

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Audit Committee
Date:	27 September 2023
Title:	Statement of Accounts 2021/22
Report From:	Rob Carr, Deputy Chief Executive and Director of Corporate Operations

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Purpose of this Report

1. The purpose of this report is to seek approval for the Statement of Accounts for Hampshire County Council and the Hampshire Pension Fund for the period ending 31 March 2022.

Recommendation(s)

2. That the updated Statement of Accounts for 2021/22 for Hampshire County Council and the Hampshire Pension Fund be approved (Appendix 2).
3. That delegated authority be given to the Deputy Chief Executive and Director of Corporate Operations to approve minor changes to the accounts agreed between the County Council and Ernst and Young (EY) prior to the issue of the final audit opinion and publication of the audited Statement of Accounts.
4. That the Audit Committee notes the Letters of Representations will be signed by the Chairman of the Audit Committee and Chief Financial Officer (the Deputy Chief Executive and Director of Corporate Operations) as required by the external auditor.
5. That the Audit Committee approves the decision not to amend the unadjusted differences set out in paragraph 26 on the basis of materiality.

Executive Summary

6. This report deals with the conclusion of the audit of the **2021/22 Statement of Accounts** (i.e. Balance Sheet dated 31 March 2022). An update on the 2022/23 accounts and audit process is included elsewhere on the agenda.
7. The Accounts and Audit Regulations (2015) require local authorities to consider and approve their accounts (either by way of a committee or by the members meeting as a whole) following the conclusion of the period of public inspection. Within the County Council's constitution, this responsibility is delegated to the Audit Committee.
8. Two national technical accounting issues have delayed the conclusion of the audit of the 2021/22 accounts. The Audit Committee has received the following updates and taken the following decisions to date:
 - **May 2022:** received the audit planning report from EY noting the potential impact of the emerging national issue on accounting for infrastructure assets;
 - **September 2022:** approved the 2021/22 accounts following the period of public inspection, subject to a further report confirming the resolution of the national issue relating to the accounting for infrastructure assets;
 - **December 2022:** re-approved the 2021/22 accounts to reflect the amendments required by the new statutory instrument and temporary changes to the CIPFA Code to address the technical accounting issue relating to infrastructure assets;
 - **May 2023:** received position statements from the audit partner from EY and the Deputy Chief Executive and Director of Corporate Operations on progress with the 2021/22 audit, identifying a new national issue to do with the timing of LGPS triennial pension valuations and the associated technical accounting required under IAS 19 *Employee Benefits*.
9. Following further work on IAS 19 adjustments by officers and EY, the Deputy Chief Executive and Director of Corporate Operations wrote to members of the Audit Committee on 14 August 2023 to confirm that this element of the audit had been concluded with no major issues identified, but with the requirement to make a number of changes to the pension figures within the accounts to reflect the updated information available from the recent triennial revaluation results.
10. In concluding testing of the 2021/22 accounts, a number of other amendments have been agreed between officers and EY and the final version of the accounts is attached at Appendix 2. Further details on the adjustments relating to IAS 19 and other changes to draw to the attention of the Audit Committee are included later in this report.

11. Given the delays in completing the audit, the County Council has also provided updated financial planning and cash flow forecasts to enable EY to complete the going concern assessment for the period 12 months beyond the conclusion of the audit.
12. The updated accounts are now being presented to the Audit Committee for approval. An update from EY with their audit opinion is also due to be presented to the committee elsewhere on the agenda.

Contextual information

13. The County Council is required by the Accounts and Audit Regulations (2015) to produce an annual Statement of Accounts. For the County Council, the responsibility for the approval of the Statement of Accounts is delegated to the Audit Committee.
14. The accounts must be audited in accordance with the Local Audit and Accountability Act (2014). The timely completion of local authority audits has been impacted over recent years due to the impact of Covid-19 and resourcing issues within the local audit sector. Despite extended deadlines, the national picture is that the audits of a significant majority of local authority accounts for 2021/22 were not completed by the 30 September 2022 deadline, with only 27% of 21/22 audits completed by July 2023.
15. The conclusion of the 2021/22 audit of the County Council's accounts has been delayed primarily due to two technical accounting issues that have arisen nationally and are not specific to the County Council's accounts:
 - The technical accounting for infrastructure assets resulting in a new statutory instrument from DLUHC and a temporary change to the CIPFA Code;
 - The impact of the latest triennial LGPS pension valuations on IAS 19 pension assets and liabilities in the accounts.
16. The attached Statement of Accounts has been drawn up in the form prescribed by the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom, which constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. In addition, the Accounts and Audit Regulations 2015 contain certain requirements for disclosure in the Statement of Accounts.
17. An explanation of each section of the accounts is included in Appendix 1.

Updates to the accounts

18. There are three noteworthy changes to the accounts since they were approved by the Audit Committee in December 2022.

IAS 19 pension assets and liabilities

19. IAS 19 *Employee Benefits* is the accounting standard used to estimate the cost to an organisation of benefits earned by employees in return for their service in current and prior periods. The application of IAS 19 in local authority accounts is set out in the CIPFA Code and includes the accounting for pension assets and liabilities. Assets and liabilities are reflected on the Balance Sheet and in year amounts are charged to the Comprehensive Income and Expenditure Statement (CIES).

20. It is worth noting that although the CIPFA Code requires the accounting for pension assets and liabilities under IAS 19, statutory provisions mean that the County Council cannot charge the amounts shown in the CIES to the taxpayer. Instead, the revenue budget and outturn position reflect the employer contributions paid to the Pension Fund. The IAS 19 adjustments made to the accounts are therefore purely technical in nature and have no impact on the County Council's revenue budget or useable reserves.

Revenue budget and useable reserves £m	Table 1 – changes to the 21/22 accounts to reflect updated IAS 19 pension figures	CIES £m	Balance Sheet assets and liabilities £m	Balance Sheet unusable reserves £m	MiRS (unusable reserves) £m
	Reduction in current service cost under IAS 19	(4.96)	4.96	(4.96)	4.96
	Interest cost charge	0.05	(0.05)		
	Gain on assets	(0.05)	0.05		
	Increase in pension asset		64.89	(64.89)	
	Reduction in pension liability		169.30	(169.30)	
0.00	Employer contributions				
0.00	Total	(4.96)	239.15	(239.15)	4.96

21. The changes to the accounts to reflect the updated IAS 19 report provided by the actuary are shown in Table 1 (above). The most significant changes relate to the pension assets and liabilities recorded on the Balance Sheet as a result of changes in actuarial assumptions.
22. As noted above, although the adjustments to the accounts are large numbers, they do not impact the revenue outturn position for 2021/22 nor the useable reserves at the balance sheet date of 31 March 2022. This is because it is the employer's pension contributions that are charged to the revenue budget. The Hampshire LGPS Pension Fund is a defined benefit scheme backed by investment assets. Employer contributions are calculated based upon an actuarial assessment of the Pension Fund, as carried out every three years. This reflects complex actuarial assumptions and calculations, including the assessment of the Fund's funding and investment strategies and the probability of funding success. This is different from the accounting requirements under IAS 19.

Property, Plant and Equipment assets – historic academy conversions

23. During the course of the 2021/22 audit it has been identified that a restatement of the opening balance for Property, Plant and Equipment (PPE) assets in 2020/21 is required. This relates to the removal of assets with £nil Net Book Value (NBV) to remove the Gross Book Value and corresponding offsetting Accumulated Depreciation figures from the disclosure note relating to assets transferred to academy schools upon conversion to academy status. The Gross Book Value and offsetting Accumulated Depreciation figure were both overstated by £78.497m relating to a period prior to 2017/18. The adjustment has no impact on the NBV (the value on the Balance Sheet) of the assets or any other sections of the accounts.

Other updates

24. The Officer remuneration banding note for 2021/22 has been updated to ensure that all officers are reflected in the correct bands. This change was required due to including the impact of the Salary Sacrifice Shared Cost Additional Voluntary Contributions (SSCAVC) into the banding note, which had not been included in earlier versions of the accounts. This resulted in changes to the banding recorded for some officers, as well as bringing an additional 12 people into the banding note.
25. Other updates to the accounts are primarily due to the later completion of the audit (for example to extend the going concern/financial sustainability period to March 2025) or of a trivial nature (such as minor updates to figures).

Unadjusted differences

26. The audit results report issued by EY (page 23 of the separate agenda item) identifies a number of unadjusted audit differences and requests that these are either corrected or that the rationale for not correcting these adjustments is considered and approved by the Audit Committee and provided within the Letter of Representation.
27. The Chief Financial Officer does not recommend adjusting these amounts due to materiality. The CIPFA Code only requires local authority financial statements to disclose information that is material. Information is considered to be material *“if omitting, misstating or obscuring it could reasonably be expected to influence decisions that users of general purpose financial statements make on the basis of those financial statements.”* This includes consideration of whether the information is material to the ‘true and fair’ view of the financial position, financial performance, cash flows, and the understanding of users.
28. EY require the Chairman of the Audit Committee and the Chief Financial Officer (the Deputy Chief Executive and Director of Corporate Operations) to confirm the rationale for not making these adjustments within the Letter of Representation.

Hampshire Pension Fund

29. The Statement of Accounts also includes the accounts of the Hampshire Pension Fund. This is because the County Council is the Administering Authority and reporting entity for the Pension Fund, which is not a separate legal entity.
30. There are no unadjusted or adjusted audit differences to highlight relating to the Pension Fund accounts. Notes 16 and 17 in the accounts have been updated to reflect the updated information relating to the triennial valuation of the Pension Fund that was completed on 31 March 2023 and related to the valuation of the Pension Fund at 31 March 2022, the Balance Sheet date for the 2021/22 accounts.

Annual Governance Statement

31. In accordance with regulations, the Annual Governance Statement (AGS) must accompany the published Statement of Accounts. The AGS was approved by the Audit Committee in September 2022.

Period of Public Inspection of the Accounts

32. In accordance with legislation, the County Council published a notice of public rights in August 2022. No requests or questions were received during the period required by the regulations.

Letters of Representation

33. As part of the production and audit of the final accounts, the external auditors also require the Deputy Chief Executive and Director of Corporate Operations (the Chief Financial Officer) and Chairman of Audit Committee to provide Letters of Representations for the County Council and Pension Fund. The draft text of these letters is included within the audit results report from EY.

Consultation and Equalities

34. The Statement of Accounts summarises the financial transactions incurred following the approved revenue budget and capital programme. Consultation on the budget is undertaken when the County Council considers savings to help balance the budget. All savings proposals put forward by the County Council have an Equality Impact Assessment published as part of the formal decision-making papers and for some proposals stage 2 consultations are undertaken before a final decision is made by the relevant Executive Member.
35. The Accounts and Audit (Amendment) Regulations 2022 require the County Council's Statement of Accounts to be approved and published by 30 September 2023, or where this is not possible to publish a notice explaining why. This report deals with this statutory requirement, which is a financial reporting matter, and therefore no consultation or Equality Impact Assessments are required.

Climate Change Impact Assessment

36. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience impacts of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.
37. In managing its financial resources, climate change impact assessments for individual services and projects will be undertaken as part of the approval to spend process. This report deals with the statutory requirement to approve and publish a Statement of Accounts, which is a financial reporting matter and there are therefore no further climate change impacts as part of this report.

Conclusions

38. The Statement of Accounts for 2021/22 for Hampshire County Council and the Hampshire Pension Fund have been prepared in accordance with legislative and regulatory requirements. The presentation and approval of the annual accounts is an important part of the overall governance framework for the County Council and Pension Fund and the Audit Committee is therefore requested to consider and approve the accounts.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:

It relates to the effective governance of the County Council

Other Significant Links

Links to previous Member decisions:

<u>Title</u>	<u>Date</u>
Agenda for Audit Committee on Thursday, 26th May, 2022, 2.00 pm About the Council Hampshire County Council (hants.gov.uk)	26/5/22
Agenda for Audit Committee on Wednesday, 28th September, 2022, 10.00 am About the Council Hampshire County Council (hants.gov.uk)	28/9/22
Agenda for Audit Committee on Thursday, 22nd December, 2022, 2.00 pm About the Council Hampshire County Council (hants.gov.uk)	22/12/22
Agenda for Audit Committee on Thursday, 25th May, 2023, 2.00 pm About the Council Hampshire County Council (hants.gov.uk)	25/5/23

Direct links to specific legislation or Government Directives

<u>Title</u>	<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

There are no new proposals in this report requiring an assessment

Appendix 1

Statement of Accounts

1. The Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA).
2. It aims to provide information so that members of the public, including electors and residents of Hampshire, Members of the County Council, partners, stakeholders and other interested parties can:
 - Understand the overall financial position of the County Council and the outturn position for 2021/22;
 - Have confidence that the public money with which the County Council has been entrusted has been used and accounted for in an appropriate manner; and
 - Be assured that the financial position of the County Council is sound and secure.
3. The unaudited accounts were reviewed and signed by the Chief Financial Officer as a true and fair view of the financial position as at 31 March 2022. The draft accounts were published on the County Council's website in line with requirements of the regulations and enabled the commencement of the period for the exercise of public rights on or before the first working day of August 2022.
4. Following the conclusion of the period for the exercise of public rights, the Accounts and Audit Regulations require the Authority to:
 - consider, either by way of a committee or by the members meeting as a whole, the statement of accounts
 - approve the statement of accounts by a resolution at that committee or meeting
 - ensure that the statement of accounts is signed and dated by the person presiding at the committee or meeting at which that approval is given

Narrative report

5. The narrative report provides information about the key issues affecting the County Council and reports on the County Council's financial and non-financial performance, risks and future prospects.

6. The narrative report is designed to help readers understand the County Council and its operating environment and to assist in the understanding and interpretation of the Statement of Accounts.
7. It explains how the required accounting presentation relates to the financial performance of the County Council as set out in the end of year financial report, which was presented to Cabinet and County Council on 18 July and 20 July 2023 respectively.

Statement of Responsibilities for the Statement of Accounts

8. The statement records the responsibility:
 - of the local authority to appoint an officer with the responsibility for the proper administration of its financial affairs. Within the County Council, this is the Deputy Chief Executive and Director of Corporate Operations
 - of the Deputy Chief Executive and Director of Corporate Operations to prepare the accounts in accordance with proper practices as set out in the Code of Practice, and to certify that the accounts present a true and fair value of the authority
 - of the Chairman of the Audit Committee to confirm that the accounts have been considered and approved by the committee.

Movement in Reserves Statement

9. This statement sets out the movement in the year on the different reserves held by the County Council, analysed into 'useable reserves' (cash-backed reserves which can be applied to fund expenditure or reduce council tax) and 'unusable reserves' (not cash-backed which are mainly used for accounting adjustments).

Balance Sheet

10. This shows the value of the assets and liabilities recognised by the County Council. The net assets of the County Council are matched by reserves, either usable or unusable.

Cash flow statement

11. The cash flow statement is designed to demonstrate the changes that have taken place in the County Council's cash position over the year and to highlight the causes of these changes.

Comprehensive Income and Expenditure Statement

12. This statement shows the accounting cost of providing services rather than the amount funded from taxation. The taxation position is shown in the Movement in Reserves Statement and the difference between them is summarised in the Expenditure and Funding Analysis (note 1) and then itemised in note 2.
13. The bottom line figure on the Comprehensive Income and Expenditure Statement is equal to the change in net worth on the Balance Sheet, although it is the Movement in Reserves Statement that shows the impact of the County Council's activities on its revenue budget and therefore the Council Tax payer.

Notes to the accounts

14. These comprehensive notes incorporate further information to support the reader of the accounts. The accounting policies are incorporated within the relevant disclosure notes, with the general policies included towards the end of the notes.

Hampshire Pension Fund

15. The Statement of Accounts also includes the accounts of the Hampshire Pension Fund. This is because the County Council is the Administering Authority and reporting entity for the Pension Fund, which is not a separate legal entity.
16. The accounts for the Pension Fund provide details of contributions and benefits payable during the year, management expenses, and returns on investments during the year as part of the Fund Account. This results in a change in net assets of the scheme, reflected in the Net Asset Statement at 31 March 2022. The Net Asset Statement predominantly comprises investment asset balances in addition to other assets and liabilities.