

Rother District Council

Report to:	Audit and Standards Committee
Date:	26 September 2022
Title:	Statement of Accounts 2021/22
Report of:	Aleksandra Janowicz – Principal Accountant
Purpose of Report:	This report asks Members to note the draft Statement of Accounts ahead of the external audit and discusses the main issues affecting the Statement and provides a commentary on the core financial statements.
Officer Recommendation(s):	It be RESOLVED : That the Council's draft 2021/22 Statement of Accounts be noted.

Introduction

1. This report discusses the main issues affecting the Council's draft Statement of Accounts 2021/22 and provides a commentary on the core financial statements. (The full Statement will be circulated separately to Members, when available.) At the time of writing this report, the Council's external auditors, Grant Thornton, were yet to commence their work on the accounts for 2021/22. Grant Thornton will report on the outcome of their work later in the year in line with the revised national timescales, if possible. The draft accounts include the Annual Governance Statement as amended and approved by the Committee at its meeting on 27 July 2022 (Minute AS22/21 refers).

Changes to the Format of the Statement of Accounts

2. The Code of Practice has required no major changes in the presentation of the accounts.

Statement of Accounts (circulated separately)

3. Detailed below is a brief description of the core financial statements and the issues relating to them.
4. **Movement in Reserves Statement** – this shows the movement in the year on the different reserves held by the authority, analysed into "useable reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and un-useable reserves such as the revaluation reserve for land and property. The surplus of £0.688m (£1.174m deficit in 2020-21) on the provision of services line shows the true economic cost of providing the authority's services, and these are shown in greater detail in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting. The net change of £3.856m before transfers from Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers from earmarked reserves is made by the Council.

5. **Comprehensive Income and Expenditure Statement** – this shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last 12 months. It therefore does not show the "cash" position for the Council and is intended to reflect private sector accounting practice in presenting a profit and loss account. Figures within this statement are significantly different from those presented in budget monitoring reports both due to differences in layout and inclusion of various items which are ignored for council tax setting purposes.
6. **Balance Sheet** – this is fundamental to the understanding of the Council's year-end financial position. It shows the balances and reserves at the Council's disposal and its long-term indebtedness, the net current assets employed in its operations and summarised information on the fixed assets held. The net worth of the Council has increased by £16.127m (decrease of £7.651m in 2020-21) (as shown in the total reserves line). This is largely due to a decrease in the Pension Fund liability (£11.3m), decrease in the Collection Fund deficit (£2.3m), increase in the value of investment in property funds (£1.3m) and increases in the capital grants in the usable reserves (£1.4m). Other reserves movements have largely offset the decrease of £3.8m in the earmarked reserves. A detailed analysis of the Council's earmarked reserves is shown in the notes to the accounts.
7. **The Pension Fund liability** of £11.3m shown in the Balance Sheet is a long-term financial assessment of a possible shortfall on the Fund, based on the current situation and performance. As such, no immediate action is required to manage the deficit. The liability decreased from £22.6m last year.
8. **Cash Flow Statement** – this brings together in a single statement the inflows and outflows of cash arising from the Council's transactions with third parties for revenue, investment and capital purposes. Under International Financial Reporting Standards, the statement only reflects those flows of funds directly related to the Council. Where the Council acts as an agent, as in the case of collecting the Council Tax on behalf of precepting authorities, these inflows and outflows of cash are excluded.
9. **Collection Fund Income and Expenditure Account** – this reflects a statutory requirement for the Council, which collects the local taxes, to maintain a separate account in relation to Business Rates and the Council Tax and their distribution. Overall the Collection Fund balance at year end was a deficit of £4.094m (a reduction in deficit by £7.074m from £11.168m last year). This balance is made up of the Council Tax fund surplus of £0.96m, the majority of which will be shared with East Sussex County Council. For Business Rates, the Fund balance was in deficit of £5.054m, with the Government sharing its highest proportion followed by this Council. The majority of the previous deficit relates to the additional rate relief for businesses provided by the Government in 2020-2021 due to the COVID-19 Pandemic, which at the time halved the amount collectable. That deficit is being spread over three financial years and formed part of the 2022/23 budget setting process. The impact is hoped to be minimised through the additional Government grants received and accounted for in year through the General Fund.

Conclusion

10. The Balance Sheet shows that, overall, the financial position of the Authority remains sound with an adequate amount of reserves in place to meet short term needs. The COVID-19 pandemic has exacerbated the financial pressure on the Council both in 2020/21 and 2021/22 and the worsening economic climate is likely to add to the pressures and affect reserves balances. It is therefore essential that in the medium term, the Council continues to deliver the target savings set out in the Medium-Term Financial Plan as well as the Financial Stability Programme in order for the Council to balance its budget.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	External Consultation	No
Environmental	No	Access to Information	No
Risk Management	No	Exempt from publication	No

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Appendices:	Appendix A – Draft Statement of Accounts 2021/22
Relevant Previous Minutes:	None.
Background Papers:	None.
Reference Documents:	Local Government Accounting Code of Practice 2020/21 and associated guidance