

Title of report: 2021/22 Draft Statement of Accounts

Meeting: Audit and Governance Committee

Meeting date: Monday 25 July 2022

Report by: Interim Chief Accountant

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards)

Purpose

To ask the Audit and Governance Committee to note, and comment on as appropriate, the draft, unaudited, Statement of Accounts for 2021/22.

Recommendation(s)

That:

- a) **Audit and Governance Committee to note, and comment on as appropriate, the draft, unaudited, Statement of Accounts for 2021/22.**

Alternative options

1. To not provide a statement of accounts. This is not an option. The Local Audit and Accountability Act 2014 requires the council to produce a statement of accounts in accordance with the Accounts and Audit Regulations 2015. The process requires the final accounts to be approved by the Audit and Governance Committee. This report presents the draft, unaudited Statement of Accounts for noting and commenting on as appropriate.

Key considerations

2. The Statement of Accounts sets out the council's financial position as at the 31 March 2022 along with a summary of its income and expenditure for the year to 31 March 2022. The financial statements are the main method of demonstrating financial accountability and stewardship. This is the draft unaudited Statement of Accounts.

3. The most significant matters in the 2021/22 draft accounts and a summary of the council's financial position are set out in the introductory narrative report within the accounts. Key points include the following:
- i. The impact of the pandemic on council finances remains a national issue for all local authorities. The council has been working closely with partner authorities to assess the present and ongoing financial impact and to look for ways to mitigate these effects together with government support.
 - ii. The council delivered a small underspend, in the management accounts, for the year of £0.5m due to £4.8m of direct COVID additional grant being provided by central government.
 - iii. Community Wellbeing Directorate delivered a significant net underspend of £6.9m which was largely the result of the pandemic, either because monies couldn't be spent due to restrictions, or because budgets we would have spent were offset by COVID grants.
 - iv. There was a net overspend in Children and Young People Directorate of £3.6m due to the cost of residential placements for children in council care which are all provided by private sector operations, these continue to cause significant cost pressures for the service.
 - v. Economy & Environment Directorate's net overspend of £0.4m reflects pressure on income targets as a direct or indirect result of COVID restrictions e.g. reduced parking revenue and reduced income from planning applications.
 - vi. The central, treasury management, capital financing and reserves underspend reflects the delayed need to borrow from a combination of high cash balances and slippage in the delivery of the capital investment programme.
 - vii. The capital budget was re-profiled in year. There was an underspend of £31.5m on the 2021/22 revised budget of £69.1m which related to some projects that were no longer required , or projects and programmes that have been rolled forward to 2022/23.
 - viii. During the year a new Chief Executive was appointed and a council wide restructure took place, the draft 2021/22 accounts were restated to reflect this.
 - ix. At year end there was a small net deficit on Dedicated Schools Grant reserves. Following discussions with DfE, work is underway to produce a DSG Deficit Management Plan for the £345k deficit reserve which will be discussed at Schools Forum later this year. By comparison both nationally and with our statistical neighbour authorities, the council is managing the continuing pressures on the DSG effectively and the future very much depends on the council providing more local provision to avoid the need for expensive out of county placements.
 - x. The main risks identified are inflation across all council services, increasing demand for children and young people and adults' social care, and the likely costs of the reforms to social care fees and charging.
 - xi. Counter fraud work across the council continued to be highly successful improving corporate fraud maturity across the organisation and the ability to effectively manage the risk of fraud,
 - xii. The 2021/22 draft accounts have been produced on a going concern basis irrespective of the challenges posed by the COVID pandemic and any other perceived threats to sustainability. The issues of sustainability and liquidity are critical for the council and its ability to:
 - a) manage its budget within available resources
 - b) maintain adequate reserve balances to shield it from unexpected cost pressures, and difficulties in achieving savings programmes

These risks are monitored throughout the year by the S151 Officer.

2021/22 statement of accounts

- The financial statements are prepared in accordance with international financial reporting standards. These comprise: a narrative report, the movement in reserves statement, a comprehensive income and expenditure account, a balance sheet, a cash flow statement and supporting explanatory notes. Once finalised, the S151 officer has to state that he is satisfied that the statement of accounts presents a true and fair view of the financial position of the council and its group as at 31 March 2022 and its income and expenditure for the year ended 31 March 2022.

Reconciliation between the Management Accounts Out-turn and the Income and Expenditure Account

- The Income & Expenditure account for the year ended 31 March 2022 is showing a surplus of £46.9m compared to a £0.5m underspend reported in the management accounts as the final outturn for the year.
- In the Narrative section of the draft accounts on page 14, the Revenue Outturn 2021/22 shows net cost of services of £165.2m against a budget of £ 160.9m. COVID service grants totalling £4.8m were allocated and this resulted in a net underspend of £0.5m for the year
- In the draft accounts, this £165.2m net cost of services is then transferred to the Expenditure and Funding Analysis (EFA) on page 50 and, together with other income and expenditure and adjustments, this results in a surplus of £14.7m.
- This £14.7m surplus is then transferred to the Comprehensive Income and Expenditure Statement (CIES) on page 28 which presents income and expenditure more fully under generally accepted accounting practices.
- In the CIES on page 28 the £14.7m is shown as a surplus on the provision of services which is then added to other income adjustments to reconcile back to the £46.9m as follows:

Reconciliation – reported final 2021/22 budget outturn £0.5m surplus to draft accounts reported surplus of £46.9m

	Net £m	Draft Accounts Reference
(Surplus)/ deficit per the management accounts (Revenue Outturn) (0.5m) based on net cost of services of £165.2m	(0.5)	Revenue Outturn page 14
Net expenditure chargeable to the General Fund	165.2m	Revenue outturn page 14 and EFA page 50
Other adjustments	11.4m	EFA page 50
Net cost of services (Net expenditure in CIES)	176.6m	EFA page 50

Other income and expenditure	(191.3)m	EFA page 50
Total (Surplus) / deficit on the provision of services	(14.7)	EFA page 50 and CIES page 28
(Surplus) / deficit in revaluation of non-current assets	(8.7)	CIES page 28
Re-measurement of net defined Benefit Liability (Local Government Pension Scheme)	(23.5)	CIES page 28
Total comprehensive (income) / expenditure for the year in the 2021/22 draft accounts	(46.9) (Surplus)	CIES page 28

Movement in reserves statement

10. The movement in reserves statement shows the movements in reserves during the year, analysed into the different funds held by the council and classified as either “usable” reserves, which can be used to fund future expenditure, or “unusable” reserves which are maintained to meet specific statutory responsibilities.

Usable reserves

11. Total usable reserves as at 31 March 2022 were £165.2m, an overall decrease of £8.5m from 31 March 2021. Earmarked reserves are reviewed annually by Cabinet, the last review was on 30 September 2021 and the next review is scheduled for 28 July 2022.

Unusable reserves

12. Unusable reserves are not available to be spent. They are maintained to meet specific statutory responsibilities and include the pension reserve, revaluation reserve and capital adjustment account.
13. The unusable reserves totalled £177.6m at 31 March 2022 compared to £122.4m at 31 March 2021.

Comprehensive income and expenditure statement (CIES)

14. This statement shows the net cost of providing services when calculated in line with generally accepted accounting practice. The Expenditure and Funding Analysis, note 2 to the accounts, compares the CIES with the outturn reported to Cabinet, showing the adjustments made between the management and statutory reports.

Balance Sheet

15. The balance sheet summarises the council’s assets, liabilities and reserve position at the end of the financial year. Net assets are matched by reserves which may be ‘usable’ or ‘unusable’, see above.

16. At 31 March 2022 long term assets totalled £763.7m, compared to £730.8m at 31 March 2021. Long term assets include the current valuation of property, plant and equipment the council uses in the provision of its services and the inclusion of capital spend during the year.
17. Current assets totalled £122.3m at 31 March 2022, compared to £119.3m at 31 March 2021. The main increase representing an increase in short term investments held at the year-end, representing the receipt of COVID funding carried forward into 2021/22.
18. Long term liabilities totalled £455.9m at 31 March 2022 compared to £468.7m at 31 March 2020. This is mainly due to a decrease in the pension's liability as provided by the external actuary, Mercer Limited.
19. Current liabilities totalled £87.3m at 31 March 2022, compared to £85.3m at 31 March 2021.

Impact of Covid-19 on asset valuations

20. The council carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations are carried out in accordance with the professional standards of the Royal Institution of Chartered Surveyors. All Council assets requiring an independent professional valuation have been valued in 2020/21 or 2021/22 therefore the risk of a value misstatement is considered to be low.
21. The COVID pandemic created a large uncertainty in financial markets and the market for other assets. As at 31 March 2022 material valuation uncertainty was contained to retail and specific trading related assets/sectors such as car parks, where we continue to be faced with an unprecedented set of circumstances caused by COVID and an absence of relevant/sufficient market evidence on which to base critical judgements.

Cash flow statement

22. The cash flow statement shows how the council generates and uses cash and cash equivalents, and explains the reasons for changes in cash balances during the year. During 2021/22 there was a net increase in cash and cash equivalents of £19.0m.

Group accounts

23. The group accounts consolidate the performance of the council with its subsidiary Hoople Limited in 2021/22. The impact of the consolidation increases the council's reserves position by £3.3m (£2.7m in 2020/21) which includes a minority interest reserve balance of £0.5m (£0.4m in 2020/21).

The collection fund

24. The collection fund demonstrates how income raised from local taxpayers has been re-distributed to the council and to other precepting authorities for the provision of services. Collection fund income from council taxpayers and business ratepayers totalled £178.3m in 2021/22 compared to £156.9m in 2020/21.
25. Expenditure includes precept payments to West Mercia Police (£16.4m), Hereford and Worcester Fire Authority (£6.5m) and parishes (£4.9m). These are paid from income collected from taxpayers on their behalf.

Community impact

26. Publication of the statement of accounts in accordance with statutory requirements helps the council to achieve its code of corporate governance commitment to behave with integrity,

demonstrate strong commitment to ethical values, and respect the rule of law. The council is accountable for how it uses the resources under its stewardship, including accountability for outputs and outcomes achieved. In addition the council has an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies.

Environmental Impact

27. The council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
28. This is a review of the draft 2021/22 Statement of Accounts so will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the council's Environmental Policy. For example, the external audit on the draft accounts will be completed remotely, reducing travel impact and paper usage.

Equality duty

29. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:
30. A public authority must, in the exercise of its functions, have due regard to the need to –
 - a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
31. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a statement of factual information, we do not believe that it will have an impact on our equality duty.

Resource implications

32. Contained in the report.

Legal implications

33. Regulation 9 of the Accounts and Audit Regulations 2015 requires the following:
 - a. The S151 officer to sign and date the statement of accounts, and confirm that he is satisfied that it presents a true and fair view of the financial position of the council at the end of the financial year to which it relates together with the income and expenditure for that financial year.
 - b. A period of time to allow the public to inspect the accounts. This will be prior to 31 July 2022 and last for 6 weeks.

34. Once there has been a period of public inspection, the committee must approve the statement of accounts by a resolution and ensure that the statement of accounts will need to be signed and dated by the person presiding at this committee.
35. The Accounts and Audit (Amendment) Regulations 2021 for local authorities the publication date for audited accounts moved from 31 July 2021 to 30 September 2021.

Risk management

36. The council is required to make arrangements for the proper administration of its financial affairs and to secure that the chief financial officer has the responsibility for the administration of those affairs. The council is also required to secure economic, efficient and effective use of resources which Grant Thornton provide a value for money opinion, this report will follow at a later date.

Consultees

37. The statement of accounts will be made available for a six week public inspection period commencing prior to 31 July 2022.

Appendices

Appendix 1 Draft Statement of Accounts 2021/22

Background papers

None identified.