



CONSTITUTION COMMITTEE – 24 MAY 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

STATEMENT OF ACCOUNTS, ANNUAL GOVERNANCE STATEMENT & PENSION FUND ACCOUNTS 2022/23

PURPOSE

1. The purpose of this report is to:
 - a) present the 2022/23 financial statements for approval,
 - b) inform the Committee of the main areas of the financial statements, and
 - c) report the key findings from the external audit of the accounts.

BACKGROUND

2. The financial statements comprise the accounts for the County Council, the Annual Governance Statement and the accounts for the Pension Fund. The draft 2022/23 accounts were published at the end of June 2023. The accounts are then subject to external audit.
3. The Accounts and Audit Regulations 2015 require authorities to publish their final accounts and auditor's opinion by the 30 September each year. For the previous three financial years (2019/20 to 2021/22) the legislation had been amended to extend this deadline to the end of November. In April 2023 the Government decided to no longer allow for the extension and the temporary amendments were not continued.
4. The end of September 2023 deadline was not achievable by both the Council and the external auditor, due to knock on delays from the 2021/22 audit of the accounts, which were finalised in March 2023 while awaiting new legislation and subsequent Cipfa guidance to be received in respect of the revised accounting treatment for Infrastructure (highways) assets and pressures on auditor capacity. These issues are affecting many Councils nationally with many Council's financial statements not yet signed off. For some they have accounts for multiple years not yet completed. As part of the planning for the 2022/23 audit the County Council and the external auditor agreed to a revised deadline for the final audit opinion to early 2024.
5. The external audit was substantially completed in January 2024, with the exception of the valuation of land and buildings which delayed the County Council opinion. No delays were encountered on the Pension Fund audit opinion.

6. These issues have now been resolved and a copy of the updated financial statements is attached as Appendix A.
7. Copies of the external auditor's, Grant Thornton UK LLP, audit findings reports for the County Council and its Pension Fund are attached as Appendix B and Appendix C respectively.
8. Copies of the letters of representation for the County Council and its Pension Fund are attached as Appendix D and Appendix E.
9. The Corporate Governance Committee will consider the auditor's final reports at its meeting on 20 May 2024. The auditor is required to communicate the results of the audit to those charged with governance prior to certifying the financial statements. The minutes from that meeting will be reported to this meeting of the Constitution Committee. The auditor anticipates issuing an unqualified audit opinion on the County Council and the Pension Fund accounts.
10. The level of audit testing has continued to increase significantly compared to previous years. This stems from increased requirements on auditors from their regulators, the National Audit Office, and is reflected in the increasing levels of audit fees.
11. The Statement of Accounts is prepared under the International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounts.

STATEMENT OF ACCOUNTS

12. The main areas of the financial statements are set out below.

Narrative Statement

13. The purpose of the Narrative Statement is to offer interested parties an effective guide to the most significant matters reported in the accounts. It includes a summary of the economy, efficiency and effectiveness, and the financial and non-financial performance of the Authority, and an explanation of the contents of the accounts.

Movement in Reserves Statement (MIRS)

14. This statement shows the movement in year on the different reserves held by the County Council, analysed into 'usable reserves', i.e. those that can be applied to fund expenditure and 'unusable reserves' which cannot be used to fund services.
15. Unusable reserves include reserves that hold unrealised gains and losses as well as adjustments for the differences between amounts charged in accordance with accounting standards and amounts charged for statutory purposes. An example is the short term accumulating compensated absences adjustment account. This account holds the estimated value of untaken annual leave and time-off-in-lieu as at the balance sheet date. The charge is required to be recognised by accounting standards, but statutory mitigation then requires it to be reversed out via an unusable adjustment account to avoid it being a charge to the General Fund. Other examples include capital charges for depreciation, gains and losses on investments, and the deficit on the dedicated schools grant.

16. Overall, usable reserves, which comprise the General Fund and earmarked revenue and capital reserves, total £255.5m as at 31 March 2023:

Usable Reserves	31/3/22	31/3/23
	£m	£m
General Fund – Delegated Funding for Schools	11.3	9.1
General Fund – Uncommitted Balance	18.0	19.0
Total General Fund	29.3	28.1
Earmarked Revenue Reserves	224.5	222.3
Earmarked Capital Reserves	0.9	5.1
Total Usable Reserves	254.7	255.5

General Fund

17. The General Fund includes delegated funding for schools and the uncommitted balance of the County Council which is held for unforeseen risks that require short term funding. The balance of £19m represents 3.7% of the net budget (excluding schools' delegated budgets for 2023/24). The new MTFS 2024-28 includes plans to increase the uncommitted fund to £24m by the end of 2027/28 to reflect increasing uncertainty and risks over the medium term.

Earmarked Revenue and Capital Reserves

18. Details of the earmarked revenue reserves can be found in Note 12 to the accounts. The significant earmarked funds held are:
- Capital Financing £111m. This earmarked revenue reserve is used to hold MTFS revenue contributions required to fund the approved capital programme in future years. This reserve is fully committed to fund the 2024-28 MTFS capital programme and will be used before any of the planned £93m unsupported borrowing included in the 2024-28 MTFS capital programme is used. Holding this fund is an essential part of the Council's approach to avoiding incurring additional debt where possible. The amount shown in the accounts is net of £25m investment in Pooled Property Funds. The funding of the £25m investment is shown against the capital financing reserve, but in effect is funded from the overall balance of earmarked funds and can be realised in the future when required.
 - Budget Equalisation £40m. This reserve is held to manage variations in funding across financial years. This includes the increasing pressures on the High Needs element of the Dedicated Support Grant which was in deficit by £35m as at 31 March 2023 and is forecast to increase to £111m by the end of 2027/28.
 - Insurance £16m. Funds held to meet future claims, or parts of claims, that are not covered by insurance policies. This could be due to policy limits and deductibles or claims relating to periods when the insurer has failed, such as Municipal Mutual Insurance or The Independent Insurance Company.
 - Other earmarked funds £60m. Funds for a range of issues including health and

social care initiatives, public health initiatives, business rates reset and a range of service developments and initiatives including transformation projects as detailed in Note 12 to the accounts.

19. Capital receipts and capital grants unapplied total £5.1m. The balance held represents funds received, but not applied as at year end. The amounts vary as and when capital projects complete.
20. The required level of earmarked funds is kept under review during the year. Formal assessments are undertaken during the autumn, in February as part of the Medium Term Financial Strategy (MTFS) and also at year end.

Comprehensive Income and Expenditure Statement (CIES)

21. The CIES shows the accounting cost of providing services in accordance with accounting standards rather than the amount funded from taxation and income. The County Council raises taxation to cover expenditure in accordance with statutory regulations which can be different from the accounting cost.
22. The headings used in the CIES align with the main reporting areas of the County Council. However, the CIES cannot be directly compared to the outturn position reported to the Cabinet because the financial accounts comply with various reporting standards whereas the management accounts are compiled on a slightly different basis. The key differences relate to the way depreciation, impairment and movements to and from reserves are reported.
23. The CIES shows a net deficit on the provision of services for 2022/23 of £55m compared with a net surplus of £20.1m in 2021/22. The change is a combination of factors including a reduction in grant income in the Adults and Communities and Public Health departments (Covid-19 related grants received in 2021/22), the increased dedicated schools grant deficit and the write out of land and buildings due to academy conversions.

Balance Sheet

24. The Balance Sheet shows the value of the assets and liabilities of the County Council as at the balance sheet date. As at 31 March 2023 net assets of the County Council were £989m (prior year, £444m). The principal reason for the increase is due to a decrease in the net pension liability of £542m.
25. The net deficit on the pension fund as assessed under International Accounting Standard 19 (IAS19) had decreased to £35m at year end from £576m at the same time last year. This was mainly due to an increase in the discount rate used to calculate the present value of future pension fund liabilities (the higher the discount rate used the lower the present value of future liabilities). During the year corporate bond yields increased, resulting in a higher discount rate in the IAS19 pension fund valuation report used in the accounts.
26. The pension fund balance represents all pension entitlements that have been earned to date, but which are not yet in payment and has a substantial impact on the net position of the balance sheet. Statutory arrangements will result in the deficit being

made good through increased contributions by the employer over the remaining working life of employees as assessed by the pension fund scheme's actuary.

27. However, it is the triennial fund valuation, most recently as at 31 March 2022, that actually informs the levels of future contributions required. The results of the latest valuation reported that the fund had increased to a 105% funded position (89% previously), which was a remarkable improvement, largely driven by investment return over the last 3 years.
28. The Balance Sheet also shows the valuation of Property, Plant and Equipment owned by the County Council. The total held was £937m as at year end compared with £943m for the previous year end. The change reflects capital additions in year through the capital programme, revaluation gains and losses, reductions for depreciation and assets written out due to academy conversions.
29. Accounting Provisions increased slightly to £9m from £8m. Provisions are held to fund liabilities of uncertain timing or amount and are shown in greater detail in Note 27 to the accounts. The main provisions held are for; Insurance, representing the estimated value of outstanding unsettled claims as at 31 March 2023, Business Rates (the County Council's 'notional' share of the district councils' business rates appeals), and a provision for the restoration of a Council owned county farm. The share of business rates appeals is notional as it is required to be reversed out via the Collection Fund Adjustment Account (shown at the bottom of the Balance Sheet) in order that it is not a charge to the General Fund.
30. Investments held include; Cash and Cash Equivalents (highly liquid investments that mature within 3 months or less from the date of acquisition) and short and long term investments. These totalled £521m as at 31 March 2023, compared with £465m at the same time last year. The increase is mainly related to the increase in short-term capital grants received in advance, specifically government grant received in advance for the new Melton Mowbray distributor road.
31. The capital financing requirement (CFR) is shown in Note 39 to the accounts and totals £208m at the year end. The CFR is a measure of capital expenditure incurred historically that has yet to be financed. Actual debt as at the balance sheet was £262m. The difference between the CFR and actual debt is a temporary overborrowed position of £54m which has subsequently been reduced in 2023/24 to £18m through favourable opportunities taken to repay debt early. The overborrowed balance is forecast to be reversed over the MTFS period due to planned increases in the CFR from (internal) borrowing to fund the four-year capital programme. This position is refreshed annually as part of the MTFS.

ANNUAL GOVERNANCE STATEMENT

32. The financial statements are accompanied by the Annual Governance Statement (AGS) signed by the Chief Executive and Leader of the County Council. The statement sets out the purpose of the system of internal control, how it operates in the County Council and how its effectiveness has been reviewed. The AGS is approved by the Corporate Governance Committee.

PENSION FUND ACCOUNTS

33. The financial statements also include the Pension Fund Accounts for the Local Government Pension Scheme administered by the County Council.
34. The latest available triennial actuarial valuation of the pension fund showed that as at 31 March 2022 the fund's assets covered approximately 105% of the liabilities accrued up to that date. This funding level was a significant increase on the 89% position reported in the 2019 valuation. Although the funding level of individual employers will vary the positive position indicated that the contribution rates for the majority of employing bodies is expected to have peaked
35. There were 189 active employers within the fund and over 103,000 members in the pension scheme as at 31 March 2023.
36. The overall net assets of the fund remained level during the year at £5.8bn. Investment returns were £44m, the same as in 2021/22. Details of the investments held are shown in Note 12 to the Pension Fund Accounts.

KEY FINDINGS OF THE EXTERNAL AUDITOR

Audit Findings Report – Leicestershire County Council 2022/23

37. The auditor has reviewed the financial statements and anticipates issuing an unqualified opinion. The auditor will have provided an update to the Corporate Governance Committee on 20 May 2024.
38. It should be noted that as a result of increasing regulation on audit firms the external audit for 2022/23 has continued to increase significantly in its coverage and expectations. This is also reflected in the increase in fees in recent years and those advised for the new audit contract from 2023/24.
39. The auditor reported their initial findings, with the exception of Property, Plant and Equipment (PPE), to the Corporate Governance Committee in January 2024 as planned. There were issues with the audit of PPE due to delays in providing the evidence required to support the valuations used in the Council's accounts.
40. The Council uses an external firm of valuers to undertake property valuations. The original valuations were provided on time and were used in the Council's draft accounts reported in June 2023. However, there were delays during the audit in obtaining the required level of evidence to support the calculations for the sample requested by the auditor. Changes in staff at the external valuation firm have meant that there have been delays and valuations having had to be reperformed, including corrections to prior year valuations. A number of updated valuation reports were required over a number of months to manage the changes required. This has resulted in a substantial amount of rework to the draft accounts. A new firm of external valuers have been contracted for the 2023/24 valuations.
41. The main issue was due to non-school building areas being incorrectly valued at the same rate as the building areas – which attract a higher valuation. Further investigation identified that the overstatement originated from 2019/20. All school valuations since 2019/20 have now been updated. Separately, the Council has also

reviewed assets held at historic cost. This has identified that some of these assets were no longer owned by the Council and needed removing from the fixed asset register and some needed to be revalued down.

42. As a result of the updates, there was a reduction of £40.1m needed to the carrying value of land and buildings included within the balance sheet as at 31 March 2022 and a further £9m reduction as at 31 March 2023. The accounts have been updated for these amendments. Alongside the appointment of a new firm of external valuers for 2023/24, the Council has also introduced additional validation checks on the valuations received before they are used in the accounts.
43. It should be noted that these corrections do not have any impact on the Council's general fund balance and are offset within the unusable reserves of the Council via the capital adjustment account and the revaluation reserve.
44. During the audit an adjustment of £14.2m was also required to increase the amount reported for net pension fund liability. The pension fund liability comprises the net Local Government Pension Scheme (LGPS) position which was a £14.2m net asset – the first time in more than 15 years that it has been an asset - and the value of unfunded pension liabilities relating to added pension years for the LGPS and the Teachers' pension scheme, which were a £34.6m liability. Together these gave a net overall pension liability of £20.4m which was used in the draft accounts. However, due to the net asset position on the LGPS scheme there is a technical accounting assessment required (per IFRIC14) which places a restriction over the amount of a net asset that can be recognised. In principle, the amount recognised as an asset may not exceed its recoverable amount. An asset ceiling calculation was subsequently undertaken which shows that the net LGPS asset of £14.2m cannot be realised due to future minimum funding requirements of the LGPS and should not have been recognised in the accounts. This has been amended for in the accounts. It is a technical accounting adjustment and does not affect usable reserves.
45. Disclosure note 20 (financial instruments) to the accounts was amended during the audit to remove amounts for payments in advance and grants received in advance which had been incorrectly included as financial assets and financial liabilities respectively. These were also incorrect in previous years and have now been corrected. This only affects the disclosure note and no further changes were required to the main statements.

Audit Fees

46. The auditor has confirmed their final audit fee for 2022/23 as £179,000 compared with the proposed fee of £128,815 in the audit plan. The increase in the fee is due mainly to the additional work required for the property asset valuation corrections necessary to the accounts. The Council will be seeking some contribution to these costs from the external valuer.

Audit Findings Report – Leicestershire County Council Pension Fund 2022/23

47. The auditor has completed their work and no material adjustments were required to the accounts.

48. During the audit there was one non-material adjustment identified totalling £3.8m relating to the valuation of hard to value pooled assets, which was not available when the accounts needed to be prepared. For these assets, estimates have to be made as the valuations are not known for many months until after the year end date. The amount was not material overall and this was not adjusted for in the accounts. This was agreed with the external auditor.
49. The proposed audit fees for the pension fund have been increased slightly from £36,793 to £38,193 due mainly to work required to review the Triennial pension fund valuation. A separate additional fee of £19,200 is made for work relating to the IAS19 accounting assurance letters undertaken by the Pension Fund's auditor on behalf of the main admitted bodies of the Fund. These charges are fully recharged to the respective admitted bodies.

Value for Money Arrangements

50. The Auditor's Annual Report (AAR) was reported to the Corporate Governance Committee in January 2024. A copy is attached for information, Appendix F.
51. The AAR is a detailed review of the value for money (VfM) arrangements at the Council. This is the third AAR with the first being in 2020/21. The last report, for 2021/22, was reported in March 2023.
52. The AAR covers the following areas:
- Financial sustainability.
 - Governance.
 - Improving economy, efficiency and effectiveness.
 - Opinion on the financial statements
53. Overall, the auditor's report is positive. They have concluded that the Council has a good track record of sound financial management, has strong arrangements in place to manage the financial resilience risks and has a documented governance framework in place that ensures all relevant information is provided and challenged before all major decisions are made. No significant weaknesses have been reported.

RECOMMENDATION

54. The Committee is recommended to approve the financial statements for 2022/23.

BACKGROUND PAPERS

Provisional revenue and capital outturn, Cabinet – 26 May 2023

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=7076&Ver=4>

CIRCULATION UNDER THE LOCAL ISSUES ALERT PROCEDURE

None.

EQUAL OPPORTUNITIES IMPLICATIONS

None.

APPENDICES

Appendix A - Financial Statements 2022/23
Appendix B - External Auditors Report - County Council
Appendix C - External Auditors Report - Pension Fund
Appendix D - Letter of Representation – County Council
Appendix E - Letter of Representation – Pension Fund
Appendix F - Auditor's Annual Report 22/23

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