

<b>MIDDLESBROUGH COUNCIL</b>	
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<b>Report of:</b>	Director of Finance (S151 Officer)
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<b>Relevant Executive Member:</b>	Executive Member for Finance & Governance
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<b>Submitted to:</b>	Audit Committee
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<b>Date:</b>	1 February 2024
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<b>Title:</b>	Draft Statement of Accounts – 2022/23
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<b>Report for:</b>	Information
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<b>Status:</b>	Public
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<b>Strategic priority:</b>	All
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<b>Key decision:</b>	Not applicable
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<b>Why:</b>	Report is for information only
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<b>Subject to call in?:</b>	No
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<b>Why:</b>	
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<b>Proposed decision(s)</b>	
	Not applicable – for information only

<b>Executive summary</b>	
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Under the Constitution, Audit Committee are responsible for the approval of the Council’s Statement of Accounts (SOA) each year. This report presents the draft SOA for the 2022/23 financial year, which is normally presented to the Committee for information only (at this stage) and then approval upon conclusion of the external audit.

Officers are due to meet with External Audit colleagues to discuss the implications of the Government’s proposals announced in July 2023 in relation to the need to re-set the

national local government audit market to address the significant delays in completing the audit of prior year accounts. Further information will be shared with the Committee when the position is made clear by the Department for Levelling Up Housing and Communities (DLUHC)

Presentation of the draft SOA for 2022-23 has been delayed due to the ongoing audit of 2021-22, which included a specific review of the methodology for calculating the Collection Fund bad debt provision for compliance with IAS37. The s151 Officer requested the External Auditor to undertake this work considering the material adjustments that were anticipated to result from the review, whilst other work on the 2021/22 audit has been suspended by the External Auditor pending resolution of the approach to be taken to conclude legacy audits as part of the national reset of the local government audit market.

The cumulative delay to completing the audit of the Council's legacy accounts is also due to a much longer audit process on the previous two years audits (2019-20 and 2020-21) as reported to this committee in October 2023. This has been due to additional regulatory and value for money work being undertaken by the auditor.

Any potential audit adjustment because of the review of the Collection Fund Bad debt provision in the 2021-22 accounts would impact on the opening balances of 2022-23, therefore the S151 officer was unable to sign and publish the 2022-23 accounts as presenting a true and fair view until this work was concluded.

Despite this delay (the statutory date for publishing these accounts was 31 May 2023), it is still an important aspect of the governance and approval process for Members to consider the financial details of the Council at the draft stage and prior to the external audit process being undertaken.

## 1. Purpose

For Members to consider the draft Statement of Accounts for the 2022/23 financial year. This is an important part of the governance process around the year-end accounts as the Committee will be responsible for reviewing the external auditors' findings and then approving the audited accounts for publication at a later stage.

## 2. Recommendations

That the Audit Committee

- Note the draft Statement of Accounts for 2022/23 has been approved by the Director of Finance for publication and are currently on the council website and out to public inspection until 16 February 2024.

- Review any key issues within the published draft accounts and have opportunity to discuss these with officers.

### 3. **Rationale for the recommended decision(s)**

The report and statement of accounts are for information and discussion only at this stage. No decisions are required.

### 4. **Background and relevant information**

5. Like all large organisations, Middlesbrough Council is required by law to publish and report on its financial position, performance, and cash flows during the financial year. It does this by producing and publishing a statement of accounts each year.
6. The Accounts produced by the Council have some similarities to those produced by private companies under companies act legislation. However, local authorities have their own specific set of rules to follow in relation to financial reporting under various local government acts. They are also required to follow the main provisions of the Local Authority Accounting Code of Practice, which is issued each year by the Chartered Institute of Public Finance & Accountancy (CIPFA).
7. It is best practice and good governance for the Committee to review the draft SOA prior to approving the audited accounts under the requirements of the Accounts and Audit Regulations 2015. This is part of their remit under the Constitution and will help Members with understanding the Council's financial position at the appropriate accounting date, and then with any matters raised by the auditors or members of the public.
8. Under the Accounts and Audit Regulations 2015, these accounts should have been published by 31 May 2023. However, Members will be aware from previous committee reports and information in the media, that there is a major issue in terms of a national audit backlog of prior year audits that are still on-going. At the statutory publication date, only 4% of local authorities were able to make their draft accounts available. As has been suggested previously central government are looking to re-set the external audit process so that local authorities can publish their accounts in a timelier manner going forwards.
9. In addition, the S151 Officer, in response to a change to the relevant international accounting standard (IAS 37), requested a review of the methodology in relation to the Collection Fund bad debt provision to ensure that the accounts presented a true and fair view.
10. The Collection Fund is a legally separate account to the Council's General Fund. It is a mechanism for collecting council tax and business rates income on behalf of Middlesbrough Council, Central Government, Cleveland Fire Authority and the Police and Crime Commissioner for Cleveland. Income from the Collection Fund is then distributed to the relevant precepting organisations based on their budget requirements.

11. Middlesbrough's share of any surplus or deficit on council tax and business rates is held within the Collection Fund Adjustment Account, which is an unusable reserve within the Council's balance sheet. This is then distributed in the following year's budget process through precepting upon the Collection Fund.
12. At the end of 2021/22 financial year, the total collection fund debt was £47.2m with a provision for bad debts totalling £33.99m, an assumption that 72% of debt outstanding at that point would not be collected. The calculation of the bad debt provision was based upon a profile of the aged debt outstanding but involved an element of officer judgement. Any debt over 5 years old was also provided for at 100%.
13. The change in requirements around IAS37 (which requires a determination of any impairment involved on the carrying value of the debt) meant that this was not an appropriate methodology for the provision. It should be based on historical evidence and actual debt recovery levels informed by actual collection performance data.
14. As recovery of outstanding debt typically takes 10 years and debt is still being actively recovered for debt older than 10 years, the provision of £33.99m was assessed to be overly prudent. A new methodology based up on long term collection rates (adjusted to account for previous debt write off) over the last 30 years was developed and applied to both 2021-22 and 2022-23 collection fund debt.
15. The change in methodology which was then applied to 2021/22 and 2022/23 accounts, resulted in a release of £9.6m from the bad debt provision. Middlesbrough's share of this was £7.2m which was then transferred to the Collection Fund Adjustment Account.
16. An existing surplus of £1.7m against other changing factors within the collection fund resulted in a total available of £8.9m at the end of 2022/23. Current forecasts for the 2023/24 Collection Fund outturn position are predicting that there will be a net in year deficit of £0.6m on the Collection Fund. £8.3m will therefore be available to the Council at the end of the 2023/24 financial year and for budgeting purposes in 2024/25. The table below shows this overall movement.

Collection Fund	Original Closing (Surplus) / Deficit 2022-23 £m	Release of Provision 2021-22 £m	New Closing (Surplus) / Deficit 2022-23 £m	Estimated (Surplus) / Deficit 2023-24 £m	Estimated Closing (Surplus) / Deficit 2023-24 £m
<b>Council Tax</b>	(2.63)	(5.93)	<b>(8.56)</b>	0.85	(7.71)
<b>Business Rates</b>	0.85	(1.22)	<b>(0.37)</b>	(0.24)	(0.61)
<b>Total</b>	<b>(1.78)</b>	<b>(7.16)</b>	<b>(8.93)</b>	<b>0.61</b>	<b>(8.33)</b>

17. Having completed this review of the bad debt provision and reflected this in the previous two years financial totals, the draft Statement of Accounts for 2022/23 was signed and published by the Director of Finance on 28 December and published on

the Council's website. As mentioned earlier, this was later than the statutory date of 31 May 2023 and is still reliant upon the external auditors confirming the position on the Collection Fund Bad debt provision. There is however no financial penalty for failing to meet the statutory deadlines, but it is important for local authorities and their stakeholders to have appropriate assurance of the Council's financial position and therefore timely reporting and audit is an essential aspect of robust financial management. The aim will be to produce the draft set of accounts much earlier in future financial years.

18. Both the Department for Levelling Up Homes and Communities (DLUHC) and the external auditors were fully aware of the situation, in terms of the delay in publishing the draft accounts.
19. The accounts were opened for public inspection on 8 January 2024 for a period of 30 working days. This concludes on 16 February 2024 in line with the Accounts and Audit Regulations requirements. Any enquiries from members of the public will be responded to and resolved in a timely manner and reported to Members as appropriate.
20. The draft Statement of Accounts (Appendix 1) is a highly technical and complex document but is the main form of external financial reporting provided by local authorities. Its format and content is prescribed by the CIPFA Accounting Code of Practice with the aim of giving a high level of visibility and transparency over the Council's financial affairs.
21. The Statement of Accounts firstly consists of a Narrative Report from the Director of Finance. This report gives an explanation on the financial position of the Council and describes the key activities/highlights for the council during the year. The report also contains performance-based information that shows what has been achieved using public funds during the financial year.
22. The second section includes the Council's financial statements. These are the core elements of the SOA and include the movement in reserves statement, the income and expenditure statement, the balance sheet, and the cash flow statement for 2022-23.
23. The third section is the notes to the accounts, and these include detailed narrative explanation and figures that support the key totals within the financial statements and other issues that are of interest to local authority stakeholders.
24. The Accounts also include the collection fund, covering council tax and business rates activities, the accounts of the Teesside Pension Fund for which Middlesbrough Council is the administering authority, and a set of group accounts (financial statements and notes) which consolidate our wholly owned subsidiary, Middlesbrough Development Company, into the Council's own accounts.
25. The final section is the Annual Governance Statement that sets out how the Council has complied with best practice governance arrangements and any key issues that arise from that.
26. Members need to be aware of the key issues, figures and accounting policies used in the accounts but a detailed knowledge of the statements of accounts and all the

information contained within is not necessary. Any training required will be provided by the Council’s finance team as necessary.

27. The document contains a significant amount of financial information about the Council. Even though this relates to the position on 31<sup>st</sup> March 2023, it is still the most relevant and up to date information published on assets and liabilities and can be used for information purposes where needed.

28. An important point for Members to note is that there are significant differences between the Council’s financial statements, which are part of the statement of accounts document and its management accounts which are reported for budget and operational purposes. This relates to technical accounting adjustments and timing issues in how certain totals are reported. Two important areas to note are the presentation of reserves and the net worth of the Council’s balance sheet.

29. Movement in Reserves (page 38): The total value of usable reserves in the Balance Sheet as of 31<sup>st</sup> March 2023 was £59.826m. This is much higher than the £14.829m total that has been reported in the budget monitoring process for 2023/24 and is leading to the Council having difficulties currently in setting a balanced budget for 2024/25.

30. The reason for the higher total figure includes capital and revenue grants unapplied (those amounts paid over in past financial years but to be expended on committed items), as well any other committed revenue reserves, such as schools reserves and the better care fund from the NHS. These are not available to finance the current year revenue budget position as follows:

<b>Total Usable Reserves (£m)</b>	<b>Capital Grants Unapplied (£m)</b>	<b>Revenue Grants Unapplied (£m)</b>	<b>Other Revenue grants (restricted) £m</b>	<b>Total Revenue Reserves available (£m)</b>
<b>£59.826</b>	(£34.553)	(£4.876m)	(£5.568m)	<b>£14.829m</b>

31. Net worth of the Balance Sheet (page 41): The net worth of the Council’s balance sheet at the 31 March 2023 is £345.0m, an increase in year of £252.7m. Members should note that this increase predominantly relates to retirement benefits under IAS 19 and a change in the discount rate applied to the liabilities that form part of the local government pension scheme. Further information on this is given in note 39 to the draft Statement of Accounts, but it should be noted that again this increase is not available to the Council for revenue budget purposes as it will influence future pensions payments over the next 20-40 years.

**32. Other potential alternative(s) and why these have not been recommended**

Not applicable at this stage.

**33. Impact(s) of the recommended decision(s)**

Not relevant to this report.

**34. Financial (including procurement and Social Value)**

Although the Statement of Accounts is the main method of external financial reporting to the public and other stakeholders by the Council, there are no specific financial implications relating to this report.

**Legal**

The publication of the draft statement of accounts is a legal requirement under the Accounts & Audit Regulations 2015.

As the Council is not currently achieving the statutory dates for the audit of its accounts, a notice has been included on the Council website to this effect in line with 7 the regulations. This allows any stakeholders to be aware of this position, when looking for or reviewing the Accounts. The 2015 regulations allow for this and the audit of the accounts to continue under this provision.

**Risk**

As the Statement of Accounts covers all financial transactions of the Council, it encompasses all strategic priorities and risks. There are, however, no relevant considerations in this are in respect of this report.

**Human Rights, Public Sector Equality Duty and Community Cohesion**

There are no relevant considerations in these areas in respect of this report.

**Climate Change / Environmental**

There are no relevant considerations in these areas in respect of this report.

**Children and Young People Cared for by the Authority and Care Leavers**

There are no relevant considerations in these areas in respect of this report.

**Data Protection / GDPR**

There are no relevant considerations in these areas in respect of this report.

**Actions to be taken to implement the recommended decision(s)**

Action	Responsible Officer	Deadline
Not applicable		

**Appendices**

1	Draft Statement of Accounts – 2022/23
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**Background papers**

Body	Report title	Date
Corporate Affairs and Audit Committee	Audited Statement of Accounts – 2020/21	29 April 2023

Corporate Affairs and Audit Committee	Draft Statement of Accounts – 2021/22	5 August 2022
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