

**SUBJECT: STATEMENT OF ACCOUNTS 2022/23**

**REPORT BY: CHIEF EXECUTIVE AND TOWN CLERK**

**LEAD OFFICER: COLLEEN WARREN, FINANCIAL SERVICES MANAGER**

**1. Purpose of Report**

- 1.1 To present the Statement of Accounts for the financial year ended 31<sup>st</sup> March 2023, 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 2022/23 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 draft Statement of Accounts for 2022/23 by 31<sup>st</sup> May 2023 with an audit opinion and certificate by no later than 30<sup>th</sup> September 2023.
- 2.3 The Audit Committee should note that the Statement of Accounts for 2022/23 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 June until 15<sup>th</sup> June 2023 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 AGS), which sits alongside the Statement of Accounts. The overall level of assurance provided in 2022/23 was substantial (green) and is in line with the Council's Code of Corporate Governance. Substantial progress has been made against the significant issue in relation to the IT Disaster Recovery Plan, that was included in the previous year's AGS, to the extent that the issue is no longer a significant governance issue. There were no new significant governance issues that were identified for inclusion in the 2022/23.

### 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 31<sup>st</sup> May each year. 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 31<sup>st</sup> July each year. However, amended Regulations published in 2022 have extended this date to 30<sup>th</sup> September for a period of 6 years i.e. up to 2027/28. The timescales involved with the approval of the Statement of Accounts for 2022/23 are therefore as follows:

- |   |                                 |
|---|---------------------------------|
| a) Report draft accounts to Audit Committee | 17 <sup>th</sup> July 2023      |
| b) Report to Audit Committee                | 12 <sup>th</sup> September 2023 |
| c) Report to the Executive                  | 18 <sup>th</sup> September 2023 |
| d) Approval by Council                      | TBC                             |

3.2 In order to ensure that the statutory deadline of 30<sup>th</sup> 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 27) – 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 57)) 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 £24.890m in the CIES to the outturn position of a increase in General Fund Balances of £0.218m and a increase on HRA balances of £0.159m as reported in the Financial Outturn report (Executive 30<sup>th</sup> May 2023).

	£m	£m
<b>Net (surplus)/deficit on the Provision of Services</b>		<b>(24.890)</b>
<i>Of which:</i>		
<b>General Fund</b>	£m	£m
Net (surplus)/deficit on the Provision of Services		(1.808)
Adjust for:		
Depreciation, revaluation losses and gains & impairment of non-current assets	(1.684)	
Revenue expenditure funded from capital under Statute	(4.461)	
Direct Revenue financing of capital expenditure		
Gain/loss on the sale of non-current assets	0	
Contribution to/from the pensions reserve	(1.605)	
Debt repayment and premiums & discounts on debt	0.824	
Short-term compensated absences	0.058	
Contribution to Government's Housing Capital Receipts Pool	0	
Capital grants & contributions unapplied credited to CI&ES	9.445	
Adjustment for Collection Fund	4.661	
Adjustment for Financial Instruments	0.002	
Transfer to/from Earmarked reserves	(5.650)	
<b>Total Adjustments</b>		<b>1.590</b>
<b>(Increase)/decrease in General Fund Balances</b>		<b>(0.218)</b>
<i>Of which:</i>		
<b>HRA</b>	£m	£m
Net (surplus)/deficit on the Provision of Services		(23.082)
Adjust for:		
Depreciation, revaluation losses and gains & impairment of non-current assets	19.798	
Direct Revenue financing of capital expenditure	0	
Gain/loss on the sale of non-current assets	0.627	
Contribution to/from the pensions reserve	(0.923)	
Short-term compensated absences	0.029	
Capital grants & contributions unapplied credited to CI&ES	0.496	
Transfer to/from the HRA	2.147	
Transfer to/from Earmarked reserves	0.748	
<b>Total Adjustments</b>		<b>22.922</b>
<b>(Increase)/decrease in HRA Balances</b>		<b>(0.159)</b>
<b>Overall (Increase)/decrease in Balances</b>		<b>(0.377)</b>

- 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 2022/23, in comparison to the revised budget for the

year. The General Fund is reporting a provisional outturn of an overall budget surplus of £0.157m, resulting in General Fund balances of £2.420m as at 31<sup>st</sup> March 2023.

- 4.1.3 The Housing Revenue Account is reporting a provisional underspend against the revised budget of £0.121m. Allowing for this adjustment, HRA balances are estimated to be £1.184m as at 31<sup>st</sup> March 2023.
- 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 on the 25<sup>th</sup> May 2023 and 30<sup>th</sup> May 2023 respectively.

## 4.2 The Balance Sheet (SOA *page 28*)

- 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 31<sup>st</sup> March 2023 are:

- 4.2.2 **General Balances** – General balances have increased by £0.277m during the year, as analysed below:

Description	Opening Balance £m	Closing Balance £m	Increase/ (Decrease) £m
General Fund balances	2.202	2.420	0.218
HRA balances	1.025	1.184	0.159
HRS	0	0	0
<b>Total</b>	<b>3.227</b>	<b>3.604</b>	<b>0.377</b>

- 4.2.3 **Earmarked Reserves** - in total monies carried forward to pay for specific future commitments (including the insurance fund) have decreased by £5.627m, as analysed below:

Description	Opening Balance £m	Closing Balance £m	Increase/ (Decrease) £m
Other Specific Reserves	12.668	7.040	(5.627)

This is due to a number of contributions to and from earmarked reserves as reported as part of the 2022/23 Provisional outturn to the Executive 30<sup>th</sup> May 2023 and as detailed in Note 10 (Transfers to/ from Earmarked Reserves) in the Statement of Accounts (SOA *page 66*). The most significant use of reserves relates to the authorities share of the Business Rates deficit. Funding of £5.1m was utilised from the Business Rates Volatility Reserve, which had been received from the Government in 2020/21 to finance the Collection Fund deficits which had occurred due to the Reliefs awarded in 2021/22.

- 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 £55.487m exceed current liabilities of £40.649m by a ratio of 1.36:1, which represents an increase from the previous year's ratio of 1.3:1. This is due to a reduction in short-term borrowing and short-term creditors.
- 4.2.5 **Debtors** – debtors have decreased by £8.371m to £16.545m. 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, both preceptors now having creditor balances, and a reduction in Housing Subsidy and Standard Rent Allowance grants.
- 4.2.6 **Creditors** – have decreased by £17.676m to £26.254m. This is mainly due to the utilisation/repayment of grants related to CT energy rebate, CARF and Towns fund all paid in 2021/22 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 £27.6m (5.7%) to £483m between 31<sup>st</sup> March 2022 and 31<sup>st</sup> March 2023 (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 31<sup>st</sup> 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 22/23 have seen an **overall increase in value of £13.339m**, 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 £13.339m net upwards movements due to revaluation gains and losses in 22/23, there were:

- **£12.930m 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).
- **£0.409m 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 £19.399m.** The main areas of expenditure include £4.6m spent on the Council's new build and acquisition programme, £6.0m improving Council dwellings including re-roofing, kitchens and landscaping, Central Market Improvements £4.3m and Town Fund schemes £2.3m. To pay for this investment, the Council has used £5.94m of capital grants and contributions, £1.93m of capital receipts, £7.0m of the Major Repairs Reserve, £4.0m of unsupported borrowing, and £0.47m 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 2022/23 total depreciation was £9.943m** (£7.5m in relation to HRA dwellings and £2.4m relating to non HRA assets. £7.5m was charged to the HRA which is available in the Major Repairs Reserve for future investment).
- **Disposals – assets valued at £2.611m in the Balance Sheet were disposed** of in 2022/23. This included 51 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 108*). 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 £7.804m reflecting the retirement benefits earned during 2022/23 and to be funded in the future. This includes £6.165m current service costs, £0.129m admin expenses, £0.129m past service costs and a net interest cost on the defined benefit obligations of £1.381m. 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 £5.276m.
- **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 2022/23 the net liability has decreased by £78.116m to £6.883m. The actuarial assumption changes are detailed in note 44 to the accounts 'Defined benefit pension scheme'. The main driver for the significant reduction in liability being a changes in financial assumptions, which take in to account the discount rate (time value of money), linked to high quality bond yields, and the rate of future inflation.

It is important for members to be aware that the statutory arrangements for funding the remaining liability of £6.883m 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 98*) 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 31<sup>st</sup> March 2022 and 31<sup>st</sup> March 2023, the Council's total borrowing reduced to £121.96m (excluding accrued interest which is shown in the Balance Sheet under short-term borrowing as at 31<sup>st</sup> March 2023).
- The total borrowing can be split between short term borrowing (payable within 12 months) of £12.500m and long term borrowing of £109.462m.
- The average rate of interest payable on borrowing remained the same as the previous financial year (2021/22) at 3.02%.
- The Comprehensive Income and Expenditure Statement for 2022/23 includes £3.840m interest payable on borrowing (excluding leases) of which £1.408m relates to the General Fund and £2.432m to the HRA.

The maturity profile of the outstanding borrowing as at 31<sup>st</sup> March 2023 is as follows:

Within	£m	% of Total Debt
1 year	14.394	11.64%
1 – 2 years	2.225	1.80%
2 – 5 years	4.104	3.32%
5 years +	102.913	83.24%
<b>Total</b>	<b>123.636</b>	<b>100.00%</b>

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 31<sup>st</sup> March 2023, total investments had decreased by £13.165m, from £49.85m to £36.685m, compared to the previous year end.
- Average investment balance during 2022/23 was £55.555m, compared to £44.7m in 2021/22. The higher investment balance mainly being due to retaining BIES (covid) grant funding which has since been returned to government.
- The average interest rate received on investments in 2022/23 was 2.10% (a increase of 1.91% on the average rate achieved in 2021/22 due to the Bank of England base rate increases seen during the year). The comparable performance indicator is SONIA 7 day un compounded (2.23%).

## 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 2022/23.



- 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 30<sup>th</sup> September 2023. 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 2022 the Statement of Accounts must be approved and published by the Council, together with the audit opinion and certificate, by the 30<sup>th</sup> September 2023.
- 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: <b>Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?</b>	No
Does the report contain Appendices?	Yes
List of Background Papers:	Medium Term Financial Strategy 2023-2028 Financial Performance - Outturn 2022/23
Lead Officer:	Colleen Warren, Financial Services Manager <a href="mailto:colleen.warren@lincoln.gov.uk">colleen.warren@lincoln.gov.uk</a>