

FINAL ACCOUNTS REPORT 2023-24

Meeting: Audit and Governance Committee

Date Of Meeting: 20 February 2024

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Date Published: 12 February 2024

Will the decision be open for call in (i.e. is it a key decision)? Yes No

Does the report contain confidential or exempt information? Yes No

1.0 Purpose of Report

1.1 To present to members of the committee the draft accounts for 2023/24.

2.0 Recommendations

2.1 The Committee is requested to:

RESOLVE THAT

(i) the 2023/24 final accounts be referred to Council for approval.

3.0 Introduction\background

3.1 As discussed in previous reports to this committee, the number of local authorities with outstanding audits and failing to publish accounts within prescribed deadlines has been growing. The previous government had stated its intention to enable a “backstop” position to be adopted, whereby this backlog could be resolved by the issuing of disclaimed opinions. However, the calling of a general election initially prevented the necessary legislative framework from being enacted. On 9 September the new government announced a new backstop date of 13 December for all outstanding external audits up to and including 2022/23 and 28 February 2025 for 2023/24. If these deadlines are not met, accounts will be published with a disclaimer or modified audit opinion.

3.2 Council approved the 2019/20, 2020/21, 2021/22, and 2022/23 accounts at the meeting on 12 December 2024 ahead of the Backstop date for these years. As detailed later in the report, there are ongoing discussions with BDO (the Council’s auditors for those years) regarding what steps are required in order for them to provide an opinion on the accounts.

3.3 The draft accounts for 2023/24 were published on the 16 January in order for the public inspection period to end by the 27 February. These accounts will need to be approved at the Council meeting on the evening of 27 February in order for the Council to fulfil its obligations by the backstop date.

- 3.4 As agreed with Commissioners and External Auditors, the issues outlined in the S114 notice and the mitigations set out in the Extraordinary Financial Support are dealt with in the 2023/24 accounts rather than restating previous years. The 2023/24 Accounts have been prepared on this basis and include the significant reassessment of the Council's Revenue Account and Balance Sheet since the issuing of the S114 Notice and the start of Intervention.

4.0 Section 114 Notice and Government Exceptional Financial Support

- 4.1 The Section 114 Notice and the Government Exceptional Support cover a number of key areas;

Loan Impairment

As part of the Council's financial recovery programme, external advisors have identified a range of options for divesting from VSWL and the ThamesWey group to minimise the risk of further financial liability to the Council. All the options involve a significant potential impairment of the shareholdings and loan advances. Based on the average of the options, the total impairment is £766m. Of this £155m relates to loans advanced for a revenue purpose, which has to be charged to the General Fund and is included in the Capitalisation Direction (detailed in the section below). The 2023/24 Final Accounts reflect this loan impairment, and the investments in the subsidiary companies are shown at the estimated amount recoverable.

Suspend Group Interest

- 4.2 The interest received from Group Companies has been suspended since 31st March 2023. The reason for the suspension is that the companies would be unable to fund the payments now that the Council's revolving loan arrangements with them have ended as part of the s114 notice. The 2023/24 accounts assume no interest income will be received from the group during this period, and any income accruals from 2022/23 have been reversed.

Capitalisation Direction (CD)

- 4.3 The Capitalisation Direction is a critical component of the Council's financial recovery plan, allowing the Council to address its financial challenges by capitalising certain revenue expenditures. Under the Government's Extraordinary Financial Support programme, an "in principle" Capitalisation Direction was granted to the Council in March 2024. This direction, issued in response to the Section 114 Notice, enables the Council to treat expenditures, which would typically be accounted for as revenue, as capital expenditure. This treatment helps mitigate the immediate financial impact on the General Fund, providing a temporary measure to manage the deficit. The following allowances were included in the capitalisation direction (the amounts shown are the original estimate in the CD and the final outturn amount in the final accounts);

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	2023/24 CD £'000	2023/24 Outturn £'000
Impairment of revenue loan advance	155,000	155,000
Reversal of interest income accrued in 2022/23	12,800	12,800
Loss of interest from companies in 2023/24	44,000	42,671
Interest on loans to complete VSWL and Sheerwater Projects	2,000	2,000
Reversal of overstated recharges to the HRA	5,800	5,800
2023/24 Overspend	8,700	5,844
Opening 2023/24 Reserve Deficit	6,800	-16,117
Total	235,100	207,998

Minimum Revenue Provision (MRP)

- 4.4 The Section 114 notice detailed that the Council's MRP Policy did not set aside sufficient MRP in order to repay its debt. No MRP had been set aside on loans advanced to third parties since the MRP regime was introduced in 2008. This is despite the expenditure being statutorily defined capital expenditure under Regulation 25(1)(b) of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, as amended. The Exceptional Financial Support request identified an understatement of MRP of £335m at 2023/24.
- 4.5 Legal advice provided to the Council has indicated that any changes to MRP policy should be made prospectively rather than retrospectively. The MRP Policy Statement forms an integral part of the Council's budget setting process. Therefore, provided that the MRP Policy was lawfully set in accordance with the Council's procedures and members did not raise concerns about the quality of the report, then the MRP Policy approved must be followed. Therefore, the MRP charge should not include any MRP on loans advanced to third parties. The understated MRP is therefore recognised as being deferred in the Government's Exceptional Financial Support package rather than being a cost in the 2023/24 accounts and mitigated by the Capitalisation Direction.

Housing Revenue Accounts Legacy Charges

- 5.0 As reported to the 12 September 2024 Executive, charges from the General Fund to the Housing Revenue Account [HRA] had been overstated resulting in the General Fund balances being overstated and HRA balances understated. The charges identified in the 2024 review reported to the executive were corrected in the 2022/23 accounts.

6.0 Group Accounts

- 6.1 It is important to note that the accounts presented are the single entity accounts for the Council. Group accounts, which include the activities of the Council owned companies, will be prepared for 2022/23 and 2023/24 and made available once completed. The last fully audited accounts, including group accounts, are those for 2018/19. Fully audited company accounts are available for each of these years on the Companies House website.

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- 6.2 Now that the reassessment (discussed in section 4 above) is now incorporated into the financial statements, the single entity accounts do largely show the overall position of the council position as at 31st March 2024. The council's loan and share investments in its subsidiary companies are now shown at the recoverable value of these loans. This recoverable value is largely the amount that is estimated to be realisable through selling the assets held by the companies.
- 6.3 As shown on the Balance Sheet (page 18 of the accounts) the Council's assets as at 31 March 2024 were £1.55bn against total borrowing of £2.20bn.

7.0 Audit Update

- 7.1 The 2023/24 draft accounts have been published on the Council's website and the public inspection period is due to end on 27 February 2025. As such, objections to the 2023/24 Statement of Accounts can be received before the back stop date.
- 7.2 Grant Thornton LLP are the Council's auditors for 2023/24. They have commenced audit of these accounts and have raised queries. The accounts published on the website are draft and may be amended through the audit.
- 7.3 Updates from both Grant Thornton and BDO are available elsewhere on the agenda.

8.0 Conclusion

- 8.1 In conclusion, the draft 2023/24 final accounts have been prepared and published ahead of the Backstop date, with significant updates reflecting the financial issues identified in the Section 114 Notice. These accounts incorporate key adjustments, including loan impairments, the suspension of interest from Group Companies, and the application of the Capitalisation Direction. The accounts are currently under audit, and any necessary amendments will be made as part of this process. The Committee is asked to approve the draft accounts for referral to Council for final approval.

9.0 Implications

Legal

- 9.1 The Statement of Accounts are a statutory document. The Local Government Act 2003 (section 21) enables the Secretary of State to issue regulation on the preparation and publication of accounts for local authorities, which is fulfilled by the Accounts and Audit Regulations 2015 (as amended). The requirements are that:
- (i) Every council must prepare a statement of accounts in accordance with the Regulations and proper accounting practices.
 - (ii) These statements must include a narrative statement (also known as the narrative report) which comments on the Council's financial performance and the economy efficiency and effective in its use of resources over the financial year.
 - (iii) The Chief Financial Officer (the Section 151 Officer/[CFO]) must sign and date the accounts and so confirm that they are satisfied that they provide a true and fair view of the Council's finances.

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- (iv) The Council must ensure that there is a period of public consultation.
- (v) After the period of public consultation, the Statement of Accounts should be considered by Full Council for them to discuss and approve the statements. The statements must then be signed and dated to this effect.
- (vi) The Council must publish the annual Statement of Accounts, the narrative statement and the annual governance statement, together with any external audit opinion (reg 10(1)) by a specified date. This requirement is usually fulfilled via the council's website. Alternatively, where the Statements are not yet available for publication, an explanation of why the Council has not been able to comply with this requirement must be published (sec 10(2)).

9.2 The Council's Audit and Governance Committee has an essential role in overseeing the submission of accounts for audit and the work of the external auditor. It will liaise with the Council's CFO to ensure that future unaudited Statements are prepared on time, and it is good practice for the unaudited statements to be discussed at the Committee in advance of them being forwarded for audit. Whilst the Statement of Accounts is "owned" by the full Council the Audit Committee have a vital role in demonstrating corporate ownership and governance over the accounts preparation process and their subsequent audit but there is no legal requirement for them to be approved by anyone other than the Council's CFO.

Finance

9.3 Whilst the finance implications are explicit within this report, the publication and subsequent validation of annual accounts helps to inform effective decision making across the organisation and assists in discussions with central government over the provision of exceptional financial support.

9.4 There is a risk that even with Full Council approval on 27 February 2025, the achievement of the backstop date is dependent upon the External Auditors (BDO and Grant Thornton) discharging their audit responsibilities.

10.0 Supporting Documents

Appendices

Appendix 1 – Statement of Accounts 2023/24

Report Ends