error on page 23. |
| Heritage assets | The valuation of one heritage asset was found to be based on the purchase price, rather than a more recent, lower, valuation. The difference of £3,000 has been recorded as an error and extrapolated over the population of heritage assets. This has been reported as an unadjusted misstatement on page 23. |

# MATTERS REQUIRING ADDITIONAL CONSIDERATION

Contents



## Fraud

Whilst the Council's officers have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud.

We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Planning Report on 24 November 2021.

## Laws and regulations

The most significant considerations for your organisation are the:

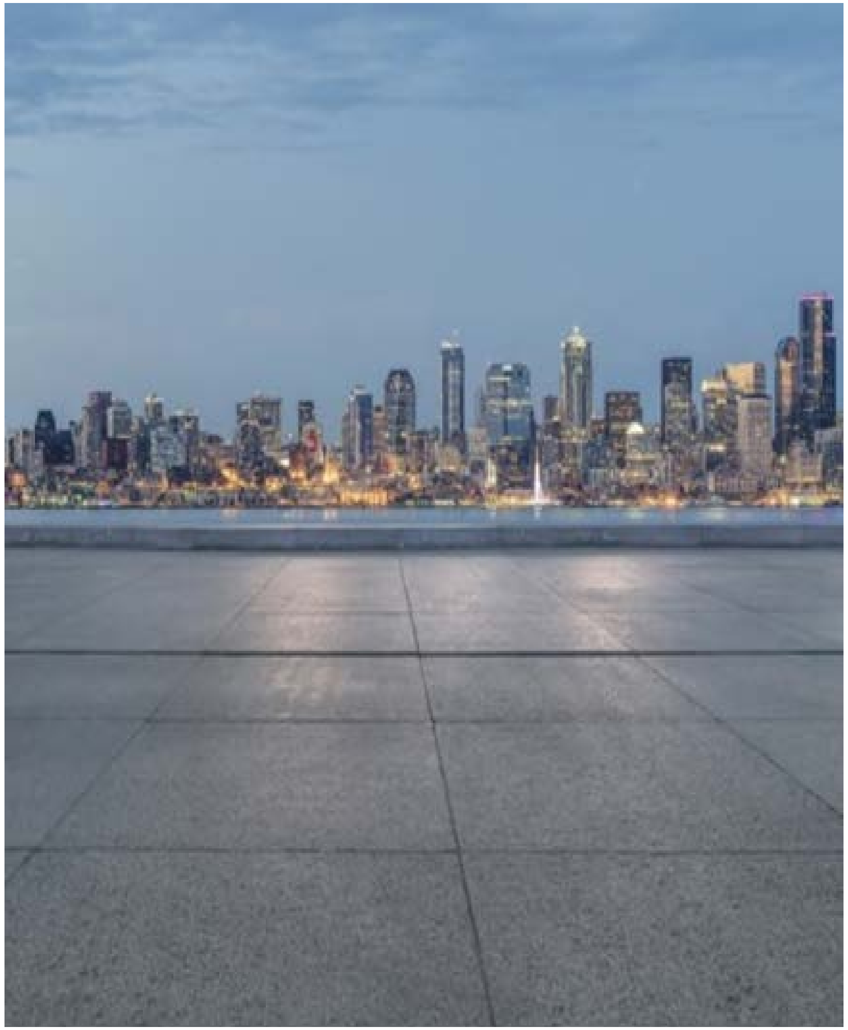
- Local Government Acts of 1972 and 2003
- Local Government Finance Acts of 1988, 1992 and 2012
- International accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
- Local Audit and Accountability Act 2014
- Accounts and Audit Regulations 2015
- VAT legislation
- PAYE legislation.

We have not identified any non-compliance with laws and regulations that could have a material impact on the financial statements.

## Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We did not identify and significant matters in connection with related parties.



# UNADJUSTED AUDIT DIFFERENCES: SUMMARY

## Summary for the current year

Contents




**We are required to bring to your attention unadjusted differences and we request that you correct them.**

There are eight unadjusted audit differences identified by our audit work to date which would reduce the deficit on the provision of services for the year of £9.482 million by £1.550 million.

# UNADJUSTED AUDIT DIFFERENCES: DETAIL

## Details for the current year

| | Income and expenditure | | | Balance Sheet | |
|---|---|---|---|---|---|
| **Unadjusted audit differences** | **NET DR/(CR) £'000** | **DR £'000** | **(CR) £'000** | **DR £'000** | **(CR) £'000** |
| Deficit on the provision of services for the year before adjustments | 9,482 | | | | |
| **1: Extrapolated backdated rent error** | | | | | |
| DR Financing and investment income | | 148 | | | |
| CR Opening reserves | | | | | (148) |
| **2: Overstatement of creditor balances** | | | | | |
| DR Creditors (factual error) | | | | 106 | |
| DR Creditors (other short term creditors – projected error) | | | | 77 | |
| CR Debtors | | | | | (106) |
| CR Expenditure | | | (77) | | |
| **3: Extrapolated misclassification between short term and long term debtors** | | | | | |
| DR Long term debtors | | | | 551 | |
| CR Short term debtors | | | | | (551) |

Contents

# UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

**Contents**



| | Income and expenditure | | | Balance Sheet | |
|---|---|---|---|---|---|
| **Unadjusted audit differences** | **NET DR/(CR) £'000** | **DR £'000** | **(CR) £'000** | **DR £'000** | **(CR) £'000** |
| **4: Projected overstatement of NNDR appeals provision** | | | | | |
| DR NNDR Appeals provision | | | | 309 | |
| CR NNDR Expenditure | | | (309) | | |
| DR Collection fund reserve | | | | 463 | |
| CR Debtors (Other Local Authorities and Government departments) | | | | | (463) |
| **5: Extrapolation of heritage asset valuation** | | | | | |
| DR Revaluation Reserve | | | | 292 | |
| CR Heritage Assets | | | | | (292) |
| **6: Property valuations falling outside of expected range** | | | | | |
| DR CIES | | 74 | | | |
| CR Revaluation Reserve | | | | | (11) |
| CR Property Plant and Equipment | | | | | (63) |
| DR Financing and Investment Expenditure | | 162 | | | |
| CR Investment Property | | | | | (162) |

Contents



# UNADJUSTED AUDIT DIFFERENCES: DETAIL

## Details for the current year

| Unadjusted audit differences | Income and expenditure NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | Balance Sheet DR £'000 | (CR) £'000 |
|---|---|---|---|---|---|
| **7: Understated DRC valuations** | | | | | |
| DR Property, Plant and Equipment | | | | 1,375 | |
| DR OCI via Revaluation Reserve | | | | 173 | |
| CR CIES | | | (1,548) | | |
| **8: Overstated EUV Valuation** | | | | | |
| DR OCI via Revaluation Reserve | | | | 341 | |
| CR Property, Plant and Equipment | | | | | (341) |
| **Total unadjusted audit differences** | **(1,550)** | **384** | **(1,934)** | **3,687** | **(2,137)** |
| Deficit on the provision of services for the year if above issues adjusted | 7,932 | | | | |

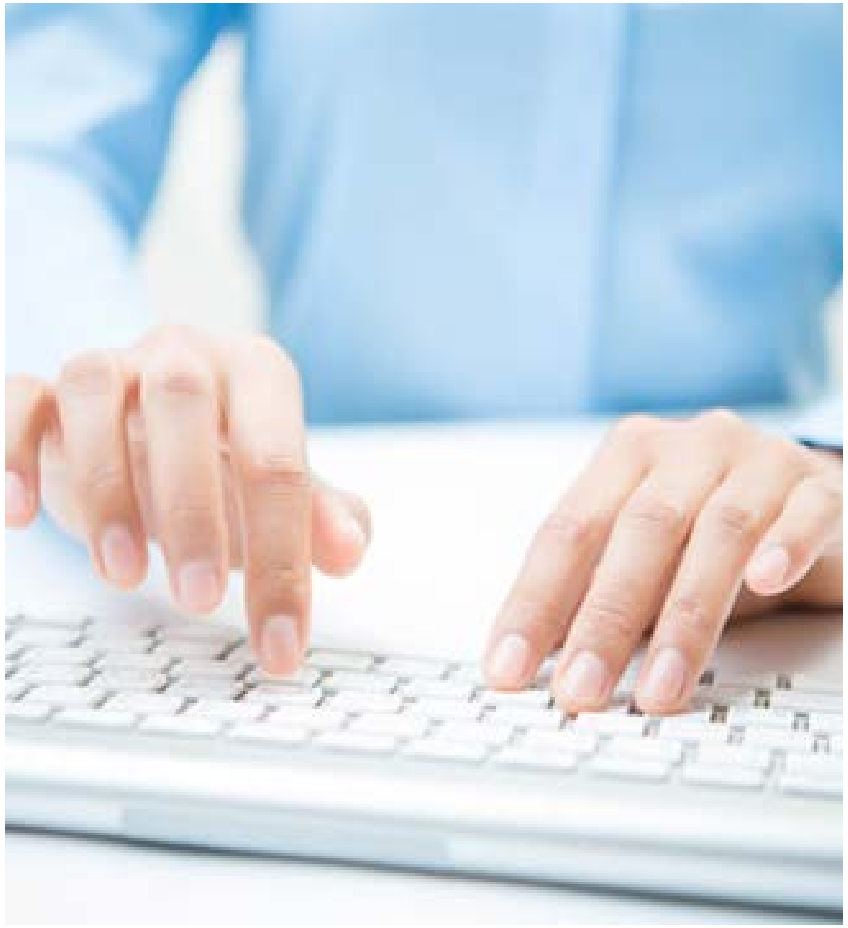
| Impact on the General Fund balance | General Fund balance £'000 |
|---|---|
| Balance before unadjusted audit differences | 38,681 |
| Impact on deficit on the provision of services above | 1,550 |
| Adjustments that would be reversed from the General Fund through the Movement in Reserves Statement | (1,472) |
| **Balance if above adjustments made** | **38,759** |

# ADJUSTED AUDIT DIFFERENCES: SUMMARY

## Summary for the current year

Contents





There were four audit differences identified by our audit work that were adjusted by management. Three of these adjustments were material.

This had no impact on the draft deficit on the provision of services, as all differences identified represented classification issues only. There is no impact on reserves or on the general fund, and therefore no impact on the overall financial position of the Council.

# ADJUSTED AUDIT DIFFERENCES: DETAIL

## Details for the current year

Contents



| | Income and expenditure | | | Balance Sheet | |
|---|---|---|---|---|---|
| Adjusted audit differences | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Deficit on the provision of services for the year before adjustments | 9,482 | | | | |
| **1: Correction of prior period adjustment - current year impact on PPE disposals** | | | | | |
| DR Other Land and Buildings - (Assets we have sold or disposed of) | | | | 9,454 | |
| CR Other Land and Buildings - (Depreciation - Amounts written out on assets we have disposed of) | | | | | (9,454) |
| **2: Reclassification of trading income and expenditure** | | | | | |
| DR Other Operating Income | | 3,535 | | | |
| DR Financing and Investing Expenditure | | 3,556 | | | |
| CR Financing and Investing Income | | | (3,535) | | |
| CR Other Operating Expenditure | | | (3,556) | | |
| **3: Misclassification of NNDR appeals provision between long term and short term based on actual settlement** | | | | | |
| DR Short term NNDR Appeals Provision | | | | 4,251 | |
| CR Long term NNDR Appeals Provision | | | | | (4,251) |

# ADJUSTED AUDIT DIFFERENCES: DETAIL 2

## Details for the current year

Contents



| | Income and expenditure | | | Balance Sheet | |
|---|---|---|---|---|---|
| Adjusted audit differences | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| **4: Misclassification of creditors between long term and short term based on actual settlement** | | | | | |
| DR Short term Creditors | | | | 4,316 | |
| CR Long Term Creditors | | | | | (4,316) |
| **Total Adjusted audit differences** | **-** | **7,091** | **7,091** | **18,021** | **18,021** |
| Adjusted deficit on the provision of services for the year | 9,482 | | | | |

# REPORTING ON OTHER INFORMATION

Contents



We comment below on other reporting required to be considered in arriving at the final content of our audit report:

| Matter | Comment |
|---|---|
| We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit. | Our work to check that the other information in the Narrative Report is consistent with the financial statements and our knowledge, is still in progress.<br><br>A number of comments and requests for supporting documentation have been provided to management and we will consider the responses provided. |
| We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council. | We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge. |

# WHOLE OF GOVERNMENT ACCOUNTS

Contents



The Council is required to prepare a Data Collection Tool (DCT) return for use by the Department for Levelling Up, Housing and Communities (DLUHC) for the consolidation of local government accounts, and by HM Treasury at Whole of Government Accounts level.

Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over a prescribed threshold in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure.

The OSCAR II system for submission of the 2020/21 WGA DCT is not yet available and HM Treasury has not yet confirmed the thresholds or timetable for audit review. The Group Audit Instructions, which include the required programme of work for auditors, have therefore not yet been issued.

In the prior year, the threshold was £500 million and the Council fell below the threshold for review.

We will update the Audit and Risk Committee on this issue when further information is available.

# USE OF RESOURCES OVERVIEW

Contents



## New Code of Audit Practice ("Code")

The Comptroller & Auditor General has determined through a new Code and guidance that the key output from local audit work in respect of value for money (VFM) arrangements is a commentary as reported in the Auditor's Annual Report, not a VFM arrangements 'conclusion' or 'opinion'. There may be matters referred to in the auditor's commentary that do not represent significant weaknesses in arrangements and where significant weaknesses are reported we are required to also report recommendations.

As auditors we need to gather sufficient evidence and document our evaluation of arrangements to enable us to draft our commentary under three reporting criteria. These criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** ('Improving 3Es') - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

## Risk of Significant Weakness

As identified in our Audit Planning Report we assessed the following matters as being the most significant risks regarding use of resources.

We have no exceptions to report at this stage in respect of the Council's value for money arrangements.

| Audit Risk | Criterion | Risk Rating | Findings |
|---|---|---|---|
| Financial sustainability | Financial sustainability | Significant | Work is in progress, no identified significant weaknesses to date. |

# OTHER DEFICIENCIES

Contents





We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit and Risk Committee.

No significant deficiencies were identified; however, other recommendations are included below.

As the purpose of the audit is for us to express an opinion on the Council's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

| Area | Observation & implication | Recommendation | Management response |
|---|---|---|---|
| Other deficiency | There is no requirement for journals to be authorised by a different member of staff before they are posted.<br><br>Without review, the risk that journals may be posted fraudulently or erroneously is increased. It is expected, however, that any mis- posted journals would be identified through the monthly revenue monitoring, as budget holders would identify any large variances against budgets and performance against budget is also reported to members during the year. | Management should ensure a policy for authorisation of journal entries is in place and being followed. | External auditors informally ask this procedure to be put in place at every audit. Management's view is that the Council has a relatively small finance department, and this duplication is unaffordable as it would require authoriser to double check the workings behind any journal. It is not simply signing it off. The Council would require additional staff to meet this requirement. More importantly the current and previous Section 151 officers have considered the risk to lower than that identified by the external auditor. |
| Other deficiency | There are members of finance who have privileged user access in the ledger.<br><br>Individuals who post financial journals should not also have elevated access in the system to create, amend or delete user accounts. This level of access makes manipulation of the financial information easier and increases the risk of fraudulent postings. | Review roles and access levels of individuals who have access to the general ledger. The system administrator should not be a member of finance. | The risks identified are viewed by management to be low. The relatively small finance department also means it is not possible to separate the functions in the way the auditor suggests. |

# OTHER DEFICIENCIES

| Area | Observation & implication | Recommendation | Management response |
|---|---|---|---|
| Other deficiency | We were unable to obtain evidence of historical data regarding collection rates of debt to support the judgements made in the bad debt provision against general debtors.<br><br>Without this, the figure is primarily based on managements own judgement and this makes it more difficult to evidence that the estimate is reasonable. | Maintain and use prior-period debt collection data to aid in calculating the provision to be made against each class of debtor. | Management during the audit advised BDO that the transfer to a new financial system would change the way in which bad debts could be assessed. The new system allows the recording of improved historic losses data and thereby will enable improved calculation of Bad debt provisions in future. The new finance-system, however, could not be loaded with historic debtor data from the previous system. This was because the old system did not record robust historic data on debt age in an accessible form for Management to use. |
| Other deficiency | During our review, it was noted that user access reviews had either not been performed or had not been evidenced; for iTrent, Omniledger & Civica IT applications.<br><br>There is a risk that user accounts may not be disabled/removed in a timely manner.<br><br>This increases the risk that unauthorised access via this open account may occur which may result in incorrect and unapproved changes to key data. | Periodic reviews of user access should be performed and evidence retained. | The Council operates a process for both starters and leavers, that is triggered when HR are informed to cease paying a staff member's salary. Officers believe that process to be robust but will look into if improvements can made. |
| Other deficiency | A number of assets are in use and present on the fixed asset register despite being fully depreciated. If assets are still in use at the end of their useful life, it is indicative that the depreciation policy in place is not appropriate.<br><br>Based on our analysis, we do not consider there to be a material impact on annual depreciation, but estimate the impact to be between £55,000 and £288,000 annually; assuming the actual disposal dates are between 1 and 5 years from the year end. | Useful lives should be reviewed and revised if an asset is expected to still be in use at the end of its estimated life. | Officers have taken the view that when a service in the last year of an asset's life decides it will keep the item beyond its expected life then a pragmatic approach should be taken. If the figure is not material, then to enable timely and cost-effective closure the asset will be fully depreciated and no adjustment will be made to the asset life to lengthen it. As the difference is not material this means the treatment is acceptable within our accounting policies. It should be noted that depreciation has no impact on the local taxpayer, as all entries are required to be removed before calculating Council tax. |

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# AUDIT REPORT OVERVIEW

Contents





## Opinion on financial statements

Subject to satisfactory conclusion of the outstanding matters, we anticipate issuing an unmodified opinion on the financial statements.

There are no matters that we wish to draw attention to by way of 'emphasis of matter'.

## Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Council's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

## Irregularities, including fraud

Our report will contain an explain to what extent the audit was considered capable of detecting irregularities, including fraud. Irregularities in this context means non-compliance with laws or regulations.

## Other information

We have not identified any material misstatements that would need to be referred to in our report.

Our work is still in progress.

## Annual Governance Statement

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information that we are aware of.

## Use of resources

We have no matters to report at this stage in relation to the Council's value for money arrangements.

We have not yet completed our work on the Council's value for money arrangements. We will report a commentary on value for money arrangements in our Auditor's Annual Report and include exception reporting in respect of any identified significant weaknesses in our audit certificate.

# INDEPENDENCE

Contents



**Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence.**

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2021.

Details of services, other than audit, provided by us to the Council during the period and up to the date of this report are set out on the following page and were provided in our Audit Planning Report. We understand that the provision of these services was approved by the Audit and Risk Committee in advance in accordance with the Council's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Planning Report.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Council.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

# FEES

Contents





| Fees summary | 2020/21 Planned £ | 2019/20 Actual £ |
|---|---|---|
| Audit fee | | |
| • Code audit fee: financial statements | £46,985 | £46,985 |
| • Additional audit fee: Use of Resources | [1]£4,699 | - |
| • Additional audit fee: ledger migration | [2]£12,000 | - |
| Non-audit assurance services | **£62,684** | **£46,985** |
| • Housing benefits subsidy claim | [3]TBC | £19,200 |
| **Total fees** | **TBC** | **£66,185** |

**[1]Use of resources fee variance**

The audit fee is based on audit scope under the Code of Audit Practice. A new Code is effective for periods commencing 1 April 2020, which significantly increases the work of auditors for reporting on a body's use of resources. We will agree a fee variation in respect of this once additional procedures have been fully completed. Initial estimates forecast the additional fee to be 10% of the audit fee.

**[2]Ledger Migration**

Additional work has been performed in respect of the ledger migration that took place in the financial year. Internal IT experts have been engaged to assist in the performance of this work.

**[3]Housing Benefit Fee**

The Housing benefit fee is based on the level of testing required. The final fee will be confirmed following completion of our work.

# APPENDICES CONTENTS

# RESTORING TRUST IN AUDIT AND CORPORATE GOVERNANCE

## BEIS consultation issued March 2021

Contents

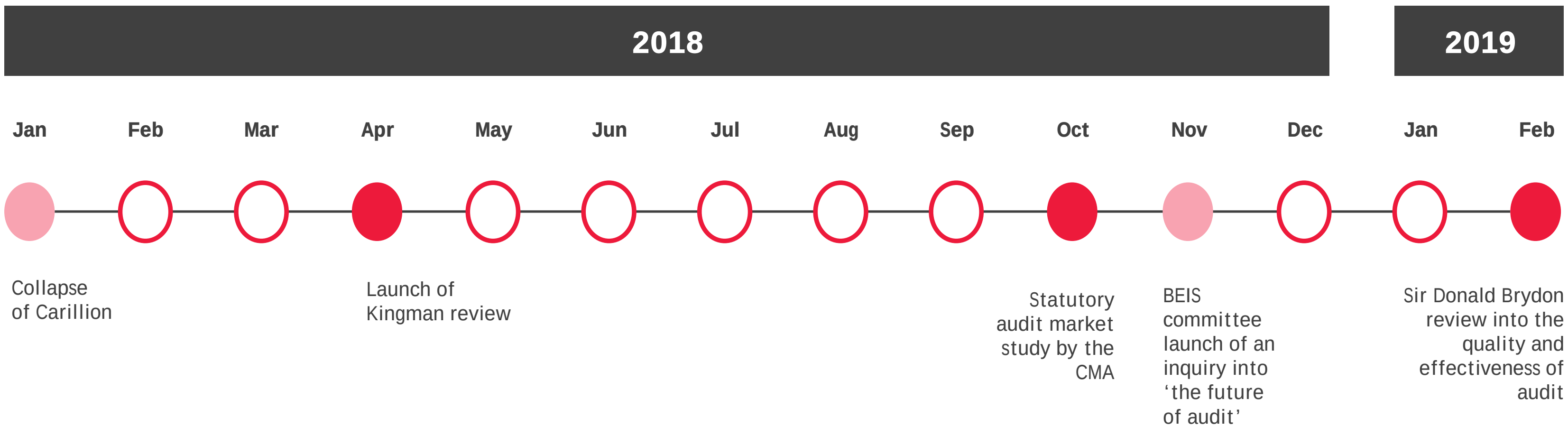


The collapse of Carillion at the beginning of 2018 precipitated a root and branch review of how the audit market works with three main components, all reporting to the Secretary of State for Business Energy and Industrial Strategy. The latest BEIS consultation as published in March 21 outlines proposals to increase choice and quality in the audit market, establish clearer responsibilities for the detection and prevention of fraud, and ensure the audit product and audit profession are fit for the future. The consultation aims to present measures that balance the need for meaningful reform with proportionate impacts on business, both now and for the future. The next pages aim to summarise the key areas of the consultation but for more information please refer to the consultation directly.

Although the consultation only closed in July 2021, changes have already begun: There are already a number of changes being made by the market participants themselves such as increased operational separation of audit from consulting and voluntary restriction of non-audit services. At BDO we support the aims of operational separation of audit practices. Without being complacent we do not have a large consulting practice like some of our rivals and we have always run our audit business to be independently and sustainably profitable, therefore the main causes of concern that this seeks to address namely cultural contamination and cross subsidisation are less relevant for us. We do however recognise that the profession needs to restore the confidence of users and operational separation or ring fencing is an important step on that journey. We have drawn up plans for how we would implement this and are currently consulting with stakeholders. Whilst full compliance is not required until 2024 we are likely to implement a number of aspects particularly around governance and financial transparency by July 2021.

Whilst there is some uncertainty regarding the timeline post the close of the consultation it is our understanding that the implementation of the Audit, Reporting and Governance Authority (ARGA) is likely to be in 2023.

### HISTORIC CONSULTATIONS TIMELINE



# BEIS CONSULTATION AT A GLANCE

Issued March 21

Contents



| Key Area of the BEIS consultation | Summary |
|---|---|
| 1. Resetting the scope of regulation by expanding the definition of Public Interest Entities to include large private companies and "large" AIM quoted companies. | The government proposes two possible tests to extend the scope of PIES:<br>To adopt the test used to identify companies already required to include a corporate Annual Governance Statement in their directors' report, or adopt a narrower test which incorporates the threshold for additional non-financial reporting requirements for existing PIEs. This would cover companies with both: Over 500 employees and a turnover of more than £500 million as their consolidated position.<br>The Government is also proposing that any new definition of PIE should also include companies on the exchange-regulated AIM market with market capitalisations above €200m. |
| 2. Increasing the accountability of directors | The consultation sets out a couple of options relating to directors accountability for internal controls and then indicates a tentative preferred option which would require a directors' statement about the effectiveness of the internal controls. Unlike the US's approach to internal controls which mandates external auditor attestation in most cases this option would leave the decision on whether the statement should be assured by an external auditor to the directors, audit committee and shareholders.<br>This section of the consultation also includes proposals to require companies to report on their distributable reserves and for directors to be required to make a formal statement about the legality and affordability of proposed dividends. |
| 3. New corporate reporting requirements | Introducing a requirement for PIEs to produce an annual Resilience Statement. This new statement consolidates and builds upon the existing going concern and viability statements and would apply initially to Premium Listed companies.<br>Introducing an Audit and Assurance Policy where directors have to describe their approach to seeking assurance. For publicly quoted entities, this would be subject to an advisory shareholder vote at the time of its publication, |
| 4. Strengthening the supervision of corporate reporting | Giving the Audit, Reporting and Governance Authority (ARGA) (which replaces the Financial Reporting Council) more power to direct changes to company reports and accounts.<br>Creating increased transparency for the Corporate Reporting Review (CRR) process and an extension of the CRR process to the whole of the annual report and accounts.<br>The Government proposes to broaden the regulator's review powers so that it can scrutinise the entire contents of a company's Annual Report and Accounts. |

# BEIS CONSULTATION AT A GLANCE 2

| Key Area of the BEIS consultation | Summary |
|---|---|
| 5. Provisions concerning company directors | Giving the regulator investigation and enforcement powers in relation to wrongdoing by all directors of Public Interest Entities. Due to the principles of collective responsibility and a unitary board, all directors of Public Interest Entities would be in scope.<br><br>Strengthening malus and clawback provisions within executive director remuneration. |
| 6. Changes to audit purpose and scope | The Government will seek to introduce a regulatory framework to cover both audits of financial statements (statutory audit) and other types of information which companies decide to have audited through the Audit and Assurance Policy process. It also proposes to legislate to require directors of Public Interest Entities to report on the steps they have taken to prevent and detect material fraud. |
| 7. Changes to audit committee oversight and engagement with shareholders | ARGA to establish a standards and supervision regime. ARGA will write the standards by which Audit Committees will need to operate and they will monitor compliance against these standards. Initially this will only apply to FTSE 350 Audit Committees.<br><br>Additional requirements for audit committees in the appointment and oversight of auditors, which is intended to ensure the committee acts effectively as an independent body responsible for safeguarding the interests of shareholders.<br><br>Increased engagement between a company and its shareholders. The Government agrees with Brydon's recommendation that the audit committee's annual report should set out which shareholder suggestions put forward for consideration had been accepted or rejected by the auditor. |
| 8. Improved competition, choice and resilience in the audit market | The implementation of a managed shared audit regime for companies audited by the Big Four.<br><br>The operational separation of certain accountancy firms.<br><br>Statutory powers for the regulator to monitor the resilience of the audit market. |
| 9. Greater supervision of audit quality | Making the regulator responsible for approving the auditors of PIEs and improving the transparency of Audit Quality Review reports by allowing AQR reports on individual audits to be published without consent. |
| 10. A new and strengthened regulator; the Audit, Reporting and Governance Authority | The regulator will be given the power to make rules requiring market participants to pay a levy to meet the regulator's costs of carrying out its regulatory functions. |
| 11. Additional changes to the regulator's responsibilities | The regulator will have the power to require an expert review where it has identified significant concern regarding a PIEs corporate reporting and auditing. |

# FRC ETHICAL STANDARD

## Issued in December 2019

Contents



In December 2019 the FRC published the Revised Ethical Standard 2019 ('ES'), which is applicable from 15 March 2020. There are some transitionary provisions for services and arrangements that are not currently prohibited under the existing Standard. The ES aims to further strengthen auditor independence and enhance confidence in the profession. The table below provides a high level summary of the key headlines.

| Key headlines | Impact |
|---|---|
| **The objective, reasonable & informed third party test** | Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to 'work around' the rules, or result in an outcome that is inconsistent with the general principles. |
| **Extra-territorial impact** | For group audits where the audited entity has overseas operations, the ES will require all BDO Member firms to be independent of the UK audited entity and its UK and overseas affiliates in accordance with the UK Ethical Standard, irrespective of if their audit work is relied upon. |
| **Contingent fees** | Non-audit services with contingent or success-based fee arrangements will be prohibited for audited entities. |
| **Secondments** | All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities. |
| **Recruitment and remuneration services** | Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity. |
| **Non-audit services to a public interest entity (PIE)** | Moving to a "white-list" of permitted non-audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap. |
| **Other entities of public interest ('OEPI')** | OEPI is a new term in the Ethical Standard. The FRC have imposed the 'white-list' applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an *SME listed entity* - generally those with a market cap of more than €200m; Lloyd's syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which:<br>– Have more than 2000 employees; and / or<br>– Have a turnover of more than £200 million and a balance sheet total of more than £2 billion.<br>The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020. |

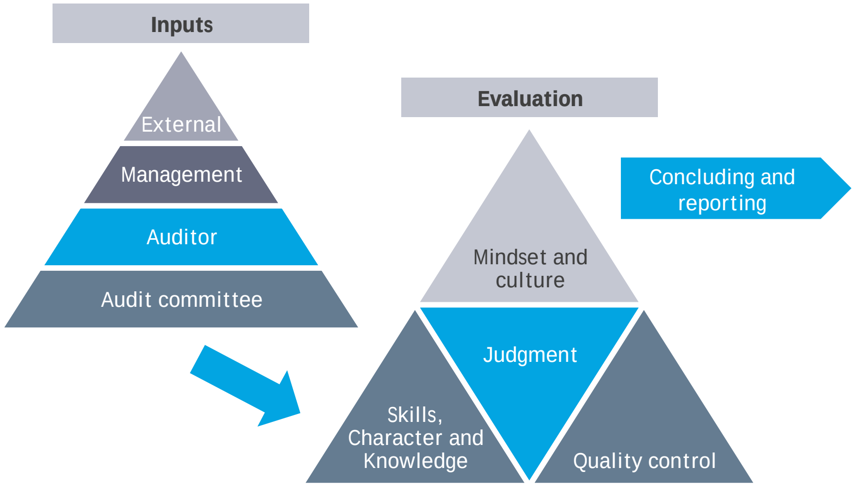
# FRC PRACTICE AID FOR AUDIT COMMITTEES

The Financial Reporting Council (FRC) issued an updated practice aid for audit committees in December 2019 and a full copy can be found on the FRC website. In their practice aid the FRC note: 'The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company's internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and trustworthy basis for taking decisions.'

The practice aid then discusses how the role of audit committees in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non audit services work, ensuring their independence and challenging them over the quality of their work falls to the audit committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for Audit Committees in the following areas:

- Audit tenders and the tender process including audit fee negotiations and auditor independence
- A model for use by audit committees in making an overall assessment of an external auditor including inputs, evaluations and concluding




- Transparency - reporting to the Board on how the audit committee has discharged these responsibilities
- Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and the new Executive Director of Supervision, David Rule, sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the FRC website

# OUR RESPONSIBILITIES

## Responsibilities and reporting

Contents



### Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to officers of the Council.

We read and consider the 'other information' contained in the Statement of Accounts such as the Narrative Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report by exception any significant weaknesses identified by our work on the Council's value for money arrangements and a summary of associated recommendations made.

### What we don't report

Our audit is not designed to identify all matters that may be relevant to the Audit and Risk Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

# ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT



| | Issue | Comments |
|---|---|---|
| 1 | Significant difficulties encountered during the audit. | No exceptions to note. |
| 2 | Written representations which we seek. | We enclose a copy of our draft representation letter. |
| 3 | Any fraud or suspected fraud issues. | No exceptions to note. |
| 4 | Any suspected non-compliance with laws or regulations. | No exceptions to note. |
| 5 | Significant matters in connection with related parties. | No exceptions to note. |

# COMMUNICATION WITH YOU

## Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance (TCWG) are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Risk Committee.

## Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

| Communication | Date (to be) communicated | To whom |
|---|---:|---:|
| Audit Planning Report | December 2021 | Audit and Risk Committee |
| Audit Completion Report | April 2022 | Audit and Risk Committee |
| Auditor's Annual Report | 3 months following issue of audit opinion | Audit and Risk Committee |

# OUTSTANDING MATTERS

Contents



We are in the process of completing our audit work in respect of the financial statements for the year ended 31 March 2021.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Audit and Risk Committee meeting at which this report is considered:

- Finalisation of comments made on accounts disclosures and review of Narrative report supporting documentation
- Completion of Market Value valuation testing and consultation with internal property valuation experts on this testing
- Agreement of managements 100% review of creditor LT/ST classification
- Manager and Engagement Lead review of NDR Provision testing and Journals testing
- Final engagement lead review processes
- Receipt and evaluation of pension fund assurance from pension fund auditor
- Evaluation of managements going concern assessment
- Final checks of amended financial statements
- Subsequent events testing

Client name
Address
Address
Address

BDO LLP
55 Baker Street
London
WIU 7EU

Dear Sirs

**Financial statements of Chelmsford City Council for the year ended 31 March 2021**

We confirm that the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2021 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Chief Finance Officer has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2021 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Council have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

**Going concern**

We have made an assessment of the Council's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Council's ability to continue as a going concern.

**Laws and regulations**

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

**Post balance sheet events**

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

**Fraud and error**

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

**Misstatements**

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

**Related party transactions**

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note 31 to the financial statements, there were no loans, transactions or arrangements between the Council and Council members or their connected persons at any time in the year which were required to be disclosed.

The disclosures in the financial statements concerning the controlling party of the Council are accurate.

**Carrying value and classification of assets and liabilities**

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

**Accounting estimates**

a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- RPI increase 3.2%
- CPI increase 2.8%
- Salary increase 3.8%
- Pension increase 2.8%
- Discount rate 2.0%
- Mortality: Current pensioners - male 21.6 years and female 23.4 years / future pensioners - male 22.9 years and female 24.7 years
- Commutation: pre-April 2008 - 50% / post-April 2008 - 50%

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 19.

b) Valuation of land and buildings and investment property

We are satisfied that the useful economic lives of land and buildings, and their constituent components, used in the valuation of land and buildings, and the calculation of the depreciation charge for the year, are reasonable. We confirm that the valuations applied to land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

c) Allowance for non-collection of receivables

We are satisfied that the impairment allowances for non-domestic rates, housing rent and sundry debt arrears are reasonable, based on collection rate data.

d) Non domestic rates appeals provision

We are satisfied that the provision recognised for non-domestic rates appeals is materially correct, and the calculation of historical appeals are consistent with those advised by the Valuation Office Agency. We confirm that the successful rates applied to outstanding appeals as at 31 March 2021 are consistent with our knowledge of the business.

**Litigation and claims**

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

**Confirmation**

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Phil Reeves

Accountancy Services Manager (Section 151 Officer)

[date]

Councillor Nora Walsh

Chair of the Audit and Risk Committee

[date]

# AUDIT QUALITY

Contents



**BDO is totally committed to audit quality**

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the audited body and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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# CHELMSFORD CITY COUNCIL

# DRAFT STATEMENT OF ACCOUNTS

# 2020/21

# 2-INTRODUCTION TO THE ACCOUNTS

**This section gives an overview of our achievements, our direction and ambitions.**

## Introduction by the Leader of the Council

We have all been through an extraordinary and terrible 15 months. So many of our residents and businesses have been affected economically, emotionally, mentally and physically by Covid-19. These Accounts, for the year up to 31st March 2021, reflect the impacts of the pandemic on Chelmsford City Council's finances, which led to the largest ever drop in income to the Council in the year past.

This impacted on the budget for this year (2021/22), when we had a budget shortfall of £7.5 million to cover. For the next year (2022/23) we project there is a £1.7 million budget gap due to lost income and increased costs resulting from these impacts, which will have to be closed in the medium term and we are exploring actions to achieve this.

### Services were maintained and new ones created

These Accounts show the financial support provided to the local community by Chelmsford City Council up till the end of March 2021. This totals £96.1 million and included:

- £17.4 million in Small Business Grants
- £13.9 million in Retail, Leisure and Hospitality Grants
- £1.6 million in Discretionary Business Grants
- £9.4 million in Local Restrictions Grants (Closed)
- £0.8 million in Local Restrictions Grants (Open)
- £6.1 million in One-off Lockdown Grants
- £4.5 million in Additional Restrictions Grants
- £0.1 million in Christmas Support Payments for Pubs
- Processing of £41.1 million of Business Rate Relief to retail, leisure and hospitality businesses during the year, meaning they didn't have to pay any business rates in 2020/21

In addition to this support, we kept every single essential service running during the pandemic by swiftly adapting to Covid-19 safety measures. Many of our staff worked round the clock to look after our community, bringing food and medication to vulnerable people, helping those threatened with homelessness, providing accommodation and offering long-term help to every person sleeping rough, arranging testing centres, and getting vital information out to every household in Chelmsford. Our customer service centre was the only one in Essex to remain open throughout 2020.

### Delivering a greener, safer, fairer and better-connected Chelmsford

Despite these additional challenges, we also managed to make great strides towards meeting our four strategic priorities: as promised in "Our Chelmsford, Our Plan", that is to create a greener, safer, fairer and better-connected Chelmsford than existed at the start of 2020/21.

**Greener Chelmsford**: 15,563 trees were planted in one year across the area as part of our pledge to reach net-zero carbon by 2030.

**Fairer Chelmsford:** More homes are being provided, including the planned development at Chelmer Waterside with a high proportion of genuinely affordable housing, thirteen temporary accommodation units for homeless families already purchased and another seven which are in the process of being purchased.

**Safer Chelmsford:** Facilities like Hylands Disabled Access toilets and South Woodham Ferrers Leisure Centre's changing rooms have been upgraded to make them accessible for all. A series of workshops around knife crime and gangs has been carried out with local schools, and taxi drivers have been trained in spotting and reporting child exploitation.

**Better-connected Chelmsford:** Progress has been made on the new railway station at Beaulieu. A live-streamed VE Day commemoration was viewed by thousands, bringing the city together during the first lockdown.

**Our priorities for 2021/22**

Firstly, we will be at the forefront of helping Chelmsford to recover from the pandemic. We are continuing our support for local businesses, to help local people to find jobs and to provide opportunities for SMEs to promote themselves as the economy unlocks.

Secondly, we will continue to uphold our promise to respond to the Climate and Ecological Emergency as just that – an emergency. Reducing our carbon footprint, caring for our environment and strongly encouraging others to do the same is at the heart of everything that we do.

Thirdly, we will do more to address the housing crisis. Property and rental prices in this area are still rising sharply as more people move to areas rich in countryside like Chelmsford. They are out of reach for many, at the same time as the national eviction ban comes to an end. We will fight for our residents' right to a safe, enjoyable place to live by providing more affordable housing to meet demand, helping those who contact us with fears of homelessness, and making sure that developments built in Chelmsford are to a high standard that will give people sustainable, beautiful homes for generations to come.

It has been a difficult financial year and our national economy has not yet reached stability. I am proud of the way that our residents, Members and staff have adapted in extremely challenging circumstances. Although there is a gap, it is smaller than it would have been had our finances not been carefully managed and adapted throughout the past year, and it is this that has enabled our vital services to continue supporting everyone in the city throughout the pandemic.

Councillor Stephen Robinson, Leader of the Council

**Views from the Chief Executive**

The accounts present the financial position of the Council as well as the difficulties faced and the successes achieved during 2020/21.

Our Covid-19 response kicked into action as soon as the pandemic, and lockdown, were declared.

Leaflets were sent out to every household in Chelmsford with important information about how residents could get help, from food deliveries for those who were shielding to mental health support for anyone who needed it.

I am extremely proud of how our staff have responded throughout the pandemic. Some had to adjust quickly to homeworking and our investment in technology made this transition relatively seamless, while many others continued their jobs on the frontline to keep the city running smoothly. Essential services like waste and recycling collections continued with no loss of provision to the public at any point

Our leisure centres, museums, wedding venue and theatres were particularly hard-hit. Like many public and private sector venues, they endured round after round of lockdown changes, delays and cancellations. These are an important income source for the Council, which only receives a very small proportion of its funding from Government grants, and the disruption – while necessary to keep people safe – had a serious impact on the funds available for other services.

Similarly, the Council’s car parks – another important source of funding for vital services like homelessness relief and street cleaning – were partly or fully empty for much of the year as shops, workplaces and restaurants were closed.

Financially, we will continue to face some of these challenges for years yet to come. Although the economy is beginning to unlock, income for Chelmsford City Council is projected to remain lower than pre-Covid levels for some time. However, we are confident that vital services will be maintained with the right adjustments to our financial planning. We know how important local public services are to our residents and will do our utmost to continue providing the high-quality, cost-effective provision that you are used to from us, while also providing what is needed for the local economy to recover, for the climate and ecological crisis to be averted and for local housing and jobs to meet demand.

We will be dealing with the consequences of Covid-19 for some time, as will many local people. We are here to support the local community and we will get through this difficult period together.

Nick Eveleigh, Chief Executive

To make these accounts easier to understand, you can find in a more simplified format a summary of our income and expenditure for the year and a summarised Balance sheet in the Narrative report in section 4. We have included our full Comprehensive income and expenditure statement and Balance sheet in section 6 in the format set out by the Code of Practice on Local Authority Accounting in the United Kingdom.

The accounts and annual report have been written avoiding technical terms wherever possible. If we have to use technical terms, we have explained them in the glossary.

For more on the statement of accounts, please write to:

The Accountancy Services Manager
Civic Centre
Duke Street
Chelmsford
Essex
CM1 1JE

**We have detailed below which council provides which services.**

| Chelmsford City Council | Essex County Council |
|---|---|
| Abandoned cars | Adoptions |
| Air quality | Care for the elderly |
| Allotments | Child care |
| Business rates | Civic amenity sites |
| Building control | County Records Office |
| CCTV | Cycle paths |
| Cemetery and crematorium – including municipal funerals | Disabled parking (Blue Badges) |
| Council tax – including benefits | Drains – highway drains |
| Dangerous structures | Educational services |
| Dog litter | Footpaths |
| Domestic waste | Gritting |
| Drains – private sewers | Highways |
| Dropped kerbs | Incineration |
| Elections | Lamp posts |
| Environmental Services/Health | Libraries – including mobile |
| Graffiti | Park & Ride |
| Grass cutting | Pavements |
| Homelessness | Road signs – for traffic direction |
| Housing | Roads |
| Land charges | Social Services |
| Leisure centres/sports centres | Street lighting |
| Licensing (all forms of) | Trading standards |
| Litter | Traffic management |
| Museums Service | Travellers |
| Parking – car parks and residential permits | Waste disposal and management |
| Parks – including playing fields | |
| Planning | |
| Public toilets | |
| Refuse collection and recycling | |
| Road signs – street nameplates | |
| Street cleaning and sweeping | |
| Theatres | |
| Town centre management | |
| Tree preservation orders | |
| Voting | |

# 3 – ENVIRONMENTAL ISSUES

**This section gives an overview of our effect on the environment.**

On 16 July 2019 the Council declared a Climate and Ecological Emergency reflecting growing concerns about the impact of climate change on the local environment, natural resources and the conditions in which people live and work. The Climate and Ecological Emergency Declaration set out ambitions to reduce carbon and greenhouse gas emissions and develop plans to create a more sustainable future for the area. The Declaration also embraced a commitment to take appropriate action to make the Council's activities net-zero carbon by 2030.

The Declaration is accompanied by a Climate and Ecological Emergency Action Plan which was approved at Cabinet on 28 January 2020. The priorities for the initial plan were:

i. Establishing a 'carbon baseline' position

ii. Updating planning guidance on how on-site renewable energy measures can be integrated into new developments and for all new dwellings to incorporate sustainable design features to reduce $CO_2$ and $NO_2$ emissions and the use of natural resources [including putting in place a low carbon infrastructure in strategic growth areas]

iii. Working with Essex County Council to improve movement around the City, including improvements to the cycling and walking infrastructure, to reduce traffic congestion and journey times and encourage more sustainable travel choices

iv. Implementing further measures to reduce the amount of waste generated and ensure that as much as possible of any waste that is generated is reused, recycled or composted

v. Implementing measures to lower energy consumption, ensure the most efficient use of water resources, reduce pollution and improve air quality

vi. Undertaking a greening programme to significantly increase the amount of woodland and the proportion of tree cover in Chelmsford

vii. Implementing measures to improve the 'green infrastructure' of Chelmsford, protecting and expanding natural habitats and increasing biodiversity

viii. Improving the environmental quality, attractiveness and recreational potential of public spaces, rivers and waterways and associated green corridors in the City Centre and surrounding areas

ix. Upgrading the Council's vehicle fleet to embrace the latest low emission technology, including ultra-low emission electric powered vehicles as they become operationally and commercially viable

x. Supporting the Environment Agency to implement the Margaretting flood alleviation scheme and other flood mitigation measures to reduce the risk of flooding to residential and commercial properties in the City

xi. Establishing a 'green investment fund' to support the Council's environment plan

xii. Reviewing the Council's investment strategy in light of the Climate and Ecological Emergency Declaration

xiii. Reviewing the Council's procurement policies and practices in light of the Climate and Ecological Emergency Declaration

xiv. Creating opportunities for people, local organisations and businesses to get involved, to influence and to inspire innovation and cooperation in response to the key challenges identified in the Climate and Ecological Emergency

xv. Reviewing the Council's human resources and employment policies and practices in light of the Climate and Ecological Emergency Declaration

An update on the progress that has been made in implementing the initial action plan was considered by the Overview and Scrutiny Committee on 1 February 2021.
This report highlighted that 2020, unsurprisingly, was a very challenging year due to the impact of the coronavirus pandemic. Many of the Council's activities and operations were disrupted, planned engagement with communities thwarted and the Council's finances severely undermined. Recovery is expected to be slow.

However, some positive progression was made; most notably the mass tree planting programme which continued apace despite community involvement being more limited than planned; planning policies including the Local Plan and supplementary planning guidance being agreed that establish a framework for more sustainable growth and development in the future and the Council's procurement policies and practices have been refreshed to reflect the ambitions set out in the Declaration.

The baseline carbon emissions from the Council's activities and operations during the financial year 2019/20 were calculated as being 5,370 tonnes $CO_2e$. This will be used as a reference point to monitor progress towards achieving a net-zero carbon position.

During 2020 the 'Love Your Chelmsford' programme was revitalised as point of reference for 'all things green' and community engagement supported and facilitated by a new, easily accessible, dedicated website. This programme provides inspiration, advice and 'green living' options to encourage people to choose to live and work in a more environmentally responsible and sustainable way; for people to take personal responsibility for their actions and activities.

# 4 – NARRATIVE REPORT

**This section gives an overview of our achievements and direction. It highlights the most important matters reported in the accounts, and comments on any issues that have had a major effect on our finances.**

## Background

Chelmsford City Council is situated in the heart of Essex, covering an area of 344 square kilometres, and is one of the fastest-growing centres in the East of England. It is the sporting venue for the Essex County Cricket Team, Chelmsford City Football Club and the Chelmsford City Race Course.

Chelmsford has a population of around 179,500 and is the focus for business, retail, leisure and culture in Essex. It will continue to be a major centre of development, with significant housing developments under way within the City Centre as well as north of Chelmsford.

During 2020/21, the economy in Chelmsford remained strong with 88,000 jobs and 9,485 businesses in the heart of the City. However, Covid-19 has adversely affected the unemployment rate and as of June 2021 the unemployment rate is 4.2%. Chelmsford has particular strengths in the financial and business services sectors, research and development, and advanced manufacturing.

The Council's corporate plan sets out the following four key priorities for Chelmsford and its residents:

**OUR CHELMSFORD OUR PLAN**

- **A fairer and inclusive Chelmsford: promoting sustainable and environmentally responsible growth to stimulate a vibrant, balanced economy, a fairer society and providing more housing of all types.**
- **Connected Chelmsford: bringing people together, empowering local people and working in partnership to build community capacity, stronger communities and to secure investment in the city.**
- **A safer and greener place: making Chelmsford more attractive, promoting Chelmsford's green credentials, ensuring communities are safe and creating a distinctive sense of place.**
- **Healthy, active and enjoyable lives: encouraging people to live well, promoting health and activity and reducing social isolation, making Chelmsford a happier place to live, work and play.**

We engage with other Local Authorities on various joint working arrangements, and work with a wide range of other organisations and agencies to help us achieve these priorities.

## Guide to the Statement of Accounts

Our annual statement of accounts summarises our financial affairs for 2020/21 and shows our financial position on 31 March 2021. It includes the following:

- **Statement of responsibilities for the Statement of accounts –** Who is responsible for individual aspects of the accounts.

- **Main financial statements:**

    - **Comprehensive income and expenditure statement –** This shows the cost of providing services in line with accounting practices, rather than the costs to be met by local taxation. We raise taxation to meet costs as defined by law. This is different to the cost of providing services in line with accounting practices. The taxation position is shown in the Movement in reserves statement.

    - **Movement in reserves statement –** This shows the movement on our reserves in the year. These are analysed into usable reserves, which can be applied to fund expenditure or to reduce local taxation, and other reserves. In the statement, the Total comprehensive income and expenditure line shows the true economic cost of providing the services. This is shown in more detail in the Comprehensive income and expenditure statement. These are different from the amounts we must charge to the General fund by law for setting the Council tax. In the statement, the line that gives the net increase or decrease shows the statutory General fund balance movement.

    - **Balance sheet -** This shows the value of our assets and liabilities at the Balance sheet date. Our net assets are matched by our reserves. The reserves are reported in two categories, usable and unusable. Usable reserves are those we can use subject to keeping a prudent level of reserves and any statutory limitations on their use (for example, we can only use the capital receipts reserve to fund capital expenditure or repay debt). Unusable reserves cannot be used to provide services. This type of reserve includes reserves that contain unrealised gains and losses (for example, the revaluation reserve) where the amount only becomes available for use when the asset is sold, and reserves that hold timing differences, for example in the amount owed for leave that has not been taken. These are shown in the Movement in reserves statement line 'Adjustments to move from the Comprehensive income and expenditure account to the costs met by local taxpayers'.

    - **Cash-flow statement -** This shows the changes in our cash and cash equivalents during the year. It shows how we received and used those amounts by classifying cash flows as operating, investing or financing activities. The cash flows in operating activities are a key indicator of how much is met by taxation, grants or from service users. Investing activities show how we have used cash outflows to buy resources intended to deliver future services. Cash flows arising from financing activities are useful in predicting claims on future cash flows.

- **Notes to the main financial statements -** These explain our accounting policies and some of the figures in the main financial statements.

The notes include the **'Expenditure and funding analysis'** which demonstrates how the funding available to the authority for the year has been used in providing services in comparison with the resources used or earned in accordance with generally accepted accounting practices. This supporting statement reconciles the net expenditure as presented in the Comprehensive income and expenditure statement to the net expenditure chargeable to the General fund as presented in our outturn reports.

- **Collection fund -** A statement meeting the statutory obligation for us to keep a separate Collection fund. The statement shows all transactions in relation to the collection of money from taxpayers and the distribution of money to other local authorities and the Government of Council tax and Non-domestic rates.

- **Independent auditors' report -** A report that says whether our Statement of accounts presents a true and fair view of our financial position and financial performance for the year.

- **Glossary** - An explanation of the technical terms used in this Statement of accounts.

- **Our structure chart -** How we are organised.

Alongside the Statement of accounts we publish the **Annual governance statement** that explains how we manage our affairs and control our activities. The statement highlights any important areas of governance that may need to be addressed following an annual review.

## Summary tables

| A simplified statement showing the change on our Comprehensive income and expenditure account and General fund balance from 1 April 2020 to 31 March 2021 | Gross Expenditure £ 000 | Income £ 000 | Net Expenditure £ 000 |
|---|---|---|---|
| Total Spending on Current services | 112,609 | (73,250) | 39,359 |
| Other Income and Expenditure | 43,914 | (73,791) | (29,877) |
| Total spending on services as presented in the Comprehensive Income and Expenditure account | | | 9,482 |
| add Adjustments between the Funding and Accounting bases | | | (29,765) |
| **Increase in General fund (including Earmarked Reserves)** | | | (20,283) |

The complete Comprehensive income and expenditure statement is shown in section 6.

The Expenditure and funding analysis in note 1 and the Note to Expenditure and funding analysis in note 6 in section 7 show the reconciliation between the net expenditure as presented in the Comprehensive income and expenditure statement and the net expenditure chargeable to the General fund as presented in our outturn reports.

The Comprehensive income and expenditure account includes capital adjustments and the pension adjustment made under generally accepted accounting principles that do not need to be met from the Council Tax.

Our Comprehensive income and expenditure statement recognises our share of Council Tax and Non Domestic Rates (NDR) transactions on the accrual basis, with the timing difference being adjusted through Council Tax and NDR adjustment account, reported on in the Movement in reserves statement.

Due to COVID 19, qualifying businesses were given additional business rate relief in 2021. This meant that we did not receive business rates from those businesses awarded additional relief, however we have received grant from the government to fund the relief given.

**Simplified Balance sheet statement**

| A simplified Balance Sheet | 31 March 2021<br>£ 000 |
|---|---|
| **What we own** | |
| Assets | 271,024 |
| Stocks | 289 |
| Investments | 14,469 |
| | 285,782 |
| **What we are owed** | |
| Amounts due before 31 March 2022 | 48,640 |
| Amounts due after 31 March 2022 | 1,275 |
| | 49,915 |
| **What we owe** | |
| Amounts due before 31 March 2022 | (39,582) |
| Amounts due after 31 March 2022 | (6,835) |
| Provisions | (5,280) |
| Pension deficit | (108,916) |
| | (160,613) |
| | |
| **Cash and equivalents in hand or (overdrawn)** | 32,512 |
| **Net assets** | 207,596 |
| | |
| **Our reserves** | 31 March 2021<br>£ 000 |
| Usable reserves | 75,952 |
| Unusable reserves | 131,644 |
| **Total reserves** | 207,596 |

The complete Balance sheet is shown in section 6.

## Pensions

We offer our employees membership of the Local Government Pension Scheme. The scheme is funded by contributions from employees and employers, and offers defined benefits that are paid when members retire. The scheme has been estimated to have a shortfall because its obligations to members are more than the assets and returns expected from the fund. We have agreed to make up the shortfall over time. You can find out more about the pension scheme in note 33 to the main financial statements.

## Changes in accounting policies

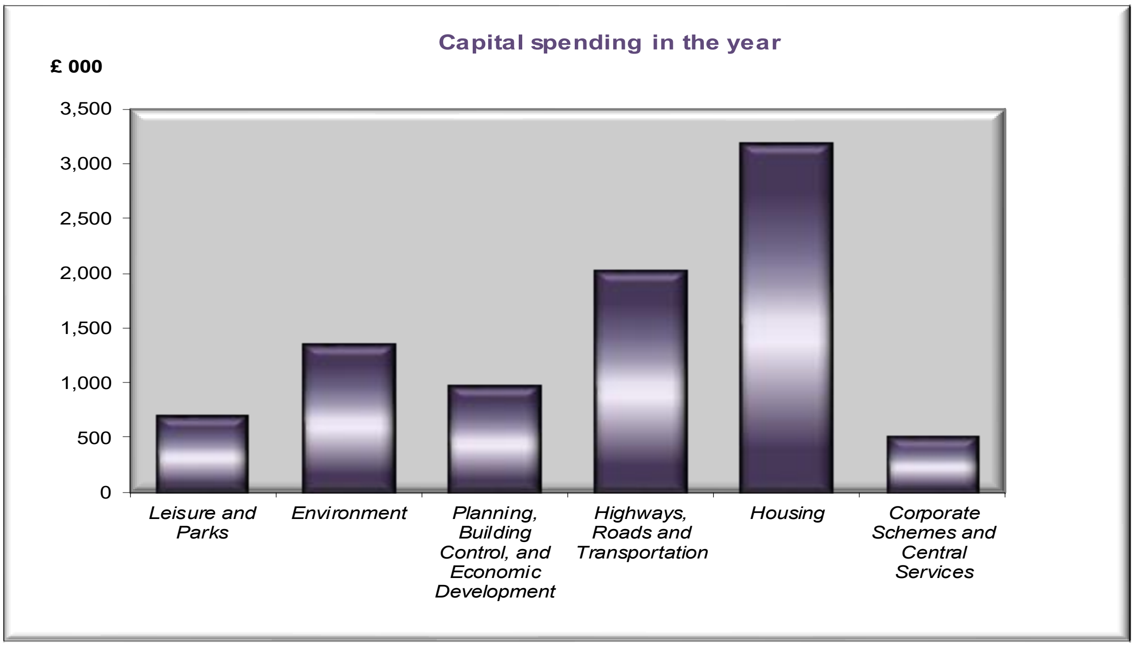
We produce our accounts in International Financial Reporting Standards (IFRS) format. This is to comply with agreed accounting practices. Where there is any change in accounting practice we restate last year's figures.

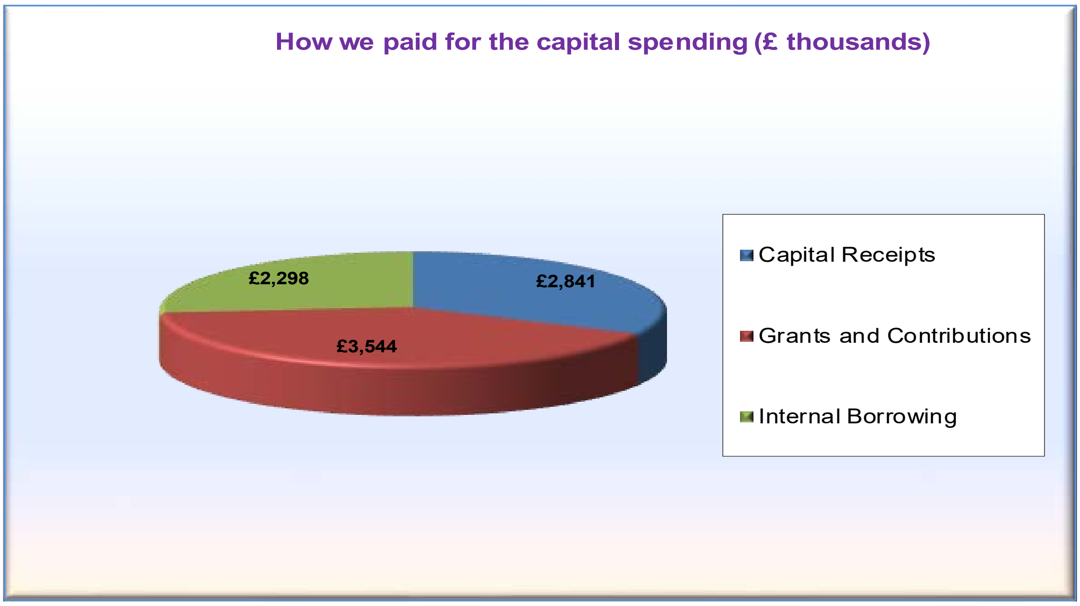
## Borrowing

We have a finance lease with an outstanding balance of £0.635m at the end of the year. We do not have any external loans. The Council has undertaken additional internal borrowing of £2.3m during the year; this is the practice of using cash that would be invested in lieu of undertaking external borrowing. The outstanding balance on internal borrowing is £13.8m at the end of the year.

## Capital spending

During the year we spent £8.683m on capital schemes. Our asset values in the Balance sheet have not necessarily increased by the amount of our capital spending as the Balance sheet shows the asset's change in value, after any impairments, and not simply the amount spent in creating that asset. The following tables show the capital spending and how the spending was paid for (capital financing).






**Significant provisions or contingencies or material write-offs**

The Council has a provision of £5.090m, for our share of the cost repayable for any successful appeals made by businesses against their business rates valuations.

**Effects of the current economic climate**

It is not surprising there are many large variations between year-end spending and budgets due to Covid. This does make it difficult to report explanations of 2020/21 finances and identify ongoing trends.

The main financial impact of Covid-19 is considerably less income for 2020/21. There was a loss of income of some £17m as Council facilities such as theatres and leisure centres temporarily closed. Cost savings were made where possible.

In the short term, the Government has provided additional grants to local government to mitigate the income losses and contribute towards the additional costs of the pandemic. The Government has also brought in measures to support local business and residents.

It is thought that structural changes in the economy have been accelerated by the pandemic. Without alleviating measures these structural changes will reduce the Council's income on an ongoing basis. An example being increased home working will lower car parking income permanently. As less commuters means less car parking customers. More details on the impact of Covid-19 on the Council finances are in the commentary of the Medium-Term Financial Strategy.

**Auditors**

Our external auditors, who audit these accounts, are BDO LLP. You can find details of their audit fees in note 29 to the main financial statements.

**Monitoring our performance during 2020/21**

During 2020/21 the Overview and Scrutiny Committee has continued to monitor the Council's performance, in line with the new processes put in place during 2019/20. The new approach has focused on having a wider insight into specific areas, whilst key performance indicators have instead been monitored internally within each service.

As part of the Committee's performance monitoring role, they received updates from each of the Cabinet members, who outlined the work taking place in their directorate in addition to answering questions from the Committee. These updates are set to continue on an annual basis, with one Cabinet member at each meeting.

In September 2020, the Committee considered an extensive report on the Council's Recycling and Waste Services. This was a key example of the new approach adopted by the Committee, and the session was very insightful and appreciated by the Committee. The Committee also reviewed the Council's financial performance against the agreed budget. Mid-year revenue and capital monitoring identifying the main under/over spends in the revenue budgets and capital schemes were presented at the November 2020 meeting, explaining the reasons for the variations and setting out the planned actions to remedy them. The Committee also received an update from the Leisure and Heritage Services team at the November 2020 meeting. This proved to be a very useful report which allowed the Committee to ask questions about the re-opening of leisure centres and other areas after the lockdowns. In February 2021, the Committee were updated on the Council's progress with their Climate and Ecological Emergency Action Plan. This provided the Committee with the latest information and allowed them to ask questions on specific areas of the plan.

The Committee will continue to monitor performance and receive updates on specific services during 2021/22, along with receiving updates from each Cabinet member on their directorate.

**Financial Monitoring and Reporting**

As part of the management of our finances, we reported to the Cabinet and the Audit and Risk Committee at various times throughout the year. You can find copies of these reports on our website. The following are the main financial subjects we report on:

- The medium term financial strategy.
- Setting the Council Tax.
- Revenue estimates.
- Revenue and capital monitoring.
- The outturn and the accounts.
- Treasury management activity.

- Various auditors' reports on the accounts and other matters.

**Revenue and Budget Process**

The Council has a revenue and capital monitoring process. During 2020/21 senior managers were given a detailed monthly report, Management Team and Cabinet Members received an informal quarterly report and in November a report was presented for Cabinet, identifying actions to address any overspends where possible.

Audit and Risk Committee received the provisional Revenue Outturn report in June 2021 to review the key variances and actions identified.

This enables us to identify any financial shortcomings or potential savings throughout the year.

**Revenue Outturn position**

The provisional controllable service net revenue expenditure for 2020/21 reported to June Audit and Risk Committee was £3.8m overspent. This was mainly due to significant income losses as a consequence of service provision disruptions and reduction in demand following implementation of the Government imposed measures aimed to tackle the Covid19 pandemic, such as national lock-downs and social distancing safety measures designed to reduce the spread. The table below shows key service variations as presented to the Audit and Risk Committee.

| Reason for variation | Outturn +over/-under £m |
|---|---|
| Income Losses caused by Covid-19 | 17.0 |
| Furlough and Grants to services from Government for Covid-19 costs | -2.6 |
| Grant to Cover Sales Fees and Charges Net Losses | -7.8 |
| Additional Covid-19 expenditure | 1.5 |
| Less activity due to Covid-19, resulting in less expenditure | -2.4 |
| Staffing Costs – vacant posts in part caused by Covid reducing demand | -0.9 |
| Other reduced costs | -1.0 |
| Total service Variations | £3.8m |

Following the report publication, few additional minor adjustments to income were identified, reducing the net service expenditure overspend by £0.1m to £3.7m.

During 2020/21, the Government recognised that the local authorities would not be able to respond to the unprecedented financial pressures from the catastrophic loss of income and additional costs incurred whilst providing support to public and business and enforcing necessary safety measures during the pandemic. Chelmsford city council received several grants from the Government to mitigate the effect of these losses.

The following table shows grants recognised in the Income and Expenditure statement that we received towards or are expecting to receive for the loss of income and additional expenditure caused by the Covid19 pandemic during 2020/21. The conditions attached to the grant dictate whether we can recognise the whole grant or only grant amount that was used by 31 March. General unringfenced grants that can not be allocated to specific services are shown through the Income and Taxation line in the Comprehensive Income and Expenditure statement, all other services specific grants are shown in the service lines of the statement.

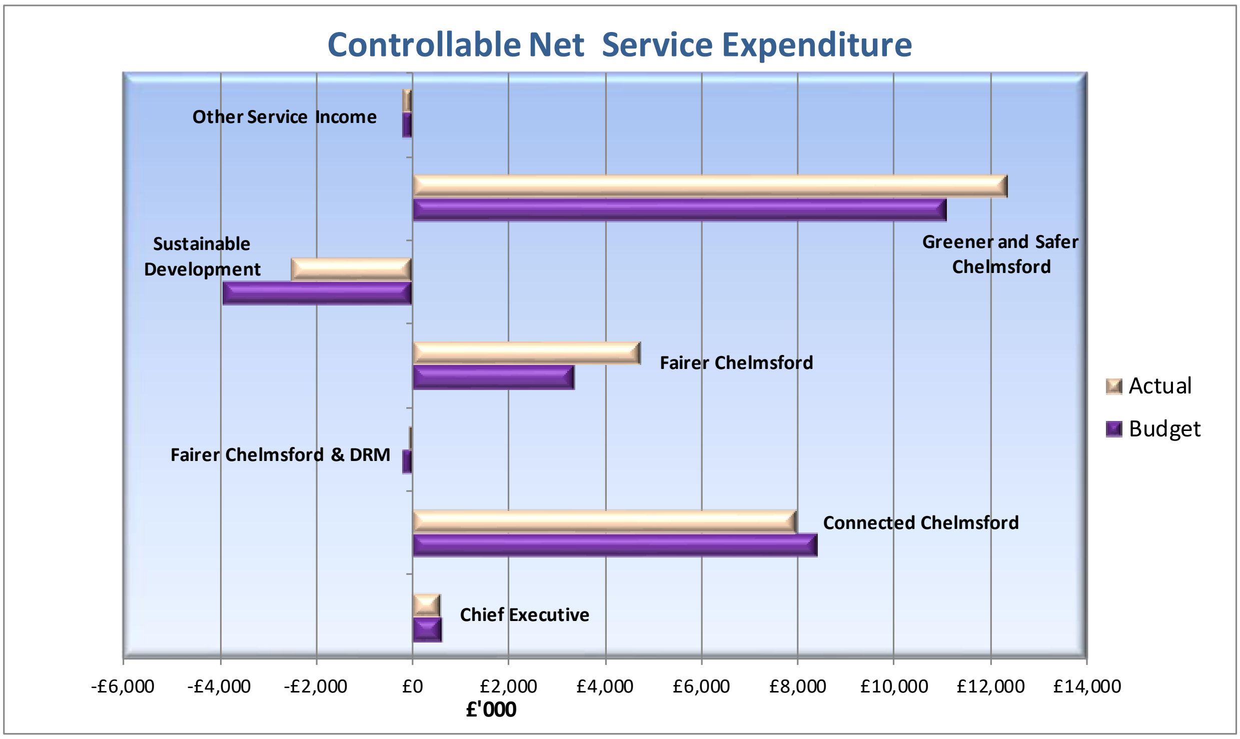
| Grant | Service Specific £'000 | Un-ringfenced £'000 |
|---|---|---|
| Local Authorities Support Grant | | 2,240 |
| Sales Fees & Charges Support Grant | 7,786 | |
| Grant towards cost of furloughed staff | 1,519 | |
| Various New Burdens grants | 246 | |
| Cultural Recovery Fund | 226 | |
| Various other service specific grants to fund Covid19 expenditure or loss of income | 433 | |
| Total | 10,210 | 2,240 |

The Government also provided funding for businesses and most vulnerable residents and the Council was asked to redistribute this funding. For each grant received to distribute to businesses or individuals, the Council needs to determine if it is acting as a principal or an agent. Where an authority has a control over the distribution or amounts of grant it is deemed to be acting as a principal and needs to recognise the grant and expenditure within their Comprehensive Income and Expenditure statement. Where an authority is purely intermediary in distributing the grants it is deemed to be acting as an agent and the transactions are not recognised in the Comprehensive Income and Expenditure statement and we only recognise a debtor or a creditor position for any under funding of the grant or un-allocated grant. The following table shows grants that the authority has received from the Government and whether we are deemed to be an agent or a principal.

| Grant | Grant Received (for reconciled closed schemes grant utilised) | | Outstanding grant to be returned or redistributed in 2021/22 |
|---|---|---|---|
| | Principal £'000 | Agent £'000 | £'000 |
| Grants to support businesses (closed) | 1,628 | 31,300 | |
| Local Restrictions grant - closed | | 11,829 | 2,437 |
| Local Restrictions grant - open | | 843 | 1 |
| Additional Local Restrictions grant | 5,152 | | 703 |
| Business Adaptation grant | | 286 | 130 |
| Winter Support Payments | | 83 | |
| One-off Lockdown grants | | 7,515 | 1,468 |
| Hardship fund | 867 | | |
| Track and Trace / Self-isolation support grant | 482 | 116 | 399 |
| **Total** | **8,129** | **51,972** | **5,138** |

All above grants, where the Council is deemed to be principal were ringfenced for a specific purpose of providing support to businesses and council tax payers and are therefore reflected in the Financial services line of the Comprehensive Income and Expenditure statement. If conditions of the grant required us to return any unused grant, we created a creditor on our balance sheet to the Government for the money outstanding.

The following graph shows the service revenue outturn against our latest budget, original budget amended by approved additional funding added during the year under delegations.




The Council is a member of the Essex Business Rates pool which enables us to retain some of the levy that we would otherwise pay over to the Government. During 20/21, as part of the measures introduced by the Government to aid businesses during the pandemic, the Council applied additional reliefs of £38m to rates collectable from businesses, reducing our income. These were however fully compensated by the Government through S31 grants. The outturn report presented to the Audit and Risk Committee identified retained business rates income of £2.7m. Since the Committee date, we received an updated position for the Essex Business Rates pool and the Government issued further guidance for the calculation of the compensation grant due to us for the lost income from business rates. Consequently, bringing the retained income for 2020/21 including S31 grants to £3.2m above the Government baseline. The business rates income retained is however volatile as it is affected by settlements of successful appeals against valuations and changes in the appeals provision. The Council remains a member of the Essex Pool in 2021/22.

The impact of Covid-19 and the 2020/21 overspend on reserves and future budgets is discussed below.

**Medium Term Financial Strategy (MTFS) for 2020/21 to 2024/25**

The strategy is how we manage our finances, aligning them with the objectives as set out by the Corporate priorities within the Our Chelmsford, Our Plan.

Council's Medium-Term Financial Strategy covering 2020/21 and approved in July 2020 and updated in November 2020 was intended to:

- Set out an approach to manage the finances in a constantly shifting environment of the pandemic.

- Increase the Council's financial resilience by ensuring unearmarked reserves are sufficiently robust to manage short- and medium-term financial pressures which include income losses from Covid 19. Principally this will be achieved by not making for the financial years 2019/20 and 2020/21 some £10.8m of revenue contributions to capital expenditure.
- To continue to support the Council's aims in the delivery of a safer, greener, fairer and better-connected Chelmsford through the appropriate allocation of available resources, even during the pandemic.

The Strategy was supported by five key principles.

1. Revenue Expenditure – The Council recognises that it must optimise its limited resources and target them to where they are most needed, in order to provide value for money services in the face of increasing financial pressures.

2. Capital Expenditure – The Council will only undertake capital investment in support of its priorities and where it supports asset maintenance, invest-to-save schemes or strategic intent (such as the provision of affordable housing). Capital spending plans, whether funded from internal resources or through borrowing, will be affordable, prudent and sustainable.

3. Reserves – the Council will maintain a reasonable level of usable reserves to enable it to weather the volatility of its funding position, support capital spending plans, mitigate known risks and support invest-to-save schemes and service transformation.

4. Partnership Working – the Council will seek out opportunities to work with partners to maximise outcomes for the residents of Chelmsford and other stakeholders, explore access to funding and maximise the shared benefits of joint working.

5. Governance and Performance – the Council will monitor the delivery of its financial strategy and performance against the savings requirement, adjusting the plans to meet changing demands or emerging risk.

**Council's principal risks and opportunities**

It is the Council's policy to proactively identify, understand and manage the risks inherent in our services and associated with our plans and strategies, so as to:

- encourage responsible, informed risk taking
- reduce exposure to a tolerable level using a justifiable level of resources

The Principal Risk Register is central to the Council's risk management framework. Principal Risks (which may include strategic, operational, project or compliance risks) are those risks which, due to their nature or severity, require regular oversight at senior level. The consequences of the ongoing pandemic continue to be considered throughout the register, rather than creating a separate Covid-19 entry.

Please find below the Council's Top 5 Principal Risks, as moderated by Management Team on 7 April 2021, along with an assessment of their likelihood of occurrence and measures in place to mitigate them:

| Risk event | Likelihood | Mitigation |
|---|---|---|
| **Income and Financial Position**<br>If the sustainability of the Council's financial position is challenged, major projects may be delayed, discretionary services may be rationalised and, ultimately, statutory duties may not be met, to the detriment of service users. | Very Likely (>70%) | The most significant challenge to the sustainability of the Council's finances remains the uncertainty over future income and funding levels as the UK recovers from Covid-19. However, the Council has a long history of balancing its budget and the Medium-Term Financial Strategy for 2021/22-2025/26 has a supporting action plan in place designed to return the Council's finances to a sustainable position over the medium term. |
| **Homelessness**<br>Where the Council is unable to meet its statutory obligations to the homeless (and/or use its statutory powers to assist the homeless), further hardship may be caused to service users, with associated financial, legal and reputational consequences. | Very Likely (>70%) | With support from the Ministry of Housing, Community and Local Government (MHCLG), the Council has made significant progress on rough sleeping. However, as the socio-economic impact of Covid-19 continues to be felt, an acute shortage of family-sized accommodation is expected in the Chelmsford Area. While the Council has increased its work on prevention, and will seek to implement a revised Housing Strategy – due to capacity constraints on the former and the medium-to-long term nature of the latter – meeting demand will remain a significant challenge for the Council. |
| **Fraud**<br>Successful fraud attempts may result in financial losses which individually, or cumulatively, could impact on service delivery, as well as cause reputational damage to the Council. | Likely (50-70%) | It is acknowledged across the sector that fraud has been much more likely to occur since the onset of Covid-19 due to increased motivation and increased opportunity e.g. urgent distribution of central government grants. Under government guidance issued in June 2020, the Council has undertaken a specific grant fraud risk assessment, strengthened its due diligence process, and developed a post-event assurance process to check high risk grants awarded for fraud, invoke clawback arrangements and pursue recovery. |

| Risk event | Likelihood | Mitigation |
|---|---|---|
| **Cyber Security**<br>A successful cyberattack could result in severe disruption to core services and/or data theft, with financial, legal and reputational impacts for the Council, and potentially significant harm caused to residents. | Possible (30-50%) | In response to increased cyber activity targeting the public sector and the Council's change in exposure due to increased remote working, the Council has commissioned an independent Cyber Security Posture Review from specialist cyber consultants (reporting Feb 2021). The Council is now working on the resulting action plan, which will further strengthen its cyber defences. |
| **Health & Safety**<br>A serious health and safety incident could result in death or serious injury, regulatory investigation and associated financial, legal and reputational consequences. | Possible (30-50%) | The Council retains independent advice from specialist health and safety consultants, who also carry out an annual programme of compliance audits on high risk areas. In respect of Covid-19, the Council is closely following Public Health England and Health and Safety Executive guidance, ensuring that hazards are identified and appropriate control measures adopted as the workforce and the general public return to Council premises. |

**Workforce**

We understand that the Council's employees play an important role in delivering our objectives. Our People strategy which aims to ensure that we employ people with the right skills and support their development, is currently under review and will be updated during 2021/22. In 2020/21 we continued to invest in our workforce by employing several apprentices within various departments of the Council.

The Council was awarded an Investor in People Gold (IiP) award, indicating the high level of achievement in developing staff.

Our workforce consists of 46% females and 54% males.

The Covid-19 pandemic had a great impact on the way our workforce was able to continue with their everyday duties. Some departments have adapted to temporary measures of working from home and were able to continue mostly unaffected. The greatest impact was felt in the frontline service, with several public facing services, mainly in Leisure and Cultural provision, having to cease their operation due to national measures adopted by the Government. During the early months of the pandemic many staff were redeployed, mainly to support the operational running of the Chelmsford Community Hub jointly set up by the Council and the Chelmsford Voluntary Services. Under the Government scheme, the Council was able to furlough staff that were not able to work during the pandemic. During 2020/21, we furloughed 417 employees or casual workers, as a result of service disruptions.

**Other significant items**

We did not have any material or unusual charges to the accounts or any major changes in statutory functions during 2020/21.

# 5 - Statement of responsibilities for the Statement of accounts

**This section explains our responsibilities for our financial affairs and how we make sure we fulfil them.**

**Our responsibilities**

We must:

- Make arrangements for our financial affairs to be managed properly and for one of our officers to be responsible for managing those affairs, that officer is Accountancy services manager.
- Manage our affairs to use our resources economically, efficiently and effectively, and to protect our assets.
- Approve the Statement of accounts.

*I certify that these accounts were considered and approved by the Audit and Risk Committee, on behalf of Chelmsford City Council.*

…………………………………………… ……………………….

**Cllr Nora Walsh** **Date**

**Chair of the Audit and Risk Committee**

**The Accountancy Services Manager's responsibilities**

The Accountancy Services Manager is responsible for preparing our Statement of accounts in line with the proper practices set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of accounts, the Accountancy Services Manager has:

- selected suitable accounting policies and then applied them consistently.
- made judgements and estimates that were reasonable and prudent.
- followed the Code.

The Accountancy Services Manager has also:

- kept proper accounting records that were up to date, and
- taken reasonable steps to prevent and detect fraud and other irregularities.

*I certify that the accounts set out in the Statement of accounts present a true and fair view of our financial position at 31 March 2021 and the income and spending for the year ended 31 March 2021.*

..……………………………………………….. ………………………….

**Phil Reeves** **Date**

**Accountancy Services Manager, Section 151 officer**

# 6 - The main financial statements

## Comprehensive income and expenditure statement

**This section is a summary of our spending on services. It also shows where we got the money from.**

| 2019/20 | | | | | 2020/21 | | |
|---|---|---|---|---|---|---|---|
| Gross spending £ 000 | Income £ 000 | Net spending £ 000 | **Money spent on services direct to the public** | Notes | Gross spending £ 000 | Income £ 000 | Net spending £ 000 |
| 383 | - | 383 | **Chief Executive** | | 708 | (62) | 646 |
| 14,886 | (2,194) | 12,692 | **Connected Chelmsford** | | 11,522 | (1,518) | 10,004 |
| 130 | (432) | (302) | **Fairer Chelmsford & DRM** | | 116 | (175) | (59) |
| 52,371 | (44,068) | 8,303 | **Fairer Chelmsford** | | 53,915 | (47,509) | 6,406 |
| 8,642 | (10,977) | (2,335) | **Sustainable Development** | | 9,252 | (8,755) | 497 |
| 52,052 | (23,649) | 28,403 | **Greener and Safer Chelmsford** | | 37,096 | (15,064) | 22,032 |
| - | (152) | (152) | **Other Service Income** | | - | (167) | (167) |
| 128,464 | (81,472) | 46,992 | **Spending on current services** | | 112,609 | (73,250) | 39,359 |
| 6,142 | (6,204) | (62) | Other operating expenditure | 11 | 7,443 | (3,934) | 3,509 |
| 7,075 | (6,730) | 345 | Financing and investment | 12 | 8,133 | (5,045) | 3,088 |
| - | - | - | Spending on discontinued operations | | - | - | - |
| 27,169 | (61,275) | (34,106) | Taxation and general grants | 13 | 28,338 | (64,812) | (36,474) |
| 168,850 | (155,681) | 13,169 | **(Surplus) or deficit on Provision of Services** | | 156,523 | (147,041) | 9,482 |
| | | | **Items that will not be reclassified to the Total spending on services** | | | | |
| | | (55,586) | (Surplus) or loss from our assets being revalued | | | | 29,213 |
| | | (12,044) | Remeasurement of the assets of the pension fund | 33 | | | 14,689 |
| | | | **Items that may be reclassified to the Total spending on services** | | | | |
| | | - | (Surplus) or loss from financial assets | | | | - |
| | | (54,461) | **Total income and expenditure** | 24 | | | 53,384 |

# Movement in reserves statement

**This section is a summary of our movement on our reserves.**

| Movement in Reserves | General fund £ 000 | Capital receipts reserve £ 000 | Capital grants unapplied (note 38) £ 000 | Total usable reserves £ 000 | Unusable reserves (note 22) £ 000 | Total reserves £ 000 |
|---|---|---|---|---|---|---|
| **Balance at 1 April 2019** | 11,137 | 342 | 27,814 | 39,293 | 167,226 | 206,519 |
| Total comprehensive income and expenditure | (13,169) | - | - | (13,169) | 67,630 | 54,461 |
| Adjustments from council tax levied and accounting regulations (note 9) | 20,430 | 859 | 6,133 | 27,422 | (27,422) | - |
| Net increase or (decrease) | 7,261 | 859 | 6,133 | 14,253 | 40,208 | 54,461 |
| **Balance at 31 March 2020** | 18,398 | 1,201 | 33,947 | 53,546 | 207,434 | 260,980 |

| Movement in Reserves | General fund £ 000 | Capital receipts reserve £ 000 | Capital grants unapplied (note 38) £ 000 | Total usable reserves £ 000 | Unusable reserves (note 22) £ 000 | Total reserves £ 000 |
|---|---|---|---|---|---|---|
| **Balance at 1 April 2020** | 18,398 | 1,201 | 33,947 | 53,546 | 207,434 | 260,980 |
| Total comprehensive income and expenditure | (9,482) | - | - | (9,482) | (43,902) | (53,384) |
| Adjustments from council tax levied and accounting regulations (note 9) | 29,765 | (1,201) | 3,324 | 31,888 | (31,888) | - |
| Net increase or (decrease) | 20,283 | (1,201) | 3,324 | 22,406 | (75,790) | (53,384) |
| **Balance at 31 March 2021** | 38,681 | - | 37,271 | 75,952 | 131,644 | 207,596 |

The General fund balance includes Earmarked reserves, which are set aside for specific purposes. The detail of these can be found in note 9.

# Balance sheet

**This section shows our financial position at the end of the financial year.**

| 31 March 2020 £ 000 | Balance Sheet | Notes | 31 March 2021 £ 000 |
|---|---|---|---|
| | Long-term assets | | |
| 227,777 | Property, plant and equipment | 14 | 194,157 |
| 79,272 | Investment property | 14 | 72,276 |
| 315 | Intangible assets | | 362 |
| 4,040 | Heritage assets | 15 | 4,229 |
| 6,482 | Long-term investments | 16 | 6,436 |
| 1,792 | Long-term debtors | | 1,275 |
| 319,678 | | | 278,735 |
| | Current assets | | |
| 292 | Stocks | | 289 |
| 17,078 | Short-term investments | 16 | 8,033 |
| 24,115 | Short-term debtors | 18 | 48,640 |
| 27,378 | Cash in hand and cash equivalents | 19 | 32,674 |
| 68,863 | | | 89,636 |
| | Current liabilities | | |
| (22,662) | Short-term creditors | 20 | (39,582) |
| (5,090) | Provisions | 21 | (5,280) |
| - | Cash overdrawn | 19 | (162) |
| (27,752) | | | (45,024) |
| | Long-term liabilities | | |
| (4,860) | Long-term creditors | 38 | (3,926) |
| (3,152) | Capital grants received in advance | 30 | (2,909) |
| (91,797) | Liability relating to our pensions | 33 | (108,916) |
| (99,809) | | | (115,751) |
| 260,980 | **Net assets** | | 207,596 |

| 31 March 2020 £ 000 | **Reserves** | Notes | 31 March 2021 £ 000 |
|---|---|---|---|
| | Reserves | | |
| 53,546 | Usable reserves (see Movement in Reserves Statement) | | 75,952 |
| 207,434 | Unusable reserves | 22 | 131,644 |
| 260,980 | **Total reserves** | | 207,596 |

# Cashflow statement

**This section shows what cash we spend and receive.**

| 2019/20 £ 000 | Cash Flow | Notes | 2020/21 £ 000 |
|---|---|---|---|
| | **Operating activities** | | |
| | Spending | | |
| (27,587) | Cash paid to and for employees | | (30,156) |
| (39,139) | Housing benefit paid out | | (36,040) |
| (217) | NDR payments to the national pool | | (219) |
| (2,540) | Precepts | | (2,632) |
| (27,169) | Tariff & Levy/ Safety Net | | (28,337) |
| (14) | Interest paid | | (24) |
| (28,316) | Other costs | | (17,712) |
| | Income | | |
| 8,941 | Rents (after rebates) | | 7,548 |
| 15,570 | Council tax | | 16,184 |
| 31,589 | NDR we received | | 15,950 |
| 37,438 | DWP grants for rebates | | 34,851 |
| 6,992 | Other government grants | | 45,092 |
| 23,930 | Cash we received for goods and services | | 11,621 |
| 765 | Interest we received | | 458 |
| 6,817 | Other revenue cash payments or income | | 5,236 |
| 7,060 | **Net cash inflow or (outflow) from operating activities** | 23 | 21,820 |
| | **Investing activities** | | |
| | Spending | | |
| (16,411) | Buying non-current assets | | (6,642) |
| | Income | | |
| 3,577 | Selling non-current assets | | 406 |
| 9,708 | Capital grants and contributions we received | | 6,684 |
| 2,686 | Other contributions | | (1,041) |
| 51,555 | Investment Inflows | | 53,045 |
| (50,014) | Investment Outflows | | (44,000) |
| 1,101 | **Net cash inflow (outflow) from Investing activities** | | 8,452 |
| 8,161 | **Net cash inflow or (outflow) before financing** | | 30,272 |
| | **Management of liquid resources** | | |
| | **Financing activities** | | |
| (3,329) | Other liquid resources | | (25,138) |
| (3,329) | **Cash flow from financing activities** | | (25,138) |
| 4,832 | **Increase or (decrease) in cash** | | 5,134 |
| 22,546 | **Cash balance at the beginning of the year** | | 27,378 |
| 27,378 | **Cash balance at the end of the year** | | 32,512 |

# 7 - Notes to the main financial statements

## 1 Expenditure and Funding Analysis

The analysis of income and expenditure shown in the Comprehensive income and expenditure statement includes adjustments made under generally accepted accounting practices. The Expenditure and funding analysis shows how we report to the Management Team and Members and reconciles it to the Comprehensive income and expenditure statement.

| 2019/20 | | | Expenditure and Funding Analysis | 2020/21 | | |
|---|---|---|---|---|---|---|
| Net Expenditure Chargeable to the General Fund £ 000 | Adjustments between the Funding and Accounting bases £ 000 | Net Expenditure in Comprehensive Income and Expenditure Statement £ 000 | | Net Expenditure Chargeable to the General Fund £ 000 | Adjustments between the Funding and Accounting bases £ 000 | Net Expenditure in Comprehensive Income and Expenditure Statement £ 000 |
| 345 | 38 | 383 | **Chief Executive** | 608 | 38 | 646 |
| 8,601 | 4,091 | 12,692 | **Connected Chelmsford** | 7,974 | 2,030 | 10,004 |
| (302) | - | (302) | **Fairer Chelmsford & DRM** | (59) | - | (59) |
| 310 | 7,993 | 8,303 | **Fairer Chelmsford** | 4,760 | 1,646 | 6,406 |
| (3,131) | 796 | (2,335) | **Sustainable Development** | (2,487) | 2,984 | 497 |
| 11,932 | 16,471 | 28,403 | **Greener and Safer Chelmsford** | 12,342 | 9,690 | 22,032 |
| 66 | (218) | (152) | **Other Service Costs** | (53) | (114) | (167) |
| 17,821 | 29,171 | 46,992 | **Spending on current services** | 23,085 | 16,274 | 39,359 |
| 2,540 | (2,602) | (62) | Other operating expenditure | 2,632 | 877 | 3,509 |
| (709) | 1,054 | 345 | Financing and investment | (159) | 3,247 | 3,088 |
| - | - | - | Spending on discontinued operations | - | - | - |
| (26,913) | (7,193) | (34,106) | Taxation and general grants | (45,841) | 9,367 | (36,474) |
| (7,261) | 20,430 | 13,169 | **Total spending on services** | (20,283) | 29,765 | 9,482 |

| 2019/20 £ 000 | Movement on General fund Balance (including Earmarked reserves) | 2020/21 £ 000 |
|---|---|---|
| 11,137 | Opening Balance | 18,398 |
| 7,261 | Surplus/(Deficit) | 20,283 |
| 18,398 | Closing Balance at 31 March | 38,681 |

## 2 General Accounting policies

The Statement of accounts is a summary of our transactions for the financial year 2020/21 and our position at the year-end, 31 March 2021. The content, layout and general rules we have used to prepare this Statement of accounts are stated in the Accounts and Audit (England) Regulations 2015. These regulations are embodied in the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 a statement of recommended practice ('the Code'), supported by International Financial Reporting Standards.

The following accounting policies are considered to be general accounting policies. Accounting policies relating to a particular note to the accounts are included within that note.

### Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation always assumes any assets is in its most profitable use. The Council measures some of its non-financial assets such as investment properties, surplus assets and some of its financial instruments such as pooled funds. The Council's assets and liabilities for its employee pension scheme are also measured at fair value.

### Going concern

The 'going concern' concept means that we prepare the financial statements on the assumption that our business is financially sound and not about to be liquidated.

The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.

We have based the valuations and financial data on the assumption that the business will remain in existence for an indefinite period.

An indefinite period means the foreseeable future or long enough for us to meet our objectives and to fulfil our commitments. It is important to note that the 'going concern' concept assumes that the business will remain in existence long enough for all its assets to be fully used.

### Overheads

To present the information on the same basis as our management reporting we do not reallocate the cost of support services to other service lines of the Comprehensive income and expenditure statement.

**Revenue and capital transactions**

Revenue and capital transactions are recorded on an income and expenditure (accruals) basis. This means we record income and grants, including government grants, in our accounts when we are owed it, rather than when we receive it. Likewise, we record spending in our accounts when we owe it, rather than when we actually make a payment. We do not accrue amounts under £1,000 where they would have no material impact.

Income from contracts with service recipients for goods and services is recorded in our income and expenditure statement when the goods or services are delivered to the service recipient, in accordance with the terms of the contract, rather than when we receive the payment.

We record revenue grants in the service they relate to. If a revenue grant does not relate to a specific service, we have shown it in the Comprehensive income and expenditure statement, below the total spending on services.

Where we are acting as an agent for another organisation (for example when collecting Council Tax and NDR) we only include income and expenditure and amounts owing that belong to us in the Comprehensive income and expenditure statement and Balance sheet. The Collection Fund includes all income and expenditure.

Where we have paid a full year's costs in the year, for example four quarterly electricity bills, we do not accrue amounts paid in advance or amounts owing at the year-end in the Balance sheet. The same applies for rents payable and rents received.

**Revenue Expenditure Funded from Capital under Statute**

Some items of expenditure can be funded by capital resources under Government Statute even though they do not create an asset owned by the Council. These items of expenditure are charged to the relevant service in Comprehensive Income and Expenditure Statement but funded by a transfer from the Capital Adjustment Account, so there is no impact on Council tax.

**Value added tax**

VAT is not shown as spending, unless we cannot claim it back.

## 3 Accounting standards issued but not yet adopted

We need to disclose information relating to the impact of any changes in accounting standards that have been issued but not yet adopted for this financial year but will be used in preparing next year's accounts.

The following new standards require additional disclosures:

- Definition of a Business: Amendments to IFRS 3 Business Combinations

- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS

- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39,
  IFRS 7, IFRS 4 and IFRS 16.

We do not expect that these changes will have a material impact on our accounts.

CIPFA have postponed the adoption of the IFRS 16 Leases standard until 2022/23.

## 4 Critical judgements in applying accounting policies

We have made a number of judgements in preparing these accounts and have listed the more important ones below.

- The continued Covid 19 virus outbreak is likely to have significant financial implication on the Council and its finances.
  There is a lot of uncertainty about the future level of Government grant funding. Prior to the outbreak, the Government was in the process of reviewing the basis of how it allocates funding to Local authorities, with the intention to announce a new funding distribution based on a revised formula for 2021/22. This review was delayed and is now expected to be completed in time for 2022/23 financial year funding allocations. The New Homes Bonus grant scheme is also currently subject to a review. The Government provided various grants to support Local Authorities during the pandemic, it is however unclear at this point what, if any, long term financial support Councils will receive from the Government to help us cope with the ongoing financial impact of the outbreak.

- Following Britain's exit from the European Union, it is unclear how the new arrangements negotiated during the transitional period that ended 31 December 2020 will impact on the Council's or Local Government finances generally.

At this time, we don't believe that despite these uncertainties, our asset values will need to be impaired.

## 5 Uncertainty about the future and other assumptions

The Statement of accounts contains estimated amounts that are based on historical knowledge and our judgements of the current conditions and the future. There is therefore some uncertainty about the amounts included in the Statement. The most critical amounts estimated are as follows.

| Item | Uncertainties | Effect if assumptions change |
|---|---|---|
| Property and Investment Properties | Valuations require significant judgements to be made.<br><br>The valuations provided reflect the best information available at the time of the production of the accounts. | The impact of changes in valuation are on the Council's Balance sheet and do not have a financial impact on service delivery. All Investment, Surplus, Other Land and Building assets includes assets with a value over £2m, all car parks and specialised operational assets (DRC) were valued as at the 31st March 2021.<br><br>The carrying value of these assets is as follows: -<br>Other Land and Buildings £172m<br>Surplus £7m<br>Investment £72m<br><br>A 1% change in the valuation of these categories would be £2.4m.<br><br>Note 14 provides further details on the value of our assets. |
| Pensions liability | The valuation of the pensions liability depends on many assumptions. The more important of these are how many years pension will be payable for, the rate of increase in salaries and pensions and the rate of inflation. | See note 33 for the effects of variations in these items. |

| Item | Uncertainties | Effect if assumptions change |
|---|---|---|
| NDR appeals | Since the introduction of the Business Rates Retention Scheme from 1 April 2013, authorities are liable for successful appeals against business rates charged to businesses, both in the current financial year and earlier years, in proportion to their local share of business rates income. Our share of business rates income is 40%. | We have created a provision for our estimate of the amount that might be repayable to 31 March 2021 following successful appeals. Our share of this provision is £5.3m (see Note 21). In 2017 Valuation Office Agency (VOA) completed a revaluation exercise for the Business Rates and new appeals are now being lodged for the 2017 list. The estimate for the appeals lodged before the revaluation has been calculated using the VOA ratings list of appeals, and historical data on successful appeals to date. The new check, challenge system of lodging and processing the appeals introduced for the 2017 list means that some lodged appeals will not be published by the VOA until they are validated. Due to lack of data available, we calculated our provision based on appeals lodged to date information and included properties where we think there is high risk of them lodging an appeal based on historical tendencies. It is possible that appeals will be settled at amounts which differ from the estimate made. |
| Bad Debt | The provision for bad debts is uncertain due to the unknown future impact of COVID-19. The provision provided is based on the best information available at the time of the production of the accounts. | We have created a provision for our estimate of the amount of debt that we might not be able to collect to the 31 March 2021 for general, NDR and Council Tax debtors. Our share of this provision is £3.2m. This provision reflects assumptions regarding the effect COVID-19 on businesses and individuals and their future ability to repay the money owed to us. Changes to these assumptions will result in a change to the provision. |

| Item | Uncertainties | Effect if assumptions change |
|---|---|---|
| Fair Value Measurement | When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities.<br>Where Level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the Council's Corporate Property Manager and external valuer).<br>Information about the valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in notes 14 and 16. | The Council uses Level 1, 2 and 3 observable inputs for valuing its Investment properties and financial instruments. Level 1 and 2 inputs are those that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability. Level 3 inputs are unobservable inputs that are used to measure fair value in circumstances where market data is not available as there is little, if any, market activity at the measurement date. Significant changes in any of the observable inputs could result in significantly lower or higher fair values. |

## 6 Note to the Expenditure and funding analysis

The following table further explains the funding adjustments made in the Comprehensive income and expenditure statement under generally accepted accounting practices as shown in the Expenditure and funding Analysis in Note 1.

| 2019/20 | | | | | | | 2020/21 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Adjustments for Capital Charges (Note 1) £ 000 | Net change for the Pensions Adjustment (Note 2) £ 000 | Other Statutory Adjustments (Note 3) £ 000 | Total Statutory Adjustments £ 000 | Other (Non-statutory) Adjustments (Note 4) £ 000 | Adjustments between the Funding and Accounting bases £ 000 | **Analysis of adjustments made to arrive at the Comprehensive Income and Expenditure Statement** | Adjustments for Capital Charges (Note 1) £ 000 | Net change for the Pensions Adjustment (Note 2) £ 000 | Other Statutory Adjustments (Note 3) £ 000 | Total Statutory Adjustments £ 000 | Other (Non-statutory) Adjustments (Note 4) £ 000 | Adjustments between the Funding and Accounting bases £ 000 |
| | 39 | | 39 | (1) | 38 | **Chief Executive** | | 38 | | 38 | | 38 |
| 3,247 | 849 | | 4,096 | (5) | 4,091 | **Connected Chelmsford** | 1,476 | 553 | | 2,029 | 1 | 2,030 |
| | | | - | | - | **Fairer Chelmsford & DRM** | | | | - | | - |
| 3,459 | 513 | 73 | 4,045 | 3,948 | 7,993 | **Fairer Chelmsford** | 420 | (2,294) | (36) | (1,910) | 3,556 | 1,646 |
| 39 | 719 | | 758 | 38 | 796 | **Sustainable Development** | 2,442 | 459 | | 2,901 | 83 | 2,984 |
| 14,424 | 2,140 | | 16,564 | (93) | 16,471 | **Greener and Safer Chelmsford** | 8,039 | 1,606 | | 9,645 | 45 | 9,690 |
| | | | - | (218) | (218) | **Other Service Costs** | | | | - | (114) | (114) |
| 21,169 | 4,260 | 73 | 25,502 | 3,669 | 29,171 | **Spending on current services** | 12,377 | 362 | (36) | 12,703 | 3,571 | 16,274 |
| (2,884) | | | (2,884) | 282 | (2,602) | Other operating expenditure | 856 | | | 856 | 21 | 877 |
| 2,477 | 2,288 | 240 | 5,005 | (3,951) | 1,054 | Financing and investment | 4,725 | 2,068 | 46 | 6,839 | (3,592) | 3,247 |
| (9,850) | | 2,657 | (7,193) | | (7,193) | Taxation and general grants | (6,868) | | 16,235 | 9,367 | | 9,367 |
| 10,912 | 6,548 | 2,970 | 20,430 | - | 20,430 | **Total spending on services** | 11,090 | 2,430 | 16,245 | 29,765 | - | 29,765 |

1. Adjustments for Capital Purposes

This column adds depreciation, impairments and revaluation gains and losses in the service lines, and for:

- Other operating expenditure – Capital disposals transferring income on the disposal of the assets and the amounts written off for the assets.

- Financing and investment income and expenditure – The statutory charges for capital financing including minimum revenue provision.

- Taxation and Non-specific grant income and expenditure – Capital grants received during the financial year without any conditions or where conditions were met during the financial year.

2. Net Change for the Pension Adjustments

For service lines this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

For Financing and investment income and expenditure the net interest on the defined benefit liability is charged to the Comprehensive income and expenditure statement.

3. Other Statutory Adjustments

This shows any other amounts payable and receivable to be recognised under statute.

For Taxation and general grants this represents the timing difference with regards to the collection fund for income projected to be received and actual income received.

4. Other Non-Statutory Adjustments

This represents:

- a removal of transactions between segments of the income and expenditure account,
- reallocation of insurance costs to other services costs as presented in the management reporting, and
- removal of Trading accounts income and expenditure and Investment properties income so that they are shown in the Other operating expenditure and Financing and investment line of the Comprehensive income and expenditure account.

## 7 Major classes of cash receipts and payments (Comprehensive income and expenditure statement)

The movements in our Comprehensive income and expenditure statement include the following:

- Housing benefit payments £36.0m
- Government grant received in respect of housing benefit paid to the Council £34.9m
- Income from sales, fees and charges and rents £19.1m
- Government grant received in respect of sales, fees and charges £7.7m
- Employee costs £30.1m

## 8 Events after the Balance sheet date

If anything happens after the end of the year and before we issue the Statement of accounts, we will either amend the accounts if it affects anything we reported on in the year or add a note to say how it will affect future years.

## 9 Adjustments to expenditure to arrive at the final charge to council tax

### *Accounting Policy*

*We set aside specific amounts as reserves for future purposes, or to cover contingencies, or to deal with the local authority legal requirements for capital and pension accounting. Reserves are created by moving amounts from the General fund in the Movement in reserves statement. When we incur expenditure that is due to be financed from a reserve, we charge it to the appropriate service in the Comprehensive income and expenditure statement. We credit the statement with an equal amount transferred from the reserve so that there is no charge to council tax.*

*The following are the main reserves we include in the Balance sheet.*

| | |
|---|---|
| *Capital adjustment account* | *Includes amounts we have set aside to pay for fixed assets. It also includes capital receipts we have set aside to repay loans and other capital financing transactions, and revaluation gains before 1 April 2007. This is an unusable reserve.* |
| *Capital receipts reserve* | *Represents the money we have received, but not yet spent, from selling assets. This is a usable reserve.* |
| *Earmarked reserves* | *These are usable reserves set aside for a specific purpose.* |
| *Pension reserve* | *Represents the shortfall on assets needed to cover our future pension costs. This is an unusable reserve.* |

| | |
|---|---|
| *Revaluation reserve* | *Shows changes in the value of our fixed assets caused by revaluing them. It only has revaluation gains recognised after 1 April 2007. Any gains before that date are shown in the Capital adjustment account. This is an unusable reserve.* |

The General fund balance movements include movements in Earmarked reserves, which are set aside for specific purposes. The detail of these can be found in note 9.

| Movements in 2019/20 | General fund<br>£ 000 | Capital receipts reserve<br>£ 000 | Capital grants unapplied<br>£ 000 | Total usable reserves<br>£ 000 | Unusable reserves<br>£ 000 | Total reserves<br>£ 000 |
|---|---|---|---|---|---|---|
| **Reversal of items included in the Comprehensive income and expenditure statement (CI&ES)** | | | | | | |
| Depreciation and impairment of non-current assets | (5,454) | | | (5,454) | 5,454 | - |
| Revaluation losses on property, plant and equipment | (12,963) | | | (12,963) | 12,963 | - |
| Change in the market value of investment properties (+gain/-loss) | (2,519) | | | (2,519) | 2,519 | - |
| Amortisation of intangible assets | (134) | | | (134) | 134 | - |
| Capital grants and contributions applied to capital financing | 1,036 | | | 1,036 | (1,036) | - |
| Revenue expenditure funded from capital under statute | (2,618) | | | (2,618) | 2,618 | - |
| Gain or loss on the disposal of non-current assets | 1,726 | (3,576) | | (1,850) | 1,850 | - |
| Statutory Account for Unrealised Gain & Losses on Investments | (240) | | | (240) | 240 | - |
| **Inclusion of items not included in the CI&ES** | | | | | | |
| Capital expenditure charged to the general fund | 42 | | | 42 | (42) | - |
| **Adjustments involving the capital receipts reserve** | | | | | | |
| Asset sale proceeds credited to the CI&ES | 1,158 | (1,202) | | (44) | 44 | - |
| Use of capital receipts to fund new capital spending | | 3,919 | | 3,919 | (3,919) | - |
| Transfers to the housing capital receipts pool | | | | | | - |
| Transfers from deferred capital receipts on receipt of cash | | | | | | - |
| **Adjustments involving the capital grants unapplied account** | | | | | | |
| Reversal of unapplied capital grants and contributions credited to the CI&ES | 5,095 | | (5,095) | | | - |
| CIL grant | 3,719 | | (3,719) | | | |
| Grants applied to capital financing | | | 2,681 | 2,681 | (2,681) | - |
| **Adjustments involving the pension reserve** | | | | | | |
| Reversal of post-employment benefits charged to the CI&ES | (10,599) | | | (10,599) | 10,599 | - |
| Employer's pension contributions paid in the year | 4,051 | | | 4,051 | (4,051) | - |
| **Adjustments involving the collection fund adjustment account** | | | | | | |
| Adjustment for Council Tax collection fund income | 104 | | | 104 | (104) | - |
| Adjustment for Non-domestic rates collection fund income | (2,761) | | | (2,761) | 2,761 | - |
| **Adjustments involving the accumulating compensated absences adjustment account** | | | | | | |
| Difference between costs charged under statutory requirements and those actually charged to the CI&ES | (73) | | | (73) | 73 | - |
| **Total adjustments** | (20,430) | (859) | (6,133) | (27,422) | 27,422 | - |

| Movements in 2020/21 | General fund £ 000 | Capital receipts reserve £ 000 | Capital grants unapplied £ 000 | Total usable reserves £ 000 | Unusable reserves £ 000 | Total reserves £ 000 |
|---|---|---|---|---|---|---|
| **Reversal of items included in the Comprehensive income and expenditure account (CI&ES)** | | | | | | |
| Depreciation and impairment of non-current assets | (7,487) | | | (7,487) | 7,487 | - |
| Revaluation losses on property, plant and equipment | (2,799) | | | (2,799) | 2,799 | - |
| Change in the market value of investment properties (+gain/-loss) | (5,000) | | | (5,000) | 5,000 | - |
| Amortisation of intangible assets | (94) | | | (94) | 94 | - |
| Capital grants and contributions applied to capital financing | 789 | | | 789 | (789) | - |
| Revenue expenditure funded from capital under statute | (1,996) | | | (1,996) | 1,996 | - |
| Gain or loss on the disposal of non-current assets | (1,255) | (1,174) | | (2,429) | 2,429 | - |
| Unrealised gain or loss on Investments | (46) | | | (46) | 46 | - |
| **Inclusion of items not included in the CI&ES** | | | | | | |
| Statutory provision for the financing of capital investment | 275 | | | 275 | (275) | - |
| **Adjustments involving the capital receipts reserve** | | | | | | |
| Asset sale proceeds credited to the CI&ES | 399 | (466) | | (67) | 67 | - |
| Use of capital receipts to fund new capital spending | | 2,841 | | 2,841 | (2,841) | - |
| **Adjustments involving the capital grants unapplied account** | | | | | | |
| Reversal of unapplied capital grants and contributions credited to the CI&ES | 5,057 | | (5,057) | | | - |
| CIL grant | 1,022 | | (1,022) | | | - |
| Grants applied to capital financing | | | 2,755 | 2,755 | (2,755) | - |
| **Adjustments involving the pension reserve** | | | | | | |
| Reversal of post-employment benefits charged to the CI&ES | (10,078) | | | (10,078) | 10,078 | - |
| Employer's pension contributions paid in the year | 7,648 | | | 7,648 | (7,648) | - |
| **Adjustments involving the collection fund adjustment account** | | | | | | |
| Adjustment for Council Tax collection fund income | (177) | | | (177) | 177 | - |
| Adjustment for Non-domestic rates collection fund income | (16,059) | | | (16,059) | 16,059 | - |
| **Adjustments involving the accumulating compensated absences** | | | | | | |
| Difference between costs charged under statutory requirements and those actually charged to the CI&ES | 36 | | | 36 | (36) | - |
| **Total adjustments** | (29,765) | 1,201 | (3,324) | (31,888) | 31,888 | - |

## 10 A detailed assessment of our earmarked reserves

The following table shows details of movements in these reserves.

| Earmarked Reserves | Pensions £ 000 | Contingency £ 000 | Business Rates Reserve £ 000 | Other reserves £ 000 | Total earmarked reserves £ 000 |
|---|---|---|---|---|---|
| Balance at 1 April 2019 | 1,163 | 3,492 | 37 | 1,603 | 6,295 |
| Transfers in | 2,399 | | 1,954 | 1,277 | 5,630 |
| Transfers out | (192) | (450) | (37) | (500) | (1,179) |
| Balance at 31 March 2020 | 3,370 | 3,042 | 1,954 | 2,380 | 10,746 |
| Transfers in | 542 | | 16,797 | 1,045 | 18,384 |
| Transfers out | (2,796) | | (894) | (534) | (4,224) |
| Balance at 31 March 2021 | 1,116 | 3,042 | 17,857 | 2,891 | 24,906 |

a **Pensions**
This reserve was set up to deal with the future effects of costs arising from early retirements and deficits on the pension fund.

b **Contingency reserve**
To meet any unexpected costs including shortfalls on interest income and Business Rate Retention.

c **Business Rates Reserve**
To manage timing differences from payments and income from Business Rates Retention scheme. Due to various reliefs introduced by the Government to help businesses during the pandemic, the income collected was significantly lower than what we estimated and booked based on our NNDR1 return. The deficit will need to be repaid in future years, and the amount that we expect to repay was transferred for this purpose from our General fund to the Business rates reserve.

## 11 Other operating expenditure

| 2019/20 | | | Other operating expenditure | 2020/21 | | |
|---|---|---|---|---|---|---|
| Gross spending £ 000 | Income £ 000 | Net spending £ 000 | | Gross spending £ 000 | Income £ 000 | Net spending £ 000 |
| 2,540 | - | 2,540 | Parish council precepts | 2,632 | - | 2,632 |
| 3,602 | (3,320) | 282 | (Gains) or losses on trading operations (note 25) | 3,556 | (3,535) | 21 |
| - | (1,726) | (1,726) | (Gain) or losses on disposal of non-current assets | 1,255 | - | 1,255 |
| - | (1,158) | (1,158) | (Gain) or losses on disposal of unattached assets | - | (399) | (399) |
| 6,142 | (6,204) | (62) | | 7,443 | (3,934) | 3,509 |

## 12 Financing and investments

| 2019/20 | | | Financing and investments | 2020/21 | | |
|---|---|---|---|---|---|---|
| Gross spending £ 000 | Income £ 000 | Net spending £ 000 | | Gross spending £ 000 | Income £ 000 | Net spending £ 000 |
| - | (765) | (765) | Interest and investment income (note 16) | - | (458) | (458) |
| 14 | - | 14 | Interest we have to pay (note 16) | 24 | - | 24 |
| 240 | - | 240 | Other unrealised investment income or loss | 46 | - | 46 |
| 2,288 | - | 2,288 | Pensions interest (note 33) | 2,068 | - | 2,068 |
| 2,519 | - | 2,519 | Revaluation of investment properties | 5,000 | - | 5,000 |
| 2,014 | (5,965) | (3,951) | Investment properties (note 25) | 995 | (4,587) | (3,592) |
| 7,075 | (6,730) | 345 | | 8,133 | (5,045) | 3,088 |

## 13 Taxation and non-specific grants

| 2019/20 | | | Taxation & general grants | 2020/21 | | |
|---|---|---|---|---|---|---|
| Gross spending £ 000 | Income £ 000 | Net spending £ 000 | | Gross spending £ 000 | Income £ 000 | Net spending £ 000 |
| - | (29,461) | (29,461) | National non-domestic rates | - | (15,063) | (15,063) |
| 27,068 | (2,583) | 24,485 | Government tariff and s31 grants | 27,509 | (19,973) | 7,536 |
| - | (15,526) | (15,526) | Demand on the collection fund | - | (16,137) | (16,137) |
| 101 | (13,705) | (13,604) | Capital grants, New homes bonus, contributions to/from the Business rates pool and other grants and contributions | 829 | (13,639) | (12,810) |
| 27,169 | (61,275) | (34,106) | | 28,338 | (64,812) | (36,474) |

## 14 Movements on our assets

Independent external valuers are used to revalue our properties. The valuations were undertaken by Montagu Evans on the 31st March 2021. In 2019/20 the valuations were prepared on the basis of 'material uncertainty' which resulted in a higher degree of caution being attached to the valuations by the valuer. Given the unknown future impact that Covid-19 might have on assets, they recommended that the valuations were kept under frequent review. With reference to this recommendation the following assets were valued in 2020/21:-

All Investment Properties
All Surplus Assets
Other Land and Buildings – Car Parks, Specialised Operational Assets and those assets with a value in excess of £2m

The assets the Council holds have not materially altered but there are changes to value and/or economic lives of assets. The impact of these changes does not result in any real change in the financial health of the authority or its ability to provide its services.

The new valuation of Council's car parks has identified a significant fall in values compared to last year. In 2019/20 the value of the car parks was £83m. The valuation at the 31/3/2021 was £51m, a reduction of £32m or £39%. This is as a direct result of Covid 19 and a reduction in the income from the car parks.

All valuations are in line with the Statement of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors. The valuer did not inspect all our properties, as this was not possible or necessary.

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***Accounting policies***

*<u>Charges to Revenue for Assets</u>*

*We charge service revenue accounts, central support services and trading undertakings for all the fixed assets they use to provide their services. There are depreciation charges that cover the estimated loss in value over time of physical assets that each service has used which are spread on a straight-line basis over the asset's life.*

*<u>Investment Properties</u>*

*Investment properties are those we use solely to earn rentals or hold in the expectation that they will increase in value. The property cannot be used to deliver Council services.*
*Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not*

*depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.*

*We credit rental income from the properties to the Financing and investment income line in the accounts. We add any revaluation gains to the Financing and investment income and expenditure line in the Comprehensive income and expenditure statement but reverse them out before they affect council tax.*

*Property, Plant and Equipment (PPE)*

*PPE are physical assets used in providing Council services. They must provide benefit for more than one financial year.*

*Spending on capital assets is recorded in our accounts when the work has been done, or when the asset has been delivered to us, rather than when we actually pay for it.*

*Different types of asset are valued as follows:*

*•Vehicles and equipment such as lorries, computers or lawnmowers are valued at cost of buying them.*
*•Community assets such as parks are valued at historic cost,unless the external valuers identify a more appropriate value.*
*• Infrastructure such as bridges are valued at depreciated historical cost*
*•Other assets such as land and buildings are valued at price that would be paid for the asset in its existing use. Where there is no market-based evidence because the asset is so specialist, they are valued at depreciated replacement cost.*
*•Assets Held for Sale, when it becomes highly likely that an asset will be sold then the asset is revalued immediately before reclassification and then carried at the lower of this amount and its fair value less costs to sell.*
*•Surplus assets are those not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or assets held for sale. The fair value of surplus assets is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.*

*All Investment, Surplus and large assets with a value in excess of £2m are revalued every year. All other assets will be revalued at least once every three years. However, if there is evidence of a big change in an asset's value in any year, we will revalue that asset immediately.*

*Increases in revaluations result in the property, plant and equipment values rising and a credit being made to the Revaluation reserve to recognise the unrealised gain. The unrealised gain means the asset is now worth more, but we have not sold it and realised that gain. Sometimes, if the asset had previously suffered a loss, the gain on revaluation will be credited to the Comprehensive income and expenditure statement, but the effect will be removed before it affects council tax.*

*We charge decreases in valuations as follows:*
*•If there is a balance on the Revaluation reserve from previous gains, we charge decreases against those gains.*
*•If there is no balance on the Revaluation reserve or if it is insufficient, we charge the shortfall to the Comprehensive income and expenditure statement. This is reversed out before it affects council tax.*

*Sometimes an asset falls in value because part of it has broken or worn out (impairment), for example if a roof starts to leak and needs to be replaced. The Council reviews its assets annually for these impairments. When an impairment occurs, we charge it as follows:*

*•When there is a balance in the Revaluation reserve, the impairment will be charged there.*
*•Where there is no balance on the Revaluation reserve, we make a charge to the service that uses the asset. This is reversed out before it affects council tax.*

*When we are deciding whether to reduce the value of our assets, we use the following rules:*

*We reduce the value of most of our assets steadily throughout their useful lives from the time they are ready for use (depreciation). The exceptions to this are community assets, freehold investment properties and other assets held for sale (but only from the date we have decided to sell them).*

*If the Council still owns equipment and intangible assets where they are fully depreciated, we take a decision to revalue them only if their value is over £10,000. Otherwise the asset is written out of the Balance sheet on disposal.*

*The useful lives we have decided on for our assets are estimates and depend on the type of asset. We have set out below the shortest and longest time we expect each type of asset to be valuable:*

| | |
|---|---|
| *•Buildings* | *5 -39 years* |
| *•Vehicles and equipment* | *2-25 years* |

*We decide each year whether the useful lives figures are still appropriate.*

*Any gain in the value of the asset recorded in the Revaluation reserve is reduced every year as the asset depreciates. This reflects the change in value as an asset wears out, or becomes less useful. It is generally the cost to buy the asset minus any money we expect to gain from selling the asset, divided by the number of years the asset will be useful. We show the falling value of assets through a charge to the Capital adjustment account.*

*Amounts received for a disposal in excess of £10,000 are categorised as capital receipts.*

| PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT ASSETS) | Other land and buildings £ 000 | Vehicles and equipment £ 000 | Infra-structure £ 000 | Community assets £ 000 | Assets being built £ 000 | Surplus assets £ 000 | Total £ 000 |
|---|---|---|---|---|---|---|---|
| Net book value on 1 April 2019 (after depreciation) | 125,225 | 7,795 | - | 4,910 | 34,319 | 5,564 | 177,813 |
| Total book value on 1 April 2019 | 135,020 | 17,222 | - | 4,910 | 34,319 | 5,571 | 197,042 |
| Assets we have transferred | 41,175 | 8 | 133 | 35 | (42,466) | 1,689 | 574 |
| Assets we have bought or improved | 1,181 | 2,457 | | 70 | 9,727 | 45 | 13,480 |
| Assets that were donated | | | | 29 | | | 29 |
| Adjustment to accruals for assets we bought | | | | | | | - |
| Assets we have sold | (1,091) | (420) | | | | | (1,511) |
| Assets no longer required | | (494) | | | | | (494) |
| Assets we have impaired | | | | | | | - |
| Assets revalued | 40,007 | | | (452) | | (1,051) | 38,504 |
| Total book value on 31 March 2020 | 216,292 | 18,773 | 133 | 4,592 | 1,580 | 6,254 | 247,624 |
| | | | | | | | |
| Depreciation and impairment on 1 April 2019 | 9,795 | 9,427 | - | - | - | 7 | 19,229 |
| Assets we have transferred | | | | | | | - |
| Revaluation adjustment | | | | | | | - |
| Amounts written out on assets we have sold | (10) | (846) | | | | | (856) |
| Impairments recognised in the cost of provision of services | | | | | | | - |
| Impairments recognised in the revaluation reserve | | | | | | | - |
| Impairments written out | | | | | | | - |
| Depreciation written out | (3,960) | | | | | (19) | (3,979) |
| Depreciation for the year | 3,666 | 1,770 | 4 | | | 13 | 5,453 |
| Depreciation on 31 March 2020 | 9,491 | 10,351 | 4 | - | - | 1 | 19,847 |
| Net book value on 31 March 2020 (after depreciation) | 206,801 | 8,422 | 129 | 4,592 | 1,580 | 6,253 | 227,777 |

| PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT ASSETS) | Other land and buildings £ 000 | Vehicles and equipment £ 000 | Infra-structure £ 000 | Community assets £ 000 | Assets being built £ 000 | Surplus assets £ 000 | Total £ 000 |
|---|---|---|---|---|---|---|---|
| Net book value on 1 April 2020 (after depreciation) | 206,801 | 8,422 | 129 | 4,592 | 1,580 | 6,253 | 227,777 |
| Total book value on 1 April 2020 | 216,292 | 18,773 | 133 | 4,592 | 1,580 | 6,254 | 247,624 |
| Assets we have transferred | 1,000 | 197 | - | 141 | (1,338) | 680 | 680 |
| Assets we have bought or improved | 3,064 | 1,839 | 66 | 4 | 954 | 393 | 6,320 |
| Assets that were donated | | | | | | | - |
| Adjustment to accruals for assets we bought | | | | | | | - |
| Assets we have sold or disposed of | (10,167) | (286) | | | | (221) | (10,674) |
| Assets no longer required | | (618) | | | | | (618) |
| Assets we have impaired | | | | | | | - |
| Assets revalued | (37,439) | | | | | 29 | (37,410) |
| Total book value on 31 March 2021 | 172,750 | 19,905 | 199 | 4,737 | 1,196 | 7,135 | 205,922 |
| | | | | | | | |
| Depreciation on 1 April 2020 | 9,491 | 10,351 | 4 | - | - | 1 | 19,847 |
| Assets we have transferred | | | | | | | - |
| Revaluation adjustment | | | | | | | - |
| Amounts written out on assets we have disposed of | (9,470) | (885) | | | | (5) | (10,360) |
| Impairments recognised in the cost of provision of services | | | | | | | - |
| Impairments recognised in the revaluation reserve | | | | | | | - |
| Impairments written out | | | | | | | - |
| Depreciation written out | (5,197) | | | | | (13) | (5,210) |
| Depreciation for the year | 5,525 | 1,939 | 7 | | | 17 | 7,488 |
| Depreciation on 31 March 2021 | 349 | 11,405 | 11 | - | - | - | 11,765 |
| Net book value on 31 March 2021 (after depreciation) | 172,401 | 8,500 | 188 | 4,737 | 1,196 | 7,135 | 194,157 |

| FAIR VALUE OF PROPERTY, PLANT AND EQUIPMENT | Other land and buildings £ 000 | Vehicles and equipment £ 000 | Infra-structure £ 000 | Community assets £ 000 | Assets being built £ 000 | Surplus £ 000 | Total £ 000 |
|---|---|---|---|---|---|---|---|
| Historic cost | 3,815 | 19,905 | 199 | 4,715 | 1,196 | - | 29,830 |
| Carrying fair value at: | | | | | | | |
| 31 March 2021 (valuation date 31/03/2021 ) | 159,404 | | | | | 7,135 | 166,539 |
| 31 March 2020 (valuation date 31/03/2020 ) | 9,531 | | | 22 | | | 9,553 |
| 31 March 2019 (valuation date 30/11/2018 & 31/03/2019 ) | | | | | | | - |
| 31 March 2018 (valuation date 31/12/2017 & 31/03/2018) | | | | | | | - |
| 31 March 2017 (valuation date 31/12/2016) | | | | | | | - |
| Total | 172,750 | 19,905 | 199 | 4,737 | 1,196 | 7,135 | 205,922 |

| INVESTMENT PROPERTIES (NON-CURRENT ASSETS) | 2019/20 | | | 2020/21 | | |
|---|---|---|---|---|---|---|
| | Assets being built £ 000 | Assets £ 000 | Total £ 000 | Assets being built £ 000 | Assets £ 000 | Total £ 000 |
| Balance on 1 April | - | 79,324 | 79,324 | 20 | 79,252 | 79,272 |
| Additions | | | | | | |
| Properties we bought | | 3,570 | 3,570 | | | - |
| Properties we built | | | - | | | - |
| Properties we improved | (56) | 211 | 155 | 4 | 172 | 176 |
| Disposals | | (685) | (685) | | (1,492) | (1,492) |
| Net gain or (loss) from fair value adjustments | | (2,519) | (2,519) | | (5,000) | (5,000) |
| Transfers (to) or from | | | | | | |
| Stocks | | | - | | | - |
| Property, plant and equipment | 76 | (649) | (573) | | (680) | (680) |
| Other changes | | | - | | | - |
| Balance on 31 March | 20 | 79,252 | 79,272 | 24 | 72,252 | 72,276 |

The operating costs and income from our investment properties can be found in note 25 of the notes to the main financial statements.

| Recurring fair value measurements using: | Other significant observable inputs (Level 2) £ 000 | Significant unobservable inputs (Level 3) £ 000 | Fair value as at 31 March 2020 £ 000 |
|---|---|---|---|
| Commercial Site | 22,506 | | 22,506 |
| Development site | 6,171 | 809 | 6,980 |
| Pending Sale | | | - |
| Residential (market rental) properties | 296 | | 296 |
| Retail Sites | 49,470 | | 49,470 |
| Balance on 31 March 2020 | 78,443 | 809 | 79,252 |

| Recurring fair value measurements using: | Other significant observable inputs (Level 2) £ 000 | Significant unobservable inputs (Level 3) £ 000 | Fair value as at 31 March 2021 £ 000 |
|---|---|---|---|
| Commercial Site | 21,761 | | 21,761 |
| Development site | 4,494 | 891 | 5,385 |
| Pending Sale | | | - |
| Residential (market rental) properties | 296 | | 296 |
| Retail Sites | 44,810 | | 44,810 |
| Balance on 31 March 2021 | 71,361 | 891 | 72,252 |

The categorisation of assets involves the valuers making a judgement based on the latest available information. There have not been any changes to the categorisation of assets this year.

## Funding our capital expenditure

We incurred the following amounts of capital expenditure in the year, including assets acquired through finance leases. We have shown these, together with a statement of the resources used to finance the expenditure below. The balance on the capital financing requirement is £14.409m, At the end of the year we have an external debt of £0.635m (finance lease) and £13.774m internal borrowing against reserves.

| CAPITAL EXPENDITURE AND CAPITAL FINANCING | 2019/20 | 2020/21 |
|---|---|---|
| | £ 000 | £ 000 |
| Opening capital finance requirement at 1 April | - | 12,387 |
| | | |
| Expenditure on | | |
| Property plant and equipment | 13,509 | 6,320 |
| Investment properties | 3,725 | 176 |
| Heritage assets | | |
| Intangible assets | 212 | 146 |
| Renovation Loans | 2,618 | 2,041 |
| | | |
| Less sources of finance | | |
| Capital receipts | (3,919) | (2,841) |
| Government grants and other contributions | (3,716) | (3,544) |
| Revenue funding | | |
| Minimum revenue provision | (42) | (275) |
| | | |
| **Capital financing requirement at 31 March** | **12,387** | **14,410** |

## 15 Heritage assets

### *Accounting Policies*

*Heritage assets*

*Heritage assets are items the Council owns that have historic importance. These may be on display in the Council's museums or in safe storage. The Council has, since 2011/12, been required to include valuations of its heritage assets in its accounts.*

*The Council reviews its Heritage assets every year as part of its insurance valuation process. Details on the methods used are shown below.*

*The Council records its heritage assets under the following headings:*

1. *Archaeology and Numismatics*
2. *Pottery, drinking glasses and pewter*
3. *Works of art*
4. *Natural History taxidermy, botanical and geological specimens*
5. *Social, agricultural and industrial history, including costume*
6. *Statues*
7. *Mayor's office*
8. *Small-value items*

*Valuations have been made using a range of methods; external valuers, in house experts, indexation and average valuations for groups of items.*

*The Council adds to its collection regularly. However, these are not expensive or numerous purchases of heritage assets. We occasionally receive donated items, usually for Hylands House, and these will be recorded at valuation on their acceptance by the Council. Hylands House is not a heritage asset as it is used as a venue for weddings and corporate meetings, for which the Council charges fees.*

*We revalue any heritage assets that suffer damage. We do not normally dispose of or sell heritage assets.*

*The collections of the Essex Regiment Museum are owned by separate Trustees, under a 25-year management agreement with the Council signed in March 1999. It stipulates that the Council will insure the regimental collections in the same way as it insures its own Chelmsford Museum collections. However, we do not include regimental collections in our Balance sheet valuations.*

*Heritage Valuers*

*We have used the following external valuers to value our heritage assets.*

- *David S. Moulson, MBE, BSc (pewter valuations)*

- *Sotheby's the auction house, Seabys (international coin sellers) and J & S Rogers (silversmiths)*
- *Robert Dalgety*

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**Heritage assets by category**

| Heritage Assets | Archaeology and Numismatics £ 000 | Natural History taxidermy, botanical and geological specimens £ 000 | Pottery, drinking glasses and pewter £ 000 | Social, agricultural & industrial history, including costume £ 000 | Statues £ 000 | Mayor's Office £ 000 | Works of Art £ 000 | Total £ 000 |
|---|---|---|---|---|---|---|---|---|
| 1st April 2019 | 229 | 235 | 498 | 1,183 | 500 | 149 | 1,107 | 3,901 |
| Additions | | | | | | | | - |
| Revaluations | 8 | 8 | 20 | 48 | 15 | 4 | 36 | 139 |
| 31 March 2020 | 237 | 243 | 518 | 1,231 | 515 | 153 | 1,143 | 4,040 |
| Additions | | | | | | | | - |
| Revaluations | 11 | 11 | 23 | 55 | 23 | 7 | 58 | 188 |
| 31 March 2021 | 247 | 254 | 541 | 1,287 | 538 | 160 | 1,201 | 4,229 |

**Commentary on movements**

The revaluations for Heritage Assets reflect indexing of all assets in line with insurance estimates plus one revaluation of an item based on a similar item being sold for the same amount.

**Overview of our collection**

Heritage assets owned by Chelmsford City Council are held by the Museums Service. Most are displayed at the Chelmsford Museum in Oaklands Park, or stored in a warehouse at South Woodham Ferrers.

The industrial and agricultural collections are held at Sandford Mill where they are displayed or stored.

Some works of art and other items are displayed at Hylands House.

Mayoral regalia and mayoral gifts are held at the Civic Centre.

Chelmsford Museum is accredited with the Arts Council England Scheme (Number 579), which recognises minimum required standards for collections, care, visitor services and constitutional arrangements.

The Museum collection is added to from time to time, mainly through donation of objects by members of the public, but also by some purchase of objects. An Acquisition & Disposals Policy sets out the different strengths of the collection, current collecting themes, and criteria for collecting (broadly, items made or used in the City of Chelmsford). No material purchases or disposals have occurred in the last two years.

## 16 Categories of financial assets and liabilities

***Accounting policy***

*We record our investments and borrowings in the following ways:*

- *Most of our investments are deposits with banks, building societies or other UK local authorities. These assets generate payments solely of principal and interest. We must show their value on the balance sheet, including interest yet to be paid to the Council. Any interest received or due at the balance sheet date is shown in the Comprehensive income and expenditure statement. These types of investment are measured at amortised cost in accordance with IFRS9.*
- *We also invest some money in Pooled Investment Funds. Payments from these funds are not solely principal and interest as they are equity instruments with the Council earning dividends and redeeming shares at the prevailing market rate. The Council accounts for these as Fair Value through Profit and Loss (FVPL) in accordance with IFRS9.*
- *The income from the "FVPL" investments is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable.*
- *If the value of an FVPL asset changes from the price that it was originally invested at then the balance sheet shows the investment at its valuation at the balance sheet date. The difference between these values, being an unrealised gain or loss is charged to revenue and reversed out to the Pooled Funds Adjustment Account before it has impact on Council Tax. The cumulative gain or loss held in the Pooled Funds Adjustment Account is charged to Comprehensive Income and Expenditure Statement when the investment is sold.*
- *All our borrowing is shown on the balance sheet, including any interest owed by the Council. Interest payable for the accounting period is charged to the Comprehensive income and expenditure statement.*

*Impairment provisions for financial assets*

***Investments***

*The Council also makes impairment provisions against non-trade receivable financial assets in line with IFRS9 (if material). 12 month expected credit losses are applied to all assets held at amortised cost, with reviews made for lifetime losses where credit risk has increased significantly.*

*On recognition Council makes a provision (if material) for 12 month expected credit losses on all of its financial assets held at amortised cost, excluding investments in the UK Government and other local authorities.*

*Should the risk of loss increase significantly for a specific asset or category of assets then the provision will be increased to represent lifetime credit losses. This provision is charged to the Comprehensive income and expenditure statement and reduces the carrying value of the financial assets on the balance sheet. Loss provisions are not required for assets held at Fair Value through Profit and Loss (FVPL) because current market prices as recorded in the accounts reflects market expectations of credit risk.*

*In line with CIPFA guidance, investments with the UK Government and UK Local Authorities are exempted from loss provisions.*

***Trade receivables, lease receivables and contract assets***

*Impairment provisions for trade receivables, lease receivables and contract assets follow the simplified method as set out in the CIPFA code, where lifetime expected credit losses are provided for. For trade receivables Council makes specific allowances for known assets facing increased credit risk and then makes further provision for its receivables on a collective basis using historical patterns experienced by the authority.*

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The tables below show the categorisation of our financial assets and liabilities:

| 2019/20 | | | | 2020/21 | | |
|---|---|---|---|---|---|---|
| Investments<br>£ 000 | Cash & cash equivalents<br>£ 000 | Receivables & payables<br>£ 000 | **SHORT-TERM** | Investments<br>£ 000 | Cash & cash equivalents<br>£ 000 | Receivables & payables<br>£ 000 |
| | | | **Financial assets** | | | |
| | 12,973 | | Fair value through profit or loss | | 22,470 | |
| 17,078 | 14,405 | 17,678 | Amortised cost | 8,033 | 10,204 | 15,169 |
| 17,078 | 27,378 | 17,678 | **Total financial assets** | 8,033 | 32,674 | 15,169 |
| 17,078 | 27,378 | 17,678 | **Total assets** | 8,033 | 32,674 | 15,169 |
| | | | **Financial liabilities** | | | |
| | | (4,784) | Amortised cost | | (162) | (3,770) |
| - | - | (4,784) | **Total financial liabilities** | - | (162) | (3,770) |
| - | - | (4,784) | **Total liabilities** | - | (162) | (3,770) |

| 2019/20 | | LONG-TERM | 2020/21 | |
|---|---|---|---|---|
| Investments £ 000 | Receivables & payables £ 000 | | Investments £ 000 | Receivables & payables £ 000 |
| | | **Financial assets** | | |
| 6,482 | | Fair value through profit or loss | 6,436 | |
| | 1,792 | Amortised cost | | 1,275 |
| 6,482 | 1,792 | **Total financial assets** | 6,436 | 1,275 |
| 6,482 | 1,792 | **Total assets** | 6,436 | 1,275 |
| | | **Financial liabilities** | | |
| | (4,860) | Amortised cost | | (3,926) |
| - | (4,860) | **Total financial liabilities** | - | (3,926) |
| - | (4,860) | **Total liabilities** | - | (3,926) |

## Fair value

The fair value is calculated by comparing investments made during the year to the interest rates available on 31 March 2021 for new investments that would end at the same time. The difference in value is because different market interest rates than would be available at the year-end date.

The following table sets out this difference between the reporting value and the fair value of the Council's assets:

| Fair Value | 31 March 2020 | | 31 March 2021 | |
|---|---|---|---|---|
| | Reporting £ 000 | Fair value £ 000 | Reporting £ 000 | Fair value £ 000 |
| **Financial assets** | | | | |
| Investments and cash equivalents | 50,879 | 50,929 | 47,107 | 47,092 |
| Cash | 59 | 59 | 37 | 37 |
| Leasing debtor | | | | |
| Long-term receivables | 1,792 | 1,792 | 1,275 | 1,275 |
| **Financial liabilities** | | | | |
| Cash | - | - | (162) | (162) |

The following table provides a breakdown of the valuation technique for our financial assets measured at fair value through profit and loss.

Money Market Funds have been excluded because there are regular changes in invested sums and due to MMF regulations the actual fair value price would always be £1 unless a fund was impaired.

| Financial assets measured at fair value | | | | |
|---|---|---|---|---|
| Recurring fair value measurements | Input level in fair value hierarchy | Valuation technique to measure fair value | 31st March 2020 £ 000 | 31st March 2021 £ 000 |
| Local Authority Property Fund | Level 1 | Unit Prices | 6,482 | 6,436 |
| Total | | | 6,482 | 6,436 |

**The risks we face when we invest in financial instruments, and how to reduce those risks**

The Council has money that it is not planning to spend straightaway, so it is invested to earn interest. When we invest millions of pounds, we must consider what could go wrong and how to avoid or minimise these dangers or risks. There are three main types of risk: credit risk, liquidity risk and market risk. This section explains what these risks are and how we manage them to try to avoid them or reduce the effect when things go wrong.

Our risk-management process looks at the unpredictability of financial markets and tries to minimise any adverse effects on the resources available to pay for services.

**Credit risk: Treasury Investments**

This is the danger that once we have invested money with another organisation they fail to pay interest or repay the original investment.

We will only invest in certain types of investment and place limits in the total we will invest with any one counter party or group. We estimate how safe an investment is depending on how likely it is that the organisation will be able to repay the money. How we measure this depends on the type of organisation but this includes credit ratings, CDS swap information and advice from the Council's treasury advisors.

We present reports to Council meetings at the beginning of every year and half way through it to agree who we can lend money to. The type of investment we choose can help to reduce the risk of failure. The table below gives the types and the maximum amounts that can be invested, as set out in the Council's Treasury Management Strategy (limits approved at February 2020 Full Council meeting).

The table below summarises the credit risk exposures of the Council's treasury investment portfolio by credit rating and remaining time to maturity:

| 2019/20 | | Credit Rating | 2020/21 | |
|---|---|---|---|---|
| Short term | Long term | | Short term | Long term |
| £ 000 | £ 000 | | £ 000 | £ 000 |
| 3,007 | | AAA | | |
| | | AA+ | | |
| | | AA | | |
| 6,023 | | AA- | 3,018 | |
| 3,004 | | A+ | 2,148 | |
| 1,324 | | A | | |
| | | A- | | |
| | | BBB+ | | |
| 18,067 | | Unrated local authorities | 13,034 | |
| | | Unrated Building Societies | | |
| | | Unrated Housing Associations | | |
| 12,972 | 6,482 | (pooled funds) | 22,470 | 6,436 |
| 44,397 | 6,482 | Total | 40,670 | 6,436 |

The table below details the counterparties approved in the Council's Treasury Management Strategy for 2020/21:

| Investments | Minimum Credit Criteria | Max. Limit £m | Max. maturity period |
|---|---|---|---|
| Enhanced Money Market Funds (Variable Unit Price) Up to 5 funds | AAA | £6m each fund | 2-5 day notice |
| Money Market Funds (per fund) | AAA | £6m each fund | Instant access |
| Debt Management Agency Deposit Facility, Government Treasury Bills or Gilts | UK Government | No Limit | 5 years |
| CCLA Local Authority Property Fund | Unrated | £8m | n/a |
| Local Authorities / Bank Deposits Collateralised (guaranteed against local authority loans) | UK Government | £10m for each authority | 5 years |
| UK Banks | A- | £3m each group | 364 days |
| Building Societies | A- | £3m each group | 364 days |
| Non-UK Banks | AA- | £3m each group | 364 days |
| Non-UK Banks | A- | £3m each group | 100 days |
| Registered Social Landlord Loans (these deposits would be guaranteed on RSL assets or similar) | A- | £3m each | 364 days |
| Covered Bonds (per bond) | AA- | £6m | 3 years |
| Reverse Repurchase Agreements | AA- | £6m | 364 days |
| Supranational Bonds (per institution) | AAA | £6m | 3 years |
| Multi asset or bond funds | Unrated | £5m per fund | n/a |
| Challenger Banks e.g. Aldermore, Metro etc | Unrated | Delegate to Treasury Mgt committee authority to determine criteria to invest up to £3m | |

The Council calculates expected credit losses with reference to historic default data, credit ratings and any collateral protecting an investment. 12 month expected credit losses are not material for the Council's investment portfolio. Losses will be allowed for against an investment that suffers a significant increase in credit risk, but none have been experienced in the year ending 31/03/2021.

**Credit risk: trade receivables**

Debtors are our customers for services which are not included in Council Tax and non-domestic rates payments. In the past, some customers have failed to pay us money they owe us, so credit risk applies to them. The level of past default is based on our provision for bad debts from our customers over the last three years. We have adjusted this to reflect the number of customers we think are unlikely to pay their debt. The nature of these debts varies, and this determines how we control and collect them. The debts are monitored so that at set trigger points, such as the age of the debt, or size of debt, we take specific action. Sometimes we have to accept that it would cost more to recover money than to lose it. However, because we are a public service we sometimes have to provide services even if the risk of the customer being unable to pay is higher than private companies would accept.

The age of our debt is shown in the following table (this does not include debts for council tax and NDR).

| 2019/20<br>£ 000 | Age of debt | 2020/21<br>£ 000 |
|---|---|---|
| 11,336 | Less than three months | 9,417 |
| 2,098 | Three to six months | 784 |
| 678 | Six months to a year | 858 |
| 3,566 | More than a year | 4,110 |
| 17,678 | | 15,169 |

We monitor repayment of all debts rigorously.

**Liquidity risk**

This is the risk that we do not have enough cash in our bank accounts to pay our bills or staff. We control this risk by prioritising access to liquid cash in our investment strategy. In the event of unexpected shortages due to unforeseen expenses or failure of borrowers to repay us promptly, we have access to borrowing from other local authorities and the money markets. We have no long-term borrowings.

The table below shows the expected maturity profile for our financial assets:

| 2019/20<br>£ 000 | Financial assets returned to the Council | 2020/21<br>£ 000 |
|---|---|---|
| 44,397 | Less than three months, including cash equivalents | 35,670 |
| - | Three to six months | - |
| - | Six months to a year | 5,001 |
| 6,482 | More than a year | 6,436 |
| 50,879 | | 47,107 |

**Market risk: interest rates**

This is the possibility that the value and amount of income we receive from our investments will fall because of changes in interest rates or market prices. The Council plans its investment to invest more at fixed rates when interest rates are falling and more at variable rates when interest rates are rising.

As a significant proportion of our investments are in bank and local authority deposits, their value does not change in our accounts. We must note in our accounts the effect, if there had been one, of a 1% change in interest rates on our variable investments in 2020/21. The effect of a 1% increase in interest rates would have resulted in an extra income of £193,000 on variable rate investments. If interest rates had fallen by 1%, the loss of interest would have been the same amount.

**Market risk: price risk**

A proportion of our investments are in pooled funds and so their value is determined by market prices at the reporting date. The Council's investment in money market funds are not materially exposed to price risk due to the controls on volatility in these funds.

However, the Council's CCLA property fund investment is subject to price changes arising from a change in the value of commercial property, although any losses would be unrealised unless the Council elected to sell the asset.

A 5% fall in commercial property prices at 31st March 2021 would result in a £314k (2020: £315k) charge to the Comprehensive income and expenditure statement, which would be reversed out unless the asset was sold.

The original CCLA investment of £5m means that an unrealised gain is currently held of £1.4m which helps protect capital values against future losses.

## 17 Major commitments under capital contracts

We were legally committed to the following scheme on the 31st March 2021;

Housing Infrastructure Fund (HIF) Access Road and Bridge £3.2m

## 18 Debtors

| 2019/20 £ 000 | Debtors | 2020/21 £ 000 |
|---|---|---|
| 390 | Government departments | 3,838 |
| 1,895 | Other local authorities | 2,925 |
| 14,218 | Sundry debts owed by other organisations and individuals | 11,986 |
| 2,705 | HB overpayments | 2,585 |
| 7,319 | Other debtors *** | 30,549 |
| (2,412) | Debts we may not be able to collect | (3,243) |
| 24,115 | | 48,640 |

*** Other debtors include money owed to us by Coucil tax and NNDR ratepayers and by the Collection Fund Preceptors.

The significant year on year increase in other debtors is mainly due to large deficit on the collection fund resulting in money owed to us by the preceptors. The table below provides more detailed breakdown for the other debtors.

| 2019/20 £ 000 | Other debtors | 2020/21 £ 000 |
|---|---|---|
| | NNDR Preceptors | 19,016 |
| 4,251 | CT Preceptors | 7,268 |
| 1,175 | NNDR ratepayers | 2,143 |
| 1,868 | Council Tax ratepayers | 2,116 |
| 25 | Money owed by Council's employees | 6 |
| 7,319 | | 30,549 |

## 19 Cash and cash equivalents

### *Accounting Policy*

*Cash is represented by cash in hand and balances with banks where we can access the money within a day. Cash equivalents are investments that when made, last no longer than 100 days and where the amount we will receive is not subject to any material change in value.*

| 2019/20 £ 000 | Cash & cash equivalents | 2020/21 £ 000 |
|---|---|---|
| 38 | Cash held by officers | 37 |
| 21 | Bank current accounts | (162) |
| 27,319 | Cash equivalents (short-term deposits) | 32,637 |
| 27,378 | | 32,512 |

## 20 Creditors

| 2019/20 Restated £ 000 | Creditors | 2020/21 £ 000 |
|---|---|---|
| 4,418 | Government departments | 27,388 |
| 5,374 | Other local authorities | 5,944 |
| 3,924 | Sundry creditors with other organisations and individuals | 2,571 |
| 1,798 | Receipts in advance from sundry creditors | 2,176 |
| 7,148 | Other creditors *** | 1,503 |
| 22,662 | | 39,582 |

*** Other creditors include money owed to the Coucil tax and NNDR ratepayers including prepayments, money owed to the Collection Fund Preceptors and our employees for their untaken leave.

To help billing authorities with their cash position, the Government paid on account S31 grants to the billing authorities for the whole collection fund, not just the billing authority's share. We therefore have a large creditor, £21.4m, we owe to the Government and will have to repay once the final reconciliation of the S31 grants takes place. The Government's creditors also include £5m non-distributed grant funding for Covid19 support to qualifying businesses that will either be returned to the Government or redistributed to the Businesses in 2020/21, depending on the grant conditions.

## 21 Provisions

### *Accounting policy*

*We put a certain amount of money aside to meet specific service payments we expect to make in the future, if we are not sure how much the payments will be or when we will have to pay them. The money in the provision is charged to the service when the provision is set up.*

| Provisions | NDR appeals £ 000 |
|---|---|
| Balance at 1 April 2019 | 3,688 |
| Transfers in | 1,402 |
| Transfers out | |
| Balance at 31 March 2020 | 5,090 |
| Transfers in | 190 |
| Transfers out | - |
| Balance at 31 March 2021 | 5,280 |
| Explanation | The amount that may be repayable if appeals against NDR valuations are successful |

## 22 Unusable reserves

The following table shows the transfers to and from these reserves. You can find an explanation of the headings at the bottom of the table.

| Unusable Reserves | Revaluation reserve | Capital adjustment account | Pension reserve (note 33) | Collection fund adjustment account | Other unusable reserves | Total unusable reserves |
|---|---|---|---|---|---|---|
| | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 | £ 000 |
| Balance at 1 April 2019 | 59,452 | 202,883 | (97,293) | 951 | 1,233 | 167,226 |
| Change on the reserve during the year | 54,552 | (16,870) | 5,496 | (2,657) | (313) | 40,208 |
| Balance at 31 March 2020 | 114,004 | 186,013 | (91,797) | (1,706) | 920 | 207,434 |
| Change on the reserve during the year | (32,078) | (10,347) | (17,119) | (16,236) | (10) | (75,790) |
| Balance at 31 March 2021 | 81,926 | 175,666 | (108,916) | (17,942) | 910 | 131,644 |
| Explanation | The gains on revaluing our assets since 1 April 2007. See table below for details of movements | Capital spending to be financed from future resources. See table below for details of movements | Our liability to pay future pensions | Adjusting for paid and accrued council tax and NDR | | |

### Revaluation reserve

| 2019/20 £ 000 | Revaluation Reserve | 2020/21 £ 000 |
|---|---|---|
| 59,452 | Opening balance | 114,004 |
| 55,586 | Revaluation of assets | (29,213) |
| | Impairment losses | |
| (145) | Write-out of revaluations of assets we have sold | (67) |
| (889) | Difference between fair value and historic cost depreciation | (2,798) |
| 114,004 | Closing Balance | 81,926 |

We moved any revaluation gains before 1 April 2007, the date the reserve was created, to the Capital adjustment account.

### Capital adjustment account

| 2019/20 £ 000 | Capital Adjustment Account | 2020/21 £ 000 |
|---|---|---|
| 202,883 | Opening balance | 186,013 |
| (5,588) | Allowance for depreciation and amortisation | (7,581) |
| 889 | Less depreciation and amortisation charged to the revaluation reserve | 2,798 |
| (2,618) | Revenue expenditure funded from capital under statute | (1,996) |
| - | Transfer from revaluation reserve on disposals | 67 |
| (12,963) | Impairments and amortisation charged to revenue | (2,799) |
| 42 | Minimum Revenue Provision | 275 |
| (43) | Repaid Capital loan receipts | (67) |
| 7,635 | Application of receipts and contributions | 6,385 |
| (1,705) | Assets disposed of | (2,429) |
| (2,519) | Movements in the value of investment properties in the CI&ES | (5,000) |
| 186,013 | Closing balance | 175,666 |

## 23 Cashflow

| 2019/20 £ 000 | I&E to cash flow | 2020/21 £ 000 |
|---|---|---|
| | **Revenue shortfall or (surplus)** | |
| (2,809) | Movement on the General fund | (6,124) |
| (488) | Provision for bad debts | (831) |
| 2,618 | Revenue funded by capital under statute | 1,996 |
| (42) | Minimum revenue provision | (275) |
| - | Other costs | 6 |
| - | Housing Capital Receipts pool | - |
| (1,157) | Proceeds from asset disposals | (1,174) |
| (4,451) | GF - contribution (to)/from reserves | (14,159) |
| (6,329) | | (20,561) |
| 2,657 | Our part of the collection fund | 16,236 |
| (3,672) | | (4,325) |
| | **Non-cash transactions** | |
| (1,329) | Transfers to reserves | (226) |
| (3,329) | Net throughput on the collection fund | (25,138) |
| (4,658) | | (25,364) |
| | **Change in** | |
| 12 | Stock | (3) |
| (3,140) | Debtors | 24,839 |
| 4,398 | Creditors | (16,967) |
| 1,270 | | 7,869 |
| (7,060) | Net cash inflow or (outflow) from revenue activities | (21,820) |

## 24 Expenditure and Income analysed by nature

The following table provides further analysis of our expenditure and income.

| 2019/20 Restated £ 000 | Expenditure and Income Analysed by Nature | 2020/21 £ 000 |
|---|---|---|
| | **Expenditure** | |
| 37,596 | Employee benefits expenses | 37,433 |
| 65,162 | Other services expenses | 59,728 |
| | Covid19 discretionary grants paid out to businesses and individuals | 6,947 |
| 21,169 | Depreciation, amortisation, impairment | 12,377 |
| 14 | Interest payments | 24 |
| 2,540 | Precepts and levies | 2,632 |
| 2,288 | Pension interest and return on investment | 2,068 |
| (12,044) | Remeasurement of the assets of the pension fund | 14,689 |
| (55,711) | Gain or loss on the disposal and revaluation of Assets | 35,115 |
| 61,014 | Total Expenditure | 171,013 |
| | **Income** | |
| (38,263) | Fees, charges and other services income | (23,353) |
| (765) | Interest and investment income | (458) |
| (15,526) | Income from Council Tax | (16,137) |
| (51,071) | Government grants and other contributions incl Business Rate income,Housing Benefits grants and Covid19 grants | (63,725) |
| | Covid19 Grants and contributions for redistribution to support businesses and individual | (7,088) |
| (9,850) | Capital Grants and contributions | (6,868) |
| (115,475) | Total Income | (117,629) |
| (54,461) | Total expenditure and income | 53,384 |

The following table shows income we received from contracts with service recipients.

| 2019/20 £ 000 | Revenues from contracts with service recipients | 2020/21 £ 000 |
|---|---|---|
| (35,430) | Revenues from contracts with service recipients | (21,940) |
| 218 | Impairments of recievable or contract assets | 244 |
| (35,212) | Total included in Comprehensive Income and Expenditure Statement | (21,696) |

## 25 Trading operations

We must prepare a statement that shows which of our operations work in a commercial environment and aim to cover their costs by charging other parts of the Council, other organisations or people. Any shortfall or surplus we make through trading is taken to the Comprehensive income and expenditure statement.

| 2019/20 | | | Trading accounts not shown in Spending on current services | 2020/21 | | |
|---|---|---|---|---|---|---|
| Gross spending £ 000 | Income £ 000 | Net spending £ 000 | | Gross spending £ 000 | Income £ 000 | Net spending £ 000 |
| | | | **Other operating expenditure** | | | |
| 3,035 | (2,783) | 252 | Grounds maintenance | 2,976 | (2,974) | 2 |
| 567 | (537) | 30 | Vehicle maintenance | 580 | (561) | 19 |
| 3,602 | (3,320) | 282 | | 3,556 | (3,535) | 21 |
| | | | **Financing and investment** | | | |
| 2,014 | (5,965) | (3,951) | Investment properties | 995 | (4,587) | (3,592) |
| 2,014 | (5,965) | (3,951) | | 995 | (4,587) | (3,592) |
| 5,616 | (9,285) | (3,669) | **Total trading activity** | 4,551 | (8,122) | (3,571) |

Our Grounds Maintenance trading operation provides maintenance for public open spaces and recreational grounds owned by the Council, as well as providing grounds maintenance services for external parties.

The Vehicle Maintenance trading operation maintains the Council owned waste and recycling fleet, and additionally provides MOT services and inspections for licenced taxi vehicles for external customers.

The Council owns several investments properties in its area, principally the High Chelmer and Meadows shopping centres, to generate rental income.

## 26 South Essex Parking Partnership (SEPP)

From 1 April 2011 we began administering SEPP on behalf of Essex County Council. SEPP covers the six councils in the south of Essex. Any surplus or deficit from the operation is ring-fenced in what it can be used for and is held separately from our own funds. Each council is entitled to one member on the managing joint committee, and all decisions are taken by majority vote. All on-street enforcement costs and income are incurred and received by Chelmsford City Council, and we maintain a separate account for each of the member authorities. Before 2011/12 each individual council incurred these costs and the income directly. The income and expenditure are shown below.

| 2019/20 | | Revenue expenditure | 2020/21 | |
|---|---|---|---|---|
| SEPP £ 000 | Chelmsford £ 000 | | SEPP £ 000 | Chelmsford £ 000 |
| 2,206 | 523 | Expenditure | 2,232 | 493 |
| (2,450) | (908) | Income | (1,941) | (574) |
| (244) | (385) | **Net position** | 291 | (81) |

## 27 Councillors' allowances

The table below gives details of the allowances we paid to Councillors and the Mayor during the year.

| 2019/20 £ 000 | Councillors allowances | 2020/21 £ 000 |
|---|---|---|
| 340 | Basic allowance | 342 |
| 154 | Special responsibility allowance | 160 |
| 3 | Other expenses | - |
| 16 | Mayor and Deputy Mayor allowance | 14 |
| 513 | **Total we paid in the year** | 516 |

You can find more information on the amounts paid on our website.

## 28 Employee pay

### *Accounting policy*

*Where we decide to terminate an officer's employment before their normal retirement age, or where the officer decides to accept voluntary redundancy, they may be entitled to a termination benefit. We charge these to the Comprehensive income and expenditure statement in the year that we become committed to the termination.*

Under the Accounts and Audit Regulations 2015 we must show the number of our staff costing more than £50,000 a year. Cost includes salary, travel and living costs, but not the employer's pension contributions. Where appropriate, we have also included subsidies for leased cars and redundancy payments. The table below does not include chief officers' details, which are shown in the next table.

| Employee pay band | Number of employees | | Number who left in the year | |
|---|---|---|---|---|
| | 2019/20 | 2020/21 | 2019/20 | 2020/21 |
| **£50,000–54,999** | 9 | 9 | 1 | 2 |
| **£55,000–59,999** | 9 | 10 | - | - |
| **£60,000–64,999** | 2 | 6 | - | 1 |
| **£65,000–69,999** | 4 | 4 | 1 | - |
| **£70,000–74,999** | 5 | 4 | - | - |
| **£75,000–79,999** | 6 | 5 | - | - |
| **£80,000-84,999** | 3 | 6 | 1 | 1 |
| **£85,000-89,999** | - | 1 | - | - |
| **£90,000-94,999** | 1 | 1 | - | - |
| **£95,000 – 99,999** | 1 | - | 1 | - |
| **£100,000 - 104,999** | - | - | - | - |
| **£105,000 – 109,999** | - | - | - | - |
| **£110,000 - 114,999** | - | - | - | - |
| **£115,000 – 119,999** | - | - | - | - |
| **£120,000 - 124,999** | - | - | - | - |

We are not allowed to give any further information that links officers' names to the employee pay band (except for that shown in the chief officers' table below).

We have included a breakdown of the cost of our chief officers below, together with their names, where their annualised, full-time total cost is above £150,000. The costs in this table include the employer's pension contributions.

| Chief officers | Salary, fees and allow-ances | Bonuses | Expense allow-ances | Compen-sation for loss of employ-ment | Benefits in kind | Employer pension contri-butions **** | TOTAL |
|---|---|---|---|---|---|---|---|
| **2019/20** | £ | £ | £ | £ | £ | £ | £ |
| Chief Executive (Mr N Eveleigh) | 176,109 | | | | 2,425 | 26,037 | 204,571 |
| Directors of: | | | | | | | |
| Connected Chelmsford | 127,104 | | | | 2,425 | 18,771 | 148,300 |
| Financial Services | 118,037 | | | | 970 | 17,358 | 136,365 |
| Public Places | 125,328 | | | | 1,940 | 18,411 | 145,679 |
| Sustainable Communities | 91,328 | | | | 15,054 | 14,078 | 120,460 |
| **Chief officers** | Salary, fees and allow-ances | Bonuses | Expense allow-ances | Compen-sation for loss of employ-ment | Benefits in kind *** | Employer pension contri-butions **** | TOTAL |
| **2020/21** | £ | £ | £ | £ | £ | £ | £ |
| Chief Executive (Mr N Eveleigh) | 185,025 | | | | 1,924 | 33,977 | 220,926 |
| Directors of: | | | | | | | |
| Connected Chelmsford | 129,525 | | | | 1,924 | 23,717 | 155,166 |
| Financial Services | 123,996 | | | | 769 | 22,652 | 147,417 |
| Public Places | 129,741 | | | | 1,539 | 23,717 | 154,997 |
| Sustainable Communities | 98,644 | | | | 3,693 | 17,788 | 120,125 |

The Director of Sustainable Communities post is part-time (75% of a full–time equivalent). The full-time cost of the post would be £156,936.

*** These amounts represent benefits that the employees receive on top of their salaries, for example contribution towards a healthcare plan and are therefore not paid to the employee.

**** These amounts are not paid to the employee. They are paid directly to the pension fund to provide a pension on retirement based on contribution rates set by the actuaries.

We terminated the employment of some of our employees as shown in the table below.

| 2019/20 £ 000 | Termination benefits | 2020/21 £ 000 |
|---|---|---|
| | Termination benefits | |
| 172 | Redundancy costs | 252 |
| 56 | Additional pension costs | 114 |
| 228 | **Total spending** | 366 |
| 7 | No of employees whose employment was terminated | 24 |

| 2019/20 | | Exit packages | 2020/21 | |
|---|---|---|---|---|
| Leavers Number | Cost £ 000 | | Leavers Number | Cost £ 000 |
| 2 | 5 | £0 - £20,000 | 19 | 112 |
| 3 | 105 | £20,001 - £50,000 | 3 | 110 |
| 2 | 118 | £50,001 - £250,000 | 2 | 144 |
| 7 | 228 | **Total** | 24 | 366 |

We made nineteen employees compulsorily redundant in 2020/21, and one in the previous year.

## 29 External audit costs

The table below gives details of the amounts we paid to our external auditors during the year. The figure for 19/20 includes an adjustment relating to the previous year's audit of (£22k).

| 2019/20 £ 000 | External audit costs | 2020/21 £ 000 |
|---|---|---|
| | Fees we paid to the auditor | |
| 43 | Basic audit | 66 |
| (6) | Costs/Income relating to previous year's audit fees | 13 |
| 37 | **Total we paid in the year** | 79 |

## 30 Grants

### *Accounting policy*

*If we receive a grant or contribution that does not have any conditions, or we have met the conditions, we credit the amount to the Comprehensive income and expenditure statement on the relevant service line. If we have not met the conditions, we show the amount as a creditor on the Balance sheet until the conditions are met.*

*If the grant is a capital grant that does not affect the balance on the General fund, we reverse the grant out of the Comprehensive income and expenditure statement in the Movement of reserves statement to the Capital grants unapplied account.*

We receive grants that do not relate to specific services. These are shown in note 13. In addition to this, we received the following grants and contributions that are shown in specific services in the Comprehensive income and expenditure statement.

| 2019/20 £ 000 | Grants and contributions | 2020/21 £ 000 |
|---|---|---|
| 37,439 | Housing benefits grants | 34,851 |
| - | Sales, Fees & Charges grant | 7,786 |
| - | Furlough / Job retention scheme grant | 1,519 |
| - | COVID 19 grants and contributions for redistribution to support business and individuals | 7,088 |
| 4,900 | Other grants and contributions | 6,101 |
| 42,339 | | 57,345 |

We also received a number of grants and contributions that have conditions attached to them that may force us to have to return them. Once we have met these conditions we will recognise them as income. The amounts involved are shown in the tables below.

| 2019/20 £ 000 | Capital grants received in advance | 2020/21 £ 000 |
|---|---|---|
| 2,849 | Opening balance | 3,152 |
| 303 | In-year movements | (243) |
| 3,152 | | 2,909 |

## 31 Related party transactions

We have to disclose material transactions with organisations or individuals that have the potential to control or influence us, or that we have the potential to control or influence. This disclosure allows readers of these accounts to assess whether we have been able to act independently, or to assess whether we have the ability to limit somebody else's ability to act independently of the Council. These are called related party transactions.

Central Government sets the legal framework that we operate in, provides grants and sets out how we deal with other agencies and organisations (eg Council Tax collection and Housing Benefits). The details of our dealings with Central Government are shown in notes 13, 18, 20, 30 and 38 and in the Cash Flow in section 6 and the Collection Fund in section 8.

Details of our transactions with the Essex pension fund administered by Essex County Council are shown in note 33.

We must also give details of any transactions we had during the year with our Councillors and chief officers, or their close families. With the exception of the following each Councillor and chief officer has stated that they did not have any such transactions during the year.

Some of our Members are also Parish Councillors. We receive funds for the Chelmsford Development fund from the Developers some of which we then pay over to other organisations when agreement conditions are met. During 2020/21 we paid from the Chelmsford Development fund the amounts to the following parishes and organisations. Boreham, £179,914, Broomfield, £107,768.32, Chignal, £28,262, Danbury, £13,004, East Hanningfield, £1,030, Galleywood, £701, Great Baddow, £2,299, Great & Little Leighs, £57,198, Little Waltham, £1,754, Rettendon, £7,265, Roxwell, £6,566, Runwell, £10,189, Sandon, £945, South Hanningfield, £4,801, South Woodham Ferrers Town Council, £518, Springfield, £31,843, Stock, £29,051, West Hanningfield, £872, Widford, £7,004, Woodham Ferrers & Bicknacre, £18,931, Writtle, £3,468, Moulsham Lodge Community Trust, £36,931 and North Avenue Youth Centre, £11,750.

We made the following grants and payments to the following groups and some of our Members sit on their Boards or are trustees, but do not have a controlling interest.

Chelmsford Age Concern £5,000
Chelmsford Citizens Advice Bureau (CAB) £113,000
Chelmsford Council for Voluntary Services (CVS) £54,000
Chelmsford YMCA £25,000
Rural Community Council of Essex £1,000
Helping Hands Essex £6,450
Chelmsford MENCAP £2,450
Birketts £11,695
Colchester Arts Centre, £600
Museum Association £638
South Woodham Ferrers Town Council £2,500

Writtle Parish Council £602

During 2020/21 we paid Event Sound and Light Limited £5,583, a Member's son is a partner in this company.

In addition, the following groups paid us rents: Chelmsford CAB £30,151 and Chelmsford CVS £11,814.

## 32 Leases

***Accounting policies***

*Leases we get from other organisations*

*Leases are classified as finance leases where the risks and rewards attached to the asset are mostly transferred to us. All other leases are operational leases. Where a lease is for both land and buildings, we separate the two elements into different leases.*

*For finance leases we include the depreciated fair value of the asset in the Balance sheet, which is matched by a liability of the amount we have to pay the lessor (legal owner). We are not allowed to charge the depreciation on the asset to council tax, so we reverse this out of the Comprehensive income and expenditure statement. The Comprehensive income and expenditure account is charged the cost of a finance lease as if it were a loan, that is the cost of interest and a minimum revenue provision (repayment of principal).*

*The rentals paid under operating leases are charged directly to the appropriate service line in the Comprehensive income and expenditure statement.*

*Leases we give to other organisations*

*When we give a finance lease to an organisation or individual, we are handing over ownership of that asset, so we remove the asset's value from our Balance sheet. The value of the lease payments are then split using a calculation into interest paid to the Council and payment for the sale of the asset. A long-term debtor is created in our Balance sheet and when we receive a payment for the lease it reduces the value of the debtor and recognises a capital receipt. Interest income is then credited to the Comprehensive income and expenditure statement.*

*Where we grant an operational lease for land or equipment, we keep ownership of the asset. The income from the lease is credited to the Comprehensive income and expenditure statement.*

Leases we Give to Other Organisations.

The Council's other rental agreements are operational leases. Information about them is shown in the table below. Most of the income shown comes from shopping centres or other Commercial Property (High Chelmer). The significant change from 19/20 to 20/21 is due to a change to the minimum rent receivable at the Meadows Shopping Centre for future years. The figures are based on the minimum future lease payments.

| 2019/20 Restated £ 000 | Operational Leases Minimum Income Due | 2020/21 £ 000 |
|---|---|---|
| 1,498 | Lease payments due in less than a year | 1,995 |
| 4,369 | Lease payments due from 1 to 5 years | 5,127 |
| 46,866 | Lease payments due in more than 5 years | 20,547 |
| 52,733 | | 27,669 |

## 33 Pensions

***Accounting Policy***

*Our employees have the right to join the Local Government Pension Scheme. The scheme provides defined benefits to its members (retirement lump sums and pensions) when they retire. Charges and balances included in the Comprehensive income and expenditure statement and the Balance sheet are based on actuarial assessments of the current costs of the pension scheme. For a full explanation of the rules, see the Pensions note in the notes to the main financial statements. However, statutory rules stop us charging these amounts to council tax. Instead, we have to charge the actual amounts we pay to the pension fund, which is a different figure to the actuarial valuations.*

Our employees are entitled to belong to the Essex Pension Fund. The pension fund is governed and operated by Essex County Council within the national regulations governing all Local Government Pension Schemes (LGPS). The investment managers of the fund are appointed by Essex County Council.

Both employees and employers make contributions that are invested in a pension fund. These contributions are set at a level intended to balance the scheme's assets with its liabilities. However, there will be times when the fund has more or less assets compared to the amount predicted as being needed to meet the current and future commitments of members. The difference between the predicted level of investments and those needed will depend on investment returns and the level of unexpected payments made to members. When the fund does not have enough assets, the employer is responsible for making up the shortfall. If the fund has more assets than it needs, the employer may be able to make lower contributions. The main risks to the funding of the scheme are the assumptions on how long pensioners will live, statutory changes to the scheme, large changes in the number of employees in the scheme, changes to inflation and the returns achieved on the scheme's investments.

Members of the scheme are entitled to defined benefits when they retire under the terms of the scheme. This part of the scheme is funded through the contributions to the scheme. If members of the scheme retire early, the additional cost of that commitment is calculated and paid by the employer at the same time as the member retires.
The scheme takes into account the Public Pensions Service Act 2013. The Act provides for scheme regulations to be made within a common framework, and to link pensions to career average salaries, rather than final salaries.

The scheme's cost is not simply the payments made into the pension fund in a year but must also reflect the actuary's view of gains or losses resulting from changes in the fund's liabilities and investments. This amount is shown in the total spending on services in the Comprehensive income and expenditure statement. However, the costs we charge to council tax payers are based on the actual cash we pay the pension fund in the year, so the costs identified by the actuary are reversed out of the Comprehensive income and expenditure statement and replaced by the actual contributions we make to the scheme. The actual charge we made to the General fund, and so to council tax payers, is shown in the table below.

| 2019/20 £ 000 | Charges to the Comprehensive income and expenditure account | 2020/21 £ 000 |
|---|---|---|
| | Spending on services | |
| | Service cost | |
| 8,175 | Current service cost | 7,894 |
| 76 | Previous service cost | 1 |
| 60 | Administration expenses | 115 |
| | Other spending | |
| 2,288 | Net interest on the defined liability | 2,068 |
| 10,599 | Charge to the spending on current services in the comprehensive income and expenditure statement | 10,078 |
| | Other charges | |
| (26,722) | Remeasurement of the pension liability | 63,351 |
| 14,678 | Return on scheme assets (excluding interest) | (48,662) |
| (12,044) | Other charges to the comprehensive income and expenditure statement | 14,689 |
| (1,445) | Total charges to the comprehensive income and expenditure statement | 24,767 |
| 4,051 | Employer's contributions charged to the General fund | 7,648 |

In addition to the gains and losses we have included in the Comprehensive income and expenditure statement, we have included a remeasurement surplus identified by the actuaries of £14.7m in 20/21 (a surplus of £12m in 2019/20).

| 31 March 2020 £ 000 | Movements on pension fund assets and liabilities | 31 March 2021 £ 000 |
|---|---|---|
| | **Scheme liabilities** | |
| (292,570) | Value at 1 April | (275,255) |
| (8,175) | Current service cost | (7,894) |
| (1,488) | Member contributions | (1,546) |
| (6,938) | Interest costs | (6,395) |
| | Remeasurement | |
| 25,361 | Financial returns | (63,351) |
| (76) | Past service (gains) or costs | (1) |
| 8,631 | Benefits paid | 7,828 |
| (275,255) | Value at 31 March | (346,614) |
| | **Scheme assets** | |
| 195,277 | Value at 1 April | 183,458 |
| 4,650 | Interest | 4,327 |
| | Remeasurement | |
| (14,678) | Return on assets (excluding interest) | 48,662 |
| 1,361 | Other actuarial gains/(losses) | - |
| (60) | Administration expenses | (115) |
| 4,051 | Employer contributions | 7,648 |
| 1,488 | Employee contributions | 1,546 |
| (8,631) | Benefits paid | (7,828) |
| 183,458 | Value at 31 March | 237,698 |
| (91,797) | Net pension liability | (108,916) |

All valuations are in accordance with the requirements of the IAS19 standard. The actuaries set the expected rate of return on scheme assets by looking at the rate of return on assets that are the same type as those held by the fund. The expected returns on fixed-interest investments are based on returns at the Balance sheet date. Expected returns on stocks and shares are based on long-term returns expected in the markets.

The Pensions reserve absorbs the timing differences in the funding of pensions in accordance with accounting conventions and the statutory provisions. We account for the cost of pensions in the Comprehensive income and expenditure statement as the benefits are earned by the employees. However, the statutory provisions require us to charge amounts to council tax as they are actually paid to the pension fund. The balance on the pension reserve shows a large shortfall between the benefits accrued by the employees and the resource set aside to meet these liabilities. The statutory provisions will ensure that funding will have been set aside by the time benefits are paid.

| Pension fund balances | 2015/16<br>£ 000 | 2016/17<br>£ 000 | 2017/18<br>£ 000 | 2018/19<br>£ 000 | 2019/20<br>£ 000 | 2020/21<br>£ 000 |
|---|---|---|---|---|---|---|
| Present value of scheme liabilities | (235,624) | (290,267) | (288,871) | (292,570) | (275,255) | (346,614) |
| Fair value of assets | 145,063 | 169,858 | 183,693 | 195,277 | 183,458 | 237,698 |
| Deficit on the pension fund | (90,561) | (120,409) | (105,178) | (97,293) | (91,797) | (108,916) |

The liabilities show our underlying long-term commitments to pay pensions. The net liability of £108.9 m has a large effect on our net worth, resulting in an overall balance of £208 m. However, the formal rules for funding the pension-fund deficit mean the Council's financial position remains healthy. The fund tries to keep employers' contribution rate as constant as possible. The pension fund deficit will be met by contributions over 19 years. We expect to pay £4.5m to the fund next year.

The actuaries have made an estimate of the pensions that will have to be paid in future years based on their assumptions, for example, about life expectancy and salary levels. The pension fund liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, and are based on the latest full valuation in 2019. The next full valuation will be in 2022.

The main assumptions used in the valuation of the fund are shown in the table below.

| 2019/20 % | Assumptions used in the valuations of the fund | 2020/21 % |
|---|---|---|
| | Years we expect to pay current pensioners | |
| **21.8** | Men | **21.6** |
| **23.7** | Women | **23.4** |
| | Years we expect to pay pensioners retiring in 20 years | |
| **23.2** | Men | **22.9** |
| **25.2** | Women | **24.7** |
| | | |
| **2.7** | Rate of inflation – RPI | **3.2** |
| **1.9** | – CPI | **2.8** |
| **2.9** | Rate of increase in salaries | **3.8** |
| **1.9** | Rate of increase in pensions | **2.8** |
| **2.4** | Discount rate | **2.0** |
| **50** | Percentage of employees choosing to take a lump-sum payment | **50** |
| **10** | Percentage of employees paying a 50% contribution for 50% pension | **10** |

In valuing the pension liability, the actuary will, for example, make assumptions about investment returns, and the rates of increase in pensions, salaries and inflation. If these vary they will affect the value of the pension fund shown in the accounts. The table below shows the effect on the value of the pension fund if the above assumptions change.

| | Increase in assumption | Decrease in assumption |
|---|---|---|
| | £'000 | £'000 |
| Longevity (increase or decrease by 1 year) | 17,393 | (16,515) |
| Rate of increase in salaries (increase or decrease by 0.1%) | 605 | (599) |
| Rate of increase in pensions, or inflation (increase or decrease by 0.1%) | 6,052 | (5,938) |
| Rate for discounting scheme liabilities (increase or decrease by 0.1%) | (6,581) | 6,716 |

The weighted average duration of the pension obligation for scheme members is 20 years in 2020/21 (20 years 2019/20).

The scheme's assets can be put into the following types:

| 31 March 2020 £ 000 | Scheme assets | 31 March 2021 £ 000 |
|---|---|---|
| 7,626 | **Cash and cash equivalents** | 11,216 |
| | **Stocks and shares (by type)** | |
| 7,709 | UK investments | 10,695 |
| 90,313 | Overseas investments | 126,198 |
| 98,022 | | 136,893 |
| | **Bonds (by sector)** | |
| 11,116 | UK Corporate | 11,924 |
| 7,907 | UK Government | 6,133 |
| 19,023 | | 18,057 |
| | **Property (by type)** | |
| 4,583 | Listed | 5,005 |
| 11,914 | Unlisted | 11,918 |
| 16,497 | | 16,923 |
| 9,362 | **Private equity** | 9,982 |
| | **Other investment funds** | |
| 10,842 | Infrastructure | 16,476 |
| 6,615 | Timber | 6,925 |
| 3,675 | Illiquied and Private Debt | 4,060 |
| 11,796 | Other Managed Funds | 17,166 |
| 32,928 | | 44,627 |
| 183,458 | Total | 237,698 |

| 31 March 2020 £ 000 | Stocks and Shares | 31 March 2021 £ 000 |
|---|---|---|
| | **Stocks and shares (by company** | |
| 98,022 | Listed | 136,893 |
| - | Unlisted | - |
| 98,022 | | 136,893 |

The liabilities of the pension fund arise largely in the long term as pensions become payable. Broadly speaking, the investments of the fund are made to secure long term gains and reduce volatility in the fund returns. Investments are managed with a view to meeting future pension liabilities. The statement of the fund's Investment Principles and the Annual Report can be obtained from:

Essex County Council, County Hall, Chelmsford, Essex, CM1 1JZ

## 34 Contingent liabilities

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### *Accounting Policy*

*A contingent liability arises where an event gives rise to a possible obligation that will only be confirmed by a possible future event outside our control. A contingent liability can also arise where we would need to raise a provision but we cannot determine the amount of that provision. Contingent liabilities are not recorded in the Balance sheet but are instead recognised in a note to the accounts.*

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The Council entered into an agreement to indemnify Essex County Council up to a sum of £5m should the City Council fail to make all reasonable endeavors to enable the delivery of key housing sites and affordable housing provision in a number of sites located in Chelmsford. We think it is very unlikely that this payment will need to be made in the future.

## 35 Contingent assets

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### *Accounting Policy*

*A contingent asset arises where an event gives rise to a possible asset that will only be confirmed by a possible future event outside our control. Contingent assets are not recorded in the Balance sheet but are instead recognised in a note to the accounts.*

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We have four appeals outstanding with HMRC over payments of VAT and we will also be claiming interest. We await the outcome of these claims.

## 36 Community Infrastructure Levy (CIL)

We started receiving CIL payments from 1 April 2014. We have billed £1,022k in 2020/21 (£3,719k in 2019/20) which was credited to the Capital Grants Unapplied account. The levy is a planning charge, introduced by the Planning Act 2008 as a tool for local authorities to help deliver infrastructure to support the development of their area.

## 37 Government and non-government grants

The Council recognises grants as income in the Revenue account when any conditions to the grant have been met. If the grant has no conditions, it is recognised in the Revenue account straight away.

We record capital grants that have passed through the Revenue account on the Balance sheet as Capital grants unapplied, until they are spent. We record grants where the conditions have not been met as Capital grants received in advance, until we meet the conditions or spend the money. The table below shows the main items received to date and not spent.

| 2019/20 £ 000 | Grants and contributions | 2020/21 £ 000 |
|---|---|---|
| | **Grant received in advance** | |
| 3,152 | Money received as part of planning agreements | 2,909 |
| | **Capital grants unapplied** | |
| 6,743 | Money received as part of planning agreements | 5,420 |
| 1,126 | Government grants | 5,033 |
| 2,541 | Empty Homes grant | 2,568 |
| 23,303 | Community Infrastructure Levy | 24,066 |
| 234 | Other | 184 |
| 33,947 | | 37,271 |
| 37,099 | Total | 40,180 |

## 38 Long term Creditors

| 2019/20 £ 000 | Long-term Creditors | 2020/21 £ 000 |
|---|---|---|
| 3,814 | Section 106 contributions | 2,936 |
| 660 | Leases | 557 |
| 386 | Property transaction creditor | 323 |
| - | Recreational Avoidance Mitigation Strategy | 110 |
| 4,860 | | 3,926 |

# 8 - Collection fund

**This section summarises how the money we collected through the collection fund is distributed between the precepting authorities.**

| 2019/20 Council Tax £ 000 | 2019/20 Non-Domestic Rates £ 000 | 2019/20 Total £ 000 | Collection Fund | Notes | 2020/21 Council Tax £ 000 | 2020/21 Non-Domestic Rates £ 000 | 2020/21 Total £ 000 |
|---|---|---|---|---|---|---|---|
| | | | **Income** | | | | |
| (118,598) | | (118,598) | Council tax | 1 | (124,753) | | (124,753) |
| | | | Transfers from the General fund | | | | |
| | (80,043) | (80,043) | Non-domestic rates | 2 | | (40,471) | (40,471) |
| | 1,071 | 1,071 | Transitional protection | | | 596 | 596 |
| (118,598) | (78,972) | (197,570) | | | (124,753) | (39,875) | (164,628) |
| | | | **Spending** | | | | |
| | | | Council Tax precepts and demands | | | | |
| 84,703 | | 84,703 | Essex County Council | | 90,168 | | 90,168 |
| 15,476 | | 15,476 | Chelmsford City Council | | 16,214 | | 16,214 |
| 12,865 | | 12,865 | Essex Police Authority | | 13,557 | | 13,557 |
| 4,830 | | 4,830 | Essex Fire Authority | | 5,043 | | 5,043 |
| | | | demands | | | | |
| | 39,269 | 39,269 | Central Government | | | 39,825 | 39,825 |
| | 31,415 | 31,415 | Chelmsford City Council | | | 31,860 | 31,860 |
| | 7,069 | 7,069 | Essex County Council | | | 7,168 | 7,168 |
| | 785 | 785 | Essex Fire Authority | | | 797 | 797 |
| | 217 | 217 | Subsidy paid towards the costs of collecting National non-domestic rates | | | 219 | 219 |
| | | | Increase or (decrease) in our provision for amounts that we may not be able to collect | | | | |
| 156 | | 156 | Council tax | | 292 | | 292 |
| | 742 | 742 | Non-domestic rates | | | 1,465 | 1,465 |
| | | | Amounts written off | | | | |
| 184 | | 184 | Council tax | | 74 | | 74 |
| | 855 | 855 | Non-domestic rates | | | 56 | 56 |
| | 3,505 | 3,505 | Provision for appeals | | | 476 | 476 |
| | | | Distribution of previous year's Council Tax surplus or (shortfall) | | | | |
| (291) | | (291) | Essex County Council | | 549 | | 549 |
| (54) | | (54) | Chelmsford City Council | | 100 | | 100 |
| (40) | | (40) | Essex Police Authority | | 84 | | 84 |
| (17) | | (17) | Essex Fire Authority | | 31 | | 31 |
| | | | Distribution of previous year's Non-domestic rates surplus or (shortfall) | | | | |
| | 1,009 | 1,009 | Central Government | | | (922) | (922) |
| | 807 | 807 | Chelmsford City Council | | | (738) | (738) |
| | 181 | 181 | Essex County Council | | | (166) | (166) |
| | 20 | 20 | Essex Fire Authority | | | (18) | (18) |
| 117,812 | 85,874 | 203,686 | | | 126,112 | 80,022 | 206,134 |
| | | | **Movements on the Collection Fund** | | | | |
| (786) | 6,902 | 6,116 | (Surplus) or shortfall for the year | | 1,359 | 40,147 | 41,506 |
| 83 | (2,408) | (2,325) | (Surplus) or shortfall at start of the year | 3 | (703) | 4,494 | 3,791 |
| (703) | 4,494 | 3,791 | (Surplus) or shortfall at end of the year | 3 | 656 | 44,641 | 45,297 |

***Accounting Policy***

*The Collection Fund is a statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates (NDR).*

*We recognise in our Comprehensive Income and Expenditure Statement our share of the NDR and Council Tax transaction on accrual basis, with the timing difference being adjusted through Council Tax and NDR adjustment account, reported on in the Movement in Reserves Statement.*

# Notes to the collection fund

## 1 Council tax

Council tax income comes from charges we make depending on the value of homes. Each home is put into one of eight valuation bands using their value on 1 April 1991. We work out each charge by estimating the amount of income each of the preceptors on the collection fund needs for the coming year and dividing this amount by the council tax base. The council tax base is the total number of properties in each band adjusted by a proportion of the band D charge. In 2020/21, the council tax base was 68,579 (in 2019/20 it was 66,672). The basic amount of council tax for a property in band D was £1,831 (£1,768 in 2019/20). This is multiplied by the appropriate proportion for the particular band to give the actual amount due for that band.

Council tax bills were based on the following proportions for bands A to H.

| Council tax band | Total number of properties | Number of chargeable properties | Proportion of Band D charge | Number of Band D equivalent properties |
|---|---|---|---|---|
| A | 4,564 | 3,633 | 6 / 9 | 2,422 |
| B | 10,434 | 8,826 | 7 / 9 | 6,865 |
| C | 23,242 | 21,073 | 8 / 9 | 18,731 |
| D | 17,436 | 12,196 | 9 / 9 | 12,196 |
| E | 10,643 | 10,162 | 11 / 9 | 12,420 |
| F | 5,933 | 5,790 | 13 / 9 | 8,363 |
| G | 4,071 | 3,921 | 15 / 9 | 6,535 |
| H | 389 | 360 | 18 / 9 | 720 |
| Total | 76,712 | 65,961 | | 68,252 |

## 2 Non-domestic rates (NDR)

NDR is a national charge. The Government sets an amount for each pound of rateable value – 49.9p in 2020/21 (49.1p in 2019/20). Depending on the effects of any changes, local businesses pay rates that are worked out by multiplying their rateable value by that amount. We are responsible for collecting the rates due in our area and pay these into the Collection fund. We share the money collected between the Government, Essex County Council and the Essex Fire Authority.

On 31 March 2021, our NDR income after relief totalled £40,471,018 based on the total non-domestic rateable value for our area of £194,606,246. The income is lower than in previous years due to extended rate relief given to Retail and Nursery businesses. However, the government provided grant for the extended relief.

## 3 Contributions to the collection fund – surpluses and shortfalls

The balance on the Collection Fund is made up of the following and is allocated to the preceptors on the fund as shown in the table below.

| 2019/20 | | | Contributions to the collection fund - surpluses and shortfalls | 2020/21 | | |
|---|---|---|---|---|---|---|
| Council Tax £ 000 | Non-Domestic Rates £ 000 | Total £ 000 | | Council Tax £ 000 | Non-Domestic Rates £ 000 | Total £ 000 |
| | 2,247 | 2,247 | Central Government | | 22,321 | 22,321 |
| (92) | 1,798 | 1,706 | Chelmsford City Council | 85 | 17,856 | 17,941 |
| (505) | 404 | (101) | Essex County Council | 475 | 4,018 | 4,493 |
| (77) | | (77) | Essex Police Authority | 70 | | 70 |
| (29) | 45 | 16 | Essex Fire Authority | 26 | 446 | 472 |
| (703) | 4,494 | 3,791 | | 656 | 44,641 | 45,297 |

Depending on whether there is a surplus or shortfall on the collection fund for the county, police, and fire authorities, the balance we owe them (or they owe us) will be shown as a creditor or debtor in the Balance sheet. Our part of the balance is shown as an earmarked reserve.

## 4 Non-domestic rate appeals

There are several outstanding appeals. We have estimated the effect of these outstanding appeals and adjusted the provision for the likely amount that we will have to repay to non-domestic ratepayers. The cost of the provision has been charged to the Collection fund and is shared between the preceptors as shown in the table below.

| Non-domestic rate appeals | Share<br>% | Provision<br>£ 000 |
|---|---|---|
| Central Government | 50 | 238 |
| Chelmsford City Council | 40 | 190 |
| Essex County Council | 9 | 43 |
| Essex Fire Authority | 1 | 5 |
| | 100 | 476 |

## 5 Non-domestic rate pooling

On 1 April 2020, Chelmsford continued in a Non-domestic rating pool with 14 other authorities for the 2020/21 financial year. We did this to increase our Non-domestic rating income over that which we would have received if we were not in a Pool. We benefited by reducing the levy that we need to pay to the Government on our business income, for 2020/21 the reduction was £1.1m.

## 6 Business Improvement District

From 1 April 2018, a Business Improvement District (BID) arrangement has been operating within the Chelmsford area where local business pay additional levy on top of their non-domestic rates to generate additional income to be invested on improvements to the area. The Council acts as an agent, collecting the BID charges on behalf of the BID body. This income is not shown in our Comprehensive income and expenditure account as it is not our money. We only show expenditure and income relating to cost of administrating the scheme and income from the BID agency towards these costs.

# 9 - Independent auditors' report

We will insert here the Independent auditor's report following the conclusion of the independent audit.

# 10 - Glossary

**This section explains the technical terms that have been used throughout this document.**

**Actuary**
An expert on rates of death and insurance statistics who assesses whether we have enough money in our pension fund.

**Amortisation**
A reduction in the value of an intangible asset over time, for example due to wear and tear or the asset becoming obsolete.

**Audit and Risk Committee**
A committee of nine members of the Council who consider financial matters and reports from Internal Audit, and approve and monitor our code of corporate governance, and risk management.

**Balance sheet**
A statement of all our assets, liabilities and balances at the end of the financial year.

**Cabinet**
The Cabinet is made up of five members of the Council (including the Leader) and five deputies that are not members of the Cabinet but support Cabinet members with specific areas of responsibility. The five members of the Cabinet are responsible for making most of the essential decisions about running the Council. Each member of the Cabinet is responsible for a specific service.

**Capital receipt**
Income from selling assets that have a long-term value.

**Capital spending**
Spending on assets that have a lasting value, for example, land and buildings.

**Cash-flow statement**
This is a statement that shows the changes in our cash and bank balances during the year. It also shows the changes in our other assets, liabilities and other accounts shown on our Balance sheet.

**Collection fund**
A fund we use to show what happens to the council tax and NDR income.

**Community assets**
Assets we do not plan to sell and which have no definite useful life. Examples of community assets are parks and historic buildings.

**Comprehensive income and expenditure statement**
The account that reports the income and spending on our services.

**Corporate governance**
The way we decide our future direction, processes and controls.

**Councillor**
An elected Member of the Council.

**Creditors**
Money we owe for work, goods or services that have not been paid for by the end of the financial year.

**Current assets**
These are the short-term assets we have at the date of our Balance sheet, which we can use in the following year.

**Current liabilities**
These are the short-term liabilities we owe at the date of our Balance sheet, which we will pay in the following year.

**Debtors**
Money that is owed to us, but is not paid by the end of the financial year.

**Depreciation**
The reduction in the value of a tangible asset over time, due to wear and tear.

**Earmarked reserves**
Money we set aside for a specific purpose.

**Fair value**
The value of the asset on the open market.

**Gross spending**
The total cost of providing a service.

**IAS19**
A statement of recommended accounting practice telling us how we have to account for pensions.

**Impairment**
The loss in value of an asset caused by something happening to make it less useful.

**Infrastructure**
Assets we cannot sell and do not have an alternative use. Valued at historical depreciated cost.

**Intangible assets**
Assets we plan to own for more than one year, but which are not physical assets like a building or a lorry; for example, computer software licences.

**Leases**
A way of paying for vehicles, plant and equipment by spreading payments over the asset's life. We do not become the legal owners of the asset. Leases can either be operational leases, where the risks of ownership rest with the owner of the asset and the asset does not appear on our Balance sheet, or finance leases, where the asset is included on our Balance sheet.

**LGPS (Local Government Pension Scheme)**
The fund that pays and manages our staff pensions.

**Liabilities**
Our debts and responsibilities.

**Liquid resources**
Money we have invested but which we can draw on quickly.

**Management Team**
A meeting of the Chief Executive and the Directors.

**Member**
In papers about the Council, this usually means an elected Member of the Council, ie a Councillor.

**MRP (Minimum revenue provision)**
The amount we have to set aside out of our revenue, to repay loans.

**NDR – Non-domestic rates**
A charge that all businesses must pay for their premises. It is worked out by multiplying a property's rateable value by a nationally set multiplier. Non-domestic rates are paid into a pool, which the Government controls. This money is then shared between local authorities depending on the population in their area.

**Net book value**
This is the original value of the asset, less the depreciation up to the current date.

**Net spending**
This is the cost of providing a service after we have taken into account income from government grants and our own fees and charges.

**Parish Council**
An organisation that delivers some services within the Parish boundary, rather than across the City as a whole.

**Performance indicators**
A way of measuring our performance by comparing it to how we performed in the past, or to how other organisations have performed.

**Precept**
A demand made by Essex County Council, the Police and Crime Commissioner for Essex, Essex Fire Authority, and Town and Parish Councils for money they want us to collect for them.

**Provision**
Money set aside to meet specific service liabilities at the date of the accounts, and to meet spending.

**Registered social landlord**
An organisation delivering subsidised housing to the public that is registered with the Housing Corporation.

**Reserve**
Savings we have built up from surpluses.

**Restatement**
We normally show the amounts that were in last year's accounts as the same figure, but where there is a change in the accountancy rules, we have to change last year's figure to meet the current rules.

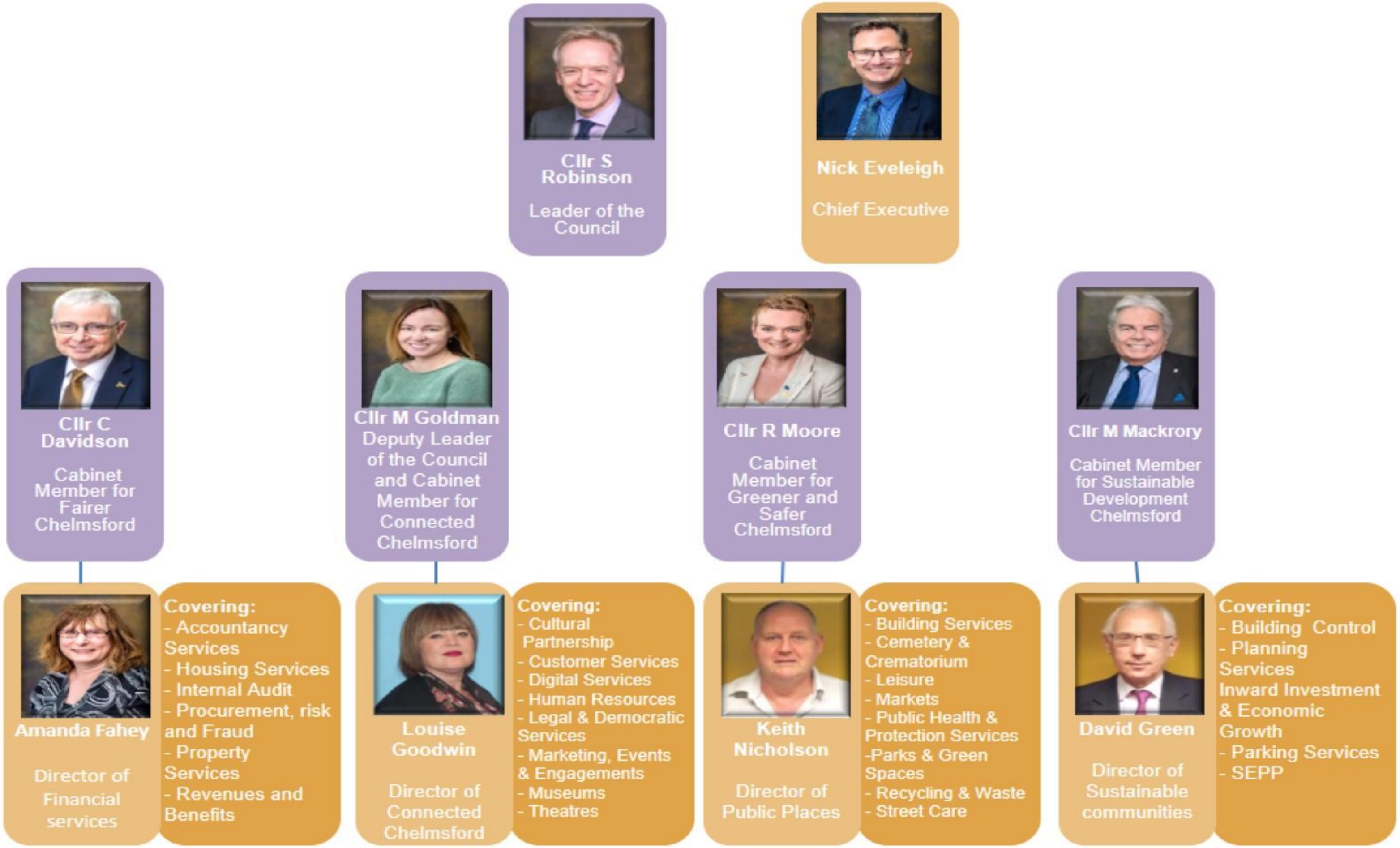
**Surplus**
At the end of the year, if an account such as the Comprehensive income and expenditure account shows that we have received more income than we have spent, that account is known as being 'in surplus'.

**Tax base**
The number of houses we can charge our council tax on.

**Trading undertakings**
Part of our activities where the service could also be provided by others outside the Council.

**Unrealised Gain**
The amount an asset or investment has increased in value since we purchased it. However, the gain is only realised when we sell the asset or investment.

# 11 - Our structure chart as at 31March 2021




Following a restructure, the Director of Financial services left the Council in May 2021. The Accountancy Services Manager is the current S151 officer for the Council.