

Rother District Council

Report to: Audit and Standards Committee

Date: 28 February 2024

Title: Revised Statement of Accounts 2022/23

Report of: Aleksandra Janowicz – Principal Accountant

Purpose of Report: This report asks Members to note and approve the revised Statement of Accounts subject to the opinion of the external auditor, discusses the main issues affecting the Statement and provides a commentary on the core financial statements.

Officer

Recommendation(s): It be **RESOLVED**: That:

- 1) the Council's revised 2022/23 Statement of Accounts be approved; and
- 2) delegated authority be granted to the S151 Officer, in consultation with the Chair of the Audit and Standards Committee, to make minor non-consequential changes to the Statements.

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 can be accessed here](#). Grant Thornton's report on the 2022/23 accounts appears elsewhere on this agenda. 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).

Audited Statement of Accounts – 2022/23

2. At the time of writing this report Grant Thornton had largely completed their work on the 2022/23 accounts. Their Audit Findings Report is shown elsewhere on the agenda and sets out any issues arising from the audit.
3. During their audit, Grant Thornton identified two errors relating to bases for revaluations of assets. These have since been corrected. Separately, the Pension Fund's actuary recently submitted their IFRIC 14 assessment as a result of which an asset ceiling was applied resulting in a revised pension liability figure on the balance sheet. Some additional audit work is expected on samples from the Councils Revenues and Benefits system.
4. This report seeks approval of the revised Statement of Accounts for 2022/23, subject to the completion of work and opinion of the external auditor. It also requests that delegated authority be granted to the Interim Chief Finance Officer (s151 Officer), in consultation with the Chair of the Audit and Standards Committee, to make minor non-consequential changes to the Statements following final completion of the audit.

Changes to the Format of the Statement of Accounts

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

Statement of Accounts (circulated separately)

6. Detailed below is a brief description of the core financial statements and the issues relating to them.
7. **Comprehensive Income and Expenditure Statement (CIES)** – 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 show the costs incurred in individual service areas but they 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). The statement shows the council had a deficit of £1.626m on provision of services but following additional accounting entries it recorded an overall surplus of £16.204m.
8. **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 Unusable reserves such as the revaluation reserve for land and property. It links with the CIES and the balance sheet. The deficit of £1.626m (£1.275m surplus in 2021-22) on the provision of services line shows the true economic costs of providing the authority's services as shown in greater detail in the Comprehensive Income and Expenditure Statement. However, these are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting. That actual charge for 2022-2023 resulted in a £1.578m drawdown from Earmarked Reserves to balance the accounts and it is shown on the face of this statement. Following a review of reserves, the Chief Finance Officer took the discretionary decision to transfer £4.0m from Treasury Investment Earmarked Reserve to the General Fund to increase the latter's balance to £5.0m and reinforce the long standing message that the general reserve balance should not go below that level.
9. **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 £16.204m from £65.754m total reserves balance at the end of 2021-2022 to £81.958m at the end of 2022-2023. The value of the change directly corresponds to the surplus being reported at the bottom of the Comprehensive Income and Expenditure Statement and the increase in reserves line reported within Movement in Reserves statement discussed above. The main reason for this positive change is a £16.309m decrease in the Pension Fund Liability (a reduction from £18.051m liability to £1.742m liability). The remaining balance is a result of £2.5m of decreases in other unusable reserves and £2.4m increase in usable reserves where £4m increase to Capital receipts and capital grant reserve has largely offset the

£1.578m transfer from Earmarked Reserves to support the revenue budget in 2022-2023. A detailed analysis of the Council's earmarked reserves is shown in the notes to the accounts (Note 10).

10. **The Pension Fund liability** of £18.051m shown in the Balance Sheet at the end of 2021-2022 has now improved and represents a liability of £1.742m. Actuary figures pointed to the liability changing into an asset, however, for accounting and prudence purposes a pension asset ceiling was applied resulting in this final figure. 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 liability is not something that we have control over or that can affect the revenue budget. Its value is reflected in the Unusable Reserves section of the Balance Sheet.
11. **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.
12. **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 2020-2021 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 is 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

13. 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:	None.
Relevant Previous Minutes:	None.
Background Papers:	None.
Reference Documents:	Local Government Accounting Code of Practice 2022/23 and associated guidance