

Title of Report	Draft Statement of Accounts 2021/22
For Consideration By	Audit Committee
Meeting Date	18th January 2023
Classification	Open
Wards Affected	All
Group Director	Ian Williams, Finance and Corporate Resources

1. **Introduction**

- 1.1. This report presents the Statement of Accounts for 2021/22 for approval by the Audit Committee subject to the finalisation of audit processes and subject to the resolution of a sector-wide issue in relation to infrastructure assets.
- 1.2. Mazar's, our external auditor, audit progress report is included on the Audit Committee agenda and refers to some outstanding work in relation to the audit and a national issue on infrastructure assets. Work will need to be completed and issues resolved before an opinion can be given and therefore the Audit Committee are asked to approve that the Group Director of Finance and Corporate Resources be authorised to agree and approve the final Statements of Account for 2021/22.

2. **Recommendation**

The Audit Committee is recommended to:

- 2.1 **Approve the Council's 2021/22 Statement of Accounts subject to the finalisation of audit processes and resolution of the infrastructure asset issue**
- 2.2 **Approve that the Group Director of Finance and Corporate Resources be authorised to agree and approve the final Statement of Accounts for 2021/22 subject to the finalisation of the external auditor's outstanding work as set out in their Audit Progress Report and resolution of the issue in relation to infrastructure assets.**
- 2.2 **Consider and approve, in its own right, the Annual Governance Statement contained within the Statement of Accounts.**

3. **Reasons for decision**

- 3.1. The Audit Committee is responsible for the approval of the financial statements under the Council's Constitution as "those charged with governance". The Regulations state that the accounts must be approved by a Committee of the Council, but not the Executive, prior to the audit opinion being issued.

4. **Background**

Policy context

- 4.1 The production of the Statement of Accounts and its subsequent review and adoption by Members is integral to the good financial management of the Council. It sets out the final outturn position of the authority for the preceding financial year both in terms of revenue and capital expenditure and provides a position statement regarding its wider overall financial position, thus providing the required confirmation of assumptions used in setting budgets and strategy for future financial plans.

Equality impact assessment

- 4.2 For this report, an Equality Impact Assessment is not applicable.

Sustainability

- 4.4 Not applicable - This report contains no new impacts on the physical and social environment.

Consultations

- 4.5 Not applicable

Risk assessment

- 4.6 There are no risks arising directly from this report, although clearly, the timely and accurate finalisation of the accounts closure process and production of the statement of accounts is vital to ensure that the overall financial position of the Council is fully understood in order to ensure that future plans in respect of service delivery options are deliverable within the financial constraints of the Council.

5. **Accounts and audit regulations**

- 5.1 Pre Covid, the Accounts and Audit Regulations have required that the unaudited accounts are produced on or before 31st May and during Covid, this deadline had moved to 31 August. For the 2021/22 accounts, this deadline was brought forward to 31 July. Hackney's draft 2021/22 accounts were published on 31 July 2022.
- 5.2 Prior to their submission to the auditors the Council's responsible financial officer (the Group Director of Finance & Corporate Resources) must, no later than 31st July immediately following the end of 2021/22, sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year.

5.3 Subsequent to the above, the accounts are audited by the Council's external auditors, Mazars. Normally this would need to be finalised by 31 July but, again because of Covid19, the audit deadline has been extended to 30 November, by which time:

(a) either by way of a committee or by the members meeting as a whole, the statement of accounts must be considered;

(b) following that consideration, the committee must approve the statement of accounts;

(c) following approval, the statement of accounts must be signed and dated by the person presiding at the committee at which that approval was given;

(d) publish (which must include publication on the body's website), the statement of accounts together with any certificate, opinion, or report issued, given or made by the auditor under section 9 (general report) of the 1998 Act; and

(e) The Group Director of Finance & Corporate Resources must also re-certify the presentation of the statement of accounts before the relevant body approves it.

5.4 The draft Statement of Accounts was published on the Council's website, subject to audit, following its certification by the Group Director of Finance & Corporate Resources on 31st July 2022, thus ensuring that it was available to any resident or other person entitled to inspect the accounts during the audit period formally.

6. **Accounts and audit regulations**

5.1 At the time of writing this report, the audit of the 2021/22 Statement of Accounts is progressing towards its final stages and it is anticipated that an unqualified audit opinion will be issued by the auditor.

6.2. The Statement of Accounts attached to **APPENDIX 1** is the statement including adjustments agreed with the auditors. It is however, subject to the completion of final checks by the auditors that agreed amendments have been properly reflected and subject to further amendments required as a result of the completion of the final audit tasks set out in the Audit Update Report. It should be noted that changes identified during the audit to date have had no impact on the Council's General Fund balance, HRA balance or other usable reserves. Committee Members are aware of the national issue in respect of the accounting treatment of highways infrastructure assets. In short, there is a risk that the majority of councils with highway assets have been overstating the gross cost and accumulated depreciation by material sums for several years. The issue is currently being discussed by CIPFA, the NAO and technical representatives of audit firms. Until this matter is resolved Mazars, like all other firms auditing councils, is pausing issuing any audit opinions on council accounts with material highways assets.

6.3. The Statement of Accounts comprises the following accounting statements:

- Movement in Reserves Statement – this shows the movement in the year on the different reserves, both usable and unusable, held by the Authority.
- Comprehensive Income and Expenditure Statement – this shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

- Balance Sheet – this shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority are matched by the reserves held by the Authority.
- Cash Flow Statement – this shows the changes in cash and cash equivalents of the Authority during the financial year.
- Housing Revenue Account Income and Expenditure Statement – this shows separately the net cost of delivering those services provided as a landlord for domestic properties. It should be noted that these costs are also included in the Comprehensive Income and Expenditure Statement detailed above.
- Statement of Movement on the Housing Revenue Account – this shows all income and expenditure related to the HRA and its impact on the overall balance held within the HRA.
- Collection Fund Revenue Account – this shows all income and expenditure related to local taxation, including Council Tax, Non-Domestic Rates and payments to the Council's General Fund, Central Government and the local preceptor, the Greater London Authority.
- Pension Fund Accounts – these show all receipts to the Pension Fund during the year together with benefits paid, other associated costs and movements in investments, including the financial position of the Fund at the end of the financial year.

In addition, the Statement of Accounts includes:

- Narrative Statement – a statement from the Group Director of Finance & Corporate Resources, providing some context to the statements and an overview of the main issues contained therein.
- Annual Governance Statement – this sets out how the Council has complied with its adopted Code of Governance and provides details of any significant governance issues that arose during the year. This statement is subject to the approval of the Committee in its own right.
- Notes to the Accounts – these provide additional disclosures and detail regarding the figures included in the main accounting statements in order to provide a greater understanding of the financial affairs of the Authority during the year. They include the accounting policies adopted in the preparation of the accounts and are reviewed regularly to ensure that we remain in full compliance with the most recent and applicable accounting standards.
- Group Accounts section - three of our six wholly owned subsidiaries have been consolidated with LB Hackney's main accounts. The three that were not consolidated were not financially material, and hence there was not a requirement for grouping. This is explained fully in the Group Accounts section, which sits just before the Pension Fund accounts.

7. Movement in reserves statement

- 7.1. The Movement in Reserves Statement shows that the general balance on the General Fund was maintained at £15 million whilst the HRA general balance was increased from £12.3 million to £13.7 million. Locally managed funds held by schools decreased by £0.614 million to £16.151 million. General Fund reserves increased by £7m compared to 2020/21, this included £11.1 million of extraordinary covid-related items pertaining to NNDR, which will contribute towards financing the deficit on the Collection Fund, itself driven by the continuing impact of Covid 19 pandemic.
- 7.2. Full details of the movements in earmarked reserves are provided in note 8 to the accounts, along with brief descriptions of the purpose of each. As set out in the Group Director of Finance & Corporate Resources comments in this report, the reserves are set aside for known/potential liabilities that will arise in future financial years and have been taken into account in the Authority's Medium Term Financial Planning.
- 7.3. As set out above, many of the reserves are to be used in 2022/23 to finance the deficit in the Collection Fund and other specific risks which have materialised and in future years to finance approved capital schemes. Others are specifically identified to help manage service pressures and costs arising from specific projects requiring one-off resources not covered by the Council's ongoing revenue budget.

8. Comprehensive income and expenditure account

- 8.1. This statement shows the accounting cost of the provision of services by the authority. It needs to be read in conjunction with both the Movement in Reserves Statement and note 7 to the Accounts in order to derive the net cost of services borne by the local taxpayer in line with regulations and in order to gain a full understanding of the financial performance of the Council.
- 8.2. The account shows that the Authority spent a gross amount of £1.314 billion providing services to residents and visitors to Hackney. The Council earned a total investment income of only £1.997 million due mainly to the continued low interest rates available during the period of account.
- 8.3. The General Fund position continues to be challenged by the ongoing impact of Covid-19, as well as the cyber attack in 2020/21 and beyond. We implemented and delivered the savings necessary for the 2021/22 financial year at the earliest opportunity, in order to assist with the ongoing challenge presented by funding reductions and rising cost pressures in areas such as temporary accommodation, adults and children's social care and special education needs.

9. The balance sheet

- 9.1. The Balance Sheet sets out the overall financial position of the Council on 31 March 2022. It shows that on 31 March 2022, the Council had total net assets (worth) of £3.633 billion. It shows that the Council owns buildings, land and other property valued at £4.456 billion.

- 9.2. The Provisions item represents amounts set aside to cover known and measurable liabilities arising from past events and further details of these are shown in notes to the Balance Sheet.
- 9.3. Details of contingent assets and liabilities are set out in notes 44 and 45 to the main accounts. These represent instances where the Council may have to pay (or may receive) as a result of past events but which are dependent on some future event such as the outcome of a legal case. Contingent assets and liabilities are less likely to arise than provisions and may be impossible to quantify. Unlike actual assets and provisions, they are not provided for in the Accounts. If they become payable they have to be funded from the current or future years' budgets. They therefore, represent an area of budgetary risk from 2022/23 onwards.
- 9.4. While Covid-19 and the impact of the cyber attack have not been presented as a contingent liability, there is no doubt its impact on next year's accounts will continue to be significant. The opening narrative report to the accounts provides further detail on this including how these risks are being managed and were reflected in budget setting for 2022/23 and beyond.
- 9.5. Finally, set out within the Balance Sheet are details in relation to the reserves and balances that finance the net assets. Explanations of each of these are provided in the relevant notes to the accounts. The Major Repairs Reserve is detailed in the notes to the Housing Revenue Account. The General Fund Balance consists of two key elements, those being the General Fund balance and the Schools balances. Schools Balances cannot be used for any other purpose than funding schools.

10. Housing revenue account

- 10.1. The Housing Revenue Account (HRA) details Income and Expenditure relating to the provision and management of council dwellings. It shows that the balance on the Housing Revenue Account is £13.7 million as at 31 March 2022. In addition, the HRA has earmarked reserves of £13.332 million set aside for one-off items of expenditure largely within the housing capital programme, and all in line with the HRA Medium Term Planning Forecast and the approved HRA Business Plan.

11. The collection fund account

- 11.1. The Collection Fund Accounts flow from decisions taken in March 2021 in setting the Budget for 2021/22. Income to the Collection Fund includes Council Tax and National Non Domestic Rates (NNDR). Payments are made from the Fund to its major Preceptors (the Greater London Authority for Council tax, and the GLA and Central Government for NNDR). Distribution of previous years' surpluses or deficits are also paid from the Collection Fund to the Council and GLA in respect of Council Tax and NNDR and additionally to Government in respect of NNDR only. Provision is also made for Bad Debts for both Council Tax and NNDR.
- 11.2. The deficit on the Collection Fund carried forward at 31st March 2022 relating to Council Tax was £1.695m million (Council element 78.25%). The deficit in relation to NNDR was much higher at £20.782 million (Council element 30%). Where the Collection Fund is estimated to be in surplus or deficit, the Council proportion of the balance is taken into account in the budget estimates for the subsequent year with any variation between the estimate and actual factored into the year following that.

As 2020/21 was recognised to be an exceptional year due to Covid-19, regulations were changed such that authorities could spread the recovery of the deficit over the following three years. In addition, for NNDR the majority of the deficit relates to Retail, Hospitality and Leisure Reliefs which were announced after the budget was set for the year with the consequence being that debts were raised which subsequently were not required to be paid. The Council was compensated for this shortfall through additional S31 grant which was subsequently applied to the 2022/23 budget to meet the 'extraordinary' element of this deficit.

12. The pension fund accounts

- 12.1. The Pension Fund Accounts show the contributions to the Council's Pension Fund for employees during 2021/22, together with the pensions and other benefits paid from it, movements in investments during the year and the financial position of the Fund as at 31 March 2022.
- 12.2. The Accounts show that the net value of the assets and liabilities of the Pension Fund has increased by £100,536 million (5%) to £1,964,512 million as at 31 March 2022 from the previous year. Of this increase, £75,291 million was due to the impact of the increase in the value of stock market investments held by the Fund and associated investment income. The remaining £25,245 million represents the net additional cash flow arising from contributions received into the fund less benefits and administrative costs paid.

13. Annual governance statement

- 13.1. Hackney Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. It also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including the management of risk.
- 13.2. During 2016/17 "Delivering Good Governance in Local Government"(CIPFA SOLACE Framework) was revised and the Council's Local Code of Governance was reviewed and updated to reflect the revised principles of governance set out in the CIPFA/SOLACE guidance. The Local Code was considered and endorsed by the Statutory Officers' Group, Scrutiny Panel and the Member for Finance before approval by the Audit Committee in April 2019. The Local Code is available on the Council's website.
- 13.3. The Annual Governance Statement (AGS), included with the statement of accounts, explains how the Council has complied with the Local Code and meets the requirements of the Accounts and Audit Regulations 2015 in relation to the publication of a Statement on Internal Control.
- 13.4. The AGS has been presented in accordance with best practice as set out in "Delivering Good Governance in Local Government". The statement is signed by

Hackney's Mayor, Chief Executive and Group Director of Finance and Corporate Resources.

- 13.5. The statement relates to the governance arrangements in place throughout the 2021/22 financial year and reports on any identified weaknesses or areas for improvement and the action already taken or proposed in the future in order to address these.
- 13.6. In order to demonstrate that the Council has in place an effective and robust governance framework which reflects the Council's Local Code, senior managers were required to complete a self-assessment matrix. These matrices were reviewed and assessed by Group Directors and then coordinated by Internal Audit who sample checked to supporting evidence and triangulated against other sources of assurance, such as inspection reports and audit reports. The results of this exercise have formed the basis of the evidence which underpins the corporate AGS
- 13.7. During 2021/22 five areas were identified as having significant governance issues for inclusion within the corporate AGS. Actions to address these issues have been identified and included within the AGS. These issues relate to:
- Corporate impact of the cyber attack
 - Covid-19 (impact on income collection)
 - Significant Cost Pressures (Adult Social Care, Children & Families and Hackney Education)
 - Safeguarding - Child Q
 - Contract Management - Housing
- 13.8. The Audit Committee is required to approve the Annual Governance Statement in its own right, separate from the overall approval of the Statement of Accounts.

14. Comments of the Group Director of Finance and Corporate Resources

- 14.1. There are no direct financial consequences arising from this report as it reflects what has already occurred in the last financial year.
- 14.2. The Council has again maintained the position of having a prudent General Fund Balance of £15 million in line with our policy on reserves and balances. In addition, specific reserves have been earmarked for use in 2022/23 and future years to fund known or expected liabilities going forward.
- 14.3. The financial position shown in the 2021/22 Statement of Accounts demonstrates that the Council has continued to achieve financial stability although demand pressures, inflation, the pandemic and the cyber attack are having an impact. Provisions against these and other risks were included in the 2022/23 budgets. The Council continues to budget for a revenue contribution to support capital expenditure and for contributions to be made to earmarked reserves to meet other identified future commitments and potential budgetary risks.
- 14.4. The position provides clear evidence of the Council's ability to be able to continue to deal with the financial pressures that arise from the reduction in resources available to the Council, particularly as a result of severe cuts to Government funding and

other external pressures such as Covid-19 and the cyber attack. However, this becomes ever more difficult as demand pressures continue to grow in areas such as childrens and adult social care along with the impact of rising inflation on both the Council's direct costs and on residents ability to pay.

- 14.5. This is the fourth year that Mazars have audited the Council's account following the re-procurement of external auditing services via the Public Sector Audit Appointments Ltd (PSAA). It is pleasing to note that a good working relationship has continued with the auditors and officers of the Council. Whilst we are not as far advanced in terms of the audit for 2021/22 as was anticipated by both ourselves and our auditors when their Audit Strategy documents for 2021/22 were presented to Audit Committee in October 2022, Mazars and officers are working hard to conclude the process in the coming weeks, subject to the guidance on infrastructure assets.
- 14.6. The work to finalise the audit of the Council's 2021/22 Accounts is well underway. We anticipate that the auditors will be issuing draft Audit Completion Reports for the Councils Financial Statements and those of the Pension Fund in the coming weeks. Again it is disappointing that the audit opinion remains outstanding due to the national issues around infrastructure assets and also the much discussed resource issue in the external audit market.
- 14.7. In addition to thanking our external auditors for the constructive way they have engaged positively with my team throughout the audit, I would also like to put on record my thanks to all those officers involved with the preparation of the Statement of Accounts and the subsequent audit for the hard work that they have undertaken and the professionalism demonstrated to move towards the completion of the audit without any qualification.

15. **Comments of the Director of Legal, Democratic and Electoral Services**

- 15.1. The Accounts and Audit Regulations 2015 place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which includes arrangements for the production and approval of the Annual Statement of Accounts.
- 15.2. The Constitution gives the responsibility for adopting the annual Statement of Accounts of the Authority to the Audit Committee together with the duty to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- 15.3. The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice (SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Appendices

- 1 Draft 2021/22 LBH Statement of Accounts

Background documents

In accordance with The Local Authorities (Executive Arrangements) (Meetings and Access to Information) England Regulations 2012 publication of Background Papers used in the preparation of reports are required.

Description of document (or None)

None

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