

Draft Annual Financial Report and Audit Findings for 2022/23

For Audit & Governance Committee on 19 September 2023

Summary

Lead Member: Councillor Christopher Hall – Member for Finance and Performance

Lead Director: Lee Colyer – Director of Finance, Policy & Development (Section 151 Officer)

Head of Service: Jane Fineman – Head of Finance, Procurement & Parking

Report Author: Jane Fineman – Head of Finance, Procurement & Parking

Classification: Public document (non-exempt)

Wards Affected: Not Applicable

Approval Timetable	Date
Management Board	Verbal Update
Audit & Governance Committee	19 September 2023

Recommendations

Officer / Committee recommendations as supported by the Portfolio Holder:

1. That the Audit Committee note Grant Thornton's Audit Findings Report – Appendix B.
2. That the Audit Committee approve the draft Statement of Accounts and the Annual Governance Statement – Appendix A.
3. The Audit Committee authorise the Chairman and the Director of Finance, Policy & Development to sign a Letter of Representation based on Appendix A and the Audit Findings Report.

1. Introduction and Background

- 1.1 The draft Annual Financial Report (AFR) for 2022/23 (which contains the Statement of Accounts) was uploaded to the Council website on the 31st May 2023 in line with the statutory deadline. There have been no material changes since then and the audit is almost complete, as outlined in Grant Thornton's Audit Findings Report (Appendix B). This Committee now needs to give its formal approval in order that the Annual Financial Report can be published before the 2022/23 audited accounts statutory deadline of 30 September 2023. The deadline has been brought back from the 30 November in 2022 which was extended specifically to aid auditor resourcing. In 2021/22, this council was one of only 12% of councils in England who published their accounts by the deadline of 30 November 2022 and this council published by the 30 September, which was the originally planned date.

2. Draft Annual Financial Report for 2022/23

The Annual Financial Report

- 2.1 The complete document published at the end of the audit process is termed the "Annual Financial Report" (Appendix A), while the term "Statement of Accounts" comprises the formal accounting statements, including the Collection Fund statement, together with the notes to these accounts. The Annual Financial Report consists of:
- Narrative Report
 - The Annual Governance Statement
 - The Statement of Responsibilities
 - The Independent Auditor's Report
 - The Statement of Accounts

Changes to Accounting Standards and other Major Impacts

- 2.2 IFRS (International Financial Accounting Standard) 16 leases should have been implemented on 1 April 2020 with impact to the statements in 2020/21. This has subsequently been deferred for 4 years due to Covid and audit pressures. The effective date for implementation is now 1 April 2024, which would impact the statements in 2024/25. A note will be included in the 2023/24 accounts to lay out the likely impact upon the 2024/25 accounts.

Headline figures in the Statement of Accounts

- 2.3 The revenue accounts, as summarised in paragraph 5 of the Narrative Report, show that the Council achieved a Cost of Services underspend of £1,105,000 compared to budget. This was due mainly to £1,267,000 of staff cost savings resulting from unfilled vacancies. Parking income was £438,000 above budget and income from waste recycling was £371,000 above budget, offsetting the £684,000 overspend on energy costs due to the war in Ukraine. Interest received was also above budget by £1,198,000 due to increases in interest rates and more funds being available for investment. The council also achieved an unbudgeted Business Rates surplus and after some movements to/from reserves, eventually transferred a residual £18,000 to the General Fund. Meeting the revenue budget is a considerable achievement and emphasises the Council's commitment to balancing its budget year on year.
- 2.4 The Usable Reserves fell by £3.7m during the year, from £32.5m to £28.8m. £1,301,000 of the £28.8m however, is really unusable, as it is set aside to repay the Collection Fund in 2023/24 for losses resulting from Business Rates Reliefs, for which the Council has already received Section 31 Grants. The reduction in Usable Reserves in year is mainly due to the Collection Fund repayment for 2022/23 of £5,513,000. The remaining £1.8m net increase in Usable Reserves were funds transferred from revenue to pay for projects that either have been committed but not yet paid for, or approved by Cabinet but not yet committed.
- 2.5 The value of Property, Plant and Equipment increased by £1.9m in the year. The Amelia Scott has been valued at £6m in excess of the build cost previously recorded on the Balance Sheet, but this was more than offset by an £8m reduction in the value of the Royal Victoria Place Shopping Centre, as Covid and the cost of living crisis have adversely affected trade and therefore the value. The remaining £4m increase has come from the 2022/23 capital programme additions of £1.7m and increases in the value of our sports centres. Only £104,000 of capital receipts were achieved, £40,000 for the removal of a restrictive covenant for land at 4 Barnetts Way and £64,000 for a staircasing clawback for 33 Rochdale Road.
- 2.6 There has been a reduction in the Council's net liability for future pension costs, of £56.5m (£4.1m reduction in 2021/22, £7.96m increase in 2020/21, £3.24m increase in 2019/20, £5.56m reduction in 2018/19 and £3.6m reduction in 2017/18). This has been driven by a change in the financial assumptions, with the determined discount rate based on bond yields as at 31 March 2023. Bond

yields have increased significantly over the year increasing the discount rate. A change in CPI inflation has also reduced the employer liabilities. The total deficit is measured correctly in line with accounting standards, but does fluctuate quite considerably from year to year as actuarial assumptions change. Actual pension contributions made by the council are reviewed by the actuaries on a triennial basis, with the last review being the 31 March 2022. The estimated cash contribution for 2023/24 was £3,055,000 compared with the budgeted contribution for 2022/23 of £2,881,000, so the impact is £174,000 on the annual revenue budget of the council.

Accounting Issues

- 2.7 The 2017 Business Rating list for National Non Domestic Rates, applicable from 1 April 2017, was subject to a new and significantly more complex appeal process. This has meant that fewer appeals have been made than would normally have been expected. A new rating list will become effective from 1 April 2023, which means that businesses have just 6 months left to lodge an appeal. As this is the period over which ratings consultants are likely to make the most commission, the number of appeals is likely to increase and the amounts appealed could be significant and retrospective. The Ministry of Housing, Communities and Local Government has provided an estimate that 2.1p in every £1 of the annual Rateable Value would be appealed. This estimate has then been further refined to specifically recognise those businesses that are in receipt of the various business rate reliefs, which means they are less likely to appeal their rateable value. A provision has been made for these appeals in the Collection fund, which is now calculated to be £13,498,660. The Council's 40% share of the total provision is now £5,399,464 (£4,583,466 at 31 March 2022).
- 2.8 Accounting for the Business Rates Reliefs through the Collection Fund, via Section 31 Grants spread over the 3 years has been a technical challenge. It has also distorted the Usable Reserves, artificially inflating them with the Government compensation for the Business Rates Relief provided. This has needed to be carefully explained.

Managing, reconciling and accounting for the Governments Energy and Housing Support Funds has been challenging again this year. Compliance with the Code of Practice and IFRS 15 Revenue from Contracts with Customers, has determined the accounting treatment. If the Government determined the terms of the grant then the Council would be considered an "Agent" and the grants would affect only the cash, debtors and creditors on the Balance Sheet. If, however, the grants were determined by the Council (as with the Discretionary Grants), then it would be considered a "Principal" and the grants would be recognised as Income and Expenditure and taken through the Comprehensive Income and Expenditure Account.

- 2.9 .
- 2.10 The Financial Reporting Council has significantly increased the amount of documentary evidence required for the audit process and has asked for detailed verification of any assumptions made. In addition, preparations must be made for IFRS 16 Leases, which is a significant undertaking. This is putting huge pressure on the Council's Finance Team, Grant Thornton's audit team and the Council's external surveyor. This is unsustainable with the current resources. If the Financial Conduct Authority cannot be persuaded to take a "lighter touch" approach to local government accounting, additional human resources will be needed for the Finance Team and a budget increase will be necessary to pay for the cost of audit and property valuation, in order to manage the audit process in 2023/24.

3. The Audit Findings Report 2022/23

- 3.1 The Audit Director from Grant Thornton has issued a draft Audit Findings Report (Appendix B attached) which she will introduce at the meeting. The report states that she expects to issue an unqualified audit opinion and no adjustments have been identified. She records her appreciation of the assistance provided by the Finance team and other staff.
- 3.2 The Value for Money Review is aimed at assessing the Council's arrangements for delivering economy, efficiency and effectiveness in its use of resources. Grant Thornton have confirmed that the National Audit Office's revised timeframe for the VFM reviews is 3 months from the audit opinion date. Grant Thornton will provide their assessment within that timeframe.
- 3.3 Appendix A of the Audit Findings Report indicates that there are a few outstanding tasks to be completed, but all are anticipated to be completed by this meeting. The representation letter will be signed after the Committee meeting.
- 3.4 Appendix B shows that there have been no amendments to the statements and the only changes have been minor typos or note changes.

Role of Committee and timetable to publication of the Annual Financial Report

- 3.5 As noted in the Audit Findings Report, the audit is almost complete. This Committee has a duty to approve the Statement of Accounts, which will then be published as part of the Annual Financial Report. It is anticipated that this Committee will also give their statutory approval to the Annual Governance Statement at this meeting.

4. Options Considered

4.1 The Committee could decide not to approve the accounts.

5. Preferred Option and Reason

5.1 That the Committee approve the accounts in order that the statutory obligations and deadlines are met.

6. Consultation on Options

6.1 In line with the Accounts and Audit Regulations, a formal advertisement was placed on the internet drawing the attention of the public to the availability of the draft accounts, and the legal right of interested parties to inspect the accounts and the supporting documentation. The inspection period ended on the 11th July. There were no requests to inspect the accounts during this period.

7. Implementation

7.1 Once the Independent Auditor's Report is signed the Statement of Accounts will be published on the Council's website.

8. Appendices and Background Documents

The following documents are to be published with this report and form part of the report:

- Appendix A: Draft Annual Financial Report for 2022/23
- Appendix B: Draft Audit Findings Report for 2022/23

9. Cross Cutting Issues

A. Legal (including the Human Rights Act)

The Audit Committee has a legal duty of oversight for the Council's corporate governance arrangements. Under section 151 of the local government act (LGA 1972), the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including advising on the corporate financial position and providing financial information. There are no consequences arising from the recommendation that adversely affect or interfere with individuals' rights and freedoms as set out in the Human Rights Act 1998.

Senior Lawyer (Corporate Governance)

B. Finance and Other Resources

The Annual Financial Report details the overall unaudited financial position of the authority and is for information only.

Jane Fineman, Head of Finance, Procurement & Parking

C. Staffing

There are no specific implications.

Jane Fineman, Head of Finance, Procurement & Parking

D. Risk Management

The reporting of the draft Report at this stage is designed to improve scrutiny of the Council's draft accounts and therefore to reduce the risk of material error.

Head of Audit Partnership, Deputy Head of Audit Partnership or Audit Manager

E. Environment and Sustainability

There are no specific implications.

Jane Fineman, Head of Finance, Procurement & Parking

F. Community Safety

There are no specific implications.

Jane Fineman, Head of Finance, Procurement & Parking

G. Equalities

There are no specific implications.

Jane Fineman, Head of Finance, Procurement & Parking

H. Data Protection

There are no specific implications.

Jane Fineman, Head of Finance, Procurement & Parking

I. Health and Safety

There are no specific implications.

Jane Fineman, Head of Finance, Procurement & Parking

J. Health and Wellbeing

There are no specific implications.

Jane Fineman, Head of Finance, Procurement & Parking