



<b>Classification</b>	<b>Item No.</b>
<b>Open / Closed</b>	

<b>Meeting:</b>	Audit Committee
<b>Meeting date:</b>	25/7/22
<b>Title of report:</b>	Unaudited Statement Accounts 2021/22 - background
<b>Report by:</b>	James Hopwood
<b>Decision Type:</b>	<b>Non Key Decision</b>
<b>Ward(s) to which report relates</b>	

## 1. Executive Summary:

- 1.1 This report presents the unaudited Statement of Accounts for the 2021/22 financial year. The report highlights the overall financial position for the year.
- 1.2 Whilst there is no longer a requirement to present the unaudited accounts to Members before the external audit process commences, the Council has continued this practice as it gives Members early notification of the financial outcome of the previous financial year and is considered to be good practice.
- 1.3 The unaudited 2021/22 Statement of Accounts will be completed by 31 July 2022, in accordance with the specified timetable set out in the Accounts and Audit (Amendment) Regulations 2021. However, there will be an update between the statement of accounts presented in this report showing progress as at 15 July 2022 and the unaudited 21/22 Statement of Accounts which will be published on 31 July 2022. A list of areas still being worked on is set out in paragraph 7.
- 1.4 There is a requirement to obtain certification of the draft accounts by the responsible financial officer, for the Council this is the Executive Director of Finance. Certification of the audited Statement of Accounts will be required from the Executive Director of Finance and the Chair of the Audit Committee.

## 2. Recommendation(s)

- 2.1 The Committee is asked to consider and note current progress on the 2021/22 unaudited Statement of Accounts; and their publication on Bury Council website, prior to the commencement of the external audit.

**Reasons for the decision:** Best practice

**Other options considered and rejected:** N/A

## Key considerations

### 3. Background

- 3.1 The accounts will be available for public scrutiny from 2 August to 13 September 2022. This will be advertised on the Council's website. The unaudited accounts will be placed on the Council's website on 29 July 2022 in line with the Government's policy of increased transparency in the public sector.
- 3.2 The accounts will be subject to external audit.
- 3.3 The style and format of the accounts is largely prescribed by the CIPFA Code of Practice (The Code). Audit Committee should assure themselves that the Narrative Report is consistent with the core financial statements.
- 3.4 The Statement of Accounts for Bury Council comprises of:
- A narrative statement by the Executive Director of Finance and S151 Officer
  - The statement of responsibilities for the accounts
  - The core financial statements, comprising:
    - The movement in reserves statement
    - The comprehensive income and expenditure statement
    - The balance sheet as at 31 March 2022
    - The cash flow statement
  - The notes to the core financial statements
  - The Housing Revenue Account
  - The Collection Fund
  - The Group Accounts
- 3.5 Elected members are not expected to be financial experts, but they are responsible for approving and issuing the Council's financial statements. In doing this they are playing a key role in ensuring accountability and value for money are demonstrated to the public. However, local authority financial statements are complex and can be difficult to understand: they must
- 3.6 comply with CIPFA's Local Authority Code of Practice, which is based on International Financial Reporting Standards and also the accounting and financing regulations of central government.

- 3.7 This covering report explains the key features of the primary statements and notes that make up the 2021/22 Statement of Accounts. The narrative statement provides further information on the key issues for the benefit of readers of the statements.

#### 4. Narrative Statement

- 4.1 The purpose of the narrative statement is to provide commentary on the financial statements. It includes an explanation of key events and their effect on the financial statements. The information in the narrative statement is consistent with budget information provided during the year and reconciles to the year-end financial position due to be reported to Cabinet on 7 September 2022.

#### 5. Core Financial Statements

##### 5.1 Movement in reserves statement

Reserves represent the Council's net worth and show its spending power. Reserves are analysed into two categories: usable and unusable. The level of usable reserves, the Council's spending plans, and other sources of funding determine how much council tax needs to be raised. Unusable reserves derive from technical accounting adjustments and cannot be used to support spending. The movement in reserves statement analyses the changes in each of the authority's reserves between 2020/21 and 2021/22.

##### 5.2 Comprehensive income and expenditure statement

The comprehensive income and expenditure statement reports on how the authority performed during the year and whether its operations resulted in a surplus or deficit. It is produced in a standard format and is made up of five broad sections:

- Cost of services: Presented in the management structure of the Council. It includes service specific income and expenditure.
- Other operating income and expenditure: Includes the surplus or deficit from the sale of property, plant and equipment.
- Financing and investment income and expenditure: Includes interest payable and receivable and trading account income and expenditure.
- Taxation and general grant income and expenditure: Includes revenue from council tax, business rates and government revenue and capital grants.
- Other comprehensive income and expenditure: Includes items which are not allowed to be accounted for elsewhere, such as increases in the value of land and buildings and changes in the actuarial assessment of pension assets/liabilities.

##### 5.3 Balance Sheet

The balance sheet is a 'snapshot' of the authority's financial position at a point in time, showing what it owns and owes at 31 March 2022. It is divided into two halves that, as the name suggests, balance. These are assets less liabilities (the top half) and reserves (the bottom half).

#### 5.4 Cash flow statement

The cash flow statement sets out our cash receipts and payments during the year, analysing them into operating, investing and financing activities. Cash- flows are related to income and expenditure but are not equivalent to them. The difference arises from the accruals concept, whereby income and expenditure are recognised in the comprehensive income and expenditure statement when the transactions occurred, not when the cash was paid or received.

#### 5.5 The Notes to the accounts

provide further detail for the figures within the core statements as well as other information we are required to include in the Statement of Accounts.

#### 5.6 Housing Revenue Account (HRA)

The Housing Revenue Account (HRA) is intended to record expenditure and income on running a council's own housing stock and related services or facilities which are provided primarily for the benefit of the council's own tenants.

- It is a landlord account recording expenditure and income arising from the provision of housing accommodation.
- It is not a separate account but is a ring-fenced account of defined transactions relating to local authority housing within the General Fund.
- The main expenditure items included are management and maintenance costs, major repairs, loan charges and depreciation costs.
- The main sources of income are from tenants in the form of rents and service charges.

#### 5.7 The Collection Fund

The Collection Fund is a separate account for the administration of Council Tax and Business Rates income from local taxpayers on behalf of the Council, and other major preceptors i.e. the police, fire and mayoral services through the Greater Manchester Combined Authority.

#### 5.8 The Group Accounts

This brings together entities where the Council has a material financial interest and holds a significant level of control. For Bury this includes

- Six Town Housing Ltd.,
- Bury MBC Townside Field Ltd.,
- The Persona group of companies, Persona Care and Support Ltd and Persona Group Ltd.,

## 6. Points of Note on the 2021-22 Statement of Accounts

- 6.1 Useable revenue reserves declined by £21.7m from £139.1m at 1 April 2021 to £117.4m at 31 March 2022. This decline was driven by the deployment of Covid grants across the Borough, as well as the utilisation of other external funding during the 2021/22 financial year. Covid grants in particular were utilised to support residents and businesses during the pandemic. A reduction in revenue reserves was also planned because £7.7m of revenue reserves were set aside to support the 2021-22 budget. Further reserves were also created during 2021/22 to support additional investment in children's services, an increase to the smoothing reserve and a utilities pressures reserve.
- 6.2 The Housing Revenue Account (HRA) ended the 2021/22 year with a £0.58m reduction in useable balances, from £10.4m at 1 April 2021 to £9.8m at 31 March 2022. The £9.8m provides a buffer for financial pressures in the 2022/23 financial year and beyond. £12.5m of capital expenditure to maintain the Decent Homes Standard was also funded from the Housing Revenue Account during 2021/22.
- 6.3 Capital useable grants increased from £9.6m to £16.1m. These grants cannot be used to fund day to day costs within the revenue budget. However, they are available for investment in long-term assets within the Council's capital programme.
- 6.4 The 31 March 2022 position on useable reserves, revenue and capital, will inform the development of the Medium Term Strategy and budget setting for 2023/24 and beyond.
- 6.5 By regulation, the Council receives the exact amount (precepts) budgeted for in relation to Council Tax and Business Rates; the receipt of these precepts funded the revenue budget and impacts on the available revenue reserves. These precepts are paid from a separate account managed by the Council, called the Collection Fund. This account also pays out precepts to the Police and the Greater Manchester Fire and Civil Defence Authority (known as preceptors). The difference between the precepts paid out and the Council Tax and Business Rates collected, results in a surplus or deficit at the end of the financial year, to be recovered in future years and factored into the budget setting.
- 6.6 Overall for 2021/22, the Collection Fund had a deficit of £9.4m – with Bury's share being £10.1m. Bury's share is higher than the overall Collection Fund deficit because it includes amounts brought forward from previous years and the deficit is split differently in different years. The 2021/22 deficit was on Business Rates collection, while Council Tax receipts were better than expected.
- 6.7 This Business Rates deficit was caused in part by a government decision to extend pandemic reliefs (discounts on Business Rate bills). The Government introduced these additional reliefs as compensation for the restrictions on businesses, which continued into the first part of the 2021/22 financial year.

- 6.8 The financial impact on the Council of these reliefs will be mitigated by the receipt of compensatory grants to fund its share of the cost of the extended relief: due to technical accounting rules, these grants are not paid into the Collection Fund but are received directly into the Councils' revenue budget accounts.
- 6.9 The government decision to extend pandemic reliefs into the 2021/22 financial year occurred after January 2021 - the date when the Business Rate budget was set and 2021/22 precept amounts determined.
- 6.10 The Council also spent £45.7m on long term infrastructure, within its capital programme. This expenditure was funded £15.3m from capital grants, £12.6m directly from revenue budgets (including the £12.5m from the HRA), £0.6m from capital receipts and £17.2m of borrowing. Spend on long term infrastructure was lower than expected, due to the impact of the pandemic which slowed building projects.
- 6.11 The Council's net worth has increased to £298m compared with £128m as at 31 March 2021. However, a key cause of this is the nominal valuation of the defined benefit pension fund, in accordance with technical accounting rules. This deficit reduced by £125m in 2021/22. This was due to a change in actuarial projections, including around the future cost of pension benefits. It is important to note though, that these actuarial projections are volatile between years and do not determine the actual rate of employer pension contributions paid out of the revenue budget. The actual pension contribution rate is determined by a separate actuarial valuation using different rules.

## **7. List of areas being worked on between 15 July and 31 July**

- 7.1 Within the Group Income and Expenditure Statement, inter-group transactions are in the process of being identified. The main impact will be to net off expenditure and income within this statement.
- 7.2 Some investigations and discussions are in progress regarding a technical issue relating to the revaluation of housing assets within the HRA. Potentially, this will impact on asset values shown at 31 March 2022 on the balance sheet as well as movements in the Movement in Reserves Statement. There will be no impact on HRA Useable Reserves.
- 7.3 Further review and checking of the single entity and group cash flow will take place. These statements are properly balanced and reconcile to the cash balances. However, there are likely to be some contras between lines showing the different types of cash movements in year.
- 7.4 Some work is ongoing reviewing the impact of recharges between the General Fund and HRA. This work is being further reviewed and may be updated.

## 8. Infrastructure assets

- 8.1 A technical accounting issue has been raised by external auditors in relation to infrastructure assets. This applies to all Councils with infrastructure assets. As a consequence of this technical issue, the risk is that external auditors are unable to approve Council's statement of accounts and further work will be required to restate the asset values.
- 8.2 The technical issue is about how the monetary value of replaced parts are removed from Councils' asset registers. Councils' assume that the relevant part's value has been fully depreciated, prior to being replaced. The issue raised by external auditors is whether there is sufficient evidence to support this assumption.
- 8.3 There are discussions, consultations and proposals between national bodies and external auditors, in order to identify a way forward. However, if this technical issue is not resolved, potentially it would impact on the audit of Bury Council's accounts. This is a national issue and not novel to Bury Council.

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## Community impact/links with Community Strategy

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### Equality Impact and considerations:

*Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:*

*A public authority must, in the exercise of its functions, have due regard to the need to -*

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;*
- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;*
- (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.*

*The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services.*

<b>Equality Analysis</b>	<i>The statement of Accounts is a record of past financial expenditure. It does not determine future resource allocation.</i>

*\*Please note: Approval of a cabinet report is paused when the 'Equality/Diversity implications' section is left blank and approval will only be considered when this section is completed.*

**Assessment of Risk:**

The following risks apply to the decision:

<b>Risk / opportunity</b>	<b>Mitigation</b>
The report is for information purposes and does not propose or require a decision.	

**Consultation:**

**Legal Implications:**

*To be completed by the Council's Monitoring Officer*

**Financial Implications:**

All financial implication are covered within the report and the attached Statement of Accounts.

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**Background papers:**

**None**

**Please include a glossary of terms, abbreviations and acronyms used in this report.**

Term	Meaning