

Audit and Governance Committee



Date of meeting:	23 July 2024
Title of Report:	Statement of Accounts 2023-24 (unaudited)
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	David Northey (Service Director for Finance)
Author:	Carolyn Haynes
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Your Reference:	SoA 23-24/Audit July 2024
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

This is a report summarising the key aspects of the 2023/24 Statement of Accounts. The Statement of Accounts appended to this report are draft at this stage. The public inspection period began on 3rd June and ended on 12th July 2024. The published Draft Statement of Accounts can be found in Appendix A.

These Draft Statements of Accounts complement the financial outturn position and reports the Council's financial position in line with International Financial Reporting Standards, adopted by CIPFA for the purposes of Local Government via the Code of Practice on Local Authority Accounting.

Recommendations and Reasons

- I. To **approve** the Statement of Accounts for 2023/24 attached as Appendix B with the understanding that they will be audited by Grant Thornton UK LLP. 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, 2022/23 and 2023-24.
3. To note that the draft Statement of Accounts for 2023/24 were published on the 31 May 2024 prior to the Council reaching agreement with Grant Thornton on the revenue treatment of the Pension Transaction.

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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: 11/07/2024

Cabinet Member approval: *approved by email*

Date approved: 11/07/2024

1. Framework for Local Government Financial Reporting

- 1.1 Local government accounts are based on an accounting code produced by CIPFA LASAAC. The code is an adaptation of International Financial Reporting Standards (IFRS) for the purposes of UK local government bodies.
- 1.2. Local government accounts include the following core statements:
- Comprehensive Income and Expenditure Statement (CIES) - recording all revenue income and expenditure for the year
 - Balance Sheet – showing the value of assets and liabilities held by the Council
 - Cashflow Statement – showing movements in cash and cash equivalents for the Council. Complementing the CIES and Balance Sheet which are completed on an accruals basis.
 - Movement in Reserves Statement – this is a local government specific statement. It shows how reserves have changed by removing accounting items in the CIES that are required by statute to not impact the Council's reserves – reconciling to the outturn position.
- 1.3 Notes to the Accounts provide further detail on individual line items in the core statements.

2. National Context

- 2.1 There is a significant backlog in the publication of audited accounts in local government. As at March 2024, there were 646 outstanding audit opinions for local authorities. In addition, only 41% of local authorities published draft accounts for 2023/24 by the statutory deadline of 31st May.
- 2.2 The backlog has attracted significant national attention. Both the government and parliamentarians have been keen to understand the issues and find a resolution for it. The Public Accounts Committee held an inquiry into the timeliness of local audit, with a report published in March 2023. The Levelling Up and Housing Committee (LUHC) held an inquiry into Financial Reporting and Audit in Local Authorities and published a report in February 2024.
- 2.3 Having worked with System Partners (which includes CIPFA, the Financial Reporting Council, National Audit Office, councils and auditors) the Government launched a consultation in February 2024 to clear the backlog by setting a series of statutory backstop dates up to 2027/28.

3. Purposes of Local Government Accounts

- 3.1 The LUHC inquiry report set out that there was a lack of clarity about the purposes of Local Authority accounts and audit. As outlined in their report they identify the purposes as:
- A credible public record
 - Accountability for spending
 - Value for Money
 - Information to run local authorities

- Public reporting of actual and potential issues

3.2 Furthermore, they identified purposes of local authority audit as being:

- To establish the credibility of local authority accounts, so they can fulfil their purposes in supporting local accountability; and
- To supplement the local authority accounts with relevant information and conclusions that are needed to fulfil the purpose of the audited accounts. but are not part of the disclosures in the accounts.

4. Local Authority Accounting

- 4.1 The main Code of Practice relevant to the production of the Statement of Accounts, which CIPFA publish on an annual basis, is the 2023/24 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).
- 4.2 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.
- 4.3 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.
- 4.4 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.
- 4.5 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.

5. Statement of Accounts 2023/24

- 5.1 The draft Statement of Accounts for 2023/24 were published on the 31 May 2024. The period of public inspection started on the 3 June 2024.
- 5.2 The draft Statement of Accounts for 2023/24 were published prior to the Council reaching agreement with Grant Thornton on the revenue treatment of the Pension Transaction. The main impact would have been on the usable reserve balances. If these adjustments were applied

to the Working Fund Balance for 2023/24, this would move from a positive £8.745m to a negative £64.630m. Total usable reserves would reduce from 106.508m to £41.878m.

- 5.3 The Council achieved a breakeven outturn position. The overall net spend matches the net budget of £218.440m. 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 £560m for business-as-usual activities. This is a significant achievement during a year with continuing cost and demand pressures on services, particularly within Children's Services.
 - The 2023/24 budget included ambitious savings targets totalling £23.435m, which were not all achieved in full.
 - The drawdown of £1.953m of usable reserves throughout the year and the use of £9.307m of Corporate Resourcing Adjustments.
- 5.4 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. 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 2024, which means that the Council's assets are £471.814m 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.

- 5.5 The main movements on the Balance Sheet between 31 March 2023 and 31 March 2024 are summarised below:
- 5.5.1 Non-current Assets
- Property, Plant and Equipment has increased by £61.145m 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.
 - Heritage Assets have increased by £25.578m due to the addition of heritage assets valued below £100k being added based on their insurance value.
 - Investment Property has decreased by £14.711m 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.
- 5.5.2 Current Assets
- Short Term Debtors have increased by £40.831m due to an increase in money owed to the Council by government bodies. Further information is available in note 19.1.
 - Cash and Cash Equivalents have decreased by £3.184m to £26.998m 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.

5.5.3 Current Liabilities

- Short Term Borrowing has increased by £12.325m. Borrowing is used to finance the Capital Programme in accordance with the 2023/24 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 decreased by £40.305m. Further details are provided in note 29 to the Statement of Accounts.

5.5.4 Long Term Liabilities

- Long Term Borrowing has increased by £86.786m, further details can be found in note 18 to the Statement of Accounts.
- Long Term Liabilities Pensions have increased by £36.907m. This is an accounting adjustment due to the effect of the asset ceiling which has been determined by the Scheme's actuaries (Barnett Waddingham). Details are set out in the Statement of Accounts.
- Other Long-Term Liabilities have reduced by £4.989m 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 £3.712m. This is mainly due to a reduction in the Section 106 grants and the Growth Deal grant. This movement is further explained in note 29.1 of the Statement of Accounts.

5.5.5 Reserves

- Usable reserves are showing a net reduction of £3.682m 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 £44.516m. 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.

6. **Capitalisation Direction**

- 6.1 The Council is working with Government to resolve an outstanding technical issue relating to the Statement of Accounts for 2019/20.
- 6.2 Discussions around the pension topic have been on-going, and the need for a resolution to allow the 2019/20 accounts to be signed off by the auditors came to more prominence at the end of June 2023.
- 6.3 The draft accounts for 2019/20 and 2020/21 have needed to be revised prior to the external audit being completed by Grant Thornton. The original accounting treatment was as a capital transaction; our auditors have advised we needed to reflect the Pension Transaction as a revenue transaction.
- 6.4 The revenue treatment meant that the Council's income for 2019/20 and 2020/21 was insufficient to meet its expenditure. The Working Fund Balance for 2019/20 has reduced from £8.045m in 2019/20 to a negative £65.330m to reflect the adjustment of £73.375m for the

Pension Transaction. The Working Fund Balance for 2020/21 is now showing a balance of £64.980m which reflects a £0.350 transfer to reserves in 2020/21.

- 6.5 Due to this change in accounting treatment, it has been necessary for the Council to request a retrospective Capitalisation Direction from Government. This support is provided via the Exceptional Financial Support Framework which has been agreed in principle.
- 6.6 The Capitalisation Direction will permit the Council to meet the £72m revenue transaction through capital resources.
- 6.7 The draft accounts for 2021/22, 2022/23 and 2023/24 will also need to be revised to reflect the change in accounting for the Pension Transaction. The revised statements will be presented to the Audit and Governance Committee at the earliest opportunity.

7. Conclusion

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

8. Legal Implications

The Local Audit & Accountability Regulations 2015 require that the draft accounts are subject to an inspection period and then required to be audited with the final audited accounts being presented to the Audit and Performance Committee at a later date.