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Draft Statement of Accounts 2022-23

Committee	Accounts, Audit and Risk Committee
Date of Committee	20 March 2024
Portfolio Holder presenting the report	Councillor Adam Nell
Date Portfolio Holder agreed report	6 March 2024
Report of	Assistant Director of Finance (S151) Michael Furness

Purpose of report

To provide an opportunity for review of the draft 2022/23 Statement of Accounts which were published on 2 February 2024.

1. Recommendations

The Accounts, Audit and Risk committee resolves:

- 1.1 To note the report and publication of the draft statement of accounts 2022/23 (Appendix 1), and raise any queries on the draft statement of accounts.
- 1.2 To note the current consultations from Central Government to implement 'backstop' dates to combat the backlog of outstanding audits across England.

2. Executive Summary

- 2.1 The draft statement of accounts 2022/23 were published on 2 February 2024. Draft statements of accounts are usually published by 31 May following the year end date; however, due to delays primarily driven by the delay in the 2021/22 audit of the financial statements, the council was unable to publish at that time. Publishing draft accounts before the prior year's audit was substantively complete risked the draft accounts being materially incorrect due to potential audit adjustments in the prior year which could impact on opening balances. Once the 2021/22 audit had reached a stage where the majority of the work had been completed and audit adjustments agreed the council was able to produce 2022/23 draft statements.
- 2.2 The draft statements of accounts for 2022/23 are now being presented to the Accounts, Audit and Risk committee for review (Appendix 1).
- 2.3 The Department for Levelling Up, Housing and Communities (DLUHC) and the National Audit Office (NAO) published on 8 February 2024 a joint statement and consultations on addressing the backlog of audits across England. This includes

setting 'backstop' dates by which the external auditors must provide an opinion on the statement of accounts. If the auditors have not had the time to complete the audit as normal by this point, this could lead to a qualified or disclaimer opinion, meaning that they have not been able to gain sufficient assurance over some or all of the figures disclosed in the financial statements. The proposed backstop date for 2022/23 is 30 September 2024, but this is still subject to the results of the consultation. Once the outcome of the consultation is announced, we will bring an update to the committee on the implications for the council.

Implications & Impact Assessments

Implications	Commentary			
Finance	There are no financial implications as a result of this report. Joanne Kaye, Head of Finance (Deputy S151) 23 February 2024			
Legal	The Accounts and Audit Regulations 2015 (as amended) require a period of 30 working days for the exercise of public rights to inspection of the draft Statement of Accounts. This period should include specified days in June however due to issues beyond our control the Council has, in accordance with the exception permitted within the Regulations, published the Draft Statement of Accounts 2022/23 on Friday 2 February 2024 alongside a public inspection notice announcing that the period for the exercise of public rights will commence at 9am on Monday 5 February 2024 and conclude at 4pm on Friday 15 March 2024. Alison Coles, Legal Services Operations Manager, Solicitor 28 February 2024			
Risk Management	There are no risk implications arising directly from this report. Celia Prado-Teeling, Performance & Insight Team Leader, 27 February 2024			
Impact Assessments	Positive	Neutral	Negative	Commentary
Equality Impact				Not Applicable
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?				Not Applicable
B Will the proposed decision have an impact upon the				Not Applicable

lives of people with protected characteristics, including employees and service users?				
Climate & Environmental Impact				Not applicable
ICT & Digital Impact				Not applicable
Data Impact				Not applicable
Procurement & subsidy				Not applicable
Council Priorities	Not applicable			
Human Resources	N/A			
Property	N/A			
Consultation & Engagement	No consultation necessary.			

Supporting Information

3. Background

- 3.1 All local authorities must produce a statement of accounts annually to help ensure that there is appropriate stewardship of public finances. A draft statement of accounts is usually required to be published by 31 May after the year end, however the Accounts and Audit Regulations 2015 were amended in 2021 to allow for the publication to be delayed where necessary. The council published a notice on 30th May 2023 in line with the amended regulations stating that the publication was delayed, primarily due to delays in the audit of the 2021/22 statement of accounts. In February it was determined that as the 2021/22 audit is approaching conclusion the council was in a position to publish draft 2022/23 statements.
- 3.2 Statements of accounts are produced according to accounting standards to ensure that they are produced on a consistent standard and are comparable with other statements of accounts. Local Authority statements of accounts are produced by following the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code occasionally overrides accounting standards where statute takes precedence over accounting standards.
- 3.3 The Statement of Accounts is made up of the following elements:
- The Narrative Statement - an introduction to Cherwell District Council (CDC) and what it has achieved over the year.
 - The main financial statements:

- Expenditure and Funding Analysis (EFA)
- Comprehensive Income and Expenditure Statement (CIES)
- Movement in Reserves Statement (MIRS)
- Balance Sheet
- Cashflow Statement
- Supporting Notes to the Accounts
- Collection Fund accounts – setting out the Non-Domestic Rates and Council Tax collected and distributed by the council as the billing authority.
- Group accounts and explanatory notes – a set of accounts where the subsidiaries within the group have been consolidated with the council’s accounts.
- Annual Governance Statement – an annual assessment of the governance arrangements for the council which is required to be published alongside the financial statements.

4. Details

4.1 The council’s draft statement of accounts for 2022/23 are attached at Appendix 1. This report will provide an overview of what the main financial statements say about the council.

4.2 Expenditure and Funding Analysis

4.2.1 The objective of the Expenditure and Funding Analysis (EFA) is to demonstrate to council taxpayers how the funding available to the council (i.e. government grants, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices.

4.2.2 The EFA also shows how this expenditure is allocated for decision making purposes between the council’s directorates within the General Fund. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the CIES.

4.2.3 All figures shown in the EFA are net expenditure or (income) figures. Therefore, a figure without brackets shows a net cost and a figure with brackets is a net income item.

4.2.4 The council reported a balanced revenue outturn position for 2022/23 in July 2023. This position did not (and should not have) included the statutory accounting adjustments found in the EFA. The overall deficit on the Combined General Fund (General Fund reserve and Earmarked Reserves) for the provision of services for the year was £8.3m. This consists of a (£0.2m) surplus on the General Fund, and £8.5m use of Earmarked reserves. In total there were (£4.0m) of adjustments between the net expenditure chargeable to the general fund and net expenditure in the CIES. These are statutory adjustments between the funding basis for the council and the accounting requirements of the CIPFA code. The adjustments are as follows:

- **Capital Statutory adjustments of £1.6m**

This adjustment adds in capital items not chargeable to the general fund

such as depreciation, impairment, revaluation movements and capital grant income. It also removes statutory charges for capital financing such as the Minimum Revenue provision as these are not chargeable under generally accepted accounting practices.

- **Pensions Statutory adjustments of £7.3m**
This adjustment removes the pension contributions chargeable to the general fund under statute and replaces with the accounting charges based on estimated changes in the net defined benefit pension liability as calculated by the pension scheme actuary.
- **Other Statutory Adjustments of (£12.9m)**
Consisting primarily of the difference between what is chargeable to the general fund under statutory regulations for Council Tax and Non-Domestic Rates and the income recognised in the CIES under generally accepted accounting practices in the Code. This is a timing difference, as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

4.3 Comprehensive Income and Expenditure Statement

4.3.1 The CIES shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the EFA and the Movement in Reserves Statement (MIRS).

4.3.2 All figures shown in the CIES with brackets are income and without brackets are expenditure.

4.3.3 Table 1 below compares the Net Expenditure/ (Income) for the council for 2021/22 and 2022/23

Table 1: Comparison of Net Expenditure / (Income) for the council between 2021/22 and 2022/23	2021/22 Net Expenditure / (Income) £m	2022/23 Net Expenditure / (Income) £m	Increase/ (decrease) £m
Chief Executive	15.9	8.5	(7.4)
Communities	16.2	13.1	(3.1)
Resources	53.5	14.9	(38.6)
Cost of Services	85.6	36.5	(49.1)
Other Operating Expenditure	4.6	4.6	0
Financing and Investment (Income) and Expenditure	(0.7)	(0.7)	0
Taxation and Non-specific Grant (Income)	(51.4)	(36.1)	15.3
(Surplus) or Deficit on Provision of Services	38.1	4.3	(33.8)

4.3.4 The primary driver for the (£33.8m) reduction in net deficit on provision of services was capital and COVID-19 related items. Note that the capital items totalling

(£30.9m) of this reduction do not impact on the general fund due to the capital statutory overrides. This is broken down in table 2 below:

Table 2: Breakdown of reduction in net deficit on provision of services

Reason	Impact on net deficit on provision of services £m
Change in losses on revaluation of property	(39.5)
Reduction in Revenue Expenditure Funded by Capital Under Statute	(7.3)
Reduction in capital grant income	15.9
Reduction in Covid-19 grant related net expenditure	(3.1)
Other movements	0.2
Total	(33.8)

4.4 Movement in reserves Statement

- 4.4.1 The MIRS shows the movement from the start of the year to the end of the year for the different reserves held by the council, analysed into 'useable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves' (e.g. the Revaluation Reserve which holds unrealised gains and losses from the revaluation of assets or the Capital Adjustment Account which holds adjustments between the accounting basis and funding basis under regulations).
- 4.4.2 This statement shows how the movements in year of the council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The net (Increase)/Decrease line shows the statutory General Fund Balance in the year following those adjustments.
- 4.4.3 The MIRS combines both levels of reserves held (balances) and changes in the level of reserves that have happened through the year. Where there is a change in the year that contributes to - (increases) - a reserve this is shown with brackets. Where there is a use of - decreases - a reserve this is shown without brackets.
- 4.4.4 The council's general reserve has increased from (£6.0m) to (£6.2m). Other usable reserves have decreased from (£40.2m) to (£29.5m), meaning total usable reserves as at 31 March 2023 are (£35.7m). The decrease relates primarily to budgeted use of the business rates S31 grants reserve to offset the estimated business rates collection fund deficit from 2021/22.
- 4.4.5 Total unusable reserves have increased by (£67.1m) from £51.1m to (£16.0m) as at 31 March 2023. The increase relates primarily to a (£50.8m) increase in the pension reserve and a (£13.3m) increase in the Collection Fund Adjustment Account reserve. The (£50.8m) increase in the pension reserve is due to a £50.8m reduction in the net pension liability, reducing from (£82.1m) to (£31.3m), as the reserve mirrors the liability (see section 4.5.5 for detail on the pension liability movement). The Collection Fund Adjustment account movement is largely due to there having been an £8.5m deficit on business rates collection in 21/22, but in 22/23 there was a (£4.6m) surplus. The remaining (£0.2m) increase in the

Collection Fund Adjustment Account reserve relates to small movements in Council Tax surplus/deficits.

4.5 Balance sheet

4.5.1 The balance sheet shows the values as at 31 March 2023 of the assets and (liabilities) recognised by the council. The net assets of the council - assets less (liabilities) - are matched by the reserves held by the council, analysed between 'useable' and 'unusable' reserves, shown in the bottom portion of the Balance Sheet. Assets are shown without brackets, whilst (liabilities) are shown with brackets.

4.5.2 The Balance Sheet is split between long-term and short-term items (also referred to as non-current and current respectively). Long-term items are expected to last or mature after a period of more than 1 year. Short-term items are expected to last or mature within 1 year of the balance sheet date.

4.5.3 A high-level breakdown of the balance sheet is shown below, for a full breakdown please see the balance sheet as presented on pg29 of Appendix 1.

Table 3 – High-Level Balance Sheet

Category	2021/22 £m	2022/23 £m	Movement £m
Long term Assets	288.1	288.7	0.6
Current Assets	71.5	61.6	(9.9)
Total Assets	359.6	350.3	(9.3)
Current Liabilities	(142.6)	(76.5)	66.1
Long Term Liabilities	(222.0)	(222.1)	(0.1)
Total Liabilities	(364.6)	(298.6)	66.0
Net Assets	(5.0)	51.7	56.7
Total Reserves	5.0	(51.7)	(56.7)

4.5.4 The increase to net assets of £56.7m is largely attributed to the £50.8m reduction in the net pension liability from (£82.1m) to (£31.3m) - mirrored by a £50.8m increase in the pensions reserve due to the accounting entries for defined benefit pensions. Note that the net pension liability is a long-term liability, however in the above table there is only a (0.1m) movement in long term liabilities. This is due to the movement in net pension liability being offset by £54m of borrowing that was refinanced in year to minimise borrowing costs and so moved from current to long-term.

4.5.5 The net pension liability reduction is primarily due to the increase in the discount rate assumption used by the actuaries to estimate the liability. The discount rate is linked to the yield of corporate bonds, and so has risen alongside the interest rate increases from the Bank of England. The discount rate is used to discount future cashflows to reflect the time value of money. Therefore, an increase in the discount rate means the present value of future pension payments has decreased, and so the pension liability has decreased.

4.6 Cash Flow Statement

4.6.1 The Cash Flow Statement summarises the changes in cash and cash equivalents during 2022/23. The statement shows how the council generates and uses cash and cash equivalents by classifying cash flows as operating, investing, and financing activities.

- Net cash flows arising from operating activities is a key indicator of the extent to which the operations of the council are funded by way of taxation and grant income or from the recipients of services provided by the council.
- Investing activities represent the extent to which net cash flows have been made for resources which are intended to contribute to the council's future service delivery.
- Net cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the council.

4.6.2 Increases in cash - (inflows) - are shown with brackets. Reductions in cash – outflows – are shown without brackets.

4.6.3 Operating activities for the year resulted in an increase in cash of (£21.8m). Investing activities resulted in a net increase in cash of (£5.5m). Financing activities resulted in a net decrease in cash of £24.2m. Overall, the council saw an increase of the cash and cash equivalent assets it held for the year of (£3.1m).

4.7 **Audit Backlog Consultation**

4.7.1 On 8 February 2024 DLUHC and the NAO published a joint statement and associated consultations on local audit delays in England and their proposed method to clear the backlog.

4.7.2 To clear the backlog of historical accounts and 'reset' the system, DLUHC proposes putting a date in law (the "backstop date") – 30 September 2024 – by which point local bodies would publish audited accounts for all outstanding years up to and including 2022/23. The proposal would also set similar backstop dates for the following 5 years as set out below:

- Year ended 31 March 2024: 31 May 2025
- Year ended 31 March 2025: 31 March 2026
- Year ended 31 March 2026: 31 January 2027
- Year ended 31 March 2027: 30 November 2027
- Year ended 31 March 2028: 30 November 2028

4.7.3 Under this proposal Auditors would be required to issue an opinion before the backstop date, however, if they do not have enough time to complete all audit work before that date, then a modified opinion would be issued. Depending on the amount of work completed by the backstop date the modified opinion could either be a 'qualified opinion' or a 'disclaimer opinion' rather than the usual 'unqualified opinion'. These mean the following:

- **Unqualified Opinion:**
This opinion is given when the auditor has gained sufficient assurance that the financial statements give a true and fair view.
- **Qualified Opinion:**
This opinion is given where the auditor has been unable to gain sufficient assurance over a limited area of the financial statements, but except for the effects of this, the financial statements give a true and fair view.

- **Disclaimer Opinion:**

This opinion is given where the auditor has been unable to gain sufficient assurance over a range of areas in the financial statements, and this is so pervasive that the auditor is unable to form an opinion on whether the financial statements give a true and fair view. In the case of the backstop date this would be because they have not been able to complete enough of the audit work in the time available rather than there being an issue with the transactions or audit evidence.

4.7.4 The consultation closed for responses on 7 March 2024 and the publication date of the result of the consultation has not yet been announced. Once this has been confirmed we will return to the committee with an update on the implications for the 2022/23 audit and the future years.

5. Alternative Options and Reasons for Rejection

5.1 There are no alternative options as the council is required by the Accounts and Audit Regulations 2015 to produce and publish its statement of accounts for 2022/23. If members have comments or concerns these can be discussed with officers.

6 Conclusion and Reasons for Recommendations

6.1 The statement of accounts has been prepared according the CIPFA code and represents a true and fair view of the council's financial position. The Accounts, Audit and Risk Committee is invited to note the draft statement of accounts and discuss these with officers to get an understanding of the statements.

Decision Information

Key Decision	N/A
Subject to Call in	N/A
If not, why not subject to call in	N/A
Ward(s) Affected	All

Document Information

Appendices	
Appendix 1	Appendix 1 – Draft Statement of Accounts 2022-23
Background Papers	None
Reference Papers	Accounts, Audit and Risk Committee report on 26 July 2023 – Accounting Policies 2022/23 Accounts, Audit and Risk Committee report on 26 July 2023 - Annual Governance Statement 2022/23

Report Author	Alex Rycroft, Strategic Finance Business Partner
Report Author contact details	Alex.Rycroft@cherwell-dc.gov.uk , 01295 221541