Joint Audit and Governance Committee

Report of Head of Finance

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To: Joint Audit and Governance Committee

DATE: 15 April 2024

Statement of Accounts 2023/24

Recommendation(s)

(a) To note progress on completing the 2023/24 Statement of Accounts.

(b) To note forthcoming accounting requirements, issued but not yet adopted, relating to IFRS16 *Leases.*

(c) To approve revised statements of accounting policies as shown in Appendix one (South Oxfordshire) and Appendix two (Vale of White Horse) to apply in production of the 2023/24 Statement of Accounts.

Implications (further detail within the report)	**Financial**	**Legal**	**Climate and Ecological**	**Equality and diversity**
	No	No	No	No
Signing off officer	**Ian Wigginton**	**Pat Connell**	**N/a**	**Abigail Witting**

Purpose of Report

1. To update councillors on progress being made towards the completion of the 2023/24 statement of accounts, and to present revised statements of accounting policies for approval.

Strategic Objectives

2. Managing the finances of the authorities effectively will help to ensure that resources are available to deliver their services and meet the councils' strategic objectives.

Background

3. Under the Accounts and Audit Regulations 2015[1] the councils are required to issue draft annual statement of accounts for public inspection before the first working day of June and to publish final, audited accounts, no later than 30 September of the financial year following that to which the accounts relate.

4. The statutory deadlines for approving draft accounts, and completion of the external audit has proved to be extremely challenging for local authorities and audit firms nationally. As at December 2023, the backlog of outstanding audit opinions for English local authorities stood at 771, according to the Department for Levelling Up, Housing and Communities (DLUHC).

5. In February 2024, as part of proposals to ease the audit backlog, DLUHC opened a consultation[2] proposing to amend the current regulations to put a "backstop date" in law of 30 September 2024 for authorities to publish audited accounts for all outstanding years up to and including financial year 2022/23.

6. The consultation closed on 7 March 2024 and the outcome of the consultation has yet to be published. Under the proposals, auditors would be required to issue an opinion based on the work they have been able to complete to enable authorities to publish audited accounts ahead of the backstop dates.

7. The statement of accounts for the Vale of White Horse[3] and for South Oxfordshire[4] have been published in draft format on the council's respective websites. Both councils' draft 2022/23 accounts are currently subject to audit by Ernst and Young LLP.

8. At the time of writing, the deadline for local authorities to publish unaudited statement of accounts remains the 31 May following the financial year end. This means that the council's annual statement of accounts for 2023/24 should be issued in draft format by 31 May 2024. To prevent a recurrence of national audit delays, DLUHC are proposing a backstop date of 31 May 2025 for issue of audited 2023/24 statement of accounts[5].

9. The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code) changes for 2023/24 are considered minor and it is considered that the accounting policies applied in preparation of the 2022/23 Statement of Accounts remain appropriate for use in preparation of the 2023/24 Statements. The proposed

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[1] The Accounts and Audit Regulations 2015
[2] DLUHC statement on audit delays, February 2024
[3] Vale of White Horse District Council draft Statement of Accounts 2022/23
[4] South Oxfordshire District Council draft Statement of Accounts 2022/23
[5] Accounts and Audit (Amendment) Regulations 2024 [draft]

accounting policies are shown in Appendix one (South Oxfordshire) and Appendix two (Vale of White Horse).

10. Whilst not applicable for 2023/24, from 1 April 2024 the councils will be mandated to adopt revised accounting arrangements for leases consistent with the Code's interpretation of International Reporting Standard 16 *Leases* (IFRS16).

11. Prior to adoption of IFRS16, the Code incorporated the requirements of International Accounting Standard 17 *Leases* (IAS 17) which maintained a distinction between 'operating' and 'finance' leases, depending on which party to the lease was deemed to hold substantially all the risks and rewards of the asset under lease.

12. Under an operating lease, amounts payable are chargeable as a revenue expense to the Comprehensive Income and Expenditure Statement (CIES) as amounts become payable and the body leasing in the asset (the lessee) does not recognise the asset under lease on its Balance Sheet.

13. Under a finance lease, amounts payable are apportioned into an interest element (charged as revenue expenditure in the CIES) alongside a sum repaying the principal element (capital expenditure). The lessee would recognise the asset subject to lease on its Balance Sheet and conversely the body leasing out the asset (the lessor) would de-recognise the asset from its own Balance Sheet.

14. For South Oxfordshire and the Vale of the White Horse District Councils, the primary impact of the new accounting arrangements will be on situations where either council is party to a lease agreement as lessee. Under IFRS16, with the exception of low value items and short-term leases, a lessee will be required to recognise a 'right of use asset' and corresponding lease liability on its Balance Sheet.

15. In practical terms, recognition of assets under lease will mean the lessee holds assets which it has not yet fully financed. This will result in a rise in the lessee's Capital Financing Requirement and trigger the need for an amount of Minimum Revenue Provision to be set aside from the councils' General Fund to an earmarked reserve to finance the assets acquired under lease. Whilst this increases the accounting complexity, the new arrangements should not result in a material change in the bottom line cost of leases to either council from the accounting arrangements which applied previously.

Preparations for financial year end

16. The finance department has a timetable in place which aims for completion of both councils' financial statements in draft format by 31 May 2024. This is in accordance with the timeframes specified in current legislation and will ensure that production of the financial statements will not overlap with the 2025/26 budget setting process.

17. For the four years since the 2018/19 Year End, the Finance department has been unable to meet the statutory deadline for publishing the Year End statements. For 2019/20 the pandemic made meeting the deadline impossible and in subsequent years the length and intensity of external audits (which have crossed into the following April and May) have made the deadlines unachievable. An additional three permanent qualified accounting staff have recently been appointed and coupled with no expected external audit presence over the year end period meeting the statutory deadlines should be achievable going froward.

18. A timetable for the 2023/24 financial statements has been produced with target completion dates of 31 May for each Council. However, statements will not be published unless fully reviewed and may not be available until the end of June.

19. Most information required for completion of the Statements comes from internal sources. However, some key information is required from third parties. For example, from Capita to prepare the Collection Fund Statement for Council Tax and Non-Domestic Rates, Oxfordshire County Council for pension fund valuation data and from the councils' newly appointed property valuers, CBRE.

20. Ahead of preparing the final accounts, the statements of accounting policies have been reviewed. The draft policies are attached as Appendix one (South Oxfordshire) and Appendix two (Vale of White Horse). The committee is asked to approve these policies.

Accounting practices to apply from 1 April 2024 in relation to lease contracts as lessee

21. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time. In applying the Code's adaptation of IFRS16, the councils will apply the following interpretations:

- The councils will adopt a practical expedient not to reassess whether existing contracts as at 1 April 2024 do, or do not, contain leases.

- Recognition exemptions – the councils will apply recognition exemptions to low value assets (i.e. assets whose value when new was below £10,000) and to short term leases (i.e. existing leases that expire on or before 31 March 2024, and for leases entered into from or after 1 April 2024 with a term of less than 12 months).

- Lease term –The term of the lease will ordinarily be determined as specified in the lease agreement. For leases that contain extension or break clauses, the term will be assessed in relation to the facts and circumstances that create an economic incentive to exercise, or not exercise, such options.

- Recognition of right of use assets – For leases classified as finance leases under IAS17, the carrying amount of the right of the right of use asset and the lease liability as at 1 April 2024 are determined at the carrying amount of the lease asset and lease liability under IAS17 immediately before that date. Where a lease is entered into as lessee on or after 1 April 2024 which is assessed to fall within the scope of IFRS16, a right of use asset will be recognised at the amount of the lease liability, adjusted for any prepaid/accrued payments. For leases with nominal ('peppercorn') rents, or leases of nil consideration, assets will be recognised for inclusion on the council's Balance Sheet based on the council's assessment of the fair value of the asset subject to lease.

- Where a right of use asset is recognised it will be assessed for impairment in line with arrangements which would be applicable to the underlying asset. The right of use asset will also be subject to depreciation in line with that applicable for the underlying asset. Depreciation will be charged from the commencement date to the earlier of the end of the assets useful life or the end of the lease term, or over the useful life if the lease will/will likely transfer ownership of the underlying asset to the lessee.

- Recognition of lease liabilities – Where a lease is assessed to fall within the scope of IFRS16 to which the council is lessee, a lease liability will be recognised at the present value of the remaining lease payments discounted using the interest rate implicit in the lease, except where a different rate is mandated in the CIPFA Code for transition arrangements on 1 April 2024. The councils may opt to apply a single discount rate for a portfolio of leases with reasonably similar characteristics.

Financial Implications

22. At this stage we do not believe there to be any material financial implications for the councils from the Code's adoption of the new leasing standard.

Legal Implications

23. Approval of the amended Statement of Accounts by the committee fulfils the requirements of the Accounts and Audit (England) Regulations 2015.

Climate and ecological impact implications

24. None

Equalities implications

25. The purpose of this report is to update councillors on progress being made towards the completion of the 2023/24 Statement of Accounts, and to present revised statements of accounting policies for approval. As such, there are no equalities implications.

Risks

26. None.

Other Implications

27. None.

Conclusion

28.