HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Audit Committee
Date:	22 December 2022
Title:	Statement of Accounts 2021/22
Report From:	Rob Carr, Director of Corporate Operations

Contact name: Rob Sarfas

Tel: 0370 779 1556 **Email:** rob.sarfas@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to provide the Audit Committee with an update on the outcome of the national issue relating to the accounting for infrastructure assets. This issue has delayed the completion of the audit for the Statement of Accounts for 2021/22 for Hampshire County Council and other local authorities with infrastructure assets.

Recommendation(s)

2. That the Audit Committee notes the temporary solution that has been put in place to resolve the national issue relating to the accounting for local authority infrastructure assets.

3. That the Audit Committee reconfirms their approval of the Statement of Accounts for 2021/22 for Hampshire County Council and the Hampshire Pension Fund (Appendix 1) reflecting the changes to the PPE disclosure note as a result of the temporary solution put in place to resolve the national issue relating to the accounting for local authority infrastructure assets through changes to the CIPFA Code and the statutory accounting override introduced by DLUHC.

4. That the draft letters of representations for Hampshire County Council and the Hampshire Pension Fund be noted (Appendix 2).

5. That delegated authority be given to the Director of Corporate Operations to approve minor changes to the accounts agreed between the County Council

and EY prior to the final audit opinion being issued and the publication of the accounts.

Executive Summary

6. The Statement of Accounts for 2021/22 was presented to the Audit Committee on 28 September 2022, however the audit of the accounts had not been completed at this date. This was primarily due to a national issue relating to the accounting for infrastructure assets which was having an impact on local authorities across the country.

7. The Chartered Institute of Public Finance and Accountancy (CIPFA) established a task and finish group earlier in 2022 and consulted with stakeholders on temporary changes to the Code of Practice for Local Authority Accounting (the Code) in an attempt to resolve the issue, however it was not felt to be possible to do so solely through a change to the Code.

8. Given the complexity of the issue and to avoid the widespread qualification of local authority accounts, the Department for Levelling Up, Housing and Communities (DLUHC) has therefore introduced an accounting statutory override. DLUHC is able to make provision for local authority accounting practices under the Local Government Act 2003.

9. Having reviewed the statutory instrument (and associated explanatory memorandum) alongside a temporary change to the accounting Code issued by CIPFA, and having discussed these changes with EY, it is anticipated that the temporary changes being put in place will enable EY to issue an unqualified audit opinion on the County Council's accounts.

10. The impact of the changes being introduced will broadly be to:
    - Formalise the assumption that infrastructure assets have reached £nil value at the time of replacement
    - Remove the need to report the gross book value and accumulated depreciation figures for infrastructure assets within disclosure notes to the accounts
    - Specify that local authorities are not required to make any prior period adjustment to the balances for infrastructure assets brought forward to 2021/22, therefore removing the need for auditors to conduct existence testing on assets capitalised prior to 1 April 2021
    - Result in no change to the Net Book Value of infrastructure assets reported on the Balance Sheet.

11. The Statutory Instrument is due to be enacted on 25 December after being laid before parliament at the end of November and EY therefore hope to be

able to conclude their audit of the accounts and confirm their audit opinion in January 2023. This will also follow the publishing of an explanatory bulletin on the Code change by CIPFA in early January.

12. The Audit Committee has already approved the Statement of Accounts for 2021/22 subject to a report being brought back to the committee indicating a resolution to the national issue relating to infrastructure assets (this report). The Audit Committee is now asked to reconfirm their approval of the accounts based on the resolution of this issue (i.e. the temporary change to the CIPFA Code and the introduction a new statutory instrument by DLUHC).

Contextual information

13. The County Council has delegated responsibility for the approval of the Statement of Accounts to the Audit Committee. The draft accounts were presented to the Audit Committee at its meeting of 28 September 2022.

14. Members will recall discussions at the previous two meetings of the Audit Committee around the national issue concerning accounting for the derecognition of infrastructure assets. This issue was preventing auditors from being able to sign off the accounts of local authorities with infrastructure assets across the country. Members heard that it had not yet been possible for the Chartered Institute of Public Finance and Accountancy (CIPFA) to resolve this issue through a temporary change to the Code of Practice.

15. The County Council had determined that it was best to wait for CIPFA to issue guidance before progressing further with the audit and determining any necessary actions. The Audit Committee resolved to approve the Statement of Accounts for 2021/22 for Hampshire County Council and the Hampshire Pension Fund subject to a further report coming back to the committee indicating a resolution to the national issue relating to infrastructure assets.

Update on resolution of national issue relating to infrastructure assets

16. Earlier this year, the government became aware of the issue relating to the reporting of infrastructure assets that was leading to delays in local authority audits. As explained above, CIPFA has been working on ways to resolve this issue through changes to the Code of Practice, however it has not yet been possible to find a solution purely through a change to the Code that satisfies all stakeholders. As a result, the government undertook to review the need to introduce a statutory accounting override to support the resolution of this issue. This is allowed under the Local Government Act 2003, whereby the government may make provision for local authority accounting practices.

17. Having considered the issue, the government proposed putting in place a statutory override "*to allow local authorities to treat the value of any replaced component of infrastructure assets as nil, without the need to further evidence that this is the case*. *The override also removes the requirement for authorities to make prior period adjustments to infrastructure asset balances.*"

18. The Department for Levelling Up, Housing & Communities (DLUHC) issued a call for evidence on 27 October, asking stakeholders to provide comments on the draft Statutory Instrument and associated Explanatory Memorandum. The County Council and its auditor, EY, both responded to this call for evidence. The Statutory Instrument was then laid before parliament at the end of November and is due to be enacted on 25 December.

19. Alongside this statutory instrument, a temporary change to the CIPFA Code will remove the need for the Gross Book Value (GBV) and Accumulated Depreciation figures for infrastructure assets to be reported. This will change the presentation of some information within the accounts but will not result in any change to the reported Net Book Value (NBV) of infrastructure assets at the balance sheet date.

20. The County Council currently assumes that any infrastructure assets have reached £nil value at the point they are replaced, as it does not have the resources to replace assets before the end of their useful life. The statutory instrument supports this assumption.

21. When an asset is derecognised at £nil NBV the GBV and accumulated depreciation for those assets are equal and offsetting amounts (as the initial asset value has been fully depreciated). The Code change to remove the need to report GBV and accumulated depreciation means the County Council does not need to demonstrate that these two offsetting amounts have been removed from the disclosure note for Property, Plant and Equipment (Note 19 in the draft accounts). This has no impact on the NBV, which is the value included on the Balance Sheet.

22. Finally, the statutory instrument states that local authorities are not required to make any prior period adjustments to the balances of the 2021/22 statement of accounts in respect of infrastructure assets. It is understood that this means that the audit firms will be able to take the brought forward balances as given without the need for any current or future testing of these asset balances, including existence testing. The County Council would then only need to evidence future additions to the balance sheet and the ongoing existence of assets added to the balance sheet from 1 April 2021.

23. The Statutory Instrument will only be temporary and will cover accounts up to and including 2024/25. The government sees this as "*a necessary short-term solution to avoid the widespread qualification of local authority accounts*".

Given the complexity of the issue this will then allow more time for a longer-term solution to be found. Similarly, the CIPFA Code change is expected to be temporary.

24. At the time of writing, the CIPFA Code change has been issued but a bulletin providing explanatory information is not due to be released until January. The Statutory Instrument was laid before parliament at the end of November but will not be enacted until 25 December. Discussions with EY suggest that the changes will allow them to gain the required assurance over the County Council's infrastructure assets for 2021/22, although this will not be completely certain until EY have concluded their audit work. It is anticipated that EY will be able to issue an unqualified opinion on the County Council's accounts.

25. In the unlikely scenario that the statutory instrument and CIPFA Code change do not prove sufficient to give EY assurance on the County Council's accounting for infrastructure assets, a further update will be provided to the Audit Committee.

26. Officers will ensure that appropriate records are maintained to enable the ongoing existence testing of assets added to the balance sheet from 1 April 2021 and therefore to allow EY to perform the required testing for future audits

27. As the audit had not been completed by the 30 November deadline, the County Council published a notice on its website on 30 November 2022 as it is required to do with the latest version of the accounts and an explanation for the delay in the completion of the audit.

Updates to the 2021/22 Statement of Accounts

28. It is not anticipated that the changes will have any impact on the Net Book Value of the County Council's infrastructure assets and no change has been made to the Balance Sheet included within the statement of accounts (appendix 1).

29. The requirement not to report the GBV and accumulated depreciation for infrastructure assets means a change to the disclosure note for Property, Plant and Equipment (PPE). This is Note 19 to the accounts.

30. The column for infrastructure assets has been removed from the tables for 2021/22 in Note 19, with the Total PPE column updated accordingly. A new table has been inserted that provides details for infrastructure assets separately. A further table reconciles the PPE value shown on the Balance

Sheet to the information in Note 19. Explanatory disclosures required by the Code and the SI have also been included as part of Note 19.

31. The draft accounts (appendix 1) have been prepared on this basis.

Letters of Representation

32. As part of the production and audit of the final accounts, the external auditors also require the 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.

33. 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.

34. The detailed letters (draft) are attached at Appendix 2. The Chairman and CFO will need to sign these letters at the point the audit is complete.

Consultation and Equalities

35. 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.

36. The Accounts and Audit (Amendment) Regulations 2022 require the County Council's Statement of Accounts to be approved and published by 30 November 2022. 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

37. 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℃

temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

38. 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

39. The national issue around the accounting for infrastructure assets has had an identified impact on the accounts and audit process for many local authorities. The government and CIPFA have introduced temporary solutions to address this issue and avoid the situation of many local authority accounts being qualified due to this issue. It is anticipated that these changes will allow EY to gain sufficient assurance around the figures included within the County Council's accounts for infrastructure assets so that an unqualified audit opinion can be issued. The Audit Committee has already approved the Statement of Accounts for 2021/22 subject to this report on the outcome of the resolution of the issue explained above. The Audit Committee is therefore asked to note the resolution and re-confirm their acceptance of the accounts as presented at Appendix 1.

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:	
Title External Audit Planning Report – Hampshire County Council External Audit Planning Report – Hampshire Pension Fund External audit results report and Statement of Accounts report	Date 26 May 2022 26 May 2022 28 September 2022
Direct links to specific legislation or Government Directives	
Title	Date

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 disproportionally low.

2. Equalities Impact Assessment:

There are no new proposals in this report requiring an assessment