Appendix 2 – Summary of 2022/23 primary financial statements

Comprehensive Income & Expenditure Statement (CIES) (Sections 6 & 11)

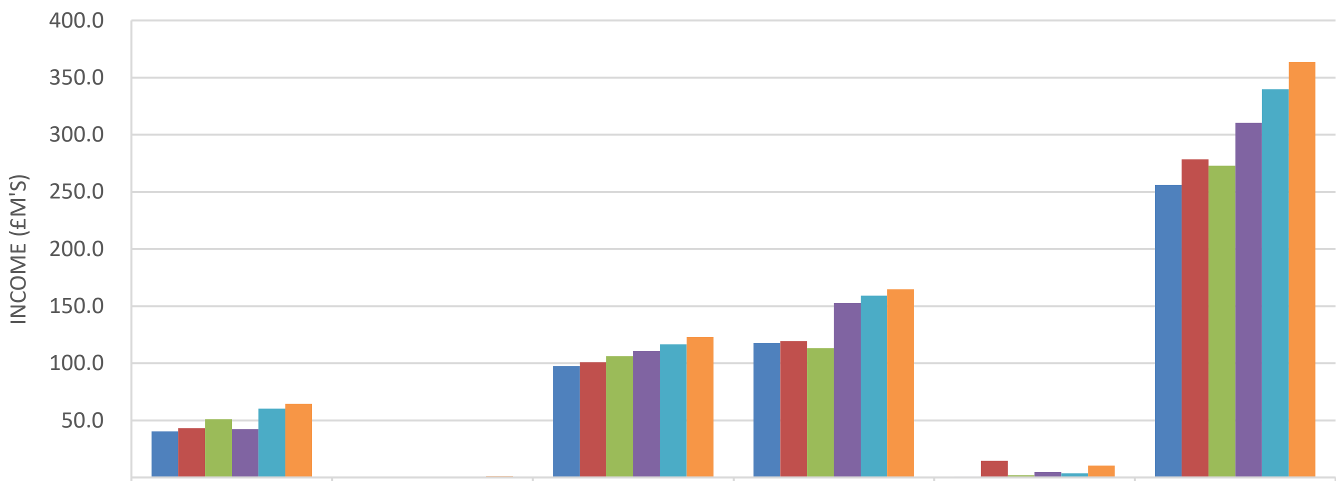
1 The CIES shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices. This will be considerably different to the budget monitoring reports received by Cabinet during the year which are solely based on expenditure which is to be funded from taxation. The CIES will include the following items which are not included within the budget monitoring reports presented to Cabinet periodically:

- ***Capital charges*** for depreciation, amortisation, impairment, revaluation movements and capital grants applied
- ***Pension service costs*** - the CIES in the financial statements needs to reflect the fair value of the future pension liabilities relating to past employee service, and the extent to which assets have been set aside to fund them, rather than the actual payments and contributions made in the year
- ***Accumulated absences*** – the CIES includes an adjustment for accrued employee holiday benefits so that the cost is charged to revenue in the financial year in which the holiday absence actually occurs
- ***Other*** – regulations stipulate the format of the CIES and consequently some items of income of expenditure are shown within different classifications to the monitoring reports

2 The following charts illustrate the movement in the “accounting” income and expenditure which make up the Surplus/deficit on the provision of services (SDPS) within the CIES. Further information can be found in notes 11.1 & 11.2 of the accounts.

Income & Expenditure analysed by nature (note 11.2)

INCOME INCLUDED IN CIES (£M'S)

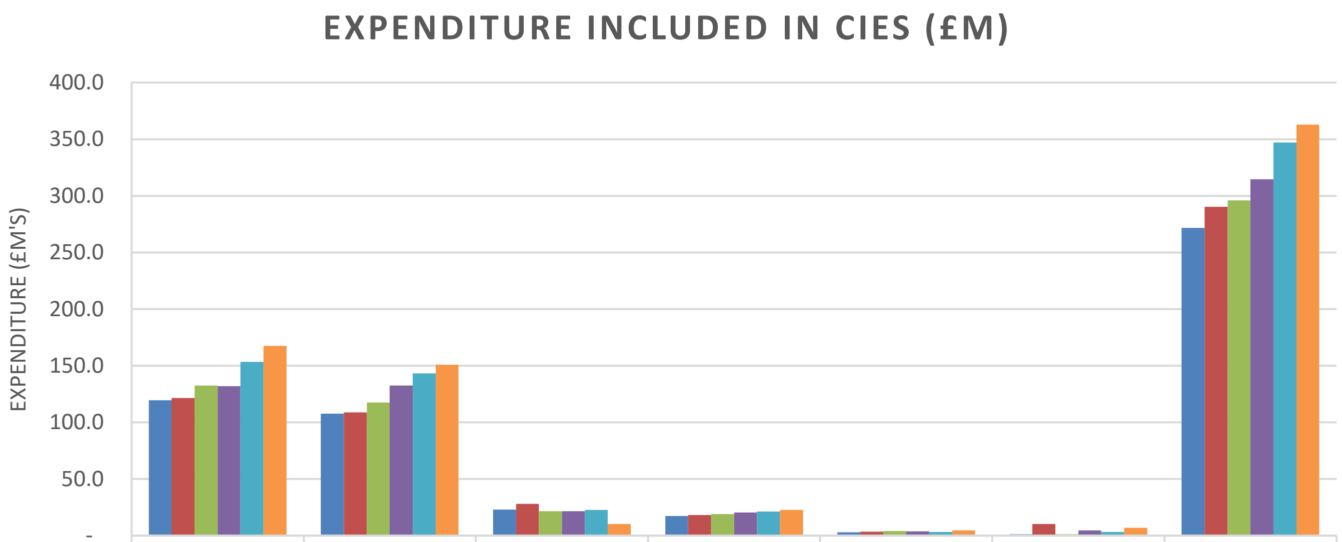


	Fees, charges & other service income	Interest and investment income	Income from council tax & NNDR	External grants and contributions	Gain/loss on disposal of non-current assets	Total
2017/18	40.2	0.2	97.4	117.6	0.7	256.1
2018/19	43.2	0.3	100.9	119.3	14.7	278.4
2019/20	51.1	0.4	106.3	113.2	1.8	272.9
2020/21	42.3	0.3	110.6	152.6	4.6	310.3
2021/22	60.1	0.3	116.5	159.1	3.7	339.7
2022/23	64.3	1.1	123.0	164.8	10.4	363.6

3 ***Fees, charges & other service income*** has increased by £4.2m (7.0%) year on year (YOY) which is largely in line with expectations as charges for Council services have increased in line with cost and inflationary pressures experienced. This will include charges for services such as Waste, Social Care, rents, and Car parking for example.

4 The increase in ***investment income*** of £0.8m reflects the increased interest rate environment experienced over the period. As noted in the table below, ***Interest payments*** have similarly increased by £1.3m (39.4%) YOY as the Bank of England looks to tackle inflationary pressures through monetary policy.

5 The increase in ***external grants*** of £5.7m (3.6%) YOY is mainly due to the increase in Welsh Government settlement alongside expected variances in specific grant awards.



	Employee benefits expenses	Other services expenses	Depreciation, amortisation and impairment	Precepts & levies	Interest payments	Gain/loss on disposal of non-current assets	Total
2017/18	119.6	107.6	22.9	17.4	3.0	1.2	271.7
2018/19	121.4	108.9	28.1	18.1	3.5	10.3	290.3
2019/20	132.5	117.6	21.5	19.1	4.1	1.3	296.1
2020/21	132.0	132.4	21.6	20.4	3.7	4.6	314.7
2021/22	153.3	143.3	22.6	21.4	3.3	3.2	347.1
2022/23	167.5	151.0	10.2	22.6	4.6	7.0	362.9

6 The increase in ***employee benefit expenses*** of £14.2m (9.3%) YOY is primarily due to:

- Service delivery continuing to return to more normalised levels in 2022/23 following disruption during the pandemic period
- Recognition of staff pay awards in line with agreed rates

7 The increase in ***other service expenses*** of £7.7m (5.4%) YOY principally reflects the additional demand pressures and inflationary environment that services have experienced in premises, supplies and third-party contracts during 2022/23.

8 ***Depreciation, amortisation & impairment*** has reduced significantly YOY which is principally due to a reduction in impairment charges. Volatility can be expected in this area dependent upon the assets included in the cycle of valuations carried out in any one year.

Movement in Reserves (Sections 5 & 10)

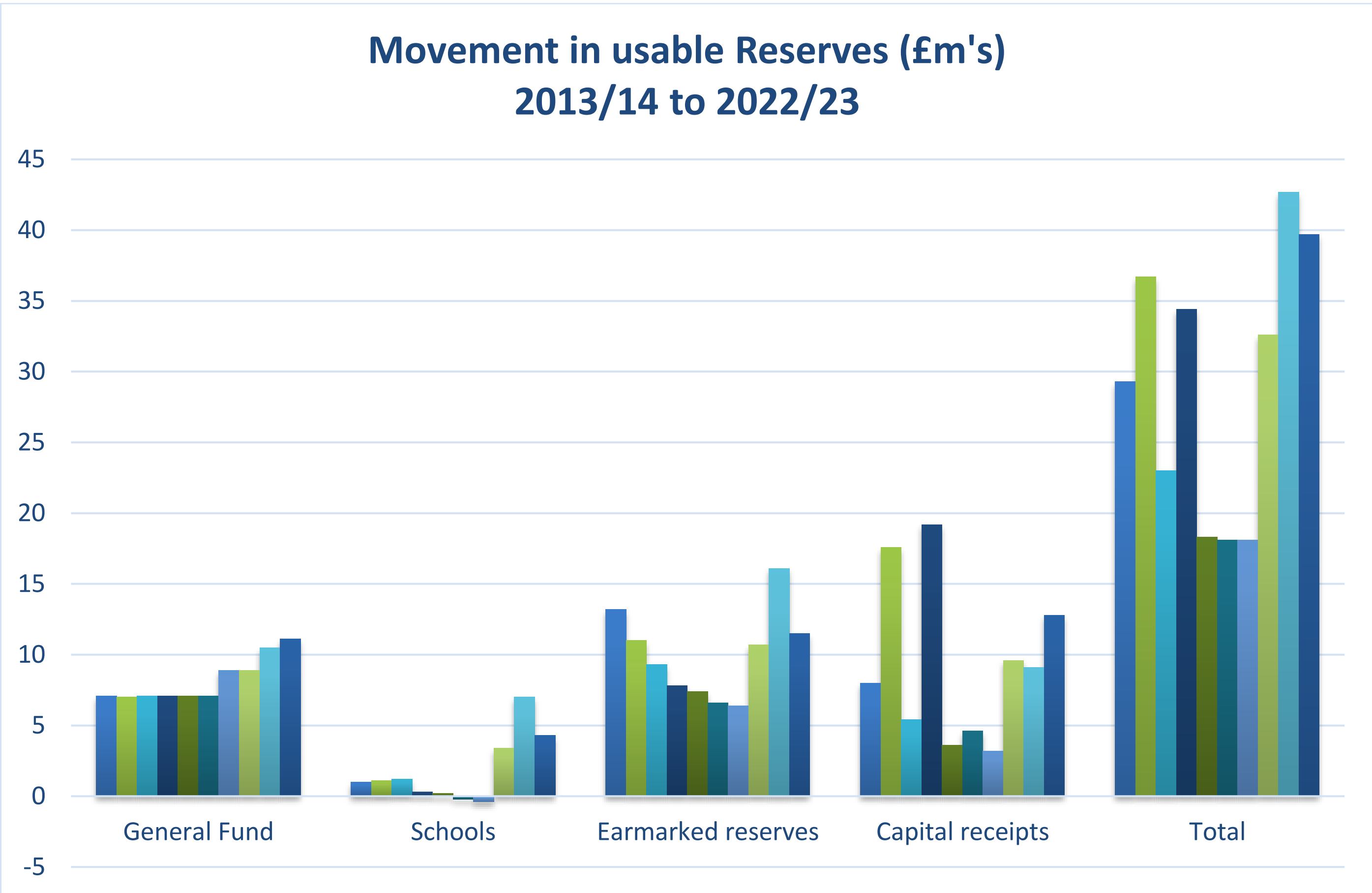
9 This statement shows the movement in the year on the different reserves held by the authority, analysed into ‘usable’ and ‘non-usable’ reserves.

10 ***Usable reserves*** are those that represent resources which the authority might use to support service delivery subject to prudence and statutory limitations on use and include:

- Council fund balance
- School’s balances
- Earmarked reserves
- Capital receipts reserve

11 ***Unusable reserves*** are not available to use to support service delivery at the reporting date. It includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences.

12 The below chart shows the movement in ***Usable reserves*** over the past nine financial years. The capital receipts reserve is by far the most variable usable reserve which can be expected given varying levels of receipts received over time, and that it has supported significant investment in the Authority’s capital programme over the period.



13 ***Earmarked reserves*** saw a sustained period of decline since 2013/14 as reserves were used to invest in redesign and modernisation of services during a period of financial austerity.

14 This trend was significantly reversed over the pandemic period by additional funding received from Welsh Government that was intended to provide Councils with suitable resources to be able to manage the post-pandemic impact upon demand for services and a period of economic recovery. At the end of 2022/23 this culminated in £3.5m of earmarked reserves being required to finance additional expenditure on services that was over and above budget.

15 ***School balances*** similarly benefited from such additional funding over the pandemic period, reversing a period of decline which saw overall school balances in a negative position. This funding was intended to support recovery in learning standards post-pandemic and schools have invested significantly over the 2022/23 period to ensure pupils have been adequately supported.

Balance Sheet (Sections 7, 12, 13 & 14)

31st March 2022		31st March 2023	Change	Change
£m		£m	£m	%
	What we own and are owed (Assets):			
413.4	Non-current assets	476.8	63.4	15.3%
19.4	Investments	17.7	(1.7)	-8.8%
34.1	Cash & Cash equivalents	28.0	(6.1)	-17.9%
45.7	Debtors	61.5	15.8	34.6%
1.0	Assets held for sale	1.0	0.0	0.0%
0.6	Inventories & other assets	0.5	(0.1)	-16.7%
514.2	**Total Assets**	**585.5**	**71.3**	**13.9%**
	What we owe (Liabilities):			
(104.3)	Long term Borrowing – to finance capital expenditure	(133.1)	(28.8)	27.6%
(73.6)	Short term borrowing – to support day to day cash flow & finance capital expenditure	(67.2)	6.4	-8.7%
(58.6)	Creditors & provisions	(50.7)	7.9	-13.5%
(259.2)	Liability for meeting future pension costs	(56.6)	202.6	-78.2%
(8.7)	Other liabilities	(10.2)	(1.5)	17.2%
(504.4)	**Total Liabilities**	**(317.8)**	**186.6**	**-37.0%**
9.8	**Total Worth (Assets less Liabilities)**	**267.7**	**257.9**	
	Usable Reserves (available to support service delivery)			
10.5	General Fund Balance	11.1	0.6	5.7%
7.0	Schools Balances	4.3	(2.7)	-38.6%
16.1	Earmarked Reserves	11.5	(4.6)	-28.6%
9.1	Capital Receipts Reserve	12.8	3.7	40.7%
0.9	Joint Arrangements	0.9	0.0	0.0%
43.6	**Total Usable Reserves**	**40.6**	**(3.0)**	**-6.9%**
	Unusable Reserves (not available to support service delivery)			
46.0	Revaluation Reserve	74.9	28.9	62.8%
(259.2)	Pensions Reserve	(56.6)	202.6	-78.2%
180.3	Capital Adjustment Account	210.6	30.3	16.8%
3.6	Deferred Capital Receipts Reserve	3.4	(0.2)	-5.6%
(0.5)	Financial Instrument Adjustment Account	(0.5)	0.0	0.0%
0.0	Financial Instrument Revaluation Reserve	(0.4)	(0.4)	0.0%
(4.0)	Accumulating Absence Adjustment Account	(4.3)	(0.3)	7.5%
(33.8)	**Total Unusable Reserves**	**227.1**	**260.9**	**-771.9%**
9.8	**Total Reserves**	**267.7**	**257.9**	

16 The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority.

17 There is a difference of £267.7m between the Council's assets (things we own e.g. property, investments, stocks and debtors) and its liabilities (what we owe to others). This difference represents the surplus of assets over liabilities and is a measure of *Total Worth* – i.e. theoretically what the council would be worth if bought / acquired by someone else.

18 This position has improved markedly YOY primarily as a result of the movement in the forecast liability for meeting future pension costs. This is explained further below.

Debtors

19 The YOY increase in debtor balances is significant at £15.8m or 34.6%. Note 13.5 to the accounts analyses the amounts owing to the Council by debt type and shows that this movement is predominantly due to an increase in public sector debt (Welsh Government, other Councils, or NHS bodies), which presents a far lower level of concern around the recoverability to debt than in regard to non-public body debt. 70% of debt was not overdue at the balance sheet date, with a further 15% overdue by less than 3 months.

20 Of particular note is the increase in Welsh Government debt of £9.3m which is due to the large number of grant scheme claims in place towards the end of the financial year, but for which the actual cash payment will not physically be received until 2023/24.

Investments and Cash & cash equivalents

21 There is an overall reduction of £7.8m YOY in these balances which is primarily due to the reversal of a position from the end of the previous year where increased cash balances were being held temporarily following additional long-term borrowing and significant grant receipts.

Non-current assets (Land, buildings, infrastructure, vehicles & plant)

22 Revaluations were carried out on approximately 20% of our non-current assets during the year in line with the 5-year rolling programme of revaluation. This has resulted in an overall increase in value of £63.4m or 15.3% to £476.8m.

23 The audit sector nationally has raised concerns in recent years of the impact of significant increases in build costs which as a consequence may mean that it is no longer appropriate for audited bodies to rely on valuations of assets carried out in previous financial years (i.e. the 80% we didn't revalue in 2022/23) to demonstrate that carrying values remain materially consistent with current values at 31 March 2023.

24 To overcome this issue, the Council agreed an approach with Audit Wales that indexation of assets most impacted by this issue is carried out using sector wide building cost information. Valuations have subsequently been adjusted to reflect the current trend in building cost data, and this accounts for the significant increase seen in overall values of non-current assets.

Pension liability

25 The main driver in the change of total worth during 2022/23 comes from the significant re-measurement of net future pension fund liabilities which has decreased by £202.6m (78.2%).

26 This is as a result of a significant decrease in the value of scheme liabilities of £204.6m, offset slightly by a reduction in the value of scheme assets. The movement in liabilities relate to changes in financial assumptions (e.g. inflation, discount rate, longevity/age presumptions).

27 The additional impact for 2022/23 is that the revised actuarial forecast is now based on the 31st of March 2022 funding valuations that were concluded by 31 March 2023. The accounting balance sheet position as at 31 March 2023, and the projected charge to the P&L for 2023/24, are therefore based on a new roll-forward from the 2022 funding valuation. This differs to the balance sheet position as at 31 March 2022 and the charge to the P&L for 2022/23, which were based on a roll-forward from the 2019 funding valuation. This ‘step change’ can lead to sizeable asset and obligations ‘remeasurement experience’ items in the reconciliation of the balance sheet YOY.

28 It should be noted that the fund is there for the long-term funding of pensions, and annual variations in actuarial assumptions can regularly skew the presentation of the overall balance sheet figures quite significantly in any one year. The anticipated deficit on the pension scheme and its impact on the Council’s overall reserves is also a long-term issue. Notably, the deficit and liability would not arise in any single year, and the deficit is being addressed through higher employee and employer contributions, as well as the pension scheme benefits being calculated differently, such as moving to career average salaries as opposed to final salary.

Borrowing

29 The Council has looked to increase its level of long-term borrowing during the year to take advantage of a rising interest rate environment and to provide a greater level of certainty in interest costs over the medium term. Consequently, borrowing levels have increased over the year by £22.4m (12.6%), however this position is temporary in nature as the long-term borrowing replaces short-term borrowing that will gradually mature shortly after the financial year-end.

30 Further information can be found in the 2022/23 treasury outturn report for the Authority.

Creditors & Provisions

31 Creditors & provisions have reduced YOY by £7.9m or 13.5% which is primarily the reversal of an artificially high position experienced at the end of 2021/22 where the balances were increased temporarily by the requirement to defer many of the new grant initiatives that were communicated to and received late during the 2021/22 financial year from Welsh Government. Significantly these included the Cost-of-living support scheme, the Bus services support grant scheme and the Community renewal fund, which have since been paid.