

# LONDON BOROUGH OF CROYDON

<b>REPORT:</b>	<b>Audit and Governance Committee</b>	
<b>DATE OF DECISION</b>	<b>14 March 2024</b>	
<b>REPORT TITLE:</b>	<b>External Audit Findings Report on the 2019-20 Statement of Accounts</b>	
<b>CORPORATE DIRECTOR</b>	<b>Jane West Corporate Director of Resources (Section 151 Officer)</b>	
<b>LEAD OFFICER:</b>	<b>Ian Geary, Interim Head of Corporate Finance</b>	
<b>LEAD MEMBER:</b>	<b>Cllr Jason Cummings, Cabinet Member for Finance</b>	
<b>KEY DECISION?</b>	<b>No</b>	<b>Reason: N/A</b>
<b>CONTAINS EXEMPT INFORMATION?</b>	<b>No</b>	<b>Public Grounds for the exemption: N/A</b>
<b>WARDS AFFECTED:</b>	<b>All</b>	

## 1 SUMMARY OF REPORT

- 1.1** This report presents two reports from the Council's external auditors (Grant Thornton UK LLP)
- The final 2019-20 Audit Findings Report for the Council's accounts, including recommendations and management responses
  - An External Audit Plan for the financial year 2020-21
- 1.2.** This report also presents an updated set of audited 2019-20 statement of accounts, including the 2019-20 Pension Fund accounts. The report sets out the key changes between the audited 2019-20 accounts, and the version last presented to this committee on 20 July 2023.

## 2 RECOMMENDATIONS

The Audit and Governance Committee is recommended to:

- 2.1** Delegate authority to the Section 151 Officer in consultation with the Chair of Audit and Governance Committee to sign the 2019-20 Council accounts, including Pension Fund accounts (Appendix 2)

- 2.2 Delegate authority to the Section 151 Officer in consultation with the Chair of Audit and Governance Committee to sign the letters of representation to Grant Thornton LLP for the Council and Pension Fund
- 2.3 Note the 2019-20 Audit Findings Report for London Borough of Croydon and recommendations made (Appendix 1)
- 2.4 Note the External Audit Plan for 2020-21 (Appendix 3)

### **3 REASONS FOR RECOMMENDATIONS**

- 3.1 The terms of reference of the Audit and Governance Committee include to “oversee the financial reporting and annual governance processes” and “to review the annual statement of accounts and specifically to consider whether appropriate accounting policies and the CIPFA Financial Management Code have been followed, and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council”.
- 3.2 The audit of the 2019-20 accounts is substantively complete, with the auditors findings and management’s agreed responses set out in Appendix 1, and the updated financial accounts as Appendix 2. The committee is recommended to delegate sign-off of the final accounts and letters of representation to the Section 151 Officer and Chair of the Audit and Governance Committee following completion of the audit and receipt of the final audit opinion.
- 3.3 Committee is also recommended to delegate sign-off of the letters of representation to the Section 151 Officer and Chair of the Audit and Governance Committee. These letters will attest to the accuracy of financial statements and information submitted by the Council to Grant Thornton LLP.
- 3.4 Committee is also asked to note the External Audit Plan for the 2020-21 financial accounts, which incorporates an update on audit progress and sector updates.

### **4 BACKGROUND AND DETAILS**

- 4.1 The amended 2019-20 unaudited Statement of Accounts were presented to Audit and Governance Committee on 20 July 2023, together with a report explaining the key changes made to them since their initial publication on 19 October 2020.
- 4.2 The external audit of the 2019-20 accounts has subsequently been completed, and the final Audit Findings Report for London Borough of Croydon from Grant Thornton UK

LLP is provided in Appendix 1. Note: the Audit Findings Report for the Pension Fund was presented and agreed at this committee on 30<sup>th</sup> November 2023.

- 4.3** The Audit Findings Report includes an action plan appendix which provides recommendations as a result of issues identified during the course of the audit, and the Council's management response to these. The auditors will report to this Committee on progress on these recommendations during the course of the following year's audit.
- 4.4** The audited 2019-20 accounts are provided in Appendix 2, which contain a number of adjustments from the version presented on 20 July 2023.
- 4.5** The following section sets out the key areas that have been updated in the 2019-20 accounts since July 2023:

### **Capitalisation Direction**

- 4.6** The Council received an "in principle" confirmation from the Department for Levelling Up, Housing and Communities (DLUHC) to agree a capitalisation direction for up to £126m in 2019-20, to address legacy issues. The council has requested a further £9.4m of capitalisation direction to fund a further charge to the General Fund in 2019-20. This was in relation to the settlement of a contract dispute.

### **Minimum Revenue Provision for Capital Loans and purchase of investment properties**

- 4.7** The Council's Minimum Revenue Provision (MRP) guidance for the 2019-20 financial year did not set aside MRP for capital borrowing in relation to capital loans and investment properties. A review of the MRP policy determined this was not a prudent amount, as required by accounting standards. This has been corrected in the 2019-20 financial year by increasing the MRP in relation to these items, as set out below:

<b>Capital Borrowing:</b>	<b>Principal £'000</b>	<b>MRP 2019-20 £'000</b>	<b>MRP 2020-21 £'000</b>	<b>MRP 2021-22 £'000</b>	<b>MRP 2022-23 £'000</b>
Loans to Brick by Brick	147,365	1,862	1,921	1,981	2,043
Investment Property	101,343	1302	1,343	1,385	1,428
<b>Charge to General Fund</b>	<b>248,708</b>	<b>3,164</b>	<b>3,264</b>	<b>3,366</b>	<b>3,471</b>
Amounts since included		0	651	3,670	3,423
<b>Changes arising</b>		<b>3,164</b>	<b>2,612</b>	<b>(304)</b>	<b>48</b>

- 4.9** The Council had begun to make an MRP charge for Investment Property debt in 2020-21 and Brick by Brick debt in 2021-22 onwards. Introducing the charge into the 2019-20 year has therefore brought the charge forward by 1 to 2 years and will

ultimately see it end 1 to 2 years earlier. The additional charge to the general fund in 2019-20 and 2020-21 has been funded from available earmarked reserves and balances in those years.

### Loans to Brick by Brick (Croydon) Limited

- 4.8** At 31 March 2020 the Council had made loans of £147.365m to Brick by Brick for the construction of housing. The final 2019-20 accounts now include an impairment to the value of loans, to reflect that the loans will not be repaid in full. At the date of this report, the actual write-off of loans to Brick by Brick is not finalised, as it is dependent upon the sale by Brick by Brick of its final development sites. The Brick by Brick closure report to Cabinet on 14 February 2024 estimated the loss to be between £62m and £68m. However, for 2019-20 an impairment loss has been estimated by using a credit risk factor on the loan balance that existed at 31 March 2020.

	<b>31 March 2020 £'000</b>
Loans to Brick by Brick	147,365
Impairment	51,696
<b>Carrying value of loans</b>	<b>95,669</b>

- 4.9** Because the loans are capital in their nature (all debt in relation to interest has been repaid), the impairment is not a proper charge to the general fund under accounting rules. It is instead charged to the Capital Adjustment Account (an unusable reserve) and effectively increases capital debt.
- 4.10** Amounts of capital debt are required to be repaid via MRP. The amount of capital loans made to Brick by Brick is already subject to MRP, as set out in Paragraph 4.8 above, so no further MRP charge is required in relation to this impairment. It should be noted that as Brick by Brick repays loan amounts to the Council, its capital debt will be reduced. Ultimately, the residual balance being repaid from the general fund via MRP will be the balance of unpaid capital loans, currently estimated at between £62m and £68m.

### Fairfield Halls Asset classification

- 4.11** During its period of refurbishment, the Fairfield Halls have been reclassified from an operational asset to an asset under construction. This required numerous adjustments to the Council's balance sheet, comprehensive income and expenditure and movement in reserves statements, due to the way revaluations and depreciation are accounted for. However, there was no overall impact to the level of council reserves held as a result of this classification change.

## Revised General Fund and capitalisation direction.

- 4.12 The table below sets up the cumulative impact of the changes to the 2019-20 accounts on the Council's General Fund position.

### Capitalisation Direction Applied to 2019-20 Accounts

Reason for change	Report July 2023 (£000's)	Report November 2023 (£000's)	Report March 2024 (£000's)
Transformation expenditure removed	73,078	73,078	73,078
Credit loss for bad debt	28,872	28,872	28,872
Reduction in recharge to HRA	10,173	10,173	10,173
Cumulative MRP	3,544	6,708	6,708
Increase in General Balances	3,934	3,934	3,934
Increase in Earmarked Reserves	6,399	3,235	3,235
Expenditure arising from a contractual dispute			9,394
<b>Total Capitalisation Direction applied to 2019-20 accounts</b>	<b>126,000</b>	<b>126,000</b>	<b>135,394</b>

### Accounts preparation and Audit of subsequent financial years

- 4.13 The changes applied to the Council's 2019-20 accounts will be rolled forward into the 2020-21 and later financial years as part of bringing the Council up to date in relation to its financial accounts. Appendix 3 sets out the External Audit Plan for 2020-21, and contains updates from the Council's auditor in relation to addressing the backlog of local authority accounts.

## 5 ALTERNATIVE OPTIONS CONSIDERED

- 5.1 None.

## 6 CONSULTATION

- 6.1 None.

## **7. CONTRIBUTION TO COUNCIL PRIORITIES**

- 7.1** This report supports the Mayor's Business Plan 2022-2026 objective one "The council balances its books, listens to residents and delivers good sustainable services".

## **8. IMPLICATIONS**

### **8.1 FINANCIAL IMPLICATIONS**

- 8.1.1** A capitalisation direction of £135.394m is required in 2019-20, which must be repaid by the General Fund over a period of 20 years.
- 8.1.2** The external audit fees by Grant Thornton UK LLP will be funded through revenue budget and earmarked reserves (including the Opening the Books reserve).

Comments approved by Allister Bannin, Director of Finance (Deputy s151 Officer), 07/03/2024.

### **8.2 LEGAL IMPLICATIONS**

- 8.2.1** The Head of Litigation and Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer that under Section 3 of the Local Audit and Accountability Act 2014, the authority must keep adequate accounting records, and must prepare a statement of accounts in respect of each financial year.
- 8.2.2** Regulation 7 of the Accounts and Audit Regulations 2015 ('the Regulations') requires the authority's statement of accounts to be prepared in accordance with the Regulations and proper practices in relation to accounts.
- 8.2.3** Regulation 9 sets out the requirements for the signing and approval of the statement of accounts. In particular regulation 9(2) provides that subject to the requirements of regulation 9(3) and following conclusion of the period of exercise of public rights in regulation 14 the Council must in the following order:
- (a) Consider either by way of a committee or by members as a whole the statement of accounts;
  - (b) Approve the statement of accounts by a resolution of that committee or meeting; and
  - (c) Ensure that the statement of accounts is signed and dated by the person presiding at the committee or meeting at which that approval is given.

Regulation 9(3) requires the responsible financial officer to re-confirm on behalf of that authority that they are satisfied that the statement of accounts presents a true and fair view of:

- (a) the financial position of the authority at the end of the financial year to which it relates; and
- (b) that authority's income and expenditure for that financial year, before that authority approves it.

**8.2.4** The terms of reference of the Audit and Governance Committee include to "oversee the financial reporting and annual governance processes" and "to review the annual statement of accounts and specifically to consider whether appropriate accounting policies and the CIPFA Financial Management Code have been followed, and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council".

**8.2.5** The authority is also under a general duty "to make arrangements for the proper administration of their financial affairs" under Section 151 of the Local Government Act 1972.

In addition, keeping adequate accounting records, and following proper practices in relation to accounts may impact on the authority's ability to deliver its functions in a manner which promotes economy, efficiency, and effectiveness, and therefore the consideration of this report also seeks to demonstrate the authority's compliance with its Best Value Duty under the Local Government Act 1999.

Comments approved by Sandra Herbert, the Head of Litigation & Corporate Law on behalf of the Director of Legal Services and Monitoring Officer. (Date 29/02/2024)

### **8.3 HUMAN RESOURCES IMPLICATIONS**

**8.3.1** There are no immediate HR implications arising from the content of this report. Should any matters arise, these will be managed in line with the appropriate Council policies and procedures.

Comments approved by Dean Shoesmith, Chief People Officer, (Date 22/02/2024.)

### **8.4 EQUALITIES IMPLICATIONS**

**8.4.1** The Council has a statutory duty to comply with the public sector equality duty set out in section 149 of the Equality Act 2010. The Council must therefore have due regard to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act.
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it.
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

**8.4.2** Failure to meet these requirements may result in the Council being exposed to costly, time consuming and reputation-damaging legal challenges.

**8.4.3** This report is exempt from an EQIA as it does not affect service delivery and is not a key decision item.

Comments approved by Helen Reeves, Head of Strategy & Policy (Date 22/02/2024)

## **9. APPENDICES**

- 9.1** Appendix 1 - The Final Audit Findings Report for London Borough of Croydon  
Appendix 2 - The 2019-20 Statement of Accounts  
Appendix 3 - The 2020/21 External Audit Plan

## **10. BACKGROUND DOCUMENTS**

- 10.1** None.