



STATEMENT OF ACCOUNTS 2023-24 – ACCOUNTING POLICIES AND SIGNIFICANT AREAS OF JUDGEMENT

To:

Civic Affairs Committee 07/02/2024

Report by:

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Wards affected:

All

1. Introduction

- 1.1 The Council is required to produce a Statement of Accounts on an annual basis in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'). This report sets out the significant areas of accounting judgement and sources of estimation uncertainty which are likely to arise in relation to the 2023-24 accounts.
- 1.2 There are no significant changes to accounting policy proposed this year. Furthermore, section 6 briefly sets out accounting policy changes relating to future years.

2. Recommendations

- 2.1 To note that there are no significant changes to accounting policies anticipated for the 2023-24 Statement of Accounts.
- 2.2 To note and approve the proposed critical judgements and major sources of estimation uncertainty in respect of the 2023-24 Statement of Accounts.
- 2.3 To note the position regarding the outstanding audit of the 2022-23 Statement of Accounts and the impact of the delay in concluding audit procedures on production of the 2023-24 Statement of Accounts.

3. Background

- 3.1 The Code is updated on an annual basis to reflect changes to accounting standards and practice. Officers have reviewed the 2023-24 Code and concluded that there are no changes to the Code which will have a significant impact on the Council's accounting policies or its Statement of Accounts.
- 3.2 The previous year's draft accounts were published on 22 June 2023. The statutory deadline for publication of the audited accounts was 30 September 2023. Following on from earlier discussions and a report to the meeting of this committee held on 5 July 2023, the Council received confirmation on 28 September 2023 that EY would be unable to conclude the audit by the statutory deadline. This resulted in the Council publishing a notice on its website, as required by the relevant legislation, explaining why the audited accounts had not been published.
- 3.3 Key stakeholders have been discussing with government the most appropriate solution to resolve the significant audit backlog impacting local authorities nationally. In November 2023, it was reported that only five authorities (1%) had published their audited 2022-23 statement of accounts on or before 30 September 2023. The same report confirmed that, as at 30 September 2023, 918 audit opinions had not been issued spanning multiple financial years. The Council is fortunate as the audit of its 2021-22 financial statements was completed on 30 November 2022. The 2022-23 audit is therefore the only audit which is currently outstanding.
- 3.4 It had been hoped that government would be in a position by the end of 2023 to consult with the sector on potential solutions to the current situation. No announcement has been made as at the date of this report. A verbal update will be provided at the meeting.

4. Arrangements for production of the 2023-24 statement of accounts

- 4.1 The statutory deadline for publication of the 2023-24 statement of accounts is 31 May 2024. Good progress has been made to establish a closedown timetable to enable this to be achieved. Officers have taken steps to address the issues which prevented the 2022-23 accounts from being published by 31 May 2023. This has included closer working with

the third parties which provide the professional valuations which are needed to close the accounts.

- 4.2 Much of the work to produce the 2023-24 statement of accounts can be completed irrespective of whether the audit of the previous year's accounts has been concluded. The work required to close the accounts is important in establishing the outturn position for the year. The outturn will be reported to members in July 2024 as part of the established reporting arrangements. The outturn report is an important document to communicate in a public forum the extent to which the Council has been successful in managing its finances within the amounts allocated as part of approved budgets.
- 4.3 It is unlikely, however, that it will be possible for the 2023-24 draft statement of accounts to be issued prior to the publication of the audited 2022-23 statement of accounts. This is because significant elements of the statement of accounts report on the difference between the opening and closing balance sheet positions. The opening balance sheet position can only be finalised once work on the audit of the 2022-23 accounts has been concluded. It remains unclear, as at the date of this report, whether the audit of the 2022-23 accounts will be completed prior to 31 May 2024.
- 4.4 As part of the closedown-planning process, this report aims to give the Civic Affairs Committee early sight of the critical judgements and major sources of estimation uncertainty likely to feature in the 2023-24 Statement of Accounts. It is expected that many of these areas will also be areas of focus for the external auditors when they present their Audit Plan to the Committee. This is tentatively scheduled for 13 May 2024 but depends, in part, on the sector's solution to resolving the audit backlog referred to in section three of this report.
- 4.5 A further briefing on the Statement of Accounts will be arranged for members of the Civic Affairs Committee when the draft accounts published.

5. Critical Judgements in Applying Accounting Policies

- 5.1 In applying its accounting policies, the Council is required to make certain judgements about complex transactions or those involving uncertainty about future events. Where such judgements are significant, they must be disclosed within the accounts. One such judgement has been identified to date in relation to 2023-24 (as consistent with the prior year), and this is set out below.

Funding Uncertainty

- 5.2 The government published the provisional local government finance settlement in December 2023. The announcement was a one-year settlement which largely confirmed the indicative allocations which had been communicated as part of the previous year's settlement. There are long-term uncertainties about the funding of local government. Revisions to the existing methodology to allocate central government funding have not been completed and are unlikely to be concluded prior to the next general election. Similarly, future arrangements for business rates are unclear. Changes to these arrangements are expected which would include resetting each local authority's baseline position. Such a reset would enable the growth in business rates observed nationally to be distributed more evenly.
- 5.3 Officers could instruct the Council's valuers to make specific assumptions regarding future service levels to inform the valuation of land and buildings owned by the Council which are used to provide Council services. Anticipated reductions in service levels may contribute to a reduction in the valuation of assets for accounting purposes. This is because local authorities value their operational assets with reference to their existing use value which is determined based on the service potential associated with those assets. At the current time officers have not provided any specific directions regarding future service levels. This reflects both uncertainty about future funding and ongoing work within the Council as part of its 'Our Cambridge' transformation programme to review how services operate and the assets the Council will need to retain to support future service provision.
- 5.4 The decision not to make specific assumptions about future service provision to inform the valuation of assets is consistent with previous years and remains reasonable and consistent with the Council's Medium Term Financial Strategy and its Corporate Plan. Nevertheless, officers believe that it is instructive to users of the accounts to identify and disclose the approach taken as a critical accounting judgment. This disclosure complements the disclosures relating to estimation uncertainty referred to below.

6. Major Sources of Estimation Uncertainty

- 6.1 The preparation of the Statement of Accounts requires a range of judgements, estimates and assumptions to be made which affect the figures within the accounts. Where there is a significant risk that such estimates may change materially in the following year, these must be disclosed within the accounts, along with the key methodology and assumptions adopted, and the sensitivity of the estimates to changes in these assumptions.
- 6.2 The following areas of significant estimation uncertainty have been identified for disclosure in the 2023-24 accounts:

Pensions Liability

- 6.3 Estimation of the net asset or liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A liability exists where the value of liabilities exceeds assets. A pension asset is recognised if the valuation of assets exceeds liabilities. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.
- 6.4 The Council obtained an updated valuation from the consulting actuary as part of work to produce the 2022-23 statement of accounts. The valuation indicated that, as was the case for many local authority pension funds, economic conditions, particularly elevated yields on corporate bonds, meant that the Council recognised a net pension asset in its Balance Sheet valued at £6.865 million. The extent to which that asset is subject to a material change because of a small change in the actuary's modelling assumptions is illustrated by the sensitivity analysis below:
- Decreasing the real discount rate, which is based on the corporate bond yields referred to above, by 0.1% would have reduced the asset by £4.97million.
 - An increase in member life expectancy of 1 year would have reduced the asset by £11.665 million (resulting in a pension liability).
 - Increasing the CPI assumption by 0.1% would have decreased the asset by £4.529 million.
- 6.5 The underlying assumptions and therefore the value of the liability will be reassessed by the actuaries as at 31 March 2024. Whilst changes to the assumptions do not immediately impact usable reserves, any longer-term increase in the underlying liability would likely lead to an increase in

the level of employer contributions to be charged to the General Fund and HRA in future years.

Property, Plant and Equipment

- 6.6 Assets are depreciated over useful lives that are dependent upon assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. If the Council did not sustain its current spending on repairs and maintenance the useful lives currently assigned to assets may be reduced.
- 6.7 In addition, the Council is required to value its operational properties (land and buildings) at 'current value'. For non-specialised assets such as office buildings, this is taken to be the value of the property in its existing use (e.g. disregarding any redevelopment potential). For specialised assets such as swimming pools, a depreciated replacement cost approach is used. Council dwellings are valued based upon an existing use value for social housing, which applies a discount factor to reflect the fact that they are let on protected tenancies at lower than market rents.
- 6.8 Any valuation requires certain assumptions and estimates to be made, and therefore there is an inherent risk that valuations may change materially in subsequent years. This risk is mitigated through the appointment of independent external property valuers, who are engaged to value properties in accordance with the requirements of the Code, and the Royal Institute of Chartered Surveyors (RICS) Valuation Global Standards.
- 6.9 The frequency of valuations depends upon the type of value of each property, as follows:-

Property type	Total value (land and buildings)	Valuation frequency
Operational – non-specialist	£3 million or greater	Annually
	Less than £3 million	5-yearly
Operational - specialist	£1 million or greater	5-yearly, with indexation in the intervening years
	Less than £1 million	5-yearly
Council dwellings	All	Annually, on a beacon basis, with full valuation, including physical inspection, of beacon

		properties on a rolling 5-yearly cycle
Surplus assets	All	Annually
Assets held for sale	All	Annually

- 6.10 In addition to the above programme of planned valuations, the external valuers also carry out an annual 'materiality review' to identify any risks of material movements in the value of properties not scheduled for review in any given year. Where any such risks are identified, an additional valuation is conducted.
- 6.11 Council dwellings are valued using a beacon approach, whereby properties are grouped into similar 'archetypes' based upon type, size, age and location. Within each archetype a representative property is chosen for valuation, and the value derived is then applied to the whole archetype.
- 6.12 Following a competitive tender process, the Council appointed new external valuers for its non-dwelling properties for the 2021-22 accounts (Bruton Knowles). The 2021-22 audit was completed with only minimal queries being raised about the methodologies used by Bruton Knowles. As noted above detailed work on the 2022-23 audit has not yet been undertaken. Bruton Knowles will complete the valuation of non-dwelling properties for the 2023-24 accounts and initial discussions about this year's work programme have already taken place. No significant issues have been identified. Wilks, Head and Eve will continue to be responsible for the valuation of council dwellings and early engagement with their team is scheduled to commence shortly.
- 6.13 The total value of council dwellings as at 31 March 2023 was £726.43 million, and the total value of other operational properties was £144.35 million.

Business Rate Appeals

- 6.14 Since the introduction of the Business Rates Retention Scheme from 1 April 2013, local authorities are liable for successful appeals against business rates charged to businesses, both in the current financial year and earlier years, in proportion to their local share of business rates income. The Council's General Fund share of business rates income is 40%.

- 6.15 A provision is therefore recognised for the best estimate of the amount that will be repayable following successful rating valuation appeals. The provision is calculated using an estimate of the likely remaining average reduction in rateable values over the life of the 2017 Valuation Office Agency (VOA) ratings list, plus an estimate of the amounts which will be required to settle appeals still outstanding on the 2010 ratings list. The estimates are based upon historical experience, and the Council has employed relevant experts to assist with this process. However, it remains possible that appeals may be settled at amounts which differ from these estimates.
- 6.16 The Valuation Office Agency completed a revaluation of properties registered for business rates and this determined business rates payable with effect from 1 April 2023. The need for any provision relating to appeals in respect of the 2023 rating list will be considered as part of work to produce the 2023/24 accounts.
- 6.17 The Council's share of the provision is currently forecast to be £2.984 million as at 31 March 2024, although this will be reassessed at year-end.

Fair Value Measurements

- 6.18 The Code requires many of the Council's assets to be held on the balance sheet at fair value, which is the price that an independent market participant would pay for the asset as at the balance sheet date.
- 6.19 Where possible, fair value is measured based upon quoted prices for identical assets in an active market (known as level 1 inputs). However, where such prices are not available, other valuation techniques must be used. These can be based upon observable (level 2) or unobservable (level 3) inputs.
- 6.20 Wherever level 1 inputs are not available for material assets or liabilities, the Council employs relevant experts to identify the most appropriate valuation techniques and to undertake valuations as required.
- 6.21 The most significant assets held by the Council and valued using level 2 or level 3 inputs are its investment properties. The table below provides more information regarding the approach taken to value these assets:-

Asset	Value (31 March 2023)	Valuation Approach
Investment properties (including investment properties held for sale)	£162.5m	Valuation undertaken by external property valuers using a range of observable and unobservable inputs (level 3), such as expected yields, market rents and land values. Approaches adopted include the investment method (capitalising rental values using expected yields) and the comparable method (using recent market transactions of similar properties with appropriate adjustments).

6.22 Investment properties with a value of £500,000 or greater are valued annually, whilst smaller properties are valued on a rolling 5-yearly basis. As with operational properties, an annual ‘materiality review’ is conducted by the valuers to identify any risks of material movement in the value of properties not subject to revaluation in any given year.

7 Future Developments

7.1 This section provides an update on upcoming developments impacting the Council’s accounts including the latest position in relation to matters brought to the committee’s attention in previous years.

IFRS 16 Leases

7.2 It had originally been anticipated that a change in the approach to accounting for leased assets would be implemented from 1 April 2022. Following consultation with local authorities, HM Treasury, local authority auditors and other stakeholders CIPFA determined in April 2022 that the implementation date would be put back to 1 April 2024. Authorities are permitted to voluntarily adopt from 2023/24 if they wish to do so.

7.3 Early work has been undertaken to assess the likely impact of implementing the new standard. However, since no material benefits associated with early implementation have been identified, officers do not propose to implement the standard until 2024/25 when it becomes mandatory. The Council is required to include a disclosure note in its accounts setting out the expected impact of the new standard on the 2024/25 accounts. At the present time the standard is not expected to have a material impact but further work is required prior to publication of the 2022/23 statements to confirm this is the case.

MRP Consultation

- 7.4 It was reported to this Committee in February 2022 that the government was undertaking a consultation on changes to the Statutory Guidance on Minimum Revenue Provision (MRP). During the consultation the government made changes to its original proposals to address concern expressed by local authorities about the impact the proposed changes would have on authorities which had made loans to Council-owned subsidiaries, joint ventures and third parties.
- 7.5 The Council has made loans to a range of organisations. The original MRP proposals could have significantly impacted on the viability of future loans and meant the Council needed to charge MRP on existing loans. The revised proposals reduce the likelihood that MRP will be required in relation to Council loans providing there is no expectation that the Council will experience a loss in respect of the loans it has made. Existing budgeting and accounting arrangements already require the Council to be vigilant about the risk of loans not being recoverable. Therefore, the expected changes to MRP guidance, as referred to in the most recent consultation documentation, are not expected to impact the Council's financial statements or its Medium Term Financial Strategy.
- 7.6 Originally, it was expected that changes to the statutory guidance would be effective from 2023/24. It is now anticipated that the changes will be effective from 2024/25.

8. Implications

a) Financial Implications

As set out throughout this report.

b) Staffing Implications

None.

c) Equality and Poverty Implications

None.

d) Net Zero Carbon, Climate Change and Environmental Implications

None.

e) Procurement Implications

None.

f) Community Safety Implications

None.

9. Consultation and communication considerations

The draft Statement of Accounts are due to be published on the Council's website by 31 May 2024, and will be subject to a public inspection period in accordance with the Accounts and Audit Regulations 2015 (as amended).

10. Background papers

Draft Statement of Accounts 2022-23 Inspection of papers

To inspect the background papers or if you have a query on the report please contact Caroline Ryba, Chief Finance Officer, tel: 01223 - 458134, email caroline.ryba@cambridge.gov.uk