

Slough Borough Council

Report To:	Audit and Corporate Governance Committee
Date:	22nd May 2024
Subject:	Draft Statement of Accounts 2020/21
Chief Officer:	Annabel Scholes – Executive Director of Finance and Commercial
Contact Officer:	Chris Holme – Finance Director, Corporate and Strategy
Ward(s):	All
Exempt:	NO
Appendices:	Appendix 1 - Draft Statement of Accounts 2020/21 Appendix 2 - Addendum to draft Statement of Accounts 2020/21

1. Summary and Recommendations

- 1.1 Appendix 1 to this report provides, for consideration by this Committee, the draft Statement of Accounts for 2020/21. The Statement of Accounts sets out, within the constraints of evidence currently available, the financial position of the Council as at 31st March 2021. These are caveated statements pending conclusion of the balance sheet review and there is still some work to be done on the narrative statements.

Recommendations:

Audit and Corporate Governance Committee is recommended to:

- a) *Note, and comment on as appropriate, the provisional, unaudited Statement of Accounts for 2020/21*

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 and 2020/21 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. Subject to formal enactment, the audited 2020/21 Statement of Accounts, along with others as reported separately on this agenda, must be completed by the 30th September 2024.
- 2.2 As the second milestone in achieving the challenging backlog accounts timeline, the draft 2020/21 Statement of Accounts are now being made ready for publication and made available for public inspection shortly after this meeting, with the statutory 30-day period anticipated to conclude no later than week commencing 8th July, by which time, we are scheduled to have published the 2021/22 draft accounts.

Options considered

Achievement of publication requirements for backlog statements of accounts are currently assumed to be formalised as regulations and the timelines for their publication were considered by this Committee at its meeting of the 18th March. As the backstop date of 30th September is considered to be a critical path to comply with the draft regulations no other options are being considered.

3. Background

- 3.1 As set out in a separate report on this agenda, The Secretary of State issued draft Accounts and Audit (Amendment) Regulations 2024 in February, setting out the requirements for publication and audit of backlog of statements of accounts.
- 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.
- 3.5 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. Pending enactment of the revised regulations, officers are working to the assumed backstop deadline of 30th September for publication of outstanding audited accounts to 2022/23.

4. 2020/21 Statement of Accounts

- 4.1 The draft accounts for 2020/21 have yet to be published as we are finalising outstanding narratives, and assessing any implications arising from finalisation of the balance sheet review, but they are considered to be close enough to completion for this Committee to review and comment accordingly. It is intended that publication will be shortly after consideration by Committee members. Once published, 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 2020/21 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 usable and unusable, held by the Authority.
 - Balance Sheet – this shows the value as at the 31st March 2021 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, and whether they are due to operating activities, new investment, or financing activities (such as repayment of borrowing and other long-term liabilities).
- 4.3 The Council did not agree an Annual Governance Statement for 2020/21 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.
- 4.4 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 £144m by 31st March 2021. 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.
- 4.5 The global outbreak of Covid 19 early in 2020 had a profound impact on the borough and delivery of Council services. The impact and response were

complex with some services having to operate remotely, others having to operate in the context of legal restrictions, whilst some having to be closed. New public health and support responsibilities also had to be introduced. The Council received some £67m of new specific and general grants for the provision of these services and wider impacts of the pandemic. Given these profound changes, comparisons of spend and income with the previous year are limited.

- 4.6 The statement shows that the Council spent a gross amount of £430m providing services to Slough residents and other stakeholders. Overall, this was just under £1m more than 2019/20, and as a consequence, when taking into account service specific income, the net cost of services at £165.9m, was £23.5m less than the previous year. The deficit on provision of general fund services required to be funded from useable reserves was £21.6m, and that on the HRA a further £6.3m.
- 4.7 Due partly to an increase in net pension liabilities of £118m (based on actuarial assessment of scheme assets and liabilities), the comprehensive income and expenditure statement shows a deficit of £113m for the year. This goes some way to explain the £161m reduction in “unusable” reserves but is also partly due to the change in accounting treatment of the DSG deficit, required under amended Local Authority (Capital Finance and Accounting) Regulations. In 2019/20, useable earmarked reserves included the DSG deficit of £13.3m, increasing to £20.6m as at 31st March 2021. In accordance with the amended regulations this deficit was transferred from useable to unusable reserves. Unusable reserves are ones that cannot be used for capital investment or service improvement.
- 4.8 Total useable reserves increased from £73.2m to £121.2m (£48m). Some of this was facilitated by the capitalisation of expenditure during the year of £24.9m under the Capitalisation Direction. This was financed primarily from the application of capital receipts. There was a further adjustment of £25.7m which was required to ensure the general fund did not suffer from the collection fund deficit in 2020/21 linked to COVID-19 business rate discounts, which is charged to the collection fund adjustment account, and the impact phased over 3 years. It should be noted that some useable reserves (e.g., those held in the Housing Revenue Account) can only be used to support specific expenditure.
- 4.9 Capital investment in property, plant and equipment during the year was £59m (£88m in 2019/20). Major items of expenditure included the addition of Land at Wexham Rd (Akzo Nobel) for £37m. In addition, the Council spent £40m on new investment properties (transfer of Moxy Hotel from asset under construction to investment property) and advanced new loans totalling £11m to its subsidiary company, James Elliman Homes. Expenditure capitalised under the Capitalisation Direction was £24.9m.
- 4.10 During 2020/21 the Council’s total of cash balances and short-term investments increased from £27m to £46m. Lending rose from £631.8m to £738m, with the effect of meaning the Council having some of the highest per capita borrowing amongst English unitaries. This level of borrowing is unsustainable and reducing external borrowing is a key component of the Council’s recovery plan.
- 4.11 Appendix 2 to this report provides an addendum of issues still that need clarification and review prior to publication of the draft Statement of Accounts.

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 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 risks significant further reputational damage to the Council and could result in penalties or additional interventions. Progress on all workstreams will be reported monthly to Finance Board.

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 being managed is a very intensive programme of deliverables, 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