

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Audit Committee
Date:	28 September 2022
Title:	Statement of Accounts 2021/22
Report From:	Rob Carr, Director of Corporate Operations

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Purpose of this Report

1. The purpose of this report is to seek approval for the Statement of Accounts for Hampshire County Council and the Hampshire Pension Fund for the period ending 31 March 2022.

Recommendation(s)

2. That the Statement of Accounts for 2021/22 for Hampshire County Council and the Hampshire Pension Fund be approved (Appendix 3), subject to a further report coming back to the committee indicating a resolution to the national issue relating to infrastructure assets outlined in this report.
3. That delegated authority be given to the Director of Corporate Operations to approve changes agreed between the County Council and EY (including those summarised in paragraph 27 and any reported verbally to the Audit Committee at this meeting) and any other further minor amendments to the Statement of Accounts presented at Appendix 3 prior to the issue of the final audit opinion and publication of the Statement of Accounts.

Executive Summary

4. The Accounts and Audit (Amendment) Regulations 2022 require the Council's Statement of Accounts to be approved and published by 30 November 2022. The County Council has delegated responsibility for the approval of the Statement of Accounts to the Audit Committee.

5. The unaudited draft accounts were reviewed and signed by the Chief Financial Officer on 27 July 2022 as a true and fair view of the financial position as at 31 March 2022. The draft accounts were published on the County Council's website in line with the amended deadlines and enabled the commencement of the period for the exercise of public rights on or before the first working day of August 2022.
6. The County Council's accounts are audited by EY and the Audit Committee received EY's audit planning report at its meeting of 26 May 2022. Within this report, EY identified a new area of focus for their audit relating to "*the derecognition of parts of infrastructure assets following 'replacement' expenditure.*" This relates to the values stated on the County Council's Balance Sheet rather than charges to the annual revenue budget.
7. Members heard that this was a national issue and that the Chartered Institute of Public Finance and Accountancy (CIPFA) had established a task and finish group to assist with resolving the issue. An urgent consultation was conducted by CIPFA during the summer of 2022 on temporary proposals to update the Code of Practice for 2021/22, however at the time of writing the issue had yet to be resolved. Therefore, while EY and the County Council have been working towards the accounts being signed off by the end of September, as set out in the audit planning report, there is a risk that this outstanding issue will prevent this from happening.
8. The County Council's interpretation of the CIPFA Code in the way it accounts for highways assets has not changed for many years. This is a complex technical accounting issue that needs to be resolved nationally so that the external auditors can ensure that the Balance Sheet has been presented correctly from a technical accounting perspective. It should be noted that the accounting valuation of the County Council's infrastructure assets (primarily highways) on the Balance Sheet has no impact on the County Council's capital or revenue budgets or Council Tax payers, nor does it impact the work of the Highways team in assessing the state of the highways network and the amount of maintenance spend required. A more detailed overview of this issue is included at Appendix 1.
9. The conclusions of the audit will be contained within the external auditor's report, which is due to be presented to this meeting of the Audit Committee. The Annual Governance Statement, which forms part of the Statement of Accounts, is also presented elsewhere on this agenda for approval by the Audit Committee. The annual internal audit report and opinion, which is also on the agenda for this meeting, also supports the sign off of the accounts through its assessment of the framework of risk management, internal control and governance. The end of year financial report for 2021/22 was considered by Cabinet on 19 July 2022 and the Statement of Accounts is consistent with that report.

10. This report presents the Statement of Accounts for 2021/22 (Appendix 3) for the Audit Committee's approval. If the national issue outlined above relating to infrastructure assets has not been resolved and results in any material change to the accounts this will need to be brought back to the Audit Committee at a subsequent meeting for sign-off. The report also recommends that the Director of Corporate Operations be given delegated authority to make minor amendments to the accounts if required prior to the issue of the audit opinion, which may include presentational changes to the accounts relating to the County Council's infrastructure assets if these changes do not have a material impact on the accounts.
11. The report also includes in Appendix 2 letters to the auditor containing representations by the Director of Corporate Operations (the Chief Financial Officer) and Chairman of the Audit Committee regarding information and systems of internal control to support the confirmation that the accounts present a true and fair view of the financial position of the County Council and Pension Fund.

Contextual information

12. The County Council is required by the Accounts and Audit Regulations (2015) to produce an annual Statement of Accounts. These accounts must be audited in accordance with the Local Audit and Accountability Act (2014).
13. The timescales for the publication of draft and audited accounts have been temporarily extended through amendments to the Accounts and Audit Regulations over recent years due to the impact of Covid-19. Despite these extended deadlines, the national picture is that the audits of a significant majority of local authority accounts were not completed on time in 2020/21. The Department for Levelling Up, Housing and Communities therefore published details of measures to support the improved timeliness of local audit in December 2021. One of the outcomes was to extend the deadline for the sign-off of audited accounts for 2021/22 to the end of November 2022.
14. This deadline was confirmed in the Accounts and Audit (Amendment) Regulations 2022. The amended regulations also set out that the deadline will revert to 30 September for the subsequent 6 years.

Code of Practice on Local Authority Accounting

15. The attached Statement of Accounts has been drawn up in the form prescribed by the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom, which constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. In addition, the Accounts and Audit Regulations 2015 contain certain requirements for disclosure in the Statement of Accounts.

16. The 2021/22 Code of Practice on Local Authority Accounting made changes to some accounting standards but none of them have had a material impact upon the County Council's accounts. The requirement to adopt IFRS 16 (accounting for leases) from April 2022 has been delayed until April 2024, although local authorities may adopt this new standard sooner if they choose. The County Council has chosen not to adopt the new standard from April 2022.
17. In May 2022, the CIPFA LASAAC Local Authority Code Board announced an [urgent consultation](#) on temporary proposals to update the Code of Practice for infrastructure assets. The proposals were intended to address issues raised by auditors at a national level in relation to the derecognition (removal of the carrying amount) of parts of infrastructure assets when replacement expenditure is undertaken. A task and finish group was established by CIPFA to assist with the resolution of the issue, however at the time of writing the issue had not yet been resolved and the County Council does not therefore know what if any changes it may need to make to its accounts for 2021/22 to reflect any changes to the CIPFA Code prior to EY being able to conclude the audit of the accounts. This national issue was highlighted in EY's audit planning report, which was received by the Audit Committee at its meeting of 26 May 2022.
18. The County Council has not changed its approach to accounting for highways assets for many years, receiving a clean bill of health from its external auditor in prior years. This is a complex technical accounting issue that needs to be resolved nationally so that the external auditors can ensure that the balance sheet has been presented correctly from a technical accounting perspective.
19. Moreover, it should be noted that the accounting valuation of the County Council's infrastructure assets (primarily highways) on the Balance Sheet has no impact on the County Council's capital or revenue budgets or Council Tax payers, nor does it impact the work of the Highways team in assessing the state of the highways network and the amount of maintenance spend required. There is no suggestion that the County Council is not properly budgeting for the capital or revenue expenditure on its highways infrastructure assets or charging incorrect amounts to the taxpayer through its capital programme or revenue budgets. This is purely a technical accounting issue that does not affect budgets or decision making by the County Council.

Statement of Accounts

20. The Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA).

21. It aims to provide information so that members of the public, including electors and residents of Hampshire, Members of the County Council, partners, stakeholders and other interested parties can:
- Understand the overall financial position of the County Council and the outturn position for 2021/22;
 - Have confidence that the public money with which the County Council has been entrusted has been used and accounted for in an appropriate manner; and
 - Be assured that the financial position of the County Council is sound and secure.
22. The unaudited accounts were reviewed and signed by the Chief Financial Officer on 27 July 2022 as a true and fair view of the financial position as at 31 March 2022. The draft accounts were published on the County Council's website in line with requirements of the regulations and enabled the commencement of the period for the exercise of public rights on or before the first working day of August 2022.
23. Following the conclusion of the period for the exercise of public rights, the Accounts and Audit Regulations require the Authority to:
- consider, either by way of a committee or by the members meeting as a whole, the statement of accounts
 - approve the statement of accounts by a resolution at that committee or meeting
 - ensure that the statement of accounts is signed and dated by the person presiding at the committee or meeting at which that approval is given
24. For the County Council, the responsibility for the approval of the Statement of Accounts is delegated to the Audit Committee. The County Council's accounts are externally audited by EY. At the time of publication of this report, the audit was still in progress and the accounts remain in draft until the conclusion of the audit.
25. The County Council and EY have agreed a number of changes that need to be made between draft and final accounts. None of these changes are material and none affect the General Fund. Noteworthy changes include:
- Additions to the disclosure note text on note 8c (exit packages) to better align with the requirements of IAS 8.
 - Updates to IAS 19 pension figures included in note 24 to reflect updated information.

- Collection Fund postings due to the timing difference between the preparation of draft accounts and the receipt of returns from district councils.
 - Revisions to the accounting split of the unitary charge for the street lighting PFI to reflect changes to the model following points raised in previous audits. The revised figures were in the process of being agreed with EY at the time of writing.
26. It is not anticipated that any issues will be raised by the auditor as a result of their audit that will impact their ability to issue an unqualified opinion on the accounts, although at the time of writing the impact on the accounts of the national issue related to infrastructure assets is uncertain. This means that EY have been unable to determine an appropriate audit opinion within their draft audit results report. Given this uncertainty, EY highlight there is a risk that their opinion may need to be qualified. However, the County Council will consider very carefully all appropriate action to avoid that outcome.
27. If this matter has been satisfactorily resolved prior to the Audit Committee meeting, it is recommended that the Audit Committee approves the Statement of Accounts for 2021/22 for the County Council and Pension Fund for publication on the County Council's website, including the changes highlighted above that have already been agreed with EY and any others that due to the timing of the publication of the papers for this meeting have been reported verbally to the Audit Committee at this meeting. It is also recommended that authority is delegated to the Director of Corporate Operations to make any further minor amendments to the version of the statement of accounts included within the papers for this meeting if required by the external auditor prior to the issue of the audit opinion. It is recommended that this delegation also allows the Director of Corporate Operations to approve changes to reflect the resolution of the national issue on accounting for infrastructure assets once resolved if the changes do not have a material impact on the County Council's accounts.
28. If the situation has not progressed to the point whereby the accounts are ready for publication and/or the changes required are material in nature, the requirements of the Accounts and Audit Regulations mean that the Audit Committee will need to reconvene at a later date to approve the finalised accounts. The next scheduled meeting of the committee is currently 22 December 2022, which is after the deadline for publication of 30 November 2022.
29. The following paragraphs provide a summary of each section of the Statement of Accounts.

Narrative report

30. The narrative report provides information about the key issues affecting the County Council and reports on the County Council's financial and non-financial performance, risks and future prospects.
31. The narrative report is designed to help readers understand the County Council and its operating environment and to assist in the understanding and interpretation of the Statement of Accounts.
32. It explains how the required accounting presentation relates to the financial performance of the County Council as set out in the end of year financial report, which was presented to Cabinet on 19 July 2022.

Statement of Responsibilities for the Statement of Accounts

33. The statement records the responsibility:
 - of the local authority to appoint an officer with the responsibility for the proper administration of its financial affairs. Within the County Council, this is the Director of Corporate Operations
 - of the Director of Corporate Operations to prepare the accounts in accordance with proper practices as set out in the Code of Practice, and to certify that the accounts present a true and fair value of the authority
 - of the Chairman of the Audit Committee to confirm that the accounts have been considered and approved by the committee.

Movement in Reserves Statement

34. This statement sets out the movement in the year on the different reserves held by the County Council, analysed into 'useable reserves' (cash-backed reserves which can be applied to fund expenditure or reduce council tax) and 'unusable reserves' (not cash-backed which are mainly used for accounting adjustments).

Balance Sheet

35. This shows the value of the assets and liabilities recognised by the County Council. The net assets of the County Council are matched by reserves, either usable or unusable.

Cash flow statement

36. The cash flow statement is designed to demonstrate the changes that have taken place in the County Council's cash position over the year and to highlight the causes of these changes.

Comprehensive Income and Expenditure Statement

37. This statement shows the accounting cost of providing services rather than the amount funded from taxation. The taxation position is shown in the Movement in Reserves Statement and the difference between them is summarised in the Expenditure and Funding Analysis (note 1) and then itemised in note 2.
38. The bottom line figure on the Comprehensive Income and Expenditure Statement is equal to the change in net worth on the Balance Sheet, although it is the Movement in Reserves Statement that shows the impact of the County Council's activities on its revenue budget and therefore the Council Tax payer.

Notes to the accounts

39. These comprehensive notes incorporate further information to support the reader of the accounts. The accounting policies are incorporated within the relevant disclosure notes, with the general policies included towards the end of the notes.

Hampshire Pension Fund

40. The Statement of Accounts also includes the accounts of the Hampshire Pension Fund. This is because the County Council is the Administering Authority and reporting entity for the Pension Fund, which is not a separate legal entity.
41. The accounts for the Pension Fund provide details of contributions and benefits payable during the year, management expenses, and returns on investments during the year as part of the Fund Account. This results in a change in net assets of the scheme, reflected in the Net Asset Statement at 31 March 2022. The Net Asset Statement predominantly comprises investment asset balances in addition to other assets and liabilities.

Annual Governance Statement

42. In accordance with regulations, the Annual Governance Statement (AGS) must accompany the published Statement of Accounts. The AGS is also presented elsewhere on the agenda for this meeting with the recommendation that it is approved by the Audit Committee.

Period of Public Inspection of the Accounts

43. In accordance with legislation, the County Council published a notice of public rights to:
- inspect the accounting records for the financial year ended 31 March 2022
 - make copies of all or any books, deeds, contracts, bills, vouchers, receipts and other documents relating to the accounting records
 - question the auditors about the accounts.
41. The specified period was from 1 August to 12 September 2022. No requests or questions had been received at the time of writing.

Letters of Representation

44. As part of the production and audit of the final accounts, the external auditors also require the Director of Corporate Operations (the Chief Financial Officer) and Chairman of Audit Committee to provide Letters of Representations for the County Council and Pension Fund.
45. The letters provide additional assurance that all matters have been disclosed to the auditors and that no undue influence has been applied in producing the accounts that would prevent them giving a true and fair view of the financial position.
46. The detailed letters (draft) are attached at Appendix 2.

Consultation and Equalities

47. The Statement of Accounts summarises the financial transactions incurred following the approved revenue budget and capital programme. Consultation on the budget is undertaken when the County Council considers savings to help balance the budget. All savings proposals put forward by the County Council have an Equality Impact Assessment published as part of the formal decision-making papers and for some proposals stage 2 consultations are undertaken before a final decision is made by the relevant Executive Member.
48. The Accounts and Audit (Amendment) Regulations 2022 require the County Council's Statement of Accounts to be approved and published by 30 November 2022. This report deals with this statutory requirement, which is a financial reporting matter, and therefore no consultation or Equality Impact Assessments are required.

Climate Change Impact Assessment

49. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience impacts of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

50. In managing its financial resources, climate change impact assessments for individual services and projects will be undertaken as part of the approval to spend process. This report deals with the statutory requirement to approve and publish a Statement of Accounts, which is a financial reporting matter and there are therefore no further climate change impacts as part of this report.

Conclusions

51. The Statement of Accounts for 2021/22 for Hampshire County Council and the Hampshire Pension Fund have been prepared in accordance with legislative and regulatory requirements. The presentation and approval of the annual accounts is an important part of the overall governance framework for the County Council and Pension Fund and the Audit Committee is therefore requested to consider and approve the accounts alongside the report of the external auditors, or to note the need for the Audit Committee to reconvene at a later date to approve the finalised accounts depending on the outcome of the national issue explained in this report relating to the accounting for the derecognition of parts of infrastructure assets on replacement.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:

It relates to the effective governance of the County Council

Other Significant Links

Links to previous Member decisions:

<u>Title</u>	<u>Date</u>
External Audit Planning Report – Hampshire County Council	26 May 2022
External Audit Planning Report – Hampshire Pension Fund	26 May 2022

Direct links to specific legislation or Government Directives

<u>Title</u>	<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

There are no new proposals in this report requiring an assessment