

Committee: **Governance & Audit Committee**
 Date of meeting: **18 October 2023**
 Report Subject: **Statement of Accounts 2021/2022**
 Portfolio Holder: **Cllr Steve Thomas, Leader / Cabinet Member**
Corporate Overview and 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)
			18/10/23					<i>Statutory Returns; Financial Governance</i>

1. **Purpose of the Report**
 - 1.1 To present for approval the 2021/2022 Statement of Accounts.
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 Without amending the statutory deadlines for the preparation, publication and audit of accounts for 2021/2022, Welsh Government agreed an extended timetable that recommended preparation of draft accounts by 31 August 2022 and publication of final audited accounts by 30 November 2022.
 - 2.4 The Council’s Draft Statement of Accounts were reported to the Governance & Audit Committee on 16 November 2022. As reported previously, the principal reason for delay in submission related to the resolution of the significant issue identified by Audit Wales in their report on the audit of accounts for 2020/2021, specifically correction of the errors identified in the Fixed Asset Register historic cost records that resulted in misstatement of the Capital Adjustment Account and Revaluation Reserve.
 - 2.5 Since that time a number of adjustments have been identified and these are being reported to Committee before approval of the Final Accounts.

- 2.6 Most significantly, the external auditor (i.e. Audit Wales) has expressed concerns that the Net Book Value of Property, Plant & Equipment disclosed in the Council's Accounts could be materially misstated. This is due to the absence of a systematic and regular review of the Estimated Useful Life (EUL) of assets in previous years.
- 2.7 The detailed financial audit of the accounts and disclosure notes that comprise the overall Statement has now been finalised. Audit Wales has prepared its statutory Audit of Accounts Report (International Standards on Auditing or ISA 260 report) and this forms part of today's agenda.
- 2.8 The Authority anticipates receiving a qualified audit opinion from the Appointed Auditor. This qualification relates to the potential for a material misstatement of depreciation charges and the net book value of assets resulting from the absence of a systematic and regular review of the estimated useful life of assets.
- 2.9 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. The documents were made available from Wednesday 16 November 2022 to Tuesday 13 December 2022 inclusive. No requests for information or inspection were received during that period.
- 2.10 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.
- 2.11 Following this Governance & Audit Committee, if agreed, the Statement of Accounts will need to be signed by the Chief Officer Resources and the Chair of the Committee (as the person presiding over the meeting).
3. **Options for Recommendation**
- 3.1 **Option 1 (preferred)**
On consideration of this report and the External Auditor's report, the Accounts **are approved** by the Governance & Audit Committee under the delegated authority of the Council.
- 3.2 **Option 2**
The Governance & Audit Committee considers and does not approve the Statement of Accounts.
4. **Evidence of how this topic supports the achievement of the Corporate Plan / Statutory Responsibilities / Blaenau Gwent Well-being Plan**
- 4.1 **Statutory Responsibilities**
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 The Final Statement of Accounts includes several adjustments to the Draft Accounts previously presented which have a significant or material impact on the Authority's Balance Sheet:

- Calculation of the fair value of the Ebbw Valley Railway Infrastructure Loan (see 6.1.9 for further detail);
- Indexation of assets valued on a 'Depreciated Replacement Cost' (DRC) basis (see 6.1.10 for further detail); and
- Reclassification of 'Current Investments' (see 6.1.11 for further detail).

5.1.2 The impact on the Council's Balance Sheet resulting from these adjustments is as follows:

Table 1: Summarised Balance Sheet	Draft Accounts 2021/2022	Adjustment	Final Accounts 2021/2022
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Property Plant & Equipment	311,404	(13,022)	298,382
Other Long-Term Assets	6,477	0	6,477
Current Investments	0	21,000	21,000
Current Debtors	55,358	(21,000)	34,358
Other Current Assets	90,459	0	90,459
Current Liabilities	(105,737)	0	(105,737)
Non-Current Borrowing	(109,073)	(17,850)	(126,923)
Other Long-Term Liabilities	32,185	0	32,185
Total Net Assets/(Liabilities)	(48,901)	(30,872)	(78,963)
Usable Reserves	(102,743)	17,464	(85,279)
Unusable Reserves	150,834	13,408	164,242
Total Usable Reserves	48,091	30,872	78,963

- 5.1.3 Further to the audit of the Accounts, the Council's Usable General and Earmarked Reserves are unchanged at £45.252m. Capital Reserves have reduced by £17.464m on correction of the Ebbw Valley Railway Loan fair value calculation for 2020/2021.

Table 2: Balance Sheet Usable Reserves	Draft Accounts 2021/2022	Adjustment	Final Accounts 2021/2022
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Council Fund	(13,067)	0	(13,067)
Earmarked Reserves	(32,185)	0	(32,185)
Total – General & Earmarked Reserves	(45,252)	0	(45,252)
Capital Grants Unapplied	(49,293)	17,464	(31,829)
Usable Capital Receipts	(8,198)	0	(8,198)
Total Capital Reserves	(57,491)	17,464	(40,027)
Total Usable Reserves	(102,743)	17,464	(85,279)

- 5.1.4 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.
- 5.1.5 Given the potential for future public sector funding restrictions to mitigate the extraordinary levels of borrowing incurred by Central Government in dealing with Covid-19 and inflationary pressures on budgets, it would therefore be prudent to retain appropriate levels of earmarked and general reserves to assist with a funding situation potentially similar to that experienced during the last decade.
- 5.1.6 It should also be noted that of the £31.829m balance of Capital Grants Unapplied, £26.851m relates to the accounting adjustment required for the Ebbw Valley Railway Infrastructure Loan. This sum is ring-fenced for utilisation solely in relation to this project over the next three years.
- 5.1.7 Although the adjustments made to the accounts have a material impact on the Balance Sheet, they have no impact on the Council's usable reserves and level of available resources.

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.

5.2.2 A clear audit opinion indicates that the Statement of Accounts presents a 'true and fair view' of the Council's financial position as at 31 March each year and that the accounting statements have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

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 Accounts and Audit (Wales) (Amendment) Regulations 2014 stipulate the following deadlines for preparing, approving and publishing the Accounts:

Table 3:	
Regulatory 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 2021	31 May 2022
Publication of a final audited Statement of Accounts	31 July 2022

6.1.2 As previously reported, the Draft Statement of Accounts was not prepared and certified until 30 September 2022 and as the initial statutory deadline was not met, the required notice was published on the Council's website outlining the reasons for the lack of certification at 31 May 2022 together with the intended course of action proposed to resolve the situation.

6.1.3 As the Final Statement of Accounts was not completed and audited by the 31 July 2022 deadline, another notice was published on the Council website ahead of that date together with the required statutory notice stating the position and intended action at that date.

- 6.1.4 In recognition of the continuing impact of the Covid-19 pandemic, Welsh Government implemented the following extended timetable implemented for preparation and publication of the 2021/2022 Accounts:

Table 4: Welsh Government Extension 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

- 6.1.5 The delay in completing the Draft Accounts impacted on the commencement of the statutory audit by Audit Wales. It was anticipated that the audit of accounts would have been substantially completed by January 2023, but this has been delayed by the resolution of the UK-wide issue regarding the accounting treatment of Infrastructure Assets and the problem identified in relation to the potential misstatement of depreciation charges and the Net Book Value of PPE assets.

- 6.1.6 Subject to approval by Committee and subsequent receipt of an Audit Opinion from the Auditor General for Wales, the Final Audited Accounts will be published as soon as practicable.

6.1.7 **Unadjusted Misstatements**

There are no significant or material unadjusted misstatements in the final 2021/2022 Accounts.

6.1.8 **Adjusted Misstatements**

Since the Draft Statement of Accounts was reported to Audit Committee, the audit of the Accounts has resulted in the correction of a number of misstatements. These are detailed in Appendix 3 of The Audit Wales *Audit of Accounts Report*, the most significant of which are:

6.1.9 ***Ebbw Valley Railway Infrastructure Loan***

- 6.1.9.1 The audit of the 2021/2022 Accounts identified a potential miscalculation of the fair value of the Ebbw Valley Railway Infrastructure Loan in 2020/2021. Officers reviewed the previous year discounting calculation and agreed to correct the error identified.

- 6.1.9.2 The effect of the miscalculation was an overstatement of the Capital Grant Unapplied Reserve in 2020/2021 by £17.464m with a corresponding understatement of Non-Current Borrowing. The Accounting Code of

Practice requires the correction of this error to be made in the Accounts as a prior period adjustment. Consequently, the appropriate entries for 2020/2021 have been restated in the 2021/2022 Accounts.

6.1.9.3 As a result of this adjustment in 2020/2021, the calculation of the amount of discount unwound in the following financial year (2021/2022) also required recalculation. This increased the transfer between the Capital Adjustment Account (Unusable Reserves) and Non-Current Borrowing by £0.386m (from £0.486m to £0.872m).

6.1.9.4 The impact of these adjustments is as follows:

Table 5: Impact of Recalculation of Loan Fair Value	Draft Accounts 2021/2022	Adjustment	Final Accounts 2021/2022
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Non-Current Borrowing:			
Recalculation of Fair Value in 2020/2021	(21,976)	(17,464)	(39,440)
Unwinding of Discount in 2021/2022	(486)	(386)	(872)
Other Non-Current Borrowing	(86,611)	0	(86,611)
Total:	(109,073)	(17,850)	(126,923)
Capital Grants Unapplied:			
Recalculation of Fair Value in 2020/2021	(44,315)	17,464	(26,851)
Capital Adjustment Account:			
Unwinding of Discount in 2021/2022	486	386	872
Total Reserve Adjustments:	(43,829)	17,850	(25,979)

6.1.10 ***Indexation of assets valued on a 'Depreciated Replacement Cost' (DRC) basis***

6.1.10.1 Due to increases in the cost of building and maintaining assets, it was necessary to reassess the valuation of assets valued on a depreciated replacement cost basis to ensure that the balance sheet was not materially misstated.

6.1.10.2 For the Draft Accounts, this largely consisted of school assets, together with car parks and a number of leisure-related assets such as sports centres and libraries. To estimate the most accurate indexed valuation, school assets were calculated with reference to pupil numbers and any related land assets were also adjusted using an appropriate index.

6.1.10.3 As a result of the audit of Accounts, the pupil numbers used to calculate school valuations were revised to provide a more accurate estimate. In addition, officers agreed to remove all indexation relating to associated land assets.

6.1.10.4 Between the Draft and Final Accounts this resulted in a reduction in PPE Asset values of £13.022m, with compensating adjustments to the Capital Adjustment Account and Revaluation Reserve.

6.1.11 **Reclassification of Short-Term Investments**

6.1.11.1 At 31 March 2022, the Council had placed £21m of investments with other local authorities that were due to be repaid within 365 days. In the Draft Accounts these had been included in the Current Debtors disclosure, but officers agreed to reclassify these amounts as 'Short-Term Investments' as they were not due to be repaid within 90 days.

6.1.11.2 The impact of this amendment was as follows.

Table 6: Balance Sheet Extract	Draft Accounts 2021/2022	Adjustment	Final Accounts 2021/2022
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Current Investments	0	21,000	21,000
Current Debtors	55,358	(21,000)	34,358

6.1.12 **Post Balance Sheet Event – LGPS Actuarial Valuation**

6.1.13.1 In March 2023, the Actuary to the Greater Gwent Local Government Pension Fund notified admitted bodies that they may require additional actuarial advice in respect of the accounting position as at 31 March 2022, in those authorities where the conclusion of the 2022 triennial actuarial valuation occurred prior to the completion of the financial audit of Accounts.

6.1.13.2 The Council requested additional information from the Fund Actuary to test the impact of the triennial valuation on attributable fund balances at 31 March 2022. The following changes were indicated:

Table 7: Pension Scheme Balances	Original Balances 2021/2022	Potential Adjustment	Revised Balances 2021/2022
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Attributable LGPS Assets	465,516	(6,534)	458,982
Attributable LGPS Obligations	(759,017)	9,447	(749,570)
Attributable Net Asset/(Liability)	(293,501)	2,913	(290,588)

- 6.1.13.3 The Accounting treatment of pension transactions requires that changes to the Net Pension Asset/Liability are reversed by entries to the Pensions Reserve, such that there is no overall impact to either the Council's Balance Sheet or the bottom line of the Revenue Account.
- 6.1.13.4 The potential impact in percentage terms is no greater than 1.4% of attributable LGPS assets and the net liability figure recorded on the Balance Sheet is impacted by less than 1%. Given the minimal impact of the potential adjustment and the absence of any overall impact on the Balance Sheet and Revenue Account, the Council does not consider that the absence of the entries required would mislead users of the Accounts. As a result, these adjustments have not been made to the 2021/2022 Accounts.
- 6.1.14 In addition, there have been a number of minor amendments to information included in the disclosure notes. In overall terms, these changes would not substantially alter the reader's interpretation and understanding of the Accounts compared to the Draft Accounts considered by Governance & Audit Committee in November 2021.
- 6.1.15 **Qualification Issue**
- 6.1.15.1 Audit Wales have provided a qualified true and fair audit opinion to the Accounts as a consequence of the absence of a systematic and regular review of the Estimated Useful Life (EUL) of assets, which could potentially result in the material misstatement of depreciation charges and therefore the Net Book Value of assets in the Balance Sheet.
- 6.1.15.1 It is difficult to ascertain the value of this misstatement as the estimated useful lives of the relevant assets are not available at the date of their last revaluation. To determine the potential misstatement, officers have undertaken an exercise to recalculate all asset depreciation over a period of up to 5 years using the assumption that each asset was re-lived to the maximum standard life for the relevant category of asset.
- 6.1.15.3 This indicated that, as a potential worst-case scenario, depreciation charged to the accounts may have been overstated by £4.7m, which could be considered to be a material misstatement.
- 6.1.15.4 As it has not been possible to correct this issue for the 2021/2022 Accounts, external valuers have been procured for the provision of asset valuations and assessment of the estimated useful life of assets in the 2022/2023 Accounts. This exercise should remove the potential for a material error and the resulting qualification of Accounts by the Auditor, but has resulted in a delay in producing the 2022/2023 Draft Accounts.
- 6.1.15.5 Assets are typically held at their current or fair value in the Statement of Accounts, but a record of Historic Cost is retained in the Asset Register. The most significant potential impact that incorrect Historic Cost

Valuations has on the Accounts is in a technical accounting adjustment between the Capital Adjustment Account and the Revaluation Reserve.

6.1.15.6 In Local Government accounts, a 'statutory override' is applied that reverses the amount of depreciation charged to services and replaces it with a 'Minimum Revenue Provision' (MRP).

6.1.15.7 As a result, even if depreciation charged to services is misstated, this will be reversed in the statutory accounts and therefore have no impact on the Council's usable reserves and level of available resources.

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 The Statement of Accounts is presented to the Governance & Audit Committee for approval subsequent to consideration of the draft version.

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***

Not applicable.

6.6 ***Collaboration / partnership working***

Not applicable.

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

Not applicable.

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

6.8.1 The Statement of Accounts is currently not required to include information relevant to decarbonisation and reduction of carbon emissions.

6.9 ***Socio-Economic Duty Impact Assessment***

6.9.1 A Socio-Economic Duty 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.

6.10 **Equality Impact Assessment**

6.10.1 An Equality Impact Assessment has not been prepared as this report provides an actual outturn position in relation to the Authority's transactions and year-end balances for the financial year, on an objective basis in accordance with relevant accounting standards, codes, concepts, principles, guidance and legislation.

7. **Monitoring Arrangements**

7.1 The Council continues to take into consideration the financial standing of the Authority as reported within the Statement of Accounts when monitoring budgets, setting the Revenue Budget and Capital Programme and in developing future medium term spending plans.

Background Documents / Electronic Links

- *Appendix 1 – Audit of Accounts – Blaenau Gwent County Borough Council*