

Audit and Governance Committee



Date of meeting:	25 July 2023
Title of Report:	Statement of Accounts 2022-23 (unaudited)
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	David Northey (Interim Service Director for Finance)
Author:	Carolyn Haynes
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Your Reference:	SoA 22-23/Audit July 2023
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

The Council's draft Statement of Accounts for year ending 31 March 2023 was prepared and approved for publication by the Interim Service Director for Finance on 20 June 2023 and was made available for our external auditors to start their audit review.

The Statement of Accounts for 2022/23 are being presented to Audit Committee for approval.

To provide information on why the Council was unable to publish the Statement of Accounts by the statutory deadline of the 31 May 2023.

Grant Thornton UK (GTUK) will be providing an update on their review of the 2020/21 accounts and their audit progress at this committee.

Recommendations and Reasons

1. To **approve** the Statement of Accounts for 2022/23 attached as Appendix B with the understanding that they will be audited by GTUK. Should any issues be identified during the GTUK audit Members are asked to delegate the approval of the Statement of Accounts to the Chairperson of the Audit Committee, in consultation with the Service Director for Finance.
 - a. Reason: Statutory Requirement, the Accounts and Audit Regulations 2015 require the accounts to be:
 - i. Considered by committee;
 - ii. Approved by committee resolution;
 - iii. Signed and dated by the person presiding at the committee.
2. To note the audit status of the Statement of Accounts for 2019/20, 2020/21 and 2021/22 and the delay to the publication of the Statement of Accounts for 2022/23.

Alternative options considered and rejected

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Sign off:

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Originating Senior Leadership Team member: David Northey

Please confirm the Strategic Director(s) has agreed the report? Yes

Date agreed: 04/07/2023

Cabinet Member approval: sent by email

Date approved: 13/07/2023

Statement of Accounts 2022/23

I. Introduction

- I.1 The Statement of Accounts has been prepared in accordance with the International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting in the United Kingdom for 2022/23 and the statutory Accounts and Audit Regulations 2015. This ensures that local authorities produce their accounts in a standard way which enables comparisons with other public bodies.
- I.2 The Accounts and Audit Regulations 2015 sets out the procedures for certification, approval and publication of the Statement of Accounts. However, due to issues within the external audit market, the Accounts and Audit (Amendment) Regulations 2022 have extended the statutory deadline for local authorities to approve and publish their audited accounts for the 2022/23 to 2027/28 financial years.

The Accounts and Audit (Amendment) Regulations 2022 have therefore implemented new deadlines, for the Audited accounts only, by amending the Accounts and Audit Regulations 2015. The revised deadlines applicable to local authorities are as follows:

- 31 May 2023 – Unaudited accounts to be certified by the Interim Service Director for Finance;
 - From June 2023 – The Statement of Accounts is subject to audit by the Authority's auditors, Grant Thornton, and their findings will be reported to the Audit and Governance Committee. During this time there is a period where the public can inspect the accounts and related documents (Thursday 1 June 2023 to Wednesday 12 July 2023);
 - No later than 30 September 2023 – Accounts to be re-certified by the Interim Service Director of Finance;
 - No later than 30 September 2023 – Audit and Governance Committee considers and approves the Statement of Accounts. Following approval, the Chair of the Audit and Governance Committee signs and dates the Statement of Accounts;
 - No later than 30 September 2023 – Publish, on the Council's website, the audited Statement of Accounts together with any certificate, opinion or report issued by the auditor.
- I.3 It should be noted that the timings of the process above have been affected by a number of factors some of which are outside of the Council's control.
- I.4 The Council is still waiting for the Statement of Accounts for 2019/20 to be formally signed off by Grant Thornton and still has the audits for the 2020/21 and 2021/22 Statement of Accounts to be completed before Grant Thornton can start on the audit for the 2022/23 accounts.

2. Local Authority Accounting

- 2.1 The main Code of Practice relevant to the production of the Statement of Accounts, which CIPFA publish on an annual basis, is the 2022/23 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).
- 2.2 The presentation of local authority accounts differs greatly to that of the private sector. Many of these differences occur due to legislative requirements for local government accounts and the recognition of costs for the purposes of budgeting and calculating the Council Tax. These differences mainly relate to the way the Council is required to account (or budget) for capital and pension costs.
- 2.3 Local authorities account for the revenue impact of capital in line with IFRS on the face of the Comprehensive Income and Expenditure Statement (CIES). This means including figures relating to movements in the value/cost of assets, including depreciation, revaluation, disposal and impairment. These entries are reversed out and replaced with an allowance for the consumption of capital (Minimum Revenue Provision). These “adjustments between accounting basis and funding basis under regulation” are shown in Note 10 to the unaudited accounts.
- 2.4 In terms of pension costs, local authorities are required to comply with an International Accounting Standard called IAS 19 (Employee Benefits), which means accounting for pension liabilities when local authorities are committed to them, not when they are actually paid out. This includes showing movements in the value of pension scheme assets and liabilities.
- 2.5 The Council complies with IAS 19 and recognises the Council’s share of the net liability of the Devon Local Government Pension Scheme (Devon LGPS) in the balance sheet. Within the CIES the ‘Cost of Service’ figures have been adjusted so they represent the true costs of pensions earned. As stated above, IAS 19 does not have any effect on the calculation of the Council Tax Requirement as the entries are reversed out and replaced by the cash contributions to the Pension Scheme, in an adjustment between accounting basis and funding basis under regulation.
- 2.6 During the 2021/22 final accounts process, the accounting policy related to Infrastructure Assets (included within policy 1.2 Property, Plant and Equipment) was updated in accordance with the temporary relief offered by the Update to the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) and the statutory override following the amendment to Regulation 30M of the Local Authorities (Capital Finance and Accounting) (England/Wales) (Amendment) Regulations 2022. This allows the Council to treat the value of any replacement component of infrastructure assets as nil, without the need for further evidence and is in response to an issue with regards to the valuation of Infrastructure Assets, in particular relating to component accounting and how Local Authorities have been dealing with de-recognising infrastructure expenditure. This change is also reflected in the Statement of Accounts for 2022/23.
- 2.7 The Code is based on approved standards issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Committee (IFRIC) except where these are inconsistent with specific statutory requirements. Where a new standard has been published but has not yet been adopted by the code, the Council is required to disclose information relating to the impact of these accounting changes. This requirement applies to IFRS that have not been applied in the 2022/23 Code and that came into effect on or before 1 January 2023.
- For 2022/23 the following potentially relevant standards include:
- Definition of Accounting Estimates: amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

- Disclosure of Accounting Policies: amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2.

There are no changes in accounting requirements for 2023/24 that are anticipated to have a material impact on the Council's financial performance or financial position.

3. Issues arising since publication of the 2022/23 draft Accounts

3.1 Post Balance Sheet Events (PBSE)

3.1.1 Although the Statement of Accounts shows the financial outturn for 2022/23 and Balance Sheet position as at the 31 March 2023, the Council is required to report material events occurring after 31 March 2023.

3.1.2 There are no known events after the 31 March 2023 that would have a material impact on the Council's financial position.

3.2 Agreed Audit Amendments

3.2.1 GTUK are in the process of auditing the Statement of Accounts for 2020/21 and will soon be starting work on auditing the Statement of Accounts for 2021/22 and until this work has been completed we are unable to report on any agreed amendments. The agreed amendments to the final published Statement of Accounts for 2019/20, 2020/21 and 2021/22 will be reported when Grant Thornton publish their ISA260 Audit Findings Report.

4. Statement of Accounts 2019/20

4.1 The Council is working with their external auditors – Grant Thornton, to resolve an outstanding technical accounting issue relating to the Statement of Accounts for 2019/20 with respect to the Miel Pension transaction. Once this issue has been resolved to the satisfaction of the Council and Grant Thornton, the Council may have to adjust the Statement of Accounts for 2019/20, 2020/21, 2021/22 and 2022/23.

5. Statement of Accounts 2022/23

5.1 As a response to the disruption caused by the COVID-19 pandemic, government extended the date by which local authorities should publish their draft accounts from 31 May to 31 July. 2022/23 is therefore the first year since the pandemic that the regulation date has been brought forward to 31 May, two months earlier than the past two years.

5.2 Days before the end of the financial year the Department for Levelling Up, Housing and Communities (DLUHC) consulted on whether the 31 May deadline should remain for making accounts available for public inspection. Responses on our behalf by the Local Government Association, Society of Local Authority Treasurers and others state that the 31 May deadline was not realistic in the current environment and the national state of ongoing audit delays. Despite this response DLUHC pressed ahead with the re-introduction of the 31 May date for the publication of the 2022/23 accounts.

5.3 The draft Statement of Accounts for 2022/23 were published on the 20 June 2023 which was after the statutory publication date of the 31 May 2023. The period of public inspection started on the 21 June 2023.

- 5.4 The late publication was due to a variety of reasons, but the main reason related to a material issue relating to pensions. On 20 April 2023 we became aware of a national audit issue regarding the results of the triennial valuation of the Pension Fund (31 March 2022) – that may require adjustment of the 2021/22 accounts. The 2021/22 Statement of Accounts was produced in the summer of 2022 based on the latest triennial valuation (March 2019) and updated by the actuary for conditions at March 2022. Local Government Pension Funds, including Devon were subject to the triennial valuation (March 2022). The actuaries do not release preliminary results until late autumn (November/December).
- 5.5 Prior to COVID-19, audit opinions were generally issued by the end of September before the results of the triennial review were available. However, because the 2021/22 accounts have not been signed off by the auditors, the auditors indicated that this new valuation could mean that the 2021/22 accounts would be materially misstated unless they were amended. We decided to commission a revised IAS19 report for 2021/22 which showed a significant positive swing in the valuation of the pension liability for 2021/22 from £514.2m in the draft accounts for 2021/22 to £371.873m (a reduction of £142.227m). Based on this material change, the Council took the decision to amend the accounts for 2021/22 which in turn affected the opening balances for 2022/23.
- 5.6 The Council's breakeven outturn position was reported to Cabinet on the 19 June 2023. The overall net spend matches the net budget of £197.750m. The budget was approved by Full Council at the meeting dated 27 February 2023. Within this overall balanced position the following headline financial issues are reported:
- A nil variance on a gross expenditure budget of £540m for business as usual activities. Given the character of the financial year in question and the continued impact of national inflation and cost increases outside our control, this is a notable achievement.
 - The Council has overcome £20m of additional in-year costs and pressures.
 - The drawdown of £7.9m of usable reserves throughout the year and the use of £1.1m of Corporate Adjustments.
 - Drawdown from the Working Balance of £8.743m has not been required.
- 5.7 The General Fund Balance (also known as the Working Balance) as at 31 March 2023 is £8.743m. The Working Balance has a recommended minimum set at 5% of the net revenue budget. This minimum requirement has been approved by Council
- 5.8 The Balance Sheet shows our assets, liabilities and reserves. The reserves are split in to usable and unusable reserves. The unusable reserves are not available to the Council but are part of their technical accounting requirements. The unusable reserves include, for example, the pension reserve, the capital adjustment account and the revaluation reserve. These reserves are not available to use for service delivery at the reporting date. These reserves arise from either:
- a. Statutory adjustments required to reconcile to the amounts chargeable to council tax in order to comply with legislation, or
 - b. Accounting gains or losses recognised in other comprehensive income and expenditure in accordance with accounting standards adopted by the Code, rather than in the surplus or deficit on the provision of services.
- The Council has a positive Balance Sheet as at 31 March 2023, which means that the Council's assets are £437.408m greater than its liabilities. This is mostly due to the positive movement in the long-term pension liability on the basis of the revised triennial valuation undertaken in October 2022.
- 5.9 The main movements on the Balance Sheet between 31 March 2022 and 31 March 2023 are summarised below:

5.9.1 Non-current Assets

- Property, Plant and Equipment has increased by £43.834m partly due to the revaluation of a number of assets and also due to the addition of assets through the capital programme. Further detail can be found in note 15 to the Statement of Accounts.
- Investment Property has decreased by £32.630m due to valuation movements. The Council's Capital Programme includes the provision for the purchase of Investment Properties. Further details can be found in note 17 to the Statement of Accounts.
- Long Term Investments have increased by £9.924m reflecting a movement from short to long term investment on the advice of the Council's Treasury Management consultants Arlingclose. Further notes on Financial Instruments can be found in note 18 to the Statement of Accounts.

5.9.2 Current Assets

- Short Term Debtors have decreased by £9.854m mostly due to a reduction in money owed to the Council by Central Government. Further information is available in note 19.1.
- Cash and Cash Equivalents have decreased by £10.045m to £30.182m to reflect a decrease in the short term cash investments held. Further notes on Financial Instruments can be found in note 18 to the Statement of Accounts.

5.9.3 Current Liabilities

- Short Term Borrowing has reduced by £147.134m. This reflects the move from short term borrowing to long term borrowing which has increased by £158.594m. Borrowing is used to finance the Capital Programme in accordance with the 2022/23 approved budget and Treasury Management Strategy. Further detail can be found in note 18 to the Statement of Accounts.
- Capital Grants Received in Advance have increased by £4.769m. Further details are provided in note 29 to the Statement of Accounts.

5.9.4 Long Term Liabilities

- Long Term Creditors have reduced by £1.419m. Most of the movement is reflected in a decrease in liability for unfunded pension liabilities relating to pre Local Government Reorganisation (pre 1 April 1998). Further information is available in note 20.2 to the Statement of Accounts.
- Long Term Provisions have increased by £2.743m, which relates mainly to movement in provision for business rate appeals and landfill site provision. Further details can be found in note 21 to the Statement of Accounts.
- Long Term Borrowing has increased by £158.594m, which relates to the reduction in short term borrowing mentioned above, further details can be found in note 18 to the Statement of Accounts.
- Long Term Liabilities Pensions have reduced by £344.408m. The Council's net liability has decreased mainly due to the triennial pension valuation which was undertaken in October 2022. This change has also been accounted for in the 2021/22 Statement of Accounts. Further detailed explanation on this movement is contained within note 34 of the Statement of Accounts.
- Other Long-Term Liabilities have reduced by £5.020m which reflects a reduction in the long-term PFI liability. Further information can be found in note 20.3 to the Statement of Accounts.

- Grants Received in Advance – Capital have reduced by £3.769m. This is mainly due to a reduction in the Section 106 grants. This movement is further explained in note 29.1 of the Statement of Accounts.

5.9.5

Reserves

- Usable reserves are showing a net reduction of £8.851m which reflects their agreed usage in achieving a balanced budget position. The Movement in Earmarked Reserves is further explained in note 12 to the Statement of Accounts.
- Unusable reserves have increased by £346.251m. The unusable reserves are not available for revenue purposes to the Council but are part of their technical accounting requirements. The unusable reserves include, for example, the pension reserve, the capital adjustment account and the revaluation reserve. Further information on the unusable reserves is available in note 22 to the Statement of Accounts.