

MIDDLESBROUGH COUNCIL	
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Report of:	Director of Finance (S151 Officer)
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Relevant Executive Member:	Executive Member for Finance & Governance
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Submitted to:	Audit Committee
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Date:	3 October 2024
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Title:	Draft Statement of Accounts – 2023/24
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Report for:	Information
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Status:	Public
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Strategic priority:	All
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Key decision:	Not applicable
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Why:	Report is for information only
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Subject to call in?:	No
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Why:	
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Proposed decision(s)	
	Not applicable – for information only

Executive summary	
	<p>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 2023/24 financial year, which is normally presented to the Committee for information only (at this stage) and then approval upon conclusion of the external audit. The accounts are complex and provide a significant amount of information relating to the Council’s financial position, performance and cashflows over the year in question.</p>

Presentation of the draft SOA for 2023-24 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, which would also affect the 2022-23 and 2023-24 financial statements.

Any potential audit adjustments because of the review of the Collection Fund Bad debt provision in the 2021-22 and 2022-23 accounts would impact on the opening balances of 2023-24, therefore the S151 officer was unable to sign and publish the 2023-24 accounts as presenting a true and fair view until this work was concluded. In addition to some of the bad debt provision changes and because of other narrative being updated due to the passage of time, the S151 Officer has recertified and issued all three sets of accounts simultaneously. The older sets of accounts replace the versions previously issued by the Council whilst the draft SOA for 2023-24 is issued for the first time. All are available on the council website.

Despite this delay (the statutory date for publishing these accounts was 31 May 2024), 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 accounts stage and prior to the external audit process being undertaken. Particularly in the context of the backstop arrangements on the previous two sets of accounts where the audits are incomplete but the Council will be receiving audit opinions shortly to allow these financial years to be closed.

1. Purpose

For Members to consider the draft Statement of Accounts for the 2023/24 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 2023/24 has been approved by the Director of Finance for publication on 24 September 2024 and are currently on the council website and out to public inspection until 8 November.
- 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 Audit 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 the Committee's 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 2024. 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, very few local authorities were able to make their draft accounts available. As has been suggested previously central government are in the process of re-setting the external audit process so that local authorities can publish their accounts in a timelier manner going forwards. However, this is going to take several audit cycles to resolve.
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 £34.005m (at 31 March 2022) 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 and resulted in a release of £9.617m from the bad debt provision. Middlesbrough’s share of this was £7.160m which was then transferred to the Collection Fund Adjustment Account. At this point, the revised bad debt provision for the Collection Fund totalled £24.388m.
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 was therefore 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 for members information.

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
Council Tax	(2.63)	(5.93)	(8.56)	0.85	(7.71)
Business Rates	0.85	(1.22)	(0.37)	(0.24)	(0.61)
Total	(1.78)	(7.16)	(8.93)	0.61	(8.33)

17. Following the publication of the 2022/23 draft statement of accounts, the Director of Finance asked the external auditor, Ernst & Young (EY) to review the change in methodology, totals involved and for a view about some of the assumptions being made. It was important to get a view from the auditor given the significant amounts

involved and their importance to the overall financial position of the Council. This work was carried out during late 2023 and early 2024.

18. In general, EY were happy with the move to a net collectible debt basis and the methodology undertaken by the council finance team to restate these figures but felt that there was some inconsistency with the treatment of debt write offs and debt write on's within the model. To ensure a common position, some further adjustments were made to the level of the bad debt provision. This changed the total provision in the accounts as at 31 March 2023 to £25.636m, an increase of £1.248m. It also required some amendments to be made in both the 2021/22 & 2022/23 financial statements and notes.
19. Even though the value of the provision has increased slightly, the £8.330m transfer to the Council's general fund can still be maintained as the final outturn position on the collection fund was higher than expected at £14.945m.

Sign off of Accounts and Draft 2023/24 Statement of Accounts

20. Although the draft accounts for 2021/22 and 2022/23 have not been audited fully (see item 8 in relation to the backstop arrangements), the amendments on the bad debt provision plus some other minor changes in narrative due to the passage of time, mean that the revised statement of accounts needs to be recertified and reissued to comply with statutory regulation. This was done by the Director of Finance on 24 September 2024, and these have been updated on the Council website.
21. The importance of reissuing these accounts is that the balances on assets and liabilities roll forward and have an impact on the opening position for the 2023/24 financial year. Even though the management accounts and financial statements for the latest full financial year have been complete for some time, it was important to confirm the position on the bad debt provision with EY before the accounts were finalised and released to stakeholders. It should be noted by Members that whilst the previous year's accounts are unaudited, the figures, totals and narrative that accompanies these have been produced to a high-quality standard and a significant degree of professional compliance.
22. As part of the financial improvement agenda, additional specialist resource has been deployed in the production of the draft statement of accounts working alongside the council's own closure of accounts team.
23. The draft accounts for 2023/24 have also been certified as a true and fair view of the Council's financial position by the Director of Finance and were opened for public inspection on 30 September 2024, for a period of 30 working days. This inspection window concludes on 8 November 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.
24. The draft Statement of Accounts for 2023/24 (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 are 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.

25. 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.
26. 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 2023-24.
27. 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.
28. 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. As Members will be aware MDC is in the final stages of being wound-up by the Council and as a result this financial year, will be the last year of any group financial statements.
29. The final section is the Annual Governance Statement for the financial year that sets out how the Council has complied with best practice governance arrangements and any key risk and control issues that arise from that.
30. 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 required. An initial session on some of the high-level issues in the accounts has been arranged before the Committee meeting to start this engagement process.
31. The document contains a significant amount of financial information about the Council. Even though the publication being delayed beyond the statutory date of 31 May is not ideal, it still gives a detailed view on the financial position of the Council on 31st March 2024, and is the most relevant and up to date data available on assets, liabilities, and financial performance.
32. An important point for Members to note is that there are some 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.

33. Movement in Reserves (page 35): The total value of usable reserves in the Balance Sheet as of 31st March 2024 was £75.702m. This is much higher than the £12.055m total that has been reported in the budget monitoring process for 2024/25 and is lower than the amount recommended by the S151 Officer.

34. 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 school reserves and the better care fund from the NHS. In particular, capital grants being rolled forward to future year’s capital schemes is a significant value at £51.760m. It should be remembered that these amounts are not available to finance the current year revenue budget position as follows:

Total Usable Reserves (£m)	Capital Grants Unapplied (£m)	Revenue Grants Unapplied (£m)	Other Revenue grants (restricted) £m	Total Revenue Reserves available (£m)
£75.702m	(£51.760m)	(£5.409m)	(£6.478m)	£12.055m

35. Net worth of the Balance Sheet (page 38): The net worth of the Council’s balance sheet at the 31 March 2023 is a positive one totalling £279.3m. This means that assets available exceed liabilities due by a significant margin. The net worth position overall though has decreased in year of £130.1m (31.8%). Members should note that this decrease 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, making this arrangement comparatively more expensive. Further information on this is given in note 39 to the draft Statement of Accounts, but it should be noted that again any pensions movements will not affect the Council’s financial position for revenue budget purposes as it will influence future pensions payments over the next 20-40 years.

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

Not applicable at this stage.

37. Impact(s) of the recommended decision(s)

Not relevant to this report.

38. 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 the 2015

regulations. This allows any stakeholders to be aware of this position, when looking for or reviewing the Accounts. The 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 area 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 – 2023/24
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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
Audit Committee	Draft Statement of Accounts - 2022/23	1 February 2024

Contact: Justin Weston, Head of Finance & Investment
Email: justin_weston@middlesbrough.gov.uk