

## Slough Borough Council

Information needed	Details
Report To:	Audit and Corporate Governance Committee
Date:	10 <sup>th</sup> December 2024
Subject:	Draft Statement of Accounts 2021/22
Chief Officer:	Annabel Scholes – Executive Director of Finance and Commercial
Contact Officer:	Chris Holme – Finance Director, Corporate and Strategy
Ward(s):	N/A
Exempt:	NO
Appendices:	Draft Statement of Accounts 2021/22

### 1. Summary and Recommendations

- 1.1 Appendix 1 to this report provides, for consideration by this Committee, the draft Statement of Accounts for 2021/22. The Statement of Accounts sets out, within the constraints of evidence made available, the financial position of the Council as at 31<sup>st</sup> March 2022.

#### Recommendations:

Audit and Corporate Governance Committee is recommended to:

- a) Consider and note the draft Statement of Accounts for 2021/22 as set out in Appendix 1 of this report

#### Commissioner Review

The committee should note that in circumstances where a relevant local authority has delayed the publication date of their statement of accounts and the backstop date will not be met, the external auditors will consider the facts and circumstances and the implications for their auditor's report.

The government is expected to publish a list of bodies and auditors that do not meet the proposed backstop dates, which will make clear where 'draft' (unaudited) accounts have also not been published. As outlined in 5.2.2 The Regulations will also require any body that fails to comply with a backstop to publish an explanation, to send a copy of this to the Secretary of State (to facilitate scrutiny) and publish audited accounts as soon as practicable. The government will keep the issue of consequences under close review and may explore further mechanisms to take appropriate action.

Commissioners are content for this report to be considered, recognising its draft status and that a revised statement of accounts will need to be returned to the Committee for them, to discuss and approve the statements.

## **2. Report**

### **Introductory paragraph**

- 2.1 Section 9A of the Accounts and Audit Regulations 2015 (as amended) set out the requirements for publication of backlog statements of accounts. Officers have continued to work to a very challenging timetable to prepare, publish for public inspection and have audited four separate Statements of Accounts (2019/20 to 2022/23), and must also complete the 2023/24 accounts within a timetable that facilitates a full audit to be undertaken by the end of February 2025.
- 2.2 Given the issues raised with regard to the 2021/22 and 2022/23 accounts, as reported to this Committee in July, September and October, it has not been possible to provide audited accounts for 2021/22, because on the need to conclude the 30-working day public inspection period prior to the issuance of the audit opinion.
- 2.3 However, publishing the 2021/22 draft Statement of Accounts is a significant step in concluding the backlog accounts process.

### **Options considered**

It is good practice for the Audit and Corporate Governance Committee to receive and be afforded opportunity to review the draft accounts. We have reported previously on the accounts preparation issues we have encountered relating to lack of proper accounting records and lack of reconciliations. Appendix 1 to this report follows up the report to the Committee on 31<sup>st</sup> October and sets out the completed draft accounts, which, by the time meeting, should have been published for the statutory public inspection period.

Whilst presentation of the drafts accounts is not obligatory, that option is not recommended.

## **3. Background**

- 3.1 The Accounts and Audit Regulations 2015 set out the requirements for publication of statement of accounts, annual governance statement and narrative statement for local authorities - financial years 2015-2027. Under the regulations, a deadline for delivery of audited (backlog) statements of accounts up to and including financial year 2022/23 of 13th December 2024 and 28th February 2025 for audited 2023/24 accounts.
- 3.2 Officers have been working over the last 6 months to prepare and publish four sets of accounts within this deadline, but as reported to previous meetings of the Committee encountered significant problems in preparing the 2021/22 accounts due to a number of factors, including, poor record keeping, lack of document audit trails, lack of reconciliation, and specific problems relating to the accounting and statutory returns which have required us to resubmit NNDR3 returns going back to 2018/19.
- 3.3 Reference to inadequate record keeping is made in the external auditor's 2021/22 to 2023/24 Interim Auditors Report which was presented to this Committee at its meeting of the 31<sup>st</sup> October. That report also made reference to the lack of performance reporting, including financial performance during the 2021/22 financial year.

- 3.4 Furthermore, in addition to the balance sheet review work undertaken over the summer, we have subsequently had to undertake a significant cash reconciliation project, going back a number of years. This followed a review of a number of suspense and control accounts, with significant balances, sitting on the balance sheet – with potential significant adverse implications for the respective Income and Expenditure Accounts, and as a consequence the level of reserves.
- 3.5 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. This is particularly important for Slough as the impact of prior year liabilities could significantly impact on future financial sustainability of the Council.
- 3.6 As a consequence of the above factors, we have not been able to publish the accounts in time for the public inspection period to be concluded, and audit opinion provided by the 13<sup>th</sup> December deadline. MHCLG have been kept updated on the position.

#### **4. 2021/22 Statement of Accounts**

- 4.1 The draft accounts for 2021/22 should have been published prior to the meeting of this Committee, having concluded the outstanding issues reported at the 31<sup>st</sup> October meeting, in particular the issues relating to the Collection Fund. Members of the public and other interested parties 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. The 30-day public inspection period should conclude week commencing 20th January 2025.
- 4.2 The draft 2021/22 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 31<sup>st</sup> 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.

- 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 £178m at the time the S114 Notice was issued, growing to an estimated £348m over an 8-year period. 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 statement shows that the Council spent a gross amount of £454.8m providing services to Slough residents and other stakeholders. Overall, this was some £25.2m (6%) more than 2020/21, and as a consequence, when taking into account service specific income of £265.8m, the net cost of services at £188.9m, was £23m (14%) more than the previous year. This was during a period when the country was recovering from the impact of the pandemic, and during the year the S114 notice was issued as it became clear that the cost of providing services and financing the level of debt could not be contained within the Council's overall resources. The provisional deficit on provision of services required to be funded from useable reserves was £34.3m, made up of £16.0m general fund and £18.3m HRA.
- 4.6 Total income and expenditure for the year, as reflected in the CIES statement on page 29 of the accounts, shows an overall surplus for the year of £102.8m. This was due to a revaluation of assessed pension liabilities, reducing net liabilities by some £83.5m for the year, and revaluation of property, plant and equipment assets, increasing the fair value of those assets by some £53.6m. It should be noted that neither of these items impact on the useable reserves position of the Council.
- 4.7 Total useable reserves increased from £110.3m to £159.4m (£49.1m). This was primarily facilitated by the capitalisation of expenditure during the year of £59.96m under the Capitalisation Direction. This was financed from additional borrowing for the year, pending delivery of the assets disposal programme to provide capital receipts. 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.
- 4.8 During 2021/22 the Council's total of cash balances and short-term investments increased from £46m to £100.1m. Lending reduced from £738m to £716m, as capital expenditure not externally funded was reduced and a reduction of short term borrowing, but a significant increase in longer term borrowing, in order to finance the Capitalisation Direction. The Council had some of the highest per capita borrowing amongst English unitaries. This level of debt is not sustainable and reducing external borrowing has been 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 7<sup>th</sup> March 2024, and amended by Cabinet at its meeting on the

18<sup>th</sup> November. There will continue to be additional opportunity costs as preparing the statements of accounts requires specific tasks to be undertaken by nominated officers across the Council, as we 2023/24 accounts.

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 Regulation 9A was inserted into the 2015 Regulations to provide that, for the financial years 2015/16 to 2022/23, the deadline to publish the final accounts and statements is 13th December 2024. Deadlines for publication are also provided for the financial years 2023/24 to 2027/28. The published statement of accounts must have been approved by the Category 1 authority in accordance with regulation 9(2) of the 2015 Regulations and include the opinion and any certificate from the local auditor in accordance with section 20(2) of the Act.

5.2.2 Where a Category 1 authority is unable to comply with the publication deadlines, for instance where the public inspection period has not been completed, meaning the accounts cannot be audited, regulation 9(5) and (6) apply. These state that if the auditor is considering an objection, declaring an item of account unlawful, considering whether to make an application to court or an application has been made and has not been determined (including at appeal) or the auditor is not satisfied that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, the authority must publish a notice stating that it has not been able to publish its accountability statements and its reasons for this and publish its accountability statements as soon as reasonably practicable. If these matters do not apply, the authority must publish a notice stating it has failed to publish its accountability statements, its reasons for this and that it acknowledges that it must publish its accountability statements as soon as reasonably practicable. It must also send a copy of this notice to the Secretary of State and publish its accountability statements as soon as reasonably practicable.

## 5.3 *Risk management implications*

5.3.1 Failure to publish the Statement of Accounts on time has significant reputational risks for the Council. A dedicated project team was put in place for completion of the 2019/20 to 2022/23, and that team will provide continuity for completion of the 2023/24 accounts.

5.3.2 There are inherent financial risks for financial sustainability arising from potential liabilities not recognised without adequate prior year's audited accounts.

## 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 will continue to be commissioned in accordance with both the Public Contracts Regulations 2015, or Procurement Act 2023, and the Council's Contract Procedure rules, as amended by Council in September 2024. 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