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To: Governance and Audit Committee – 23 November 2023

Subject: DRAFT STATEMENT OF ACCOUNTS 2022-23

Classification: Unrestricted

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Summary: This report asks Members to consider and note the draft Statement of Accounts for 2022-23.

## **FOR INFORMATION**

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### **1. INTRODUCTION**

1.1 The draft Statement of Accounts of the County Council for 2022-23 follows this report. The Accounts and Audit (Amendment) Regulations 2022 state that;

... the publication date for final, audited accounts is by 30 September 2023. The authority must, following the conclusion of the period of public inspection, in the following order:

- i) consider, either by way of a Committee or by the Members meeting as a whole, the Statement of Accounts;
- ii) approve the Statement of Accounts by a resolution of that Committee or meeting;
- iii) ensure that the Statement of Accounts is signed and dated by the person presiding at the Committee or meeting at which that approval was given.

1.2 It is recommended that the Accounts are finalised and signed by the Committee Chairman today on the basis that the audit is almost completed.

1.3 The draft Statement of Accounts attached to this report are for comment and review; and reflect known required changes.

1.4 The public inspection period concluded on 11 August 2023.

1.5 As required by the Accounts and Audit Regulations 2015 – Regulation 10 as amended by the Accounts and Audit Regulations 2022; the Council has published a 'Delayed Opinion Notice' on the website.

- 1.6 Letters of Representation are provided in connection with the audits of the financial statements for the Council and the Kent Pension Fund; and they will be required to be formally minuted by the Committee to confirm they are approved.
- 1.7 The Committee's Terms of Reference set out the Committee's responsibilities in relation to the accounts as follows:
- (a) to ensure the Council's financial affairs are properly and efficiently conducted and;
  - (b) the Council's financial statements (including the pension fund accounts) comply with relevant legislation and guidance and the associated financial reporting processes are effective;
  - (c) any public statements in relation to the Council's financial performance are accurate and the financial judgements contained within those statements are sound;
  - (d) accounting policies are appropriately applied across the Council.

## **2. STATEMENT OF ACCOUNTS - CONTENTS**

- 2.1 The content and format of the Accounts is as prescribed in the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and is known as the Code.
- 2.2 The Statement of Accounts for 2022-23 is prepared on an International Financial Reporting Standards (IFRS) basis.
- 2.3 The remainder of Section 2 of this report highlights the key facts, figures, and issues from the attached draft Accounts.

### **Narrative Pages 3-17**

- 2.4 The narrative provides clarification on the relationship between the Statement of Accounts and other financial information that the Council reports on externally. The 2022-23 narrative provides information on the funding strategy applied during 2022-23 and the direction of travel for 2023-24 onwards.
- 2.5 The details of the revenue outturn are shown on page 12. This shows an overspend of £44.4m before roll forwards against the non-schools' budgets. Details of under/overspends within the directorates have been detailed in the monitoring reports throughout the year and were reported in the Final Outturn report which was considered by Cabinet on 29 June 2023. After committed roll forwards and bids approved by Cabinet on 29 June, the resulting overspend was £47.1m.
- 2.6 The £47.1m overspend was funded by drawdowns from an earmarked and the general fund reserve.

- 2.7 The level of general revenue reserves is £37.4m, a net decrease of £19.2m. There was a £2.9m injection to the reserve as part of budget setting to maintain the 5% of our net revenue budget position. £22.1m was drawn down as part of the funding of the 2022-23 overspend referred to in paragraphs 2.5 and 2.6. The Corporate Director Finance deemed this to be an acceptable level of general reserves based on the current budget, and the Council's identified risks subject to them being replenished back to 5% of the net revenue budget within two years.
- 2.8 Capital expenditure excluding that incurred by schools under devolved arrangements was £158.4m less than the revised cash limits. Of this, £159.2m reflects re-phasing of capital expenditure plans across all services and an overspend of £0.8m was due to variations on a small number of projects. These unspent capital resources will be carried forward into 2023-24 and beyond in order to accommodate the revised profiles of capital expenditure.
- 2.9 The 2022-23 International Accounting Standard (IAS) 19 report shows a decrease in the Pensions' Reserve deficit of £1.5bn. See Paragraph 2.19 for more information.

### **Statement of Responsibilities Page 18**

- 2.10 This statement sets out the respective responsibilities of the Council and the Corporate Director Finance in relation to the production of the final accounts.

### **Financial Statements Pages 19-24**

#### **Comprehensive Income and Expenditure Statement**

- 2.11 The Comprehensive Income and Expenditure Statement (CIES) consolidates all the gains and losses experienced by a council during the financial year. As councils do not have any equity in their Balance Sheets, these gains and losses should reconcile to the overall movement in net worth.
- 2.12 The CIES has two sections:
- i) Surplus or Deficit on the Provision of Services – the increase or decrease in the net worth of the council as a result of incurring expenses and generating income.
  - ii) Other Comprehensive Income and Expenditure – shows any changes in net worth which have not been reflected in the Surplus or Deficit on the Provision of Services. Examples include the increase or decrease in the net worth of the council as a result of movements in the fair value of its assets and actuarial gains or losses on pension assets and liabilities.

#### **Movement in Reserves Statement (MiRS)**

- 2.13 This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be

applied to fund expenditure or reduce local taxation) and unusable reserves. The unusable reserves are required due to accounting practices and are not cash-backed. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. Usable reserves have decreased by £19m in 2022-23. The main movements are:

	<b>£m</b>
S31 Grant Compensation for Covid-19 related Business Rate Reliefs	-15
General Fund – decreased due to funding 2022-23 overspend	-19
Funding of DSG Deficit following entering into Safety Valve agreement	-17
S31 Grants Compensation for irrecoverable Business Rates and Council Tax Losses	-2
Unapplied Capital Grants, reflecting increase in capital grants received in year and will be used to fund capital projects in future years	28
Capital Receipt Reserve, proceeds from sale of fixed assets and loan repayments and will be used to fund capital projects in future years.	6
<b>Total of major movements in usable reserves</b>	<b>-19</b>

2.14 The MiRS is a summary of the changes that have taken place in the bottom half of the Balance Sheet over the financial year. It does this by analysing:

- i) The increase or decrease in the net worth of the council as a result of incurring expenses and generating income.
- ii) The increase or decrease in the net worth of the council as a result of movements in the fair value of its assets.
- iii) Movements between reserves to increase or reduce the resources available to the council according to statutory provisions.

## Balance Sheet

2.15 The Balance Sheet summarises the Council's financial position at 31 March each year. The top half contains the assets and liabilities that it holds or has accrued with other parties. As local councils do not have equity, the bottom half consists of reserves that show the disposition of a council's net worth, falling into two categories:

- i) Usable Reserves, which include the revenue and capital resources available to meet future expenditure (e.g. the General Fund Balance and the Capital Receipts Reserve), and
- ii) Unusable Reserves, which include:
  - unrealised gains and losses, particularly in relation to the revaluation of property, plant, and equipment (e.g., the Revaluation Reserve);
  - adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure (e.g. the Capital Adjustment Account and the Pensions Reserve).

2.16 Property, Plant & Equipment has increased by £196m. This includes revaluation increases of £216m and additions of £183m offset by disposals (£115m), depreciation (£102m) and other smaller adjustments.

2.17 Current assets increased by £56m, £22m is due to an increase in short term investments. Receipt of £66m first tranche of additional "Safety Valve" agreement grant towards schools' funding deficit was agreed by DFE in March and received on 31 March which increased cash inflows leading to a variance in working capital from prior year. Short-term debtors increased by £27m due to an increase in debtors with Government departments in respect of grant income due, social care client income debtors and Commercial Services (Core and Laser) trade receivables mainly relating to increased energy costs.

2.18 Current liabilities increased by £88m, mainly due to an increase in short-term creditors. £32m is an increase in grant income received in advance and £69m Commercial Services (Core and Laser) mainly relating to increased energy costs.

2.19 Long term liabilities have decreased by £1,545m. The pension liability decreased by £1,497m which is related to defined benefit pensions schemes under IAS 19 reporting. There are a range of key variables that are taken into consideration to calculate the pension liability, the significant increase in the discount rate and a decrease in the future inflation assumptions has led to the improved position. The note to explain the increase can be found in Note 37 from page 104 of the Accounts.

2.20 Net worth has increased from a surplus of £1,259m to a surplus of £2,975m. This is mainly due to the property, plant & equipment increases and pension liability decrease explained in paragraphs 2.16 and 2.19 respectively.

## **Cash Flow Statement**

- 2.21 This statement summarises the changes in cash and cash equivalents by classifying cash flows as operating, investing and financing activities. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

## **The Expenditure and Funding Analysis**

- 2.22 The Expenditure and Funding Analysis detailed on pages 25 to 26 shows how the Council's expenditure is allocated for decision making purposes between the directorates. It also shows how the annual expenditure is used and funded from resources by the Council compared with the resources consumed or earned in accordance with generally accepted accounting practices.

## **Significant Notes to the Accounts pages 27-122**

### **Adjustments between accounting basis and funding basis under regulations**

- 2.23 This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. It also supports this line in the MiRS and provides more detail on how this is split across usable and unusable reserves.

### **Officers Remuneration**

- 2.24 Note 6 on pages 32-44 provides details of officers' remuneration over £50,000 and details on exit packages in bands of £20,000 split between compulsory redundancy and other departures.

### **Note to the Expenditure and Funding Analysis**

- 2.25 Note 9a on pages 46 to 49 provides an analysis and explanation of the main adjustments to the Net Expenditure Chargeable to the General Fund and Adjustments between the Funding and Accounting Basis that were set out in the Expenditure and Funding Analysis explained in paragraph 2.23.

### **Property, Plant and Equipment**

- 2.26 Note 16 on pages 56-69 shows the movements on these assets, which have increased in value (relatively) from £3.54bn to £3.74bn.

## **Reserves**

2.27 Details of reserves can be found in the following notes, usable reserves in Note 22 which also include earmarked reserves, unusable reserves in Note 23, and earmarked reserves in Note 24. Earmarked reserves have decreased by £34m; the remainder of usable reserves have increased by £14m and unusable reserves have increased by £1,734m.

## **Prior Year Adjustment page 124**

2.28 A prior year adjustment was required to write out fully depreciated Vehicles, Plant & Equipment (VPE) that should have been written out in prior years as the assets became obsolete. The adjustments, totalling £56.4m (£53.5m prior to 31.3.21 and £2.9m in 21-22) had no impact on the Net Book Value of VPE and no impact on the balance sheet or CIES. The restatement only affects the Gross Book Value and accumulated depreciation disclosed within the PPE note and revised figures can be seen in the restated PPE note – Note 16 on pages 61 to 62.

## **Group Accounts pages 124-139**

2.29 The Group Accounts section contains:

- i) Group Comprehensive Income and Expenditure Statement on pages 128 to 129
- ii) Group Movement in Reserves Statement on pages 130 to 131
- iii) Group Balance Sheet on page 132
- iv) Group Cash Flow Statement on page 133

All of the above statements are presented in the same format as the single entity account. Each entity's financial position has been consolidated by elimination of inter-company balances and the realignment of accounting policies where required.

2.30 Notes to the Group Accounts are provided where there are material differences to the single entity accounts.

## **Pension Fund Accounts pages 140-167**

2.31 Pages 140 to 167 contain a summarised extract of a more detailed statement produced for the Pension Fund.

## **Glossary**

2.32 A glossary of some of the terms used within the Accounts is provided on pages 178 to 179.

### **3. RECOMMENDATION**

Members are asked to:

- 3.1 Consider and approve the Statement of Accounts for 2022-23.
- 3.2 Approve the Letters of Representation
- 3.3 Note the recommendations in the Audit Findings Report and the management responses to the recommendations.

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