

**Report for:                      Audit Committee**

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Date of Meeting:	22 August 2023
Subject:	<b>DRAFT Statement of Accounts 2022/23</b>
Cabinet Member:	Cllr James Buczkowski, Cabinet Member for Finance
Responsible Officer:	Andrew Jarrett, Deputy Chief Executive (S151)
Exempt:	N/A
Wards Affected:	All
Enclosures:	N/A

**Section 1 – Summary and Recommendation(s)**

To present the draft version of the annual Statement of Accounts to Members published on the website and presented for external audit.

**Recommendation(s):**

- 1. That the draft Statement of Accounts be reviewed to conclude whether they reflect a true and fair view of the financial position of the Council as at 31 March 2023**

**Section 2 – Report**

**1.0 Introduction**

- 1.1 The Statement of Accounts for 2022/23 have been produced in full compliance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and all other relevant accounting legislation. There were no material changes for 2022/23 in the Accounting Standards.

## 2.0 The Statement of Accounts

- 2.1 The unaudited Statement of Accounts 2022/23 were signed off by the Council's S151 Officer in July 2023 – after the statutory deadline but before the start of the external audit review begun in July. The reason for this delay was the late receipt of draft accounts from 3 Rivers Developments Ltd and updates required to pension entries following the latest triennial pension fund valuation. The draft accounts have been available online since the 12 July 2023. The period of public inspection runs from 13 July to 23 August 2023.
- 2.2 The main highlights of the Statement of Accounts are to be found in the Narrative Report to the accounts beginning on page 12. 2022/23 continued to be a very challenging year following the Covid-19 pandemic, both in terms of operational service delivery and the associated financial consequences. A small over spend was incurred resulting in a small decrease in reserves.
- 2.3 The detailed management accounts were included in the outturn report presented to the Cabinet on the 6 June 2023. This report provides a summary of the year-end position for the General Fund (£190k overspent), the Housing Revenue Account (£312k underspent), and the Capital Programme (£37,169k carried forward).

## 2.4 Key Differences from the prior year

### 2.4.1 Movement in Reserves Statement (page 56)

In order to provide a summary financial position of how the Council ended 2022/23 a summary of the Useable Reserves is detailed below.

Balances held as at 31 March 2023:

<b>Useable Reserves</b>	<b>B/fwd 31/03/22 £k</b>	<b>In Year Movement (Surplus)/Deficit £k</b>	<b>C/fwd 31/03/23 £k</b>
General Fund Balance	<b>(2,215)</b>	190	<b>(2,025)</b>
General Fund Earmarked Reserves	<b>(20,655)</b>	2,496	<b>(18,160)</b>
Housing Revenue Account Balance	<b>(2,000)</b>	0	<b>(2,000)</b>
HRA Earmarked Reserves	<b>(22,650)</b>	(915)	<b>(23,565)</b>
Capital Receipts Reserve	<b>(6,529)</b>	(780)	<b>(7,309)</b>
Capital Grants Unapplied	<b>(2,697)</b>	132	<b>(2,565)</b>
<b>Total Useable Reserves</b>	<b>(56,745)</b>	<b>1,122</b>	<b>(55,624)</b>

The main reason for the increase in the HRA Earmarked Reserves is a result of planned contributions to the Housing Maintenance Fund and the Premium Deficit on the Self Financing Loan. The increase in the Capital Receipts Reserve reflects the sale of Council Houses that will be applied to future planned Housing Developments. As can be seen from the above balances, the Council remains in a strong position to deal with the funding challenges it faces. Notes 6 provides further breakdown of the Earmarked Reserves and Note 42 described what each category of reserve is.

#### 2.4.2 Comprehensive Income and Expenditure Statement (Page 58)

The Outturn Report provides commentary on any Service variances against budget in excess of £20k. It also outlines how some legacy financial effects of Covid-19 have impacted on the Council's finances. In summary, the notable variances include:

- increased staffing costs due to the local government pay award applied for 2022/23 exceeding the budget assumption;
- refund due from HMRC in respect of a Leisure VAT claim dating back to 2011;
- impairments of loans to the Council's wholly owned subsidiary company, 3 Rivers Developments Ltd, due to projected losses on one development project and uncertainty over the company's future;
- higher temporary staffing costs to cover both additional requirements and absences;
- increased interest receivable due to higher interest rates;

In addition, Financing and Investment expenditure is higher due to losses on the valuation of the Council's long-term investment in the Churches, Charities & Local Authorities (CCLA) commercial property fund. Taxation and Non Specific Grant income is higher due largely to the receipt of grant funding to decarbonise two of the Council's leisure centres. Further detail is shown in Notes 10 and 55. The other notable differences from 2021/22 is the revaluation of the Pension liability arising from changes in financial assumptions (see page 86), and the revaluation of Property Plant and Equipment (explained in Note 22).

#### 2.4.3 Balance Sheet (page 59)

The first notable difference is the £11,000k reduction in the Short-Term Investments held at the year-end resulting from lower cash balances being held. Note 33 shows where these investments were placed and the interest rate applicable. The movement in Other Long-Term Liabilities and Unusable Reserves is again due to the revaluation of the Pension liability (see Note 47).

#### 2.4.4 Cash Flow Statement (page 60)

Note 50 explains the adjustments to net surplus or deficit on the provision of services for non-cash movement. The main year-on-year movement is in Debtors. Note 52 shows the variance movements in the Covid-19, Energy and Homes for Ukraine grants. The final notable movement is again the reduction in Short-Term Investments.

#### 2.4.5 Housing Revenue Account (page 129)

The only notable movements are due to the revaluation of Council Dwellings primarily attributable to the movement in house prices during the year, and capital grant funding received to support the modular development projects.

#### 2.4.6 Collection Fund (page 142)

The Council Tax collected increased by £2,516k mainly due to an increase in the Band D charge. Although the collection rate improved compared to 2021/22, it was slightly lower than budget and so resulted in a deficit of £73k for MDDC.

The Business Rates receivable also increased, by £2,670k mainly due to fewer reliefs awarded by the Government in respect of Covid-19. This has significantly reduced the collection deficit with MDDC's share being £107k. This is covered by the Business Rates Smoothing Reserve in line with the Government's instruction to spread the deficit over 3 financial years.

#### 2.4.7 Group Accounts (page 147)

The accounts of the Council's wholly owned company, 3 Rivers Developments Ltd, are incorporated into the Council's Accounts to provide the full financial picture of the Council. Transactions between MDDC and 3 Rivers Developments Ltd are stripped out to avoid double counting.

The net impact is a reduction in the total reserves of £782k. This reflects the incorporation of the company's losses to date, interest due on their work in progress and the adding back of loan impairments.

### **3.0 Appraisal of Going Concern Concept at 31 March 2023**

3.1 As with all principal local authorities, the Council is required to compile its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting for 2022/23 (hereafter referred to as the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code, the Council's Statement of Accounts is prepared assuming that the Council will continue to operate for the foreseeable future and that it is able to do so within the current and anticipated resources available.

3.2 If an authority were in financial difficulty, as has been the case for several authorities over recent years, alternative arrangements have been made by Government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

#### 3.3 2022/24 Financial Position

3.3.1 A net over spend for 2022/23 of £190k was reported to Cabinet in June. However, Services requested a number of carry forward requests to assist with their commitments in 2023/24 and beyond.

3.3.2 Taking the carry forward requests into consideration, at 31 March the financial statements show a General Fund reserve standing at £2,025k, which equates to circa 16% of our net General Fund budget for 2023/24. These resources should be viewed against my estimated requirement to retain a minimum of £2,000k to meet unforeseen financial risks. General Reserves therefore remain marginally higher than required for this purpose. In addition there are also General Fund Earmarked Reserves amounting to £18,160k. (£20,655k 31 March 2022). This decrease was largely down to use of the business rates smoothing reserve.

- 3.3.3 The Council approved a balanced budget for 2023/24 that maintains the services provided, however £625k has had to be utilised from the General Fund Reserves for on-going expenditure. The budget included meeting inflationary pressures (at that time) and unavoidable service cost pressures, all within the referendum limits for Council Tax increases. This is not sustainable and work has started on closing the expected deficit in the 2024/25 budget to avoid the need to use the General Fund Reserves for a second year running.
- 3.3.4 The Council has external debt of £33.310m across a mix of three external loans that have a variety of maturity dates to ensure a balanced portfolio, with further repayments of £1,937k planned to be made during 2023/24.
- 3.3.5 However, on the other hand the Council has increased the overall lending to 3 Rivers Developments Ltd by £6,540k to £20,075m in total. During the year £856k interest was paid to the Authority in respect of these loans. A review of the impairment provision was undertaken and a further £4,527k was impaired. In March 2023 the Council rejected the third iteration of a Business Plan from the company and two associated project business cases. At this point the Council agreed to fund their two live projects to completion and any relevant working capital requirements. They also agreed to commission an external report into the ongoing viability of the company.
- 3.3.6 The Balance Sheet at 31 March shows that we have net current assets of £32,348k (£29,838k in 2021/22) and the Council can meet its cash outgoings over the next twelve months. The Current Ratio<sup>1</sup> is favourable at 3.43. Short term liabilities at 31 March amounted to £13,304k whereas our short-term investments of £16,000k and cash equivalents of £3,631k exceed our liabilities.
- 3.3.7 The authority's net assets amounted to £204,781k (£151,867k in 2021/22). This includes the net pension scheme liability of £16,077k (£56,098k in 2021/22). Excluding the pension liability, the current net worth is £220,858k (£207,965k in 2021/22).

#### 3.4 Medium Term Financial Plan

- 3.4.1 Major uncertainties around the future of the Local Government remain until such time as the outcome of the Fair Funding Review and the review of the Business Rates Retention scheme are known. Adding to this is the Government's commitment to continuing its current austerity programme which is likely to extend for the foreseeable future to offset the significant financial implication of Covid-19 and the possible fall out from the changes in legislation and the economy following Brexit. These all place complex and inter-related difficulties in estimating the financial resources that will be available to the Council over the next 3 – 5 years.
- 3.4.2 Due to these uncertainties the Council has worked hard over the past few years to; reduce operational costs; increase income (including commercial acquisitions); explored more shared arrangements and increased its level of

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<sup>1</sup> (current assets / current liabilities) – Greater than 1 is the target.

available reserves to mitigate. This has enabled it to protect frontline service provision and maintain a “prudent” level of balances. The reserves held provides a financial “buffer” against some of these circumstances and “weather” the current cost of living crisis, which by their very nature are hard to predict and quantify. However, the Council will clearly need to focus on the future financial challenges.

- 3.4.3 The Medium Term Financial Plan indicates the future financial pressure that the Council faces due to Central Government’s continuing austerity programme and the ongoing uncertainty surrounding our main funding sources. The report shows that even if no action were taken to balance the 2024/25 General Fund budget there would be sufficient General Reserves to balance that year’s budget. This would require some realignment of Earmarked Reserves, but although this money is earmarked for certain projects the Authority could, if required, change its priorities to ensure the long term viability of the organisation.
- 3.4.4 This Council continues to take proactive steps to strategically plan for further reductions in Central Government financial support. The Cabinet have ongoing dialogue with Leadership Team, who in turn have discussions with Corporate Managers and service managers to discuss funding reduction scenarios in order to balance our ongoing expenditure needs associated with the current Corporate Plan.
- 3.4.5 A strong culture of financial awareness is now embedded throughout the Council. This is enhanced with regular budget monitoring reports produced for Leadership Team meetings, meetings of the Cabinet and the Policy Development Groups.
- 3.4.6 The Council has already started its process of budget setting for 2024/25 in order to be able to explore all the options provided by Corporate Managers and the Leadership Team to deliver savings and maximise income, at the same time as reducing costs wherever possible.
- 3.4.7 Despite these challenges, there are no future obligations or circumstances that we can foresee that could cause the Authority to change its view of long term stability and of the going concern of the Authority. It is therefore concluded that Mid Devon District Council is a going concern at 31 March 2023.

#### **4.0 The Council’s Governance Arrangements**

- 4.1 The Annual Governance Statement is to be reviewed by the Committee alongside this report. The report was written by Devon Audit Partnership taking into account external and internal audit reviews and feedback from the Senior Leadership Team. It includes a review of the effectiveness of the Council’s governance arrangements and concludes that the existing arrangements remain fit for purposes and help provide reasonable assurance of their effectiveness.

## **5.0 The Audit**

5.1 Our external auditors, Grant Thornton, will undertake their audit through July to October. Therefore, their final audit opinion will not be available before the December Committee. This will include the annual commentary on our arrangements to secure economy, efficiency and effectiveness in our use of resources. Grant Thornton will be able to give a verbal update on current progress and any findings from the Interim Audit to this committee.

## **6.0 Conclusion**

6.1 Members are asked to review the Statement of Accounts to conclude whether they reflect a true and fair view of the financial position of the Council as at 31 March 2023.

### **Financial Implications**

Good financial management and administration underpin the entire document.

### **Legal Implications**

It is a statutory requirement to follow the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) when producing the Statement of Accounts.

### **Risk Assessment**

The Section 151 Officer is responsible for the administration of the financial affairs of the Council. Adhering to the Code mitigates the risk of receiving a qualified set of accounts. The Finance Team has also reviewed its overall calculations/workings against the CIPFA published Disclosure Checklist for 2022/23.

### **Impact on Climate Change**

No impacts identified for this report.

### **Equalities Impact Assessment**

No equality issues identified for this report.

### **Relationship to Corporate Plan**

The financial resources of the Council impact directly on its ability to deliver the Corporate Plan prioritising the use of available resources in 2023/24. The Monitoring Report indicates how the Council's resources have been used to support the delivery of budgetary decisions.

## **Section 3 – Statutory Officer sign-off/mandatory checks**

### **Statutory Officer: Andrew Jarrett**

Agreed by or on behalf of the Section 151

**Date: 14/08/2023**

### **Statutory Officer: Maria De Leburne**

Agreed on behalf of the Monitoring Officer

**Date: 14/08/2023**

**Chief Officer: Stephen Walford**

Agreed by or on behalf of the Chief Executive/Corporate Director

**Date: 14/08/2023**

**Performance and risk: Dr Stephen Carr**

Agreed on behalf of the Corporate Performance & Improvement Manager

**Date: 14/08/2023**

**Cabinet member notified: No**

#### **Section 4 - Contact Details and Background Papers**

**Contact:** Andrew Jarrett, Deputy Chief Executive (S151)

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**Background papers:** Audited Statement of Accounts 2022/23