

| Title of Report | Draft Statement of Accounts 2022/23 |
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| For Consideration By | Audit Committee |
| Meeting Date | 26 September 2023 |
| Classification | Open |
| <u>Wards Affected</u> | All |
| <u>Group Director</u> | Jackie Moylan, Group Director of Finance |

1. **Introduction**

- 1.1. This report presents the Statement of Accounts for 2022/23 for approval by the Audit Committee subject to the finalisation of audit processes.
- 1.2. Mazar's, our external auditor, audit plan is included on the Audit Committee agenda and provides a timeline for the completion of the audit.

2. **Recommendation**

The Audit Committee is recommended to:

- 2.1 **Approve the Council's 2022/23 Statement of Accounts subject to the finalisation of audit processes**
- 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 The Accounts and Audit Regulations for the financial year 2022/23 have returned to the pre-COVID deadline of 31 May 2023, for the publication of unaudited accounts. Previously, the deadline had been extended to July 31. This adjustment led to only eight London boroughs, including Hackney, successfully meeting the revised deadline.
- 5.2 Prior to their submission to the auditors the Council's responsible financial officer (the Group Director of Finance) must, no later than 31st May immediately following the end of 2022/23, 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. Pre Covid this process typically required completion by 31st July. However, for the 2022/23 accounts, the audit deadline has been extended to 30th September, 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 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 on 31st May 2023, thus ensuring that it was available to any resident or other person entitled to inspect the accounts during the audit period formally.

6. **2022/23 Statement of accounts**

6.1. At the time of writing this report, the audit of the 2022/23 Statement of Accounts has started and a progress report will be provided at next month's Audit committee. The Statement of Accounts attached to **APPENDIX 1**.

6.2. 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 increased from £15 million to £17 million and the HRA general balance was increased from £13.7 million to £15 million. Locally managed funds held by schools decreased by £3.7 million to £12.4 million. At the end of the 2022/23 financial year, there was a net decrease of £4 million (excluding movement in school balances) to usable reserves from General Fund revenue activities.
- 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 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 2023/24 for 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 £1.4 billion providing services to residents and visitors to Hackney. The Council earned a total investment income of £3.3 million due a combination of increase in interest rates and the interest received from a settlement related to a legal dispute dating back to the fiscal year 2018/19.
- 8.3. The General Fund's financial position remains under constant review taking on board reductions in funding and mounting cost pressures, particularly in crucial areas like adult and children's social care, and special education needs alongside the impact of Covid and Cyber in the last few years. For 2022/23 savings proposals were agreed to enable a balanced budget to be put forward to Full Council and the majority of these were achieved in year.

9. The balance sheet

- 9.1. The Balance Sheet sets out the overall financial position of the Council on 31 March 2023. It shows that on 31 March 2023, the Council had total net assets (worth) of £4.4 billion. It shows that the Council owns buildings, land and other property valued at £4.6 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 2023/24 onwards. While the accounts do not reflect any contingent assets, it is worth noting the presence of a contingent liability. Specifically, there exists a potential liability of approximately £600k, relating to care costs, stemming from a historical Ordinary Residence dispute. This legal matter involves several Local Authorities, and it is anticipated that it will be escalated to the Secretary of State for a conclusive determination regarding which authority assumes responsibility for these expenses
- 9.4. 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 £15 million as at 31 March 2023. In addition, the HRA has earmarked reserves of £11.4 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 2022 in setting the Budget for 2022/23. 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 Collection Fund carried forward at 31st March 2023 relating to Council Tax was £4.5 million surplus (Council element 76%). There was a deficit in relation to NNDR £1.3 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.

12. The pension fund accounts

12.1. The Pension Fund Accounts show the contributions to the Council's Pension Fund for employees during 2022/23, 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 2023.

12.2. The Accounts show that the net value of the assets and liabilities of the Pension Fund has decreased by £93 million (5%) to £1,871 million as at 31 March 2023 from the previous year. Of this decrease, £116.5 million was due to the impact of the decrease in the value of stock market investments held by the Fund and associated investment income. The decrease is offset by £23.4 million of 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 2022/23 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 sampled 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 2022/23 six 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
 - Significant Cost Pressures (Adult Social Care, Children & Families and Hackney Education)
 - Falling School Roll Numbers / Surplus Primary School Places
 - Contract Management in Planned Asset Management
 - Housing Disrepair incorporating damp and mould issues
 - Senior Officer Capacity
- 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**

- 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 diligently raised the General Fund Balance to £17 million, in accordance with our prudent policy on reserves and balances. This adjustment is reflective of the steady growth in the Council's net budget requirement over time. Notably, the previous balance of £15 million had been established almost a decade ago. In addition, specific reserves have been earmarked for use in 2023/24 and future years to fund known or expected liabilities going forward.
- 14.3. The financial position shown in the 2022/23 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 2023/24 budgets where considered necessary. 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. The 2022/23 Audit is currently in progress, and we anticipate providing a progress report to the committee next month. It is regrettable that the audit opinion is still pending, primarily due to the widely discussed resource challenges within the external audit market
- 14.6. This is the fifth 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 2022/23, Mazars and officers are working hard to conclude the process in the next few months.
- 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 Acting 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 2022/23 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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