

**Final
Annual accounts 2021/22**

Summary Process

- Audit Committee are asked to note;
 - The draft set of accounts were authorised for publication on 12th July, rather than 30th June as initially agreed with auditors
 - Councils are required to work to statutory 31st May deadline, but it isn't common yet that many Councils have streamlined/refined their processes sufficiently to comply. Consequently a notice was placed on the website stating the reasons for the delay as required by the legislation.
 - Draft accounts were provided to this Committee on 28th July, 2022
 - Accounts went on display and were available for public to inspect for a month commencing 2nd week in August. No requests for further information or explanation were received.
 - The audit process effectively concluded on 10th January, with confirmation that the audit team was happy with how the Council had refined the accounts for the issues it raised during the process. Those issues are captured in a document known as ISA260 which is being considered at this same meeting.
 - There remains a collective motivation amongst Councils and auditors to provide a set of Accounts that are clear, informative and would not mislead any audience.

Summary Process

- That collective motivation isn't without its "rub" points, and certainly shorter statutory production timescales can be inconsistent with a wish for greater technical refinements and more detailed presentation. So there is always a balance to be struck.
- The audit process will always advocate refinements and changes, even on things that have previously been audited as acceptable. Public interest issues change over time, national consideration affects the focus for priorities, regulations can change, and the audit quality assessment process can introduce thematic considerations for following year.
- The audit report will detail the changes advocated and whether the Council has chosen to amend that presentation
- This results in a final set of accounts which reflects agreed amendments made following that exercise.
- Governance & Audit Committee are required to consider/approve these final Accounts, which will result in them being certified by Head of Finance and Chair on your behalf.
- It is important that members appreciate both the auditor judgement and Committee's consideration is one of a "true and fair view" assessment, and not vouching for 100% accuracy of the Accounts.

Trends and challenges

- Change in personnel and reduced team capacity
- Accounts assumptions and transactions still affected by Covid-19 Considerations
- Throughout the year the council received significant cash from Welsh Government in the form of new grants and financial, much of that being explicit covid 19 grant streams.
- Related there is a complicated agency note first introduced last year within the statement of accounts which details what schemes we have classified as constituting an agency relationship which requires those costs and receipts to be removed from Council's CIES statement
- Fair value measurement of Property (particularly investment property) continues to exhibit valuation uncertainty – as the longevity and severity of the impact of Covid-19 on the economy have introduced non traditional practices, impacting demand and supply and depressing benchmark rental values below traditional levels.
- The traditional rolling valuation of operational property was supplemented by a desk based uplift in cost to reflect an uptick in construction inflation
- CIPFA and central government issued retrospective legislation and guidance to fundamentally affect the traditional reporting of infrastructure assets after the accounts were prepared in draft.
- The Council has had to bring forward its review of nil value assets which was programmed as part of new financial system data migration for 2023-24
- City Deal incorporation is becoming more significant as the volume of activity picks up
- A greater degree of audit recommendations has been accommodated whilst the ledger has remained open to deal with the anticipated fixed asset changes.

Asset Accounting & Valuation Techniques

- Various classes of fixed assets
- Valued differently and over different periods
- Methods of valuation - existing use, depreciated (equivalent) replacement cost, depreciated historic cost, historic cost, fair value
- Results – enhancing valuation or impairment
- Depreciation

Key Messages

- Fixed assets will always remain a key audit line of enquiry given the significance of the figures when viewed against materiality tolerances
- Significant churn and volatility in fixed asset administration
- Other areas like the reporting of senior staff remuneration or reporting on the sufficiency of member declarations will always be reputational important as a key line of audit enquiry and governance indicator even though figures in the accounts aren't as material to overall spends.
- May's election impacted declaration returns and necessitated a "workaround" in the approval of earmarked reserve movements.
- Colleagues have also been working upon facilitating the move to a new financial administration system alongside the traditional Statement of Accounts work

Key Messages

Revenue Budget

Active underspend on revenue budget prior to reserve movements - £18.4m as reported to Cabinet in June 2021

This was due to;

- Receipt of one-off Welsh Government (WG) funds to compensate Council services to support its enhanced service delivery to Newport's communities in response to Covid; and lost income from Covid restrictions; meant these costs were not borne by the Council;
- Underspends across all services in relation to (i) costs of general administration and service provision due to changes in working practices and (ii) not undertaking planned/normal services, as they were not required or unable to be carried out due to Covid response work being prioritised
- Resulting directly and indirectly from the above, the general revenue contingency budget was not required, there was an underspend against the Council Tax Reduction Scheme and an overachievement against budgeted Council Tax income. Furthermore, there was a significant underspend against the Capital Financing budget, mainly due to the receipt of late capital grants from WG and general slippage against the Capital Programme, deferring the need to borrow for capital schemes.
- Underspent on its general revenue contingency budget, council tax reduction scheme and council tax income

Conversely the CIES shows a surplus on provision of services of £26.5m, the difference is due to net accounting adjustments undertaken as part of year end process including transfers to reserves.

Key Messages

Capital Programme / budget

Capital spend on programme of £52.7m, carried forward £13.9m due to slippage

Reserves

Reserves increased by net £43.6m, notable movements being

- Schools – underspend of £6.2m transferred to school specific reserves
- General Fund - underspend of £7.9m transferred to reserves
- Various earmarked reserve top ups agreed by Cabinet
- Capital receipts balance increased by £2.7m
- “Displacement” reserve of £10m created to reflect capital grant payments received from Welsh Government in 2021-22 to be spent in 2022-23
- £1.5m Discretionary cost of living support grant received by Welsh Government in 2021-22 to be used in 2022-23

Financial Accounting vs Management Accounting

These Accounts are not prepared on the same premise as management information received during the year

Management accounting/reports

- Commonly internal to the organisation
- Focussed on a future date, by predicting outturn based on current activity and known trends/activities
- Compares activities of interest against a predicted level (budget)

So there is no prescribed format, they are a management tool to influence decision making, and can be catalyst to change activity/performance before year end.

Financial Accounting vs Management Accounting

Financial accounting/statement of accounts

- Backwards facing,
- Historic in nature,
- Not able to influence the activity reported.
- They are prescriptive in format and design (Accounting policies and standards). They tend to be public focussed, and involve a degree of external assessment/validation.
- There is no budgetary or variance component, and the accounts are assessed on a “true and fair view” basis rather than absolute accuracy.
- The balance sheet, movement in reserves and cashflow statement are unique to Statement of Accounts presentation and not a feature of management accounts reporting.

The Comprehensive Income and Expenditure Statement CIES and Expenditure and Financing Analysis (EFA) has the same roots as the Council management accounting revenue performance at month 12, but includes additional entries/adjustments to the balance sheet that have a revenue impact but are not afforded by charge to the taxpayer e.g. Impairment of fixed assets, depreciation, pension fund accounting, amalgamation of City Deal and Newport Transport entries

Key Statements (1)

Five key statements together with supporting notes detail the financial performance, these are:

- **The Comprehensive Income and Expenditure Statement (CIES):** showing the accounting cost in year of providing services in accordance with generally accepted accounting practices.
- **The Expenditure and Funding Analysis (EFA):** details the movement between the Council's Income and expenditure position as reported internally and the accounting adjustments made as per proper accounting practices presented in the CIES.
- **The Movement in Reserves Statement:** summarises the Authority's income and expenditure activity and shows how this is adjusted to arrive at the Authority's funding, or council tax position, and how surpluses/ deficits have been distributed to reserves.
- **The Balance Sheet:** shows the value as at the 31 March 2022 of the assets and liabilities held and recognised by the Authority.
- **The Cash Flow Statement:** shows the movements in cash and cash equivalents of the Authority during the reporting period.

Summary - finances

Usable Reserves 31/03/2021	108,270
Transfers actioned during the year to/(from) reserves	22,735
Transfers recommended in outturn report to/(from) reserve	18,404
Audit based additions	2,443
Usable Reserves 31/03/2021	<u>151,852</u>
Made up of:	
Council Fund Balance	6,500
Balances Held by Schools	15,737
Earmarked Reserves – risk, smoothing, enabling, other – (PFI makes up c£42m)	120,225
Capital Receipts Reserve (enabling)	9,390
Total Usable Reserves 31/03/21	<u>151,852</u>