

Statement of Accounts & Annual Governance Statement for 2022/23 Report of the Director of Finance and Public Value

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

1) Recommendation

That the Committee be asked to:

1. Review and approve the Annual Governance Statement for 2022/23;
2. Review and approve the Authority's Statement of Accounts for 2022/23;
3. Review and approve the Pension Fund Statement of Accounts for 2022/23;

2) Introduction

The purpose of this report is to ask Members to approve the Annual Governance Statement and Statement of Accounts for 2022/23 for the County Council and Devon Pension Fund.

The Statement of Accounts has been prepared according to CIPFA's Code of Practice on Local Authority Accounting 2022/23. There are no significant changes to the Code.

Parliament has brought forward by two months the deadlines in the Accounts and Audit Regulations for the 2022/23 accounts. The publication deadline for the unaudited accounts was 31st May 2023 (31st July 2022) and the date by which the Audit Committee has to approve the accounts is 30th September 2023 (30th November 2022).

The Authority published the unaudited Statement of Accounts before the end of June 2023, in line with the report to the last meeting of the Audit Committee on 20th June (DF/23/57). This report outlined the technical accounting challenges caused the national issue of the triennial valuation of Pension Funds on delayed audit opinions for 2021/22.

3) Annual Governance Statement

The Council is required, annually, to prepare and publish a Governance Statement in accordance with CIPFA/SOLACE guidance and comply the Accounts and Audit (England) Regulations 2015, reviewing its system of internal controls in line with best practice. The Council is required to publish the statement alongside the Annual Statement of Accounts.

In recommending the approval of the Annual Governance Statement (attached at the end of the Statement of Accounts document) the Senior Leadership Team, Directors and Heads of Service confirm that the organisational, financial, compliance and operational key controls referred to in the Statement continue to be appropriate and have operated, effectively, during the year in question.

4) Key messages – Authority's Accounts

In 2022/23 the Authority's reserves (including general fund balance) and carry forwards reduced by £61.3 million.

- Earmarked reserves reduced by £28.4 million (£1 million transfer to General Fund Balance) supporting the 2022/23 budget and one off items of expenditure when the County Council approved the budget in February 2022.
- Carry forwards reduced by £30.1 million - mainly the use of COVID grants and balances from the Integrated Care Agreement with the NHS.
- Although school carry forwards belong to individual schools - they still need to be consolidated and shown in the Authority's balance sheet. These reduced over the year by £3.9 million to £20.8 million.
- The movements are offset by the increase in the General Fund Balance of £1.1 million (£1 million budgeted transfer from reserves and the £156,000 outturn).

At 31 March 2023 the revenue reserves, carry forwards and balances available to the Authority (excluding schools balances) reduced by £57.4 million to £181.3 million (a reduction of 24% in the year 2022/23).

- Earmarked revenue reserves are £107.5 million (£136 million at 31 March 2022)
- Non schools budget carry forwards are £57.8 million (£87.9 million at 31 March 2022)
- General Fund balance is £16 million (£14.8 million at 31 March 2022).

The following table was presented in the Outturn report to Cabinet on 14 June and is included in the report of the Director of Finance and Public Value and Chief Executive. It explains the reduction in earmarked reserves.

	£000	£000
Budget Book (February 2022)		
Contribution from reserves to support the budget	(22,938)	
Transfer from Budget Management to General Fund	(1,000)	
Use of Reserves	<u>(6,949)</u>	
Budgeted reduction in earmarked reserves		(30,887)
Additional use of reserves during the year		(425)
Outturn Contribution to Budget Management Reserve		1,500
Underspend on Public Health Ring-fenced Grant		1,376
Net reduction in earmarked reserves		<u>(28,436)</u>

Capital grants unapplied have reduced by just over £20 million and capital receipts have increased by just over £6 million.

Government regulations require that any negative DSG balance be held as a DSG Adjustment Account and not netted off from our Reserves. Initially these regulations were to be applied to the three financial years to 31 March 2023 but this statutory requirement has been extended for a further three years to 31 March 2026. What will happen to the balance after that time is unclear. The following table sets out the balances on this ring-fenced account and how the deficit on the High Needs Block increased by £38.9 million in 2022/23 to £125.4 million at 31 March 2023.

Dedicated Schools Grant Adjustment Account

	1 April 2022	Movement	31 March 2023
	£000	£000	£000
High Needs Block - SEND	(86,529)	(38,908)	(125,437)
De-delegated, Central and Early Years Block and Growth Fund	5,115	1,560	6,675
Total (Deficit)	(81,414)	(37,348)	(118,762)

The Authority now has a positive Balance Sheet at 31st March 2023 of £840 million as a result of a significant reduction in the pension liability as assessed by the actuary. The Pension Reserve deficit was £1,310 million at 31 March 2021 and this has reduced two years later to just under £243 million. The true value of the deficit is assessed on a triennial basis with contribution rates set to recover the balance over the longer-term. These actuarial assumptions estimate many long term projections including mortality, pay and pension inflation and the discount rates applied to future benefits and pension asset returns.

No new borrowing has taken place this year with capital expenditure due to be met from borrowing being financed from internal resources.

At the time of writing this report the auditors had not yet issued opinions for the years 2020/21 and 2021/22. Grant Thornton will provide the Audit Committee with an update of progress.

5) Key messages – Pension Fund Accounts

2022/23 has been a difficult year for investment markets. Geo-political concerns following Russia's invasion of Ukraine, along with rising inflation and interest rates, have weighed heavily over investment markets. Under the circumstances the investment return for the year of -1.5% could have been worse. The value of the Devon Pension Fund fell from £5.412 billion, as at 31 March 2022, to £5.313 billion as at 31 March 2023. The Fund's investment return was below the Fund's strategic benchmark (a weighted average of the underlying benchmarks) of +0.9% but compared well with the median LGPS universe average of -3.3%.

The 2022/23 Pension Fund accounts is informed by the most recent triennial valuation at 31 March 2022, where the actuary has concluded that the Pension Fund has a funding level of

98%. i.e. the assets were 98% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £88.6m.

This is an improvement on the 91% funding level at the previous triennial valuation in March 2019.

External audit work on the Pension Fund accounts for 2022/23 is more advanced than on the Authority accounts and any minor disclosure amendments required by external audit have been actioned.

6) Strategic Plan

There are no Strategic Plan issues associated with this report.

7) Financial Considerations

There are no direct Financial Considerations issues associated with this report other than to note the use of reserves and movement of the Authority's balance sheet.

8) Legal Consideration

There are no specific Legal Considerations or issues associated with this report other than to note that the Committee approval of the Statement of Accounts and Annual Governance Statement by 30 September is required under Regulations 9 and 10 of the Accounts and Audit Regulations 2015, as amended by the Accounts and Audit (Amendment) Regulations 2022.

9) Environmental Impact Considerations (Including Climate Change)

There are no specific Environmental Impact Considerations or issues associated with this report.

10) Equality Considerations

There are no specific Equality Considerations associated with this report.

11) Management Considerations

This report supports the Council's overall integrated assurance to internal control and financial governance.

12) Public Health Impact

There is no specific impact on Public Health in connection with this report.

13) Summary/Conclusions/Reasons for Recommendations

The Committee is recommended to approve the Annual Governance Statement and the Statement of Accounts, contained in the attachment to this report.

Angie Sinclair
Director of Finance and Public Value

Electoral Divisions: All
Local Government Act 1972

Contact for Enquiries: Peter Lappin, peter.lappin@devon.gov.uk
Tel No: (01392) 383342 Room 180, County Hall

<u>Background Paper</u>	<u>Date</u>	<u>File Ref</u>
Nil		