

SUBJECT:	STATEMENT OF ACCOUNTS 2021/22
REPORT BY:	CHIEF EXECUTIVES AND TOWN CLERK
LEAD OFFICER:	COLLEEN WARREN, FINANCIAL SERVICES MANAGE

1. Purpose of Report

1.1 To present the Statement of Accounts for the financial year ended 31st March 2022, together with a short summary of the key issues reflected in the statutory financial statements, for scrutiny.

2. Executive Summary

2.1 The Statement of Accounts (SOA) for 2021/22 provide a comprehensive picture of the Council's financial circumstances and are compiled to demonstrate probity and stewardship of public funds.

2.2 The Council is statutorily required to publish its Statement of Accounts for 2021/22 with an audit opinion and certificate by no later than 30th September 2022. This date has been extended from the ordinary deadline of 31st July in response to a recommendation made by Sir Tony Redmond in his independent report into the effectiveness of external audit and transparency of financial reporting in local authorities and is intended to reduce the pressure on authorities (and auditors) to comply with legal deadlines. However, a recent consultation exercise sought views on changing the audit deadline from 30th September to 30th November 2022. It is therefore likely but not yet confirmed that the date will be revised to November,

2.3 The Audit Committee should note that the Statement of Accounts for 2021/22 are still subject to external audit. The audit of the accounts is being undertaken by Mazars, who will commence the audit in July. Should any material changes be necessary as a result of this external audit work, these will be reported to a meeting of this Committee when the audited Statement of Accounts are presented for approval.

2.4 The Council must make the Statement of Accounts available for public inspection for 10 working days. Following notification from Mazars, this runs from 1st August until 12th August 2022 and the External Auditor is available to answer questions during this period.

2.5 The Council is also required to provide a documented annual review of the effectiveness of its governance arrangements (Annual Governance Statement), which sits alongside the Statement of Accounts. The overall level of assurance provided in 2021/22 was substantial (green) and is in line with our Code of Corporate Governance. However, there is one significant issue that has been identified. This is in respect of IT Disaster Recovery, an issue which

was included in the previous year's AGS. Although progress has been made over the last twelve months it was felt that this issue should remain on the list of significant issues, and progress against the actions will be regularly reported by management to the Audit Committee. There were no new significant issues identified in 2021/22.

3. Background

3.1 The Accounts and Audit Regulations 2015 require the Statement of Accounts to be certified by the Council's Chief Finance Officer by the 31st May each year. However, amended Regulations in 2021 have relaxed to this date until 31st July for the financial years 2020/21 and 2022/21. The Accounts are then released to be audited by the Council's external auditor, Mazars. After completion of the audit the accounts must be published with the audit opinion and certificate, and before that must have been approved by Full Council, by no later than 31st July each year, in line with the amended Regulations, this date has also been relaxed to 30th September 2022. However, a recent consultation exercise sought views on changing the audit deadline from 30th September to 30th November 2022. It is therefore likely but not yet confirmed that the date will be revised to November. Until confirmation of further changes to the Accounts and Audit Regulations are known the timescales involved with the approval of the Statement of Accounts for 2020/21 are subject to confirmation:

a) Report draft accounts to Audit Committee	19 th July 2022
b) Report to Audit Committee	TBC
c) Report to the Executive	TBC
d) Approval by Council	TBC

3.2 In order to ensure that the, current, statutory deadline of 30th September is met Mazars must complete their audit and issue the relevant audit opinion. Should any material changes be necessary as a result of this external audit work, these will be reported to a meeting of this Committee when the audited Statement of Accounts will be presented for approval. The Audit Committee will also receive the Audit Opinion from Mazars at that meeting.

3.3 There is a great deal of technical detail contained in the statutory rigid format of the Accounts that is not always easily understood by the reader unless they are familiar with accounting and audit standards. Training has been provided prior to this meeting to assist members in their understanding of the accounts and a short summary of the accounts will be produced to accompany the Final Statement of Accounts when it is presented to members in September. The remainder of this report sets out a summary, which highlights the key figures in the financial statements which it is hoped will prompt questions in order for the Council to promote greater accountability and transparency for the significant sums of public money entrusted to the Council.

4. Summary of Key Issues in the Financial Statements

4.1 The Comprehensive Income and Expenditure Statement

4.1.1 **The Comprehensive Income and Expenditure Statement (CIES)** (SOA page 25) – in line with statutory accounting practice the Comprehensive Income and Expenditure Statement (CIES) shows the Council's actual performance for the year measured in terms of the resources consumed and generated over the last 12 months. It should not be misinterpreted as the financial outturn position of the Council as this statement contains a number of accounting entries required under International Financial Reporting Standards (IFRS). Regulation allows local authorities to reverse these amounts out of the accounts before determining their outturn position. There is a note to the accounts (Expenditure & Funding Analysis (SOA page 55)) that adjusts the expenditure that is chargeable to general fund and the HRA balances (as per the actual outturn position) to the accounting entries in the CIES under IFRS. To further assist members interpretation of the CIES the table below summarises the reconciliation between the net surplus on the Provision of Services of £18.924m in the CIES to the outturn position of a decrease in General Fund Balances of £0.465m and a decrease on HRA balances of £0.049m as reported in the Financial Outturn report (Executive 20th June 2022).

	£m	£m
Net (surplus)/deficit on the Provision of Services		(18.924)

Of which:

General Fund	£m	£m
Net (surplus)/deficit on the Provision of Services		3.412
Adjust for:		
Depreciation, revaluation losses and gains & impairment of non-current assets	(2.888)	
Revenue expenditure funded from capital under Statute	(1.677)	
Direct Revenue financing of capital expenditure	0.194	
Gain/loss on the sale of non-current assets	0.03	
Contribution to/from the pensions reserve	(3.284)	
Debt repayment and premiums & discounts on debt	1.444	
Short-term compensated absences	0.064	
Contribution to Government's Housing Capital Receipts Pool	(0.529)	
Capital grants & contributions unapplied credited to CI&ES	3.539	
Adjustment for Collection Fund	7.558	
Adjustment for Financial Instruments	0.002	
Transfer to/from Earmarked reserves	(7.400)	
Total Adjustments		(2.947)
(Increase)/decrease in General Fund Balances		0.465

Of which:

HRA	£m	£m
Net (surplus)/deficit on the Provision of Services		(22,336)
Adjust for:		
Depreciation, revaluation losses and gains & impairment of non-current assets	16.071	
Direct Revenue financing of capital expenditure	0.021	

Gain/loss on the sale of non-current assets	0.904	
Contribution to/from the pensions reserve	(1.697)	
Short-term compensated absences	0.037	
Capital grants & contributions unapplied credited to CI&ES	4.353	
Transfer to/from the HRA	2.365	
Transfer to/from Earmarked reserves	0.331	
Total Adjustments		22.385
(Increase)/decrease in HRA Balances		0.049
Overall (Increase)/decrease in Balances		(0.514)

4.1.2 Clearly the most significant issue for Members to be aware of from the Comprehensive Income and Expenditure Statement is how the Council performed financially in 2021/22, in comparison to the revised budget for the year. As previously reported, there was a projected underspend against the General Fund budget of £0.057m at quarter 3, this underspend has decreased and provisional outturn is now an overall budget surplus of £0.009m.

4.1.3 The Housing Revenue Account is reporting a provisional underspend against the revised budget of £0.019m. Allowing for this adjustment, HRA balances were £1.025m and the HRA Repairs Accounts balance was £1.354m as at 31st March 2022.

4.1.4 Further details on these are provided in the Narrative Report in the Statement of Accounts (SOA page 3) and were subject to a separate report to Performance Scrutiny Committee and Executive 16th June 2022 and 20th June 2022 respectively.

4.2 The Balance Sheet (SOA page 26)

4.2.1 **The Balance Sheet** is fundamental to understanding the Council's financial position at the year-end. It shows the Council's balances and reserves, long-term indebtedness, and the non-current and current assets employed in the Council's operations. The key information for members to be aware of in the Balance Sheet as at 31st March 2022 are:

4.2.2 **General Balances** – General balances have increased by £0.28m during the year, as analysed below:

Description	Opening Balance £m	Closing Balance £m	Increase/ (Decrease) £m
General Fund balances	2.268	2.202	(0.465)
HRA balances	1.075	1.025	(0.049)
HRS	0	0	0
Total	3.343	3.227	(0.514)

4.2.3 **Earmarked Reserves** - in total monies carried forward to pay for specific future commitments (including the insurance fund) have decreased by

£7.068m, as analysed below:

Description	Opening Balance £m	Closing Balance £m	Increase/ (Decrease) £m
Other Specific Reserves	26.043	18.975	(7.068)

This is due to a number of contributions to and from earmarked reserves as reported as part of the 2021/22 Provisional outturn to the Executive 23rd June 2022 and as detailed in Note 10 (Transfers to/ from Earmarked Reserves) in the Statement of Accounts (SOA page 64). The most significant use of reserves relates to Business Rate Reliefs awarded in response to Covid19. Funding of £7.8m was utilised from the Business Rates Volatility Reserve, which had been received from the Government in 20/21 to finance the Collection Fund deficits which had occurred due to the Reliefs awarded in 21/22.

4.2.4 **Liquidity** – a reliable indication of liquidity is the ratio of current assets (excluding inventories) to current liabilities. The Council's current assets (excluding inventories) of £76.19m exceed current liabilities of £58.862m by a ratio of 1.3:1, which represents a decrease from the previous year's ratio of 1.49:1. This is due to an increase in short-term borrowing and short-term creditors.

4.2.5 **Debtors** – debtors have decreased by £3.473m to £24.916m. The decrease is mainly due to decreases in balances on the Central Government and County Council shares of the Council Tax and Business Rates Collection Fund deficits (£4.1m). These deficits were higher in 20/21 due to the level of Business Rate Reliefs awarded in comparison to the levels awarded in 21/22.

4.2.6 **Creditors** – have increased by £10.115m to £43.929m. This is mainly due to the receipt of the CT energy rebate grant and the Townsfund Grant paid in advance of being awarded in 2022/23.

4.3 Cross Cutting Key Issues

4.3.1 There are a number of areas that have significant impacts or are of particular interest that sit both within the Comprehensive Income and Expenditure Statement and the Balance Sheet. To aid members understanding of the Accounts these are summarised below:

4.3.2 **Non-Current Assets** are shown in the Balance Sheet and represent the Council's land, building, heritage, community and intangible assets.

- **The value of non-current assets and assets held for sale in the Balance Sheet has increased by £25m (9.4%) to £455m between 31st March 2021 and 31st March 2022 (see the Balance Sheet and Notes 14, 15 and 16 for further detail). This net increase is the result of a number of factors:**

- **Revaluations** - The Council's Assets are valued on a rolling programme, which ensures each asset is re-valued every 5 years as at the 31st March. In addition to this, all assets are reviewed for any material change in their value at the end of each financial year. The results for 21/22 have seen an **overall increase in value of £15.5m**, which is the net result of valuation gains and losses across a range of assets.

Accounting rules require that where a balance has not built up on the Revaluation Reserve for an individual asset (a reserve which holds accumulated gains following previous revaluations upwards) then any revaluation losses (downwards revaluation in asset values) must be recognised in the Comprehensive Income and Expenditure Statement (CI&ES) and then reversed out in the Movement in Reserves Statement before it impacts on Council Tax payers. Accounting rules also require that where a revaluation loss previously recognised in the CI&ES on an individual asset is subsequently reversed by an upwards revaluation, then the revaluation gain should be recognised in the Comprehensive Income and Expenditure Statement up to the value of the original revaluation loss. Within the £15.5m net upwards movements due to revaluation gains and losses in 21/22, there were:

- **£14.7m of net revaluation gain** required to be charged to Cost of Services in the CIES. This is mainly due to reflecting the social housing value of housing stock (£16.071m).
- **£0.815m of net upwards revaluations** were reflected in the Revaluation Reserve (shown in Other Comprehensive Income and Expenditure in the CIES). This was mainly due to the upward revaluation (£1.8m) an increase in the council's land and buildings.
- **Additions - New capital investment in assets belonging to the Council totalled £20.218m.** The main areas of expenditure include £11.4m spent on the Council's new build and acquisition programme, £3.8m improving Council dwellings including re-roofing, kitchens and landscaping, £2.5m on refurbishing the crematorium and £0.512m improving our leisure facilities, parks and open spaces. To pay for this investment, the Council has used £9.8m of capital grants and contributions, £1.34m of capital receipts, £3.84m of the Major Repairs Reserve, £6.68m of unsupported borrowing, and £0.215m of direct revenue financing.
- **Depreciation** – a charge is made to the Comprehensive Income and Expenditure account for depreciation to reflect the use of assets in the provision of services during the year. The value of non-current assets in the Balance Sheet is reduced by an equivalent amount. For General Fund services this charge is reversed out in the Movement in Reserves Statement (MiRS) and

replaced with a statutory charge for the repayment of debt. In the HRA under self financing, depreciation is a real charge to the service however, it is set aside in the Major Repairs Reserve for future investment in the housing stock. **In 2021/22 total depreciation was £9.251m** (of which £1.9m was charged for non-HRA dwellings and was replaced in the MiRS with £1.5m for the repayment of debt and £7.4m depreciation was charged to the HRA which is available in the Major Repairs Reserve for future investment).

- **Disposals – assets valued at £2.340m in the Balance Sheet were disposed** of in 2021/22. This included 55 Right to Buy sales of council dwellings.

4.3.3 **Pensions** – the payments made by the Council to the Lincolnshire County Council Pension Fund each year as employer contributions to the scheme and any addition costs relating to pension strain etc are reflected in the financial outturn position of the Council. However, accounting practice requires that in the Statement of Accounts pension costs are shown when the Council is committed to give them, even if the actual giving may be years into the future. This means that:

- The costs of providing retirement benefits to employees are recognised in the accounting period in which the benefits are earned by employees, and the related finance costs and any other changes in value of assets and liabilities are recognised in the accounting periods in which they arise.
- The financial statements reflect the liabilities arising from the Council's retirement obligations.
- The financial statements disclose the cost of providing retirement benefits and related gains, losses, assets and liabilities

Full details are provided in Note 44 to the accounts – Defined Benefit Pension Schemes (*SOA page 104*). The impact of these accounting requirements in the core financial statements are:

- **Comprehensive Income & Expenditure Statement (CIES)** - The cost of retirement benefits in the CIES is shown as an actuarial estimate of £5.233m reflecting the retirement benefits earned during 2021/22 and to be funded in the future. This includes £7.803m current service costs and a net interest cost on the defined benefit obligations of £2.077m. This net cost is reversed out in the Movement in Reserves Statement (MiRS) and is replaced by the actual amount charged for pension contributions in the year of £4.899m.
- **Balance Sheet** – The Pension Reserve shows the underlying commitments that the Council has in the long term to pay retirement benefits based on an assessment by the pension schemes actuary. The balance on the

Pensions Reserve is the net position of the scheme's liabilities and assets. During 2021/22 the net liability has increased by £20.007m to £86.132m. The actuarial assumptions are detailed in note 44 to the accounts 'Defined benefit pension scheme'.

It is important for members to be aware that the statutory arrangements for funding the remaining liability of £86.132m means that this deficit will be made good by the increased level of annual employer contributions payable to the Pension Fund over the remaining estimated average working life of our employees in the Pension Scheme. The financial position of the Council remains healthy.

4.3.4 **Officer remuneration** – note 35 to the accounts (SOA page 94) details senior staff salaries and the number of employees receiving more than £50k remuneration during the year (this includes receipt of any redundancy payments). Also detailed within the note is the redundancy/pension/payment in lieu costs paid in year, in line with Executive approvals of Towards Financial Sustainability business cases and the Council's redundancy policy.

4.3.5 **Borrowing** – the Council takes borrowing to fund capital expenditure. It also occasionally takes short term borrowing for cash flow purposes.

- Between 31st March 2021 and 31st March 2022, the Council's total borrowing increased to £125.18m (excluding accrued interest which is shown in the Balance Sheet under short-term borrowing as at 31st March 2022).
- The total borrowing can be split between short term borrowing (payable within 12 months) of £13.215m and long term borrowing of £111.962m.
- The average rate of interest payable on borrowing was 3.02% which is a slight decrease on 2020/21 (3.25%) and due to the new low rate shorter-term loans taken being.
- The Comprehensive Income and Expenditure Statement for 2021/22 includes £3.797m interest payable on borrowing (excluding leases) of which £1.372m relates to the General Fund and £2.425m to the HRA.

The maturity profile of the outstanding borrowing as at 31st March 2022 is as follows:

Within	£m	% of Total Debt
1 year	13.2	10.55%
1 – 2 years	2.5	2.00%
2 – 5 years	2.897	2.31%
5 -10 years	11.462	9.16%
10 years and over	95.103	75.98%
Total	125.177	100.00%

4.3.6 **Investments** – in line with its Treasury Management Strategy, the Council

invests surplus cash on the money markets, typically for periods less than one year to approved organisations, although core cash balances may be invested for periods over 1 year if interest rates and market conditions are favourable.

- As at 31st March 2022, total investments had increased by £15.95m from £33.9m to £49.85m compared to the previous year end.
- Average investment balances during 2021/22 were £44.7m, compared to £35.8m in 2020/21.
- The average interest rate received on investments in 2021/22 was 0.19% (a decrease of 0.01% on the average rate achieved in 2020/21 due to the low yield available on balances). This rate is no longer compared to the LIBID rate which ceased in December 2021.

5. Strategic Priorities

5.1 The Council's Statement of Accounts are a financial summary of the Council's activities in support of its Vision 2025 and Strategic Priorities during the financial year 2021/22.

5.2 Communication - The draft Statement of Accounts is available on the Council's website and the period of public inspection has been advertised. The completion of the audit of the Council's Statement of Accounts will be published on the Council website by 30th September 2022. The Statement of Accounts will also be made available on the website with a summary version of the accounts published in the Council's Annual Report.

6. Organisational Impacts

6.1 Finance - The financial implications are contained throughout this report.

6.2 Legal - In accordance with the Accounts and Audit (Amendment) Regulations 2021 the Statement of Accounts must be approved and published by the Council, together with the audit opinion and certificate, by the 30th September 2022.

6.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

Due to the nature of the report, no specific Equality Impact Analysis is

required.

7. Risk Implications

7.1 There are no direct risk implications arising as a result of this report.

8. Recommendation

8.1 The Audit Committee are invited to scrutinise and comment upon the Statement of Accounts.

Key Decision No

Key Decision Reference No. N/A

Do the Exempt Information Categories Apply No

Call in and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply? No

Does the report contain Appendices? Yes

List of Background Papers: Medium Term Financial Strategy 2021-2026
Financial Performance - Outturn 2021/22

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