

Slough Borough Council

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| Report To: | Audit and Corporate Governance Committee |
| Date: | 22nd May 2024 |
| Subject: | Draft Statement of Accounts 2019/20 |
| Chief Officer: | Annabel Scholes – Executive Director of Finance and Commercial |
| Contact Officer: | Chris Holme – Finance Director – Corporate and Strategic |
| Ward(s): | All |
| Exempt: | NO |
| Appendices: | Appendix 1 - Draft Statement of Accounts 2019/20 Appendix 2 - Addendum to Draft 2019/20 Statement of Accounts |

1. Summary and Recommendations

- 1.1 In March we reported to this Committee on the recently published draft Accounts and Audit (Amendment) Regulations 2024 which set out a timetable for audit of outstanding local authority Statements of Accounts to 2022/23. Once enacted these will amend the Accounts and Audit Regulations 2015 in relation to statutory deadlines. The March report provided a timeline for preparation and publication of draft accounts, the public inspection periods and indicative external audit arrangements, in order to comply with the backstop date of 30th September for publication of those audited accounts. For the Council that means the preparation and publication of audited accounts for the periods 2019/20 to 2022/23, four separate statements within the 6 months period from 1st April.
- 1.2 Appendix 1 to this report provides, for consideration by this Committee, the Statement of Accounts for 2019/20. The Statement of Accounts sets out, within the constraints of evidence available, the financial position of the Council as at 31st March 2020.

Recommendation:

Audit and Corporate Governance Committee is recommended to note, and comment on as appropriate, the draft, unaudited Statement of Accounts for 2019/20.

Commissioner Review

The Secretary of State for the Department for Levelling Up, Housing and Communities (DLUHC), issued a minded to Capitalisation Directions for the period between 2018/19 to 2022/23. In addition to the wider set of directions the transition from 'minded to' to 'approved' was also aligned with the authority's requirement to prepare and audit its accounts and provide the final Capitalisation Direction figures for each of the relevant years.

The proposals to clear the backlog of historical accounts and resetting the system, outlines the requirement for local authorities to implement measures to clear all outstanding years, up to and including 2022/23 by the backstop date, and develop the long-term reforms required to prevent a backlog recurring in the future.

The Council's very serious financial challenges have arisen over a period of several years and represent the combined impact of a wide range of issues. The conclusion of the 2018/19 audit resulted in the external auditors issuing a disclaimer of opinion on the 2018/19 accounts. This was due to the lack of audit evidence (a scope limitation) which could be both material and pervasive to the financial statements. Further work has continued within the Council to evidence, reconcile, and correct the figures and present a 2019/20 statement of accounts based on best available data. However poor historical records, processes and procedures across the Council at the time, means that it is very likely that more amendments may be uncovered that will affect the financial position in subsequent years as this accounts process and balance sheet review programme is completed for each year.

Consequently, it will not be possible to secure a fully compliant, secure and stable position until all years' accounts have been drafted and the audits concluded.

The balance sheet review programme and the Finance Improvement Plan, includes actions to rebuild proper processes and procedures and ensure fit for purpose financial models are developed. It is essential that this work is appropriately resourced and supported across the Council, completed to the appropriate quality and pace, changes maintained and embedded to provide confidence as the Council moves forward.

2. Report

Introductory paragraph

- 2.1 The Secretary of State issued draft Accounts and Audit (Amendment) Regulations 2024 in February, setting out the requirements for publication of backlog statements of accounts. Pending the draft regulations coming into force, as discussed at the 18th March Committee, officers are working to a challenging timetable to prepare, publish for public inspection and have audited four separate Statements of Accounts (2019/20 to 2022/23) by the 30th September 2024, with a further requirement that audited 2023/24 accounts be completed by 31st May 2025.
- 2.2 As the first milestone in achieving this challenging timeline, the draft 2019/20 Statement of Accounts have now been published, as of the 9th May, having been signed off by the then interim Chief Financial Officer on the 6th May.

Options considered

Once enacted, the Accounts and Audit Regulations 2015 will be amended to set out a new statutory timetable for closure of the backlog statements of accounts. These timescales are challenging for the Council due to the number of outstanding accounts it has dating back to 2019/20. The amended regulations state that for the financial years 2015/16 to 2022/23, the deadline to publish accounts and statements is 30th September 2024. This requires the published statement of accounts to be approved by the Council in accordance with the Regulations and include a certificate or opinion from the external auditor.

The Council must take all necessary steps to close off its previous years' statement of accounts and put in place systems to ensure that it can close accounts in a more timely way in the future. For this reason, no other options have been considered.

3. Background

- 3.1 The Secretary of State, as of February 2024, issued draft Accounts and Audit (Amendment) Regulations 2024, following consultation with the sector and other stakeholders, which sets out the requirements for publication of statement of accounts, annual governance statement and narrative statement for local authorities - financial years 2015-2027. As things currently stand all local authorities are assumed to be duty bound to comply with the regulations, which provide a way forward to deal with the national backlog of local authority accounts. All Statements of Accounts up to and including 2022/23, must be completed and audited by 30th September 2024.
- 3.2 Timely and high-quality financial reporting and audit of local authorities is vital. Not only does it support good decision making by those authorities, by enabling them to plan effectively, make informed decisions and manage their services - it ensures transparency and accountability to local taxpayers. Whilst the majority of local authorities have experienced significant backlogs in the publication of audited accounts, as reported at the previous meeting, the position in Slough has been compounded by a legacy of inadequate record keeping and lack of progress in historic accounts preparation.
- 3.3 The 2018/19 final Statement of Accounts were signed off by the former Executive Director of Finance and Commercial in her capacity as S151 Officer on the 25th April, and we now anticipate audit opinion and publication to be completed prior to this meeting.
- 3.4 At the time of writing this report we are still awaiting guidance from the National Audit Office on its proposed changes to the Code of Audit Practice to enable local auditors to comply with backstop dates by giving their opinions in time for audited accounts to be published.

4. 2019/20 Statement of Accounts

- 4.1 The draft accounts were published on the Council's website on the 9th May along with the notice outlining the statutory public inspection period. Members of the public and other interested parties then have 30 working days to request access to documents relating to the financial statements, subject to restrictions around commercial sensitivity and protection of personal information. During the same period a local elector may also raise questions relating to the accounts with the External Auditor.
- 4.2 The draft 2019/20 Statement of Accounts is attached as Appendix 1 to this report. It comprises the following key accounting statements:
 - Comprehensive Income and Expenditure Statement – this shows the net cost for the year of providing services which are funded from taxation (both local and non-specific national grant)
 - Movement in Reserves Statement – this shows the movement in the year on the different reserves, both useable and unusable, held by the Authority

- Balance Sheet – this shows the value as at the 31st March 2020 of the assets and liabilities recognised by the Authority. The net assets of the Authority are matched by the reserves held by the Authority
 - Cash Flow Statement – this shows the changes in cash and cash equivalents of the Authority during the financial year
- 4.3 Appendix 2 to this report sets out a number of changes identified subsequent to publication that will be incorporated into the final statement.
- 4.4 The Council did not agree an Annual Governance Statement for 2019/20 and so an addendum to the 2018/19 annual governance statement is presented as substitute for a full annual governance statement. There is an approved statement for 2022/23 and this is referred to in the statements. We have yet to receive confirmation that this will satisfy requirements, but we'll amend to better reflect the governance and control framework during 2019/20 and to date if required.
- 4.5 The financial statements need to be considered in the context of Slough Borough Council's subsequent request for exceptional financial support, the S114 notice issued in July 2021, and Capitalisation Direction, without which the estimated deficit would have been some £108m by 31st March 2020. Using part of the Government's in principle Capitalisation Direction retrospectively has enabled the Council to reinstate General Fund balances. Further capitalisation directions will be required for future years to enable a balanced budget to be achieved.
- 4.6 The statement shows that the Council spent a gross amount of £429m providing services to Slough residents and other stakeholders. Capital investment in property, plant and equipment during the year was £88m. Major items of expenditure included the purchase of new Council accommodation at Observatory House and the acquisition of the Thames Valley university site for regeneration purposes as well as improvements to Council dwellings, leisure facilities and schools. In addition, the Council spent £33m on new investment properties and advanced new loans totalling £23m to its subsidiary company, James Elliman Homes, contributing to the increase in long-term liabilities. Expenditure capitalised under the Capitalisation Direction was £47.5m. This is higher than the draft capitalisation direction of £41.6m and does not yet take account of the reported net deficit on earmarked reserves arising from the £13.3m deficit on the DSG (as set out in note 15 to the accounts). This may require a further increase in expenditure capitalised. It should be noted that from the 1st April 2020, there was an amendment to the Local Authority (Capital Finance and Accounting) Regulations which established new accounting practices in relation to the treatment of DSG deficits, and from 2020/21 onwards are treated as unusable reserves.
- 4.7 During 2019/20 the Council's total of cash balances and short-term investments decreased from £68m to £27m. Lending rose from £518.9m to £631.8m, with the effect of meaning Slough having some of the highest per capita borrowing amongst unitaries. This level of borrowing is unsustainable and reducing external borrowing is a key component of the Council's recovery plan.

5.1 *Financial implications*

- 5.1.1 Delivery of the detailed programme of works has required the setting up of a dedicated finance project team, made up primarily of officers, for which some limited back-filling is required, with limited external support where specific technical skills are required. The costs are reflected in the 2024/25 budget as approved by Full Council on the 7th March 2024. There will be additional opportunity costs as preparing the statements of accounts requires specific tasks to be undertaken by nominated officers across the Council.
- 5.1.2 Estimated costs of external audit fees for the years 2019/20 to 2022/23 are factored into the 2024/25 budget.

5.2 *Legal implications*

- 5.2.1 The Accounts and Audit Regulations 2015 set out the requirements for Category 1 authorities. In summary these require a statement of accounts to be prepared in accordance with the Regulations and proper practices in relation to accounts. The statement must include such of the following as are relevant:
- (a) housing revenue account (relevant to this Council)
 - (b) collection fund (relevant to this Council)
 - (c) firefighters' pension fund (not relevant to this Council)
 - (d) any other statements relating to each and every other fund in relation to which the authority is required by any statutory provision to keep a separate account.
- 5.2.2 The statements must include a note setting out matters in relation to employee remuneration and a statement in relation to the Dedicated Schools Grant. As the Council maintains a housing revenue account (HRA) the statement must refer to the reserve for major repairs.
- 5.2.3 The Council must prepare a narrative statement for each financial year, including comment on the Council's financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.
- 5.2.4 The Council's chief finance officer (s.151 officer) must sign and date the statement of accounts, and confirm that they are satisfied that it presents a true and fair view of:
- (i) the financial position of the Council at the end of the financial year to which it relates; and
 - (ii) that Council's income and expenditure for that financial year;
- 5.2.5 The Council's s.151 officer must commence the period for the exercise of public rights in accordance with the regulations and notify the external auditor of the date on which that period was so commenced.
- 5.2.6 Following conclusion of the public inspection period, the Council, by way of this committee or Full Council, must consider the statement of accounts, approve them and ensure that they are signed and dated by the person presiding over the committee or Full Council meeting. Following this the s.151 officer must re-confirm

that they are satisfied that the statement of accounts presents a true and fair view of both the financial position and income and expenditure for that financial year before the statement of accounts can be approved.

- 5.2.7 After approving the statement of accounts, the Council must publish the statement together with any certificates or opinion by the external auditor, the annual governance statement and the narrative statement.
- 5.2.8 Due to the significant backlog in previous years' statements of accounts, the Council will need to commence a period of public inspection for multiple years of accounts in quick succession and have these periods overlapping. The Council took the decision in 2023 not to try to draft detailed annual governance statements for previous years due to the high turnover of both staff and elected members and a lack of record keeping preventing an informed assessment to take place. Instead, the Council focused its efforts on completing assessments for the immediately preceding financial year. The Council is therefore publishing an addendum to its previous annual governance statements, recognising that this has its limitations. The Committee will be presented with an annual governance statement for 2023/24 at its July meeting.
- 5.2.9 In addition to the capacity requirements to close off multiple years of accounts, it should be recognised that the officers undertaking this work, including the new s.151 officer, were not employed during the relevant period. This makes signing and certifying the accounts challenging, however experienced officers have been brought in to focus on this work and where required, external expertise has been commissioned. In addition, officers have worked closely with the DLUHC Finance Commissioner, who has supported the process.

5.3 *Risk management implications*

- 5.3.1 Compliance with the requirement to prepare, publicise and audit four years accounts within a limited six-month period is fraught with risks and will require the appropriate level of both technical and programme management skills to manage. Failure to achieve the deadlines for completion of audited 2019/20 to 2022/23 accounts by the end of September, and subsequent 2023/24 accounts by May 2025 risk a failure to comply the assumed statutory deadline and could result in penalties or additional interventions.

5.4 *Environmental implications*

- 5.4.1 There are no specific environmental implications of the recommendations.

5.5 *Equality implications*

- 5.5.1 There are no specific equalities and inclusion implications of the recommendations.

5.6 *Procurement implications*

- 5.6.1 There are no specific procurement implications arising from the recommendation, however any additional external support required for completion of the backlog accounts process should be commissioned in accordance with both the Public Contracts Regulations and the Council's procurement rules. Any exception to the latter should only be for emergency requirements, following review by officers through the Expenditure Control Board, and will be reported to the following Audit and Governance Committee.

5.7 *Workforce implications*

- 5.7.1 What is planned is a very intensive programme of works, both to achieve the end of September amended statutory requirements and the subsequent May 2025 statutory deadline for completion of audited 2023/24 accounts. The backlog audit work programme must be undertaken in conjunction with the normal business activities of the Council. A dedicated project team within Finance and Commercial Services has been set up which will require some limited temporary backfilling but will also require support from other key areas across the Council with a risk of additional pressures. Where any additional external resources are engaged it is vital that the appropriate level of internal capacity building is included within the contractual arrangement. From a duty of care perspective, it is essential that adequate resources are identified to fulfil essential requirements.

6. **Background Papers**

None