

Rother District Council

Report to:	Audit and Standards Committee
Date:	2 October 2023
Title:	Statement of Accounts 2022/23
Report of:	Aleksandra Janowicz – Interim Chief Finance Officer
Purpose of Report:	This report asks Members to note the draft Statement of Accounts ahead of the external audit, 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 2022/23 Statement of Accounts be noted.

Introduction

1. This report discusses the main issues affecting the Council's draft Statement of Accounts 2022/23 and provides a commentary on the core financial statements. ([The full draft Statement](#) is published on the Council's website and will be circulated separately to Members). At the time of writing this report, the Council's external auditors, Grant Thornton, are yet to commence their work on the accounts for 2022/23. 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 26 July 2023 (Minute AS23/21 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 deficit of £3.014m (£0.680m surplus in 2021/22) 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 £1.578m before transfers from Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers from Earmarked Reserves were made by the Council to balance the accounts.

At the same time, a review of Earmarked Reserves was undertaken and £4.0m was transferred from Treasury Investment Earmarked Reserve to the General Fund to increase its balance to £5.0m and reinforce the long-standing message that the reserves balance should not go below that level.

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 (depreciation, impairments, amortisation, movements in the value of investment properties, gains and losses on financial assets etc).
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 £26.909m (increase of £9.376m in 2021/22 accounts restated for Pension Fund revaluation) as shown in the total reserves line. This is largely due to a £28.525m change in the Pension Fund Liability which shifted from a £18.051m liability into a £10.474m asset, set off by the decrease in the value of investment in property funds (£1.452m). Other reserves movements (£4m increase to Capital receipts and capital grant reserve and £2.3m decrease in unusable reserves) have largely offset the £1.578m transfer from Earmarked Reserves to support the revenue budget in 2022/23. A detailed analysis of the Council's earmarked reserves is shown in the notes to the accounts (Note 10).
7. **The Pension Fund liability** of £18,0513m shown in the Balance Sheet at the end of 2021/22 has now changed into an asset of £10.474m. This entry represents a long-term financial assessment of a possible shortfall or surplus on the Fund, based on the current situation and performance. Just as in previous years there was no immediate action that was required to manage the deficit, the asset is not something that we have control over or can use to support the revenue budget and its value is reflected in the Unusable Reserves section of the Balance Sheet.
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 £3.676m (a reduction in deficit by £0.418m from £4.094m last year). This balance is made up of the council tax fund surplus of £2.600m, the majority of

which will be shared with East Sussex County Council. For business rates, the Fund balance was in deficit of £6.276m, with the Government sharing its highest proportion followed by this Council. The majority of the NNDR deficit relates to the additional rate relief for businesses provided by the Government in 2020/21, due to the COVID-19 pandemic, which at the time halved the amount collectable. That deficit was spread over three financial years and is still part of the 2022/23 accounts. The impact has been mitigated through the additional Government grants received and accounted for in year through the General Fund. £1m worth of those grants was used this year to create a Business Rates Volatility Reserve to help towards the impact of the deficit in future years.

Conclusion

10. The Balance Sheet shows that, overall, the financial position of the Authority still remains sound with an adequate amount of reserves in place to meet short term needs. However, the impact of high inflation on operational costs and the worsening economic climate have added to the previous financial pressures of the COVID-19 pandemic and the level of Usable Reserves continued to go down in the year, despite efforts to minimise it. The next Medium Term Financial Plan needs to address that through a robust and ambitious plan of achievable savings to stop the trend, reduce the reliance on reserve balances to support the revenue budget and, in time, replenish these reserves.

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

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Appendices:	A – Draft Statement of Accounts 2022/23
Relevant Previous Minutes:	None.
Background Papers:	None.
Reference Documents:	Local Government Accounting Code of Practice 2022/23 and associated guidance