

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Audit Committee
Date:	27 September 2023
Title:	Statement of Accounts 2022/23
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 2023.

Recommendation(s)

2. That the Statement of Accounts for 2022/23 for Hampshire County Council and the Hampshire Pension Fund be approved (Appendix 3).
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. Should any non-minor changes be required as a result of the audit of the accounts, the Statement of Accounts for 2022/23 would be brought back to the Audit Committee for review and re-approval.
4. That it is noted that the 2022/23 accounts have not yet been audited due to issues outside of the County Council's control that have resulted in a backlog of local audit opinions across the country.
5. That it is noted that the County Council will publish the unaudited accounts on its website together with a notice in accordance with regulation 10(2)(a) of the Accounts and Audit Regulations 2015 stating that it has not been able to publish the audited statement of accounts and the reasons for this.

6. That it is noted that 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 at the conclusion of the audit.

Executive Summary

7. This report relates to the accounts and audit process for the **2022/23 Statement of Accounts** (i.e. Balance Sheet dated 31 March 2023). A report dealing with the conclusion of the 2021/22 accounts is included elsewhere on the agenda.
8. The County Council published its unaudited draft accounts for 2022/23 on 31 May 2023, allowing the period of public inspection to begin in line with the requirements of the Accounts and Audit Regulations (2015). Following the conclusion of the period of public inspection, the regulations require the County Council to consider and approve the statement of accounts. The County Council has delegated this responsibility to the Audit Committee. The Statement of Accounts for 2022/23 is included at Appendix 2.
9. The Accounts and Audit (Amendment) Regulations 2022 require the Council's audited Statement of Accounts to be published by 30 September 2023. If the audited accounts cannot be published by this date for any reason, the regulations require the County Council to publish a notice on its website. The audited accounts must then be published as soon as reasonably practicable. The audit of the 2022/23 accounts has not been completed and therefore the County Council will publish a notice under regulation 10(2)(a) stating that it has not been able to publish the statement of accounts and the reasons for this. The approved unaudited accounts will also be published on the County Council's website.
10. The audit of the 2022/23 accounts has not yet been completed due to national challenges in the local audit market that have resulted in a significant backlog in audit opinions, as has been discussed at previous meetings of the Audit Committee. This has included delays in completing the audit of the County Council's 2021/22 accounts. The 2021/22 accounts are discussed separately elsewhere on the agenda for this meeting, but in summary the conclusion of the 2021/22 audit was delayed primarily due to two technical accounting issues that arose nationally and that were not specific to the County Council's accounts.
11. Lee Rowley MP (Parliamentary Under-Secretary of State for Local Government and Building Safety) wrote to local authorities and local audit firm partners on 18 July 2023. This letter provided an update on the work conducted by the Department for Levelling Up, Housing and Communities (DLUHC) and colleagues from the Financial Reporting Council (FRC) to

address the backlog and develop a sustainable solution going forward and included a number of proposals. This followed oral evidence given to the Levelling Up, Housing and Communities Committee on 17 July 2023 as part of the inquiry into [financial reporting and audit in local authorities](#).

12. One of the key proposals being put forward is the introduction of a series of statutory deadlines for the conclusion of delayed audits for financial years 2015/16 onwards. The intention is to reset the system as auditors will be required either (a) to complete their audits by these statutory deadlines or (b) where this is not possible, to provide as much assurance as they can and provide a limited opinion on the accounts. It is understood this may result in qualifications and disclaimers of opinion in the short term for a number of local authorities. At the time of writing, it is not known how the proposals will impact the completion of the audit of the County Council's 2022/23 accounts, as DLUHC is conducting a process of engagement and consultation prior to implementing any changes. As such, the County Council's auditors, EY, have not yet submitted their 2022/23 audit planning report to the Audit Committee.
13. The unaudited draft accounts were reviewed and signed by the Chief Financial Officer on 31 May 2023 as a true and fair view of the financial position as at 31 March 2023. Although the accounts have not yet been audited, they are being presented to the Audit Committee to allow timely discussion, scrutiny, and approval of the accounts by Members of the Committee to take place.
14. This report recommends that, if the Audit Committee approves the accounts for 2022/23 at this meeting, the authority to make minor amendments to the accounts as a result of the audit should be delegated to the Chief Financial Officer. However, if any amendments are required that are non-minor in nature, the accounts will be brought back to the Audit Committee for review and re-approval. This mirrors the approach taken for the 2021/22 accounts.
15. The County Council's accounts also include 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. EY have confirmed that they intend to conduct the audit of the Pension Fund accounts over the autumn of 2023.

Contextual information

16. The County Council is required by the Accounts and Audit Regulations (2015) to produce an annual Statement of Accounts. These accounts must be audited in accordance with the Local Audit and Accountability Act (2014).
17. The timescales for the publication of draft and audited accounts have been temporarily extended through amendments to the Accounts and Audit

Regulations over recent years due to the impact of Covid-19 and resourcing issues within the local audit sector. Despite these extended deadlines, the national picture is that the audits of a significant majority of local authority accounts were not completed on time in 2021/22.

18. Lee Rowley MP (Parliamentary Under-Secretary of State for Local Government and Building Safety) wrote to local authorities and local audit firm partners on 18 July 2023. This letter provided an update on the work conducted by the Department for Levelling Up, Housing and Communities (DLUHC) and colleagues from the Financial Reporting Council (FRC) to address the backlog and develop a sustainable solution going forward, which included a number of proposals.
19. The proposals are set out in full on the UK Parliament website of the Levelling Up, Housing and Communities Committee as part of that committee's inquiring into financial reporting and audit in local authorities:
<http://committees.parliament.uk/publications/40932/documents/199432/default/>
20. In summary, the key short-term proposal being put forward by DLUHC is the introduction of a series of statutory deadlines for the conclusion of delayed audits for financial years 2015/16 onwards. The intention is to reset the system as auditors will be required either (a) to complete their audits by these statutory deadlines or (b) where this is not possible, to provide as much assurance as they can accompanied by a limited opinion on the accounts. It is understood this may result in qualifications and disclaimers of opinion in the short term for a number of local authorities.
21. Longer term the proposals focus on ways to prevent the backlog occurring again by addressing the underlying issues. This includes creating a sustainable local audit market, with the FRC working across the system:

“...to improve competition, capability, and supply within the audit market.”
22. The proposals will also look to:

“...ensure proportionate financial reporting requirements, auditing requirements and regulatory requirements are in place.”
23. The County Council agrees with the comment in the proposals that local authority financial reporting:

“...must balance the need for adherence to financial standards against the needs of the users of local authority financial information, including ensuring the accounts are still useful and valuable to the taxpayer.”

Code of Practice on Local Authority Accounting

24. The attached Statement of Accounts has been drawn up in the form prescribed by the 2022/23 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.
25. The 2022/23 Code of Practice on Local Authority Accounting made changes to the application of some accounting standards but none of them have had a material impact upon the County Council’s accounts. The requirement to adopt IFRS 16 (accounting for leases) from April 2022 was delayed until April 2024, although local authorities were given the option to adopt this new standard sooner. The County Council opted not to adopt the new standard until April 2024.
26. The 2022/23 Code of Practice also reflects the temporary change to the Code relating to the accounting for infrastructure assets that was introduced through an amendment to the 2021/22 Code in November 2022.

Statement of Accounts

27. The Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA).
28. 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 2022/23;
 - 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.

29. The unaudited accounts were reviewed and signed by the Chief Financial Officer on 31 May 2023 as a true and fair view of the financial position as at 31 March 2023. 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 June 2023.
30. 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
31. For the County Council, the responsibility for the approval of the Statement of Accounts is delegated to the Audit Committee.
32. The Statement of Accounts is audited by EY. Due to the national backlog in audit opinions outlined elsewhere in this report, EY have not yet issued their audit planning report for 2022/23 and the audit has not been concluded to enable the audited accounts to be published by the deadline of 30 September set out in the Accounts and Audit (Amendment) Regulations 2022. The County Council will therefore publish a notice on its website stating that it has not been able to publish the audited statement of accounts and the reasons for this, in accordance with the regulations.
33. An explanation of each section of the accounts is included in Appendix 1.
34. The version of the accounts attached at Appendix 2 reflects updated opening balances for 2022/23 based on the finalised version of the 2021/22 accounts. There are also other minor changes that have been picked up since the draft accounts were published on 31 May.

Accounting for Infrastructure Assets

35. Note 19 of the accounts provides details of the County Council's Property, Plant and Equipment (PPE) assets. Within this note is an explanation of how the County Council has applied the statutory instrument and temporary changes to the CIPFA Code of Practice relating to the accounting for infrastructure assets.

36. As part of implementing this change, the County Council has evaluated and updated the estimation process for the useful economic lives of infrastructure assets. Previous analysis resulted in a single weighted average 20 year life, which has been used to calculate depreciation for a number of years. The most recent analysis means that the County Council is amending the useful lives used for calculating depreciation from 2022/23 to 120 years for bridges and 25 years for all other infrastructure assets.
37. This split enables the County Council to provide a more relevant representation in respect of the higher useful life of bridges compared to other infrastructure assets and any fluctuations in replaced components. For other infrastructure assets, analysis supports the continued use of a weighted average of all components rather than depreciating components separately as the difference in depreciation if calculated using componentisation would not be material.
38. The amended regulations and statutory override mean authorities do not need to retrospectively change their assessment of infrastructure asset values from previous years and the updated asset lives and associated depreciation of outstanding balances will therefore apply from 2022/23 onwards rather than retrospectively.

Hampshire Pension Fund

39. 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.

Annual Governance Statement

40. In accordance with regulations, the Annual Governance Statement (AGS) must accompany the published Statement of Accounts. The AGS is also presented elsewhere on the agenda for this meeting with the recommendation that it is approved by the Audit Committee.

Period of Public Inspection of the Accounts

41. In accordance with legislation, the County Council published a notice of public rights to:
- inspect the accounting records for the financial year ended 31 March 2023
 - make copies of all or any books, deeds, contracts, bills, vouchers, receipts and other documents relating to the accounting records

- question the auditors about the accounts.

41. The specified period was from 1 June to 12 July 2023. No requests or questions were received during this period.

Letters of Representation

42. 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.

43. The letters provide additional assurance that all matters have been disclosed to the auditors and that no undue influence has been applied in producing the accounts that would prevent them giving a true and fair view of the financial position.

44. These letters will follow at the conclusion of the audit.

Consultation and Equalities

45. 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.

46. The Accounts and Audit (Amendment) Regulations 2022 require the County Council's Statement of Accounts to be approved and the audited statement of accounts published by 30 September 2023, or where this is not possible to publish a notice stating that it has not been able to publish the audited statement of accounts and the reasons for this. 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

47. 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.

48. 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

49. The Statement of Accounts for 2022/23 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, noting that the audit has not yet taken place due to the national backlog in local audit opinions and associated work being led by DLUHC to resolve these issues. Given that the accounts have not yet been audited, they will be brought back to the Audit Committee for review and re-approval if the audit results in any non-minor changes being required to 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>

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.)

Document

Location

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

Narrative report

1. 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.
2. 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.
3. 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

4. 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

5. 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

6. 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

7. 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

8. 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.
9. 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

10. 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

11. 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.
12. 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 2023. The Net Asset Statement predominantly comprises investment asset balances in addition to other assets and liabilities.