

Audit Committee September 2022 (postponed from July 2022 meeting)

DRAFT STATEMENT OF ACCOUNTS 2021/22 PROCES & SHORT HIGHLIGHTS BRIEFING



Role of Audit Committee with regards Financial Statements

(based on Cipfa's forthcoming publication: Audit Committees, Practical Guidance for Local Authorities)

- To **monitor the arrangements and preparations** for financial reporting to ensure that statutory requirements and professional standards can be met.
- To **review the annual statement of accounts**. Specifically, to consider whether **appropriate accounting policies** have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council. (Accounting Policies approved March 2022)
- To **consider the external auditor's report** to those charged with governance on issues arising from the audit of the accounts.

Review and Approval Process

- Draft Unaudited Statement of Accounts to be shared with Audit Committee Members
 - Short accompanying Briefing (this document) to highlight key messages and help Members navigate the accounts
 - Briefings offered to explain the Statement of Accounts with the chance for questions to be raised, and addressed.
 - Discussion at future Audit Committee, if required.
-
- Unaudited Accounts issued by the Responsible Financial Officer 31 July 2021
 - Public Inspection and audit started immediately after that (1 August to 12 September)
 - Audit expected to be completed by End of November when Statement of Accounts will be finalised *(Committee received the Auditor's Plan at its June meeting)*

Key areas for your attention

Area	Issue	Key points to consider
The accounts include a range of estimates, and associated uncertainty – this is normal	Significant estimates in these accounts were previously presented to the committee, and include PPE valuations, our pension deficit and the equal pay provision, amongst others.	Full details on these will be found in Note 4 to the Statement of Accounts.
We have a large pension deficit, the calculation of which is based on complex actuarial assumptions.	This significantly influences our Balance Sheet, but being actuarially based, does not necessarily represent a true or immediate cost to the Council	<p>The liability is driven by actuarial assumptions, and the CIES is adjusted to remove the impact of those assumptions and replace it with actual contributions paid.</p> <p>Full details can be found in notes 19 and 20 to the statement of account</p>
Our significant Property Plant & Equipment (PPE) balance	Our PPE balance forms a significant part of our Balance Sheet, and includes valuations on more than 60,000 properties. These valuations are either done on a rolling, or beacon basis, and so a proportion of properties are not valued formally each year.	<p>The movements in PPE do not affect the general fund, instead going to the revaluation reserve or Capital Adjustment Account.</p> <p>Obtaining more valuations would be a cash cost to the council simply to remove some estimation uncertainty, but not all, which does not represent value for money.</p>

Key areas for your attention (2)

Area	Issue	Key points to consider
Comprehensive Income & Expenditure Statement (CIES)	The CIES will show comprehensive net expenditure of £1,418m, but this is after accounting adjustments of £1,334m for changes in value of PPE and Pensions, which do not form part of the Council's usable reserves.	The Council made a surplus on an accounting basis of £85.1m, and when taking into account changes in accounting and funding, a surplus of £65.3m, which is the amount by which the Council's usable reserves have increased.
Movement in Reserve Statement (MIRS)	The total Council reserves have moved from a deficit of £394.2m to a net surplus of £1,024.1m.	<p>Our usable reserves, being resources available to the Council, have increased by £65.3m to £1,512.2m – increased spending power</p> <p>The £1,024.1m includes negative £488.1m of unusable reserves, principally reflecting the net of our pension liability and PPE. (see slides 8 & 9)</p>
Balance Sheet	The Balance Sheet is dominated by the PPE and Pension balances, as noted above. However, the Council is still showing a net current liability balance, where short term creditors exceed short term assets.	This is driven by short term borrowing and provisions, and is not representative of the Council's liquidity.

Key areas for your attention (3)

Area	Issue	Key points to consider
Notes to the accounts	<p>Key notes to consider include:</p> <ul style="list-style-type: none"> • Notes 2 and 4 – representing the Council’s critical judgements and sources of estimation. • Notes 19 and 20 – pension schemes • Notes 30 and 31 – being provisions and areas of potential liability to the Council • Notes 42, 43 and 44 being members allowances, officers remuneration and exit packages 	<p>The notes to the accounts are as required by the code, and accounting standards. They include a lot of information, but largely summarise the primary statements.</p> <p>Note 37 onwards provide new/additional information. There are also supplemental financial statements for the housing revenue account, the collection fund and the Group accounts.</p>
Group accounts	These represent the accounting consolidation of the Council and it’s subsidiary companies.	The significant majority of the Group is made up of the Council’s own operations.
Going concern	The code assumes that local Government accounts are prepared on a Going concern basis, which is how these have been prepared.	A separate Going concern review, focussing on the Council’s financial position, its forecast and any potential impact of the Group companies. This supports the going concern assumption that has been applied in these accounts, and can be provided to the committee if required.

Audit Committee September 2022

APPENDIX



Balance Sheet (page 24)– *what we own or what we're worth*

Increased in our Net Worth by £1,419m:

Reduced Pensions Liability: £538m

Increased Property value: £776m

Reduced Borrowing: £130m

- Usable Reserves up by £65m (as per previous slide)

- Unusable Reserves up by £1,353m:

Pensions: +£660m

Revaluation Reserve / Capital accounting: +£524m

Collection Fund acc'g: £124m

- Largest item is Property Plant & Equipment £6.99bn (page 88):

Council Dwellings: £2.986bn

Other land & Buildings: £2.440bn

Infrastructure: £0.56bn

Assets Under Construction: £0.69bn

- PPE Movement of +£776m:

Revaluation : £562m

Additions: £467m

Depreciation: -£147m

Disposals / held for sale: -£142m

Pension Liability

Liability has reduced by £538m:

(Last year increased by £594m)

Assets : +£244m (page 85)

Including: Asset Values +£317m

Interest : +£100m

Benefits paid: (£210)m

Liabilities: -£294m :

Including Actuarial changes: £452m

Benefits earned: -£354m

Benefits paid: +£210m

Assumptions	Local Government Pension Scheme	
	2020/21	2021/22
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men (years)	21.6	21.2
Women (years)	23.9	23.6
Longevity at 65 for future pensioners retiring in 20 years:		
Men (years)	23.4	22.9
Women (years)	25.8	25.4
Rate of CPI inflation	2.8%	3.2%
Rate of increase in salaries	3.8%	4.2%
Rate of increase in pensions	2.8%	3.2%
Rate for discounting of scheme liabilities	2.0%	2.7%