

LONDON BOROUGH OF CROYDON

REPORT:	Audit and Governance Committee	
DATE OF DECISION	20 July 2023	
REPORT TITLE:	Financial Accounts 2019-20	
CORPORATE DIRECTOR / DIRECTOR:	Jane West, Corporate Director of Resources and S151 Officer	
LEAD OFFICER:	Allister Bannin, Director of Finance Allister.Bannin@croydon.gov.uk	
LEAD MEMBER:	Jason Cummings, Cabinet Member for Finance	
KEY DECISION?	No	REASON: N/A
CONTAINS EXEMPT INFORMATION?	No	Public
WARDS AFFECTED:	All	

1 SUMMARY OF REPORT

- 1.1 This report presents the amended 2019-20 unaudited Statement of Accounts, and explains the key changes made to them since their publication on 19th October 2020.

2 RECOMMENDATIONS

For the reasons set out in the report, Audit and Governance Committee is recommended to:

- 2.1 Note the updated 2019-20 unaudited Statement of Accounts attached as Appendix 1

3 REASONS FOR RECOMMENDATIONS

- 3.1 In line with the report to this Committee on 20 April 2023, work has been undertaken to represent the 2019-20 Statement of Accounts to address points that have arisen during the initial partial audit of those accounts.

4 BACKGROUND AND DETAILS

- 4.1** The Council's 2019-20 draft accounts were published on the 19th October 2020. The sections below will cover the key areas where the updated unaudited accounts attached as Appendix 1 differ from the originally published draft 2019-20 Accounts.

Croydon Affordable Homes LLP and Croydon Affordable Tenures LLP

- 4.2** The Council undertook a series of 80 year leases with the above LLPs with respect to 344 dwellings over three tranches. The Council originally accounted for these transfers as a finance lease, to reflect control of the dwellings being transferred to the LLPs. Upon review, the criteria of a finance lease were not met, which has resulted in the properties being reincorporated into the Council's balance sheet. Crucially, a finance lease would yield a capital receipt to the Council. In the updated 2019-20 accounts, this capital receipt has been removed.
- 4.3** At the same time as the transfer of properties to the LLPs took place, a series of 40-year leases between the Council, the LLP and two external funders, who provided up front financing to the LLPs in return for the future payment of rental income. The Council acted as guarantor for the repayment of this financing. This arrangement was originally accounted for as a long-term liability in the LLP's accounts. Upon review, it is judged that this financing is a long-term liability that belongs to the Council, and it has now been included in the Council's balance sheet.
- 4.4** The Council had used the capital receipt that arose from these transfers set out in paragraph 4.2 to fund transformation expenditure, under the flexible use of capital receipts arrangements. Without other sufficient capital receipts, this charge of expenditure to capital has been reversed back to the Council's general fund. As there were insufficient revenue reserves to accommodate this expenditure, a Capitalisation Direction has been used to balance the general fund in the affected years. Although a Capitalisation Direction does itself charge revenue expenditure to capital, the difference to the flexible use of capital receipts is that the Council must repay this sum from revenue over a period of 20 years.
- 4.5** It should be noted that although some of the transactions took place in 2017-18 and 2018-19, these changes have been accounted for in the Council's 2019-20 accounts as Prior Period Adjustments. The opening position of the 2019-20 accounts has been revised as if these changes had been made to the 2017-18 and 2018-19 accounts.

Opening the Books – review of recharges to the Housing Revenue Account

- 4.6** The opening the books review was commissioned to give wider financial assurance to the Council. Accounting rules allow the recharge of costs to Housing Revenue Account (HRA) funds where services are provided by the General Fund on behalf of the Council's HRA tenants.

4.7 This review identified areas where recharges were not properly supported by evidence, and an agreement was reached between services and the HRA to adjust the recharges to the HRA downwards. This change has been applied retrospectively to 2019-20, which is the oldest set of accounts open. The loss of income to the General fund will be met by a capitalisation direction in 2019-20.

Opening the Books – review of credit loss allowance for bad debt

4.8 The council entered the pandemic period with low levels of credit loss allowance (bad debt provision), which protects the Council against non-payment of debt. As a result of the Opening the Books review, the council has increased the loss allowance for three key General Fund debt areas set out below:

- sundry debt,
- housing benefit overpayment, and
- housing general fund debt (temporary accommodation and emergency accommodation)

4.9 As these are all a charge to the general fund, the extra expenditure is funded from a capitalisation direction in 2019-20.

Capitalisation Direction and Minimum Revenue Provision

4.10 The Council received a capitalisation direction from the Department for Levelling Up, Housing and Communities (DLUHC) for up to £126m in 2019-20, to address legacy issues. The council has used the capitalisation direction in full, taking the opportunity to remove the negative general fund balance of £3.934m, and supplement financial reserves by £6.399m.

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

Reason for change	General fund 2019-20 £'000
Transformation expenditure removed	73,078
Credit loss for bad debt	28,872
Reduction in recharge to HRA	10,173
Cumulative MRP	3,544
Increase in General Balances	3,934
Increase in Earmarked Reserves	6,399
Total Capitalisation Direction	126,000

Other Accounting changes to the 2019-20 accounts

- 4.12** Other accounting changes were identified as part of the Audit of the 2019-20 Accounts, which do not create a new impact on the Council's financial position.
- 4.13** The loan being made to Brick by Brick for works to Fairfield Halls has been deemed to be capital expenditure by the Council on its "own" asset. The loan has therefore been removed from the Council's accounts, being represented as capital additions to Other Land & Buildings.
- 4.14** Investment made in the Real Lettings Fund, a pooled investment fund that operated Housing, has been revalued from its historic cost (i.e. purchase price) to its fair value (i.e. market value), to move into line with accounting standards on Financial Instruments. There is no cost impact to the Council's general fund of this revaluation, although the Council will benefit from any uplift in value of the investment upon disposal, in the form of a capital receipt.

5 ALTERNATIVE OPTIONS CONSIDERED

- 5.1** None

6 CONSULTATION

- 6.1** None

7. CONTRIBUTION TO COUNCIL PRIORITIES

- 7.1** The external audit contributes to 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 Section 4 above sets out the financial implications of these changes. A capitalisation direction of £126m is required, which must be repaid by the General fund over a period of 20 years.

Approved by Allister Bannin, Director of Finance (Deputy S151 Officer) 12/07/23

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 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.

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 of course, 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

Approved by: the Head of Litigation & Corporate Law on behalf of the Director of Legal Services and Monitoring Officer (Date 11/07/2023)

8.3 EQUALITIES IMPLICATIONS

8.3.1 As a Public Sector Authority we will be required to promote the Public Sector Equality Duties (PSED) as detailed below.

- (i) Eliminate unlawful discrimination, harassment and victimisation.
- (ii) Advance equality of opportunity between people who share a protected characteristic and those who do not.
- (iii) Foster or encourage good relations between people who share a protected characteristic and those who do not.

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

8.3.3 This report is exempt from an EQIA as it does not affect service delivery and seeks progress on an old internal Audit Report and is not a key decision item.

Comments were approved by John Mukungunugwa, Interim Senior Equality Officer on behalf of Denise McCausland, Equalities Programme Manager. Date: 10/07/2023

8.4 HUMAN RESOURCES IMPLICATIONS

8.4.1 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 Gillian Bevan, Head of HR Resources and Assist Chief Executives Directorates on behalf of the Chief People Officer. (Date: 10/07/2023)

9. APPENDICES

9.1 1 *Updated draft 2019-20 Statement of Accounts*

10. BACKGROUND DOCUMENTS

10.1 None