Appendix 2 – Summary of 2021/22 primary financial statements

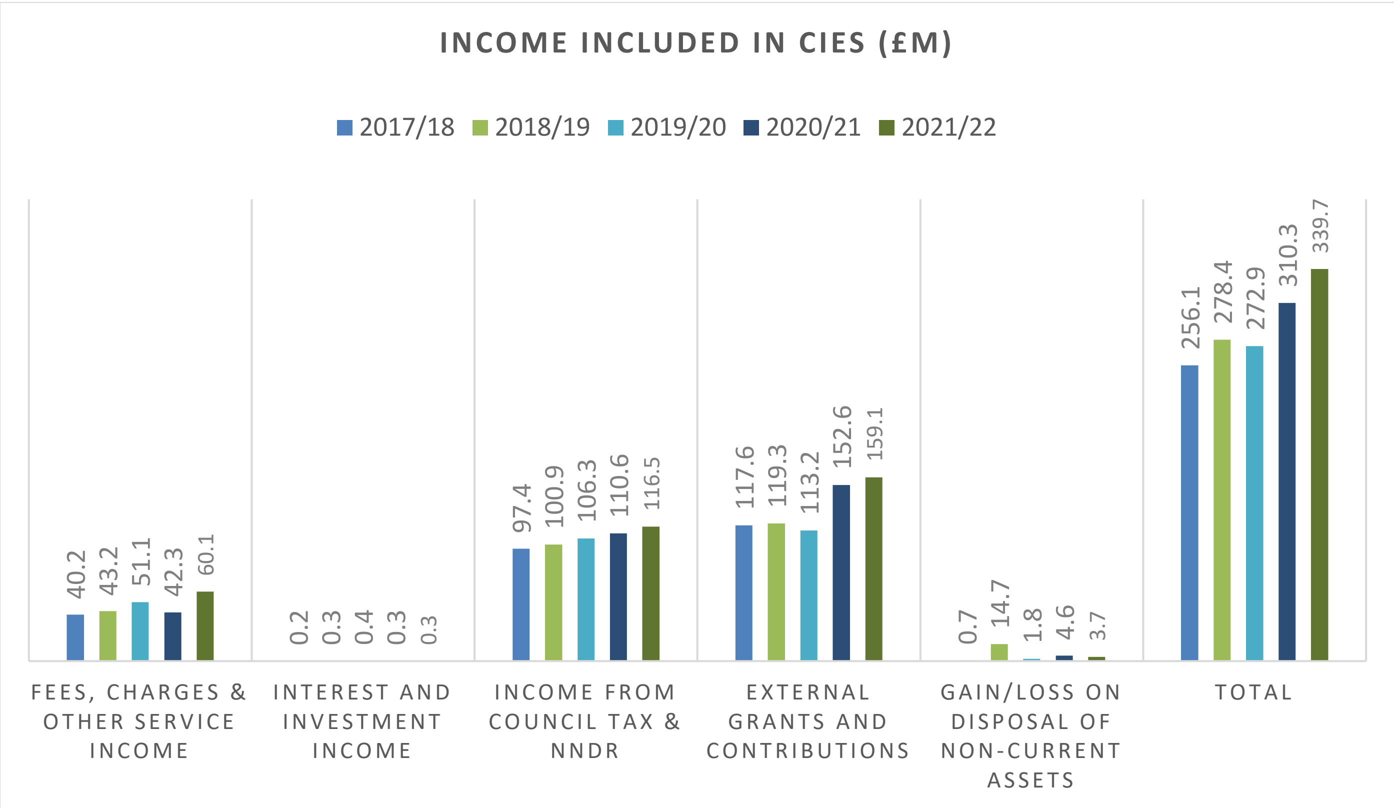
Comprehensive Income & Expenditure Statement (CIES) (Sections 6 & 11)

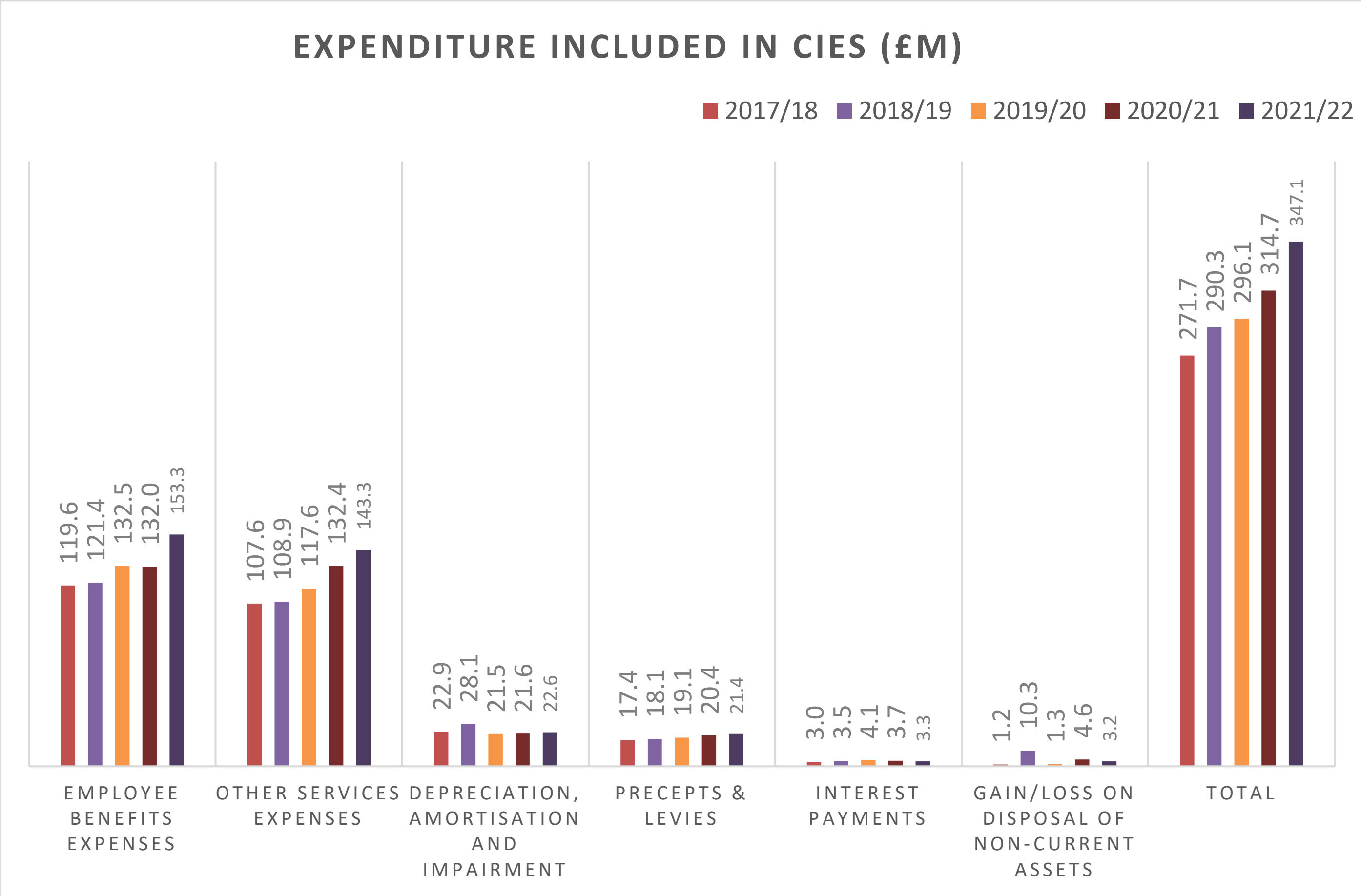
The CIES shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices. This will be considerably different to the budget monitoring reports received by Cabinet during the year which are solely based on expenditure which is to be funded from taxation. 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

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)





The increase in ***employee benefit expenses*** of £21.3m year on year (YOY) is primarily due to:

- Service delivery returning to more normalised levels in 2021/22 following severe disruption during 2020/21 due to the pandemic
- Recognition of staff pay awards in line with agreed rates
- We are required to recognise in the CIES the fair value of pension benefits accrued during the period, and this has increased by approximately £12m YOY due to actuarial assumptions impacting the calculation such as increased life expectancy, an increase in inflation and in projected salary increases.

The increase in ***other service expenses*** £10.9m YOY, and increase in ***fees & charges*** of £17.8m YOY can largely be explained by a return to more normalised levels of service delivery following the most severe impacts of the pandemic felt during 2020/21. Premises, supplies and other third party costs have all increased as services have expanded service delivery, whilst fees and charges have increased where admissions, parking fees and rents for example have recovered.

The increase in ***external grants*** of £6.5 YOY is mainly due to the increase in Welsh Government settlement alongside expected variances in specific grant awards.

Movement in Reserves (Sections 5 & 10)

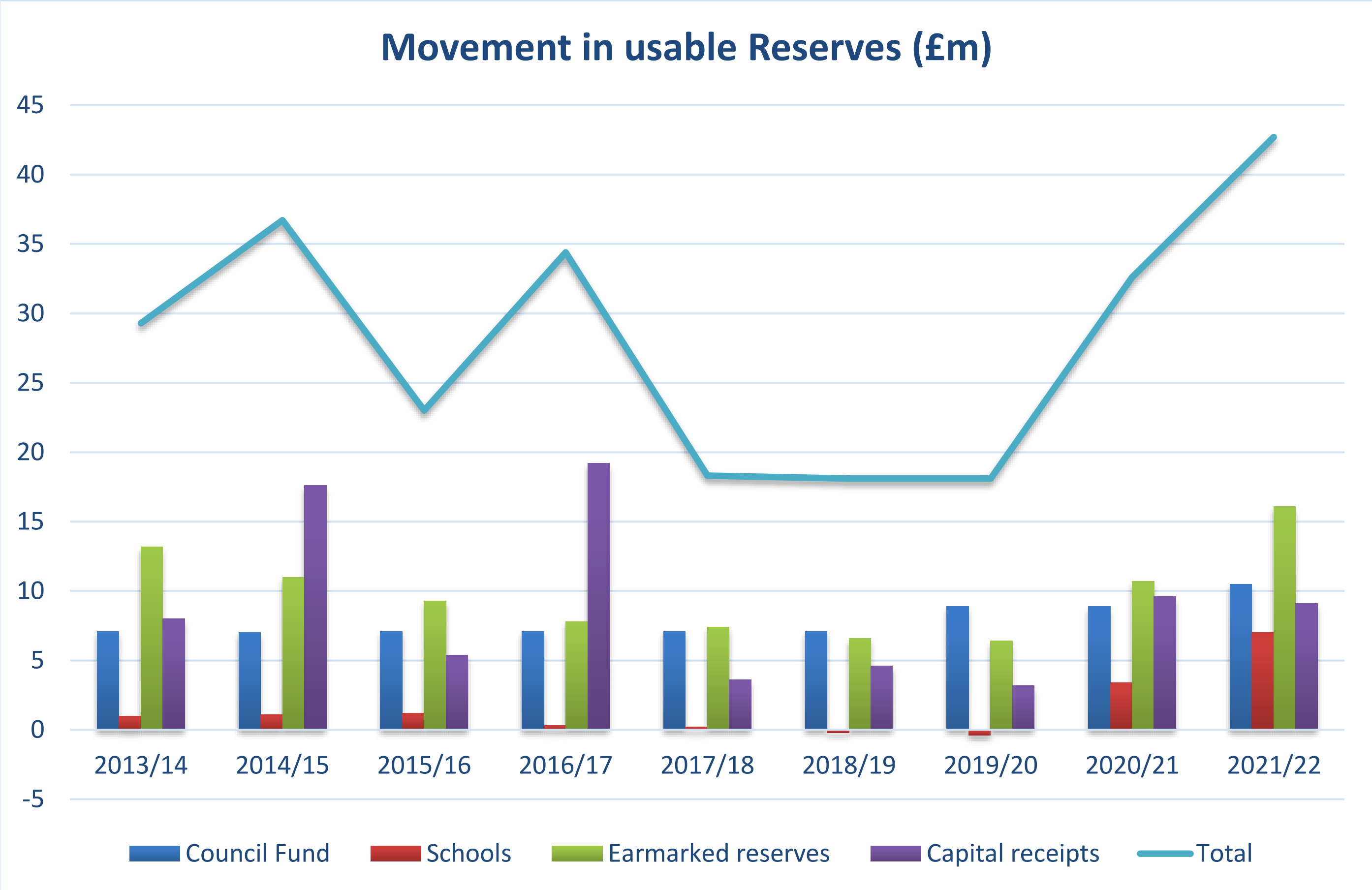
This statement shows the movement in the year on the different reserves held by the authority, analysed into ‘usable’ and ‘non-usable’ reserves.

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
- Schools balances
- Earmarked reserves
- Capital receipts reserve

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.

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.



Both Earmarked reserves and Schools reserves have continued to see significant replenishment during 2021/22 which has reversed a sustained period of decline since 2013/14. This is largely as a result of one-off support provided by Welsh Government to aid with Covid-19 pressures alongside an in year budget surplus achieved on core service delivery.

This provides a level of financial resilience for the Council moving forward and will play a pivotal role in mitigating a forecast budget deficit at a time when significant demand and funding pressures are presenting in the short and medium term.

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

31st March 2021 £m		31st March 2022 £m	Change YOY £m	Change YOY %
	What we own and are owed (Assets):			
390.0	Non-current assets	405.0	15.0	3.85%
24.8	Investments	19.4	(5.4)	-21.77%
19.2	Cash & Cash equivalents	34.1	14.9	77.60%
35.9	Debtors	45.7	9.8	27.30%
2.6	Assets held for sale	1.0	(1.6)	-61.54%
0.4	Inventories & other assets	0.6	0.2	50.00%
472.9	**Total Assets**	**505.8**	**32.9**	**6.96%**
	What we owe (Liabilities):			
(84.9)	Long term Borrowing – to finance capital expenditure	(104.3)	(19.4)	22.85%
(99.2)	Short term borrowing – to support day to day cash flow & finance capital expenditure	(73.6)	25.6	-25.81%
(41.6)	Creditors & provisions	(58.6)	(17.0)	40.87%
(306.7)	Liability for meeting future pension costs	(259.2)	47.5	-15.49%
(11.4)	Other liabilities	(8.7)	2.7	-23.68%
(543.8)	**Total Liabilities**	**(504.4)**	**39.4**	**-7.25%**
(70.9)	**Total Worth (Assets less Liabilities)**	**1.4**	**72.3**	
	Usable Reserves (available to support service delivery)			
12.3	Council Fund Balance	17.5	5.2	42.28%
10.7	Earmarked Reserves	16.1	5.4	50.47%
9.6	Capital Receipts Reserve	9.1	(0.5)	-5.21%
0.2	Joint Arrangements	0.9	0.7	350.00%
32.8	**Total Usable Reserves**	**43.6**	**10.8**	**32.93%**
	Unusable Reserves (not available to support service delivery)			
38.4	Revaluation Reserve	41.9	3.5	9.11%
(306.7)	Pensions Reserve	(259.2)	47.5	-15.49%
164.0	Capital Adjustment Account	173.8	9.8	5.98%
2.7	Deferred Capital Receipts Reserve	3.6	0.9	33.33%
(0.5)	Financial Instrument Adjustment Account	(0.5)	0.0	0.00%
0.0	Financial Instrument Revaluation Reserve	0.0	0.0	0.00%
(4.1)	Accumulating Absence Adjustment Account	(4.0)	0.1	-2.44%
2.5	Joint Arrangements	2.2	(0.3)	-12.00%
(103.7)	**Total Unusable Reserves**	**(42.2)**	**61.5**	**-59.31%**
(70.9)	**Total Reserves**	**1.4**	**72.3**	

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.

There is a difference of £1.4m 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 a small 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.

Debtors

The YOY increase in debtor balances is significant at £9.8m or 27.3%. 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 (Central government bodies, other Councils, or NHS bodies), which presents a far lower level of concern around the recoverability to debt than in regards to non-public body debt.

Of particular note is the increase in Welsh Government debt of £8m which is due to the large number of grant schemes put in place towards the end of the financial year, but for which the actual cash payment will not physically be received until 2022/23.

Investments and Cash & cash equivalents

There is an overall increase of £9.5m YOY in these balances which is primarily due to the Council taking out a number of longer term loans during 2021/22 to replace short term borrowing, which increased overall cash balances temporarily. Some of the short term loans will not mature until after the balance sheet date, and as such investment & cash balances have since reduced considerably following year end.

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

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 £15m or 3.85% to £405m.

The audit sector nationally has raised concerns around the information provided by the District Valuation Service for NHS bodies indicating that there have been significant movements in build costs during 2021/22, at circa 7%. Consequently, it may no longer be 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 2021/22) to demonstrate that carrying values remain materially consistent with current values at 31 March 2022.

The Council is currently in dialogue with Audit Wales as to the most efficient and practical solution to this issue which satisfies both parties in the most timely manner. It is considered likely that an indexation approach based on sector wide information may present the most appropriate solution.

Whilst the Council respects the position that the audit sector has taken over this issue and that it is agreed that asset values need to remain materially correct, it is important to also note that Local Authority accounts are not used for the same purposes as those in the private sector. Our balance sheet assets and liabilities are not used as a measure of financial standing, and the transactions in relation to valuations are transferred out through 'paper' transactions. Consequently the Council can be assured that any further revaluation exercise undertaken through the audit process will have little impact upon future financial decision making.

Pension liability

The main driver in the change of total worth during 2021/22 comes from the significant re-measurement of net future pension fund liabilities which has decreased by £47.5m. Further explanation can be found in note 14.8 of the statement of accounts but in summary is as a result of an increase in the value of scheme assets alongside a decrease in the value of scheme liabilities. The movement in liabilities relate to changes in financial assumptions (e.g. inflation, discount rate, longevity/age presumptions).

The movement in 2021/22 can largely be seen as a correction of the 2020/21 movement which included the impact of the most severe period of the pandemic.

It should be noted that the fund is there for the long-term funding of pensions, and annual variations in actuarial assumptions can skew the presentation of the overall balance sheet figures quite significantly in any one year. This 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

As noted above, the Council has looked to increase its level of long term borrowing during the year to take advantage of low levels of interest rates and to provide a greater level of certainty in interest costs over the medium term. Overall the Council still maintains a treasury strategy of “internal borrowing” which effectively means that the overall level of borrowing is maintained at lower levels than that actually required by using usable reserves and working capital balances in lieu of borrowing. Further information can be found in the 2021/22 treasury outturn report for the Authority.

Creditors & Provisions

Creditors & provisions have increased YOY by £17m or 41% which is a significant movement. Whilst this initially raises concern around our performance in ensuring suppliers are paid promptly, note 13.6 to the accounts confirms that 97.54% of payments to suppliers were made within the 30 day target during 2021/22, broadly in line with the previous year.

The increase in overall level of balances can be explained by the need to defer many of the new grant initiatives that were communicated to and received late during the financial year from Welsh Government. Under the terms of the arrangements the funding can legitimately be rolled forward into the 2022/23 financial year, but under proper accounting practice must be allocated to the 2021/22 financial year. Significantly these include the Cost of living support scheme, the Bus services support grant scheme and the Community renewal fund.