

Committee: **Governance & Audit Committee**

Date of meeting: **16 November 2022**

Report Subject: **Draft Statement of Accounts 2021/2022**

Portfolio Holder: **Cllr. S Thomas, Leader of the Council and Cabinet Member for Corporate Overview & Performance**

Report Submitted by: **Rhian Hayden, Chief Officer, Resources**

Reporting Pathway								
Directorate Management Team	Corporate Leadership Team	Portfolio Holder / Chair	Governance and Audit Committee	Democratic Services Committee	Scrutiny Committee	Cabinet	Council	Other (please state)
			16/11/22					Statutory Returns; Financial Governance

**1. Purpose of the Report**

1.1 To present for information the 2021/2022 Draft Statement of Accounts and the Authority’s financial standing as at 31 March 2022 (subject to Audit).

**2. Scope and Background**

2.1 The requirements for preparation, inspection, audit, approval and publication of Local Authority annual accounts are specified in the Public Audit (Wales) Act 2004 [the 2004 Act] and the Accounts and Audit (Wales) Regulations 2014 [the 2014 Regulations] as amended by the Accounts and Audit (Wales) (Amendment) Regulations 2018.

2.2 Section 25 of The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 specifies that the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting (“the Code”) represents proper practice in preparing local authority accounts in compliance with section 8(1) of the 2014 Regulations.

2.3 Section 10A of the amended 2014 Regulations requires the following:

Requirement	Deadline
A provisional (i.e. pre-audit) Statement of Accounts to be fully prepared and certified by the Chief Officer - Resources as presenting a true and fair view of the Authority’s financial position and its income and expenditure for the year ended 31 March 2022	31 May 2022
Publication of a final audited Statement of Accounts	31 July 2022

- 2.4 In recognition of the continuing impact of the Covid-19 pandemic, Welsh Government acknowledged that additional work could be required to finalise local authority accounts for the 2021/2022 financial year. Consequently, Authorities are able to prepare their accounts to the following extended timetable:

Requirement	Deadline
A provisional (i.e. pre-audit) Statement of Accounts to be fully prepared and certified by the Chief Officer - Resources as presenting a true and fair view of the Authority's financial position and its income and expenditure for the year ended 31 March 2022	31 August 2022
Publication of a final audited Statement of Accounts	30 November 2022

- 2.5 Where deadlines specified in the amended 2014 Regulations are not met, the Authority is required to publish the required statutory notice(s).
- 2.6 Section 11 of the 2014 Regulations and Section 29 of the 2004 Act require that the Accounts and other documents are made available for public inspection for 20 working days.
- 2.7 The documents available for public inspection are specified by Section 30 of the 2004 Act and the security and control of this information is managed by senior staff within Accountancy during the period.
- 2.8 Section 31 of the 2004 Act provides for local electors to make objections to the External Auditor regarding any item of account that is contrary to law or any matter that could result in a report in the public interest. The auditor has appointed 14 December 2022 as the date on or after which these rights can be exercised.
- 2.9 Following the detailed examination by Audit Wales it is anticipated that the Accounts will be re-presented to the Governance & Audit Committee for approval. Following approval at that meeting, the person presiding over the meeting (normally the Chair or Vice-Chair of the Committee) is required to sign and date the Accounts on behalf of the Council.
- 2.10 If the final statutory report presented by Audit Wales were to contain any material qualification issues, the audited Statement of Accounts may also need to be reported to Council.

### 3. Options for Recommendation

- 3.1 The Governance & Audit Committee receives the Draft 2021/2022 Statement of Accounts for information, prior to the consideration for approval on completion of the financial audit.

3.2 The Governance & Audit Committee considers the financial position of the Council as at 31 March 2022.

4. **Evidence of how does this topic supports the achievement of the Corporate Plan / Statutory Responsibilities / Blaenau Gwent Well-being Plan**

4.1 The Statement of Accounts is prepared in accordance with relevant statutory and regulatory provisions, accounting codes of practice and accounting standards. It details the financial transactions of the Authority for the 2021/2022 financial year and the value of assets, liabilities and reserves at the balance sheet date (31 March 2022).

5. **Implications Against Each Option**

5.1 ***Impact on Budget (short and long term impact)***

5.1.1 Revenue Expenditure and Outturn (*note 5.1 on page 3 of the Draft Statement of Accounts*) reports Draft Net Outturn on Portfolios included in Management Accounts (excluding School Spending) as being £151.829m. This represents a provisional favourable variance of £6.204m compared to the revised budget for the year.

5.1.2 Further accounting adjustments are required to the Management Accounts position in order to comply with the Accounting Code. Detail of these adjustments can be found in the 'Expenditure and Funding Analysis' and notes on pages 35-38 of the Draft Accounts.

5.1.3 Application of these adjustments results in an accounting surplus of £16.940m which after Tax Expenses (related to the consolidation of City Deal investments) and the transfer of £11.404m to earmarked reserves leads to a net increase in the Council Fund General Reserve of £5.514m (*note 13, page 11*).

5.1.4 Capital Expenditure on schemes for the year amounted to £15.261m (*note 6, page 5*), this being financed by Government Grants (£10.036m), Railway Infrastructure Loan (£3.709m), Other Borrowing (£1.001m) and capital receipts/revenue contributions (£0.515m).

5.1.5 Where required by the Accounting Code and IAS 37 (*Provisions, contingent liabilities and contingent assets*), specific sums have been provided in relation to known liabilities. Total provisions held at 31 March 2022 amounted to £2.987m (*note 34.2 on page 82 of the Draft Accounts*), with the most significant provisions being in respect of Insurance (£2.783m) and Lease Dilapidation – Anvil Court (£0.133m).

5.1.6 The level of earmarked reserves has been determined in accordance with the agreed reserves protocol.

5.1.7 The level of usable reserves available to the Authority increased by £17.452m in 2021/2022. A summary of the provisional strategic financial position of the Authority is given below:

Usable Reserves	31 March 2021	Increase/ (Decrease)	31 March 2022
	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Council Fund</b>	7,553	5,514	13,067
<b>Earmarked Reserves</b>	20,781	11,404	32,185
<b>Usable Capital Reserves:</b>			
Ebbw Valley Railway Loan	48,024	(3,709)	44,315
Capital Receipts & Grants Unapplied	8,933	4,243	13,176
<b>Total Usable Reserves</b>	<b>85,291</b>	<b>17,452</b>	<b>102,743</b>

5.1.8 It is possible that public spending will be restricted or reduced in order to mitigate the extraordinary levels of borrowing incurred by Central Government in dealing with Covid-19 and subsequent expenditure on schemes including the Energy Price Guarantee and Energy Bills Support. It would therefore be prudent to retain appropriate levels of earmarked and general reserves to assist with a funding situation which is anticipated to be similar or worse than that experienced during the last decade.

5.1.9 The provisional Council Fund balance of £13.067m at 31 March 2022 equates to 9.89% of net revenue expenditure. This provides a buffer to deal with unexpected future issues and any restrictions or reductions in funding.

5.1.10 Significant elements of earmarked reserves held at 31 March 2022 relate to grant funding in respect of specific projects or services that will be utilised in delivering the relevant service outcomes during 2022/2023.

5.1.11 It should also be noted that £44.315m of usable capital reserves is an accounting adjustment in respect of the Ebbw Valley Railway Loan and this sum is ring-fenced for utilisation solely in relation to this project over the next two years. The majority of the balance of capital receipts and grants unapplied is expected to be utilised for delivery of the current capital programme.

## 5.2 ***Risk including Mitigating Actions***

5.2.1 Achievement of the statutory requirements in relation to the annual accounts is important in terms of demonstrating that the Authority has the appropriate governance arrangements in place to manage the reporting of its strategic financial affairs. Failure may result in reputational damage for

the Council. A planned approach is utilised to ensure that, as far as possible, statutory requirements are met.

### 5.3 ***Legal***

5.3.1 The requirements for preparation, inspection, audit, approval and publication of Local Authority annual accounts are specified in the Public Audit (Wales) Act 2004 [the 2004 Act] and the Accounts and Audit (Wales) Regulations 2014 [the 2014 Regulations] as amended by the Accounts and Audit (Wales) (Amendment) Regulations 2018.

### 5.4 ***Human Resources***

5.4.1 There are no direct personnel/staffing implications arising out of this report.

## 6. **Supporting Evidence**

### 6.1 **Performance Information and Data**

6.1.1 The Draft Statement of Accounts for 2021/2022 has been prepared in accordance with the relevant statutes, regulations, accounting codes and standards.

6.1.2 As the statutory deadline of 31 May 2022 was not met, the required notice was published on the Council's website outlining the reasons for the lack of certification at that time and the intended course of action to be taken to resolve this situation.

6.1.3 Another notice was published on 31 July 2022, as the Accounts were not completed and audited by that date.

6.1.4 The Draft Statement of Accounts for 2021/2022 was completed on 30 September 2022, after the extended Welsh Government deadline of 31 August. Following completion, the Accounts were published on the Council's website.

6.1.5 Whilst the Council had initially intended to prepare its Draft Accounts in accordance with the statutory requirements (i.e. by 30 May 2022), this has been significantly delayed due to the following:

#### ***Correction of Asset Historic Cost Data***

6.1.5.1 In their Audit of Accounts Report for 2020/2021, Audit Wales identified a significant issue in respect of errors in the Fixed Asset Register historic cost records that resulted in a misstatement of the Capital Adjustment Account and Revaluation Reserve. It was agreed that these errors would be corrected in preparing the Accounts for the 2021/2022 financial year, to ensure there was no future material misstatement.

6.1.5.2 The Council's initial plan was to implement a new asset register module within the existing Civica Financials core financial system and correct the historic cost records with the largest errors, up to a point where the remaining imbalances were immaterial.

6.1.5.3 However, the controls within the new asset module would not accept any incorrect asset records and as a result the scale of the data correction task increased significantly (from the correction of around 300 asset records to over 1,800). Each of these records had to be reconstructed from available records over the 14-year period from 1 April 2007 to 31 March 2021.

#### ***Asset register implementation***

6.1.5.4 The time required to manually reassess the asset values of the 1,800+ assets had a subsequent impact upon the implementation of the new asset register module. In particular, the system could not be adequately tested until there was clean data available that could be uploaded.

6.1.5.5 In addition, new processes and protocols had to be developed to maximise efficient utilisation of the new system in preparing the year-end capital accounting entries and disclosures.

#### ***Staff turnover/sickness***

6.1.5.6 The Accountancy Service experienced an unusually high level of staff turnover and sickness requiring the reprioritisation of workloads in order to ensure continuity of service, this had an impact on the delivery of the statutory accounts.

6.1.6 The delay in completing the Draft Accounts has impacted on the commencement of the statutory audit by Audit Wales. As a consequence, whilst the detailed financial audit is now progressing, the extended deadline for completion of the 2021/2022 Accounts and audit (30 November 2022) will not be achieved.

6.1.7 It is anticipated that the audit of the accounts will be substantially complete by early 2023. However, the timing of the presentation of the 'Audit of Financial Statements Report' to the Governance & Audit Committee will also be dependent on the resolution of the UK-wide issue regarding the accounting treatment of Infrastructure Assets.

6.1.8 On 12 May 2022, CIPFA issued an urgent consultation on the potential changes to the Accounting Code of Practice to resolve reporting issues related to Infrastructure Assets. To date there has been no resolution to this issue and no Code amendments have been implemented.

6.1.9 However, this remains a matter of concern to External Auditors and has caused delays to the conclusion of financial audits of authorities across the UK. CIPFA are looking to develop a long-term solution, but in the short term

statutory prescription may be required by central government and devolved administrations.

- 6.1.10 The period of public inspection has been advertised and is taking place from Wednesday 16 November 2022 to Tuesday 13 December 2022. The auditor has given notice that the date on or after which electors may exercise their rights to objections is Wednesday 14 December 2022.
- 6.1.11 If there are any matters to be reported to Members arising out of the above, then these will be reported separately. Any issues arising from the external audit of the Statement of Accounts or objections raised during the inspection period will be presented to the Governance & Audit Committee as part of the Auditor's formal Audit of Financial Statements.
- 6.1.12 Section 22 of the 2004 Act requires the External Auditor to consider whether a report should be made in the public interest for any matter arising during the course of the audit, including from objections made following public inspection.

## 6.2 ***Expected outcome for the public***

- 6.2.1 Preparation, publication and approval of statutory accounts helps demonstrate stewardship of the Authority's resources and its ability to provide services to the local community in the short and long term.

## 6.3 ***Involvement (consultation, engagement, participation)***

- 6.3.1 Members of the Governance & Audit Committee have previously received updates on the delay in producing the 2021/2022 Statement of Accounts.

## 6.4 ***Thinking for the Long term (forward planning)***

- 6.4.1 Preparation of statutory accounts helps demonstrate stewardship of the Authority's resources and its ability to provide services to the local community in the short and long term.

## 6.5 ***Preventative focus***

- 6.5.1 Not applicable.

## 6.6 ***Collaboration / partnership working***

- 6.6.1 Not applicable.

## 6.7 ***Integration (across service areas)***

6.7.1 Not applicable.

## 6.8 ***Decarbonisation and Reducing Carbon Emissions***

6.8.1 The Statement of Accounts is produced and published digitally, minimising the use of paper and contributing to the Council's aim of reducing its Carbon Footprint and emissions. There is currently no requirement to include information relevant to decarbonisation and reduction of carbon emissions in the Accounts, but potentially this will change in future years.

## 6.9 ***Integrated Impact Assessment***

6.9.1 An Integrated Impact Assessment has not been completed for the Statement of Accounts, which provides an objective and audited report of the Authority's transactions for the financial year and balance sheet position at the year-end. This information can be utilised in making decisions that might help to reduce the inequalities of outcome associated with socio-economic disadvantage.

## 7. **Monitoring Arrangements**

7.1 The Council takes into consideration the provisional financial standing of the Authority as reported within the attached Draft Statement of Accounts for 2021/2022 when monitoring budgets for 2022/2023, setting a Revenue Budget for 2023/2024 and in developing future medium term spending plans.

### **Background Documents / Electronic Links**

- *Draft Statement of Accounts 2021-22*