
Financial Update Report

Audit & Risk Committee

Date of meeting: 16th March 2022

Lead director: Colin Sharpe, Deputy Director of Finance

Useful information

- Ward(s) affected: All
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- Report version number: V1.1

1. Purpose of Report

To provide the Audit & Risk Committee with an update on key changes currently affecting the Council, and which may have an impact on the work of this committee.

2. Summary

The report provides an update to the committee on the following areas:

- New International Financial Reporting Standard for Leases
- Update on progress against External Audit recommendations
- Local Government Sector update
- Financial Management Code
- CIPFA Consultations - Prudential code and Treasury Management
- Independent Chair of Audit & Risk Committee
- External Audit Delays

3. Recommended actions/decision

The Committee is asked to note the contents and make any recommendations or comments it sees fit to either the Executive or Deputy Director of Finance.

The Committee is also asked to support the change to the constitution for the appointment of an Independent Member to Audit & Risk Committee. This change will be subject to full Council approval.

4. Scrutiny / stakeholder engagement

N/A

5. Background and options with supporting evidence

N/A

6. Detailed report

6.1. New International Financial Reporting Standard – Leases

- 6.1.1. Under current lease accounting there are two types of leases, a finance lease and operating lease. The main difference in the two types of lease is whether they are held on the balance sheet and therefore are counted as

capital expenditure, or they are not held on the balance sheet and so are revenue expenditure.

- 6.1.2. The new accounting standard removes this difference, resulting in all leases being finance leases and therefore are capital expenditure and held on our balance sheet, unless deemed immaterial. This means on implementation of this new accounting standard the Council's asset values will increase for any operational leases currently treated as revenue and in turn our liabilities will increase to recognise the monies due to the lessor during the period of the lease. This change in accounting treatment does not impact the amount the Council is paying for leases and therefore the Council's budget.
- 6.1.3. After a number of delays the accounting standard was expected to be implemented for the financial year 2022/23. The Council has already done significant work on these changes due to the delays and is prepared for the implementation. However, a recent consultation released by CIPFA seeking to address the national issue of Local Authority audit delays as mentioned below in para 6.7.5 is exploring whether the new leasing standard could be delayed a further year for implementation in 2023/24 to reduce pressure on Local Authority audits.

6.2. Update on progress against External Audit recommendations

- 6.2.1. At the September Audit and Risk Committee, External Audit made some recommendations in relation to the Council asset valuation process and the impact on the Council's accounts. As recognised at the meeting by officers this was not the first time recommendations had been brought to the Committee in relation to this process and it was recognised further improvements were required.
- 6.2.2. Since this meeting Finance and Estates and Building Services have created a plan to rectify the issues previously identified. These changes are to ensure the information held is accurate and checks are in place to identify any errors prior to publishing our draft accounts. In addition, the teams have reviewed all the assets that were being held with a nil net book value.
- 6.2.3. In addition to the above recommendations in relation to valuations there was a recommendation in relation to the segregation of duties within Unit4 and ITrent. Management have been working through this recommendation and identifying if there are any risks to the Council, we will report to External Audit during the course of the audit.

6.3. Local Government sector update

- 6.3.1. There are concerns within government about financial difficulties facing local authorities due to budget cuts and poor governance arrangements. This is prompting the government to review their own governance arrangements for local authorities such as updating the prudential code, treasury management code and reviewing the local audit framework.

- 6.3.2.** It has been well publicised that local authorities have had financial difficulties as a result of the required budget cuts and the achievability of savings. With some councils having to make in year savings due to significant overspends. The Council has recently approved the 2022/23 budget and the difficulties in particular relation to the growing costs of social care were noted. The budget is balanced using the managed reserve strategy. Budget savings are being sought to enable us to balance our budget in future years.
- 6.3.3.** Another source of the financial difficulties facing some local authorities has been around not having appropriate governance arrangements involving their investment portfolios, in particularly commercial property. Whilst initially it appeared that investments made purely on commercial terms were a way to generate revenue for local authorities, if these investments have been made without having a coherent strategy and appropriate governance arrangements in place, the result has been significant losses for some local authorities.
- 6.3.4.** In the sector there has also been a focus on local authorities' involvement with third parties and earlier in the year a report was presented to the committee as a result of public interest reports on other councils' involvements in third parties and the risk this presents to public funds. The report also covered the Council's own involvement in third parties. Subsequent work by internal audit acknowledges the Council has taken proactive steps to assess its risks and has not identified any high risk entities.

6.4. Financial Management Code

- 6.4.1.** Following the financial and governance issues being experienced by the Local Government Sector, the financial management code was introduced by the Chartered Institute of Public Finance and Accountancy (CIPFA) to support good financial management and assist Local Authorities. It is the Council's responsibility to ensure we comply with the Financial Management Code, 2021/22 being the first year of full compliance.
- 6.4.2.** The Financial Management Code sets out a number of standards and the Council has to demonstrate how it complies with those requirements. The table in Appendix A details the standards and what the Council does to ensure good financial management.

6.5. CIPFA Consultations - Prudential code and Treasury Management

- 6.5.1.** As identified above in paragraph 6.3.3, there has been concern at government level that a few local authorities have been riskily borrowing money to invest in commercial property, mainly with the aim of getting a return. The investments have often been outside of their boundaries and therefore could not be considered as delivering other objectives for their own areas such as regeneration. What is proposed now, is to block borrowing for the acquisition of commercial property where the primary aim

is to generate revenue, though it would not prevent the Council borrowing for regeneration schemes.

- 6.5.2.** Originally the draft proposals suggested that new borrowing should be avoided if existing commercial investments can reasonably be sold. However, following consultation the new prudential code published in late December 2021 only stated that if Local Authorities expected to borrow then they should review their commercial assets. This is considered good practice and not an issue for the Council.

6.6. Independent Member of Audit & Risk Committee

- 6.6.1.** The Council currently complies with CIPFA's guidance on the function and operation of audit committees in local authorities. Currently there is no requirement to have an independent member however, it is noted in the CIPFA audit committee guide that good practice shows that co-opting an independent member can be beneficial to the audit committee.
- 6.6.2.** In addition, as part of the Redmond Review one of the recommendations was for consideration to be given for the appointment of a suitably qualified independent member to audit committees. Furthermore, the External Audit Annual Audit Report also on this agenda includes an independent member as a recommendation.
- 6.6.3.** The benefits an independent member can bring to the committee are:
- Additional knowledge and expertise
 - Additional independence
 - Continuity of the committee membership through the electoral cycle.
- 6.6.4.** It is therefore planned to propose to full Council to change the constitution for 2022/23 to enable an addition of an independent member onto the committee in addition to the 8 elected members. It should be noted that the independent member will be a fixed term post and have no voting rights, so will only be able to comment or make recommendations.

6.7. External Audit Delays

- 6.7.1.** At the September Audit and Risk Committee it was reported that although the Statement of Accounts could be signed off, there would be delays in issuing the final certificate. This is due to the Value for Money (VFM) deadline being extended and the late issue of the Whole of Government Accounts (WGA) by government. The WGA has not yet been sent out by Government for the Council to complete and there is currently no clarity on when it may be available.
- 6.7.2.** External Audit delays for 2020/21 accounts audits are a national issue, with the Public Sector Audit Appointments (PSAA) reporting that at the target date of 30 September 2021 only 9% of local government bodies' 2020/21 audits had been completed. The position compares to the completion of 45% of 2019/20 audits and 57% of 2018/19 audits by the respective target dates of 30 November 2020 and 31 July 2019.

- 6.7.3.** These audit delays have been brought about by national issues within the sector. This main reasons for the delays are increased requirements placed on External Audit, restrictive audit fees, changes in the value for money opinion, COVID-19 Pandemic and resourcing issues. Ways to resolve the issues around Local Authorities are being considered and some may be resolved through the procurement process for the new national contracts.
- 6.7.4.** The above was recently recognised by a letter from the Department for Levelling Up, Housing and Communities. The letter noted that very few met the 30th September deadline and that causes for delays were multifaceted. It noted that all parties needed to remember their responsibilities but recognised that the problem requires a system wide response to get the system back on track.
- 6.7.5.** In December 2021 the Department for Levelling Up, Housing and Communities asked CIPFA to consider ways in which the financial reporting code may be able to assist with this national issue. CIPFA in response has released an exceptional consultation exploring two approaches:
- An adaption to the financial reporting code to pause professional valuations for operational property, plant and equipment for two years starting in 2021/22.
 - The deferral of the new lease accounting standard by a further year for implementation in 2023/24, as mentioned above in para 6.1.3.
- 6.7.6.** Officers acknowledge both of the above proposals would reduce a significant amount of work for both the Council and External Auditors. Unfortunately, the timing of the consultation means that work is already well underway will likely have been completed by the time the results of the consultation are released.

7. Financial, legal, equalities, climate emergency and other implications

7.1 Financial implications

There are no direct financial implications arising from this report.

7.2 Legal implications

There are no legal implications arising from this report.

Emma Jackman, Head of Law (Commercial, Property & Planning)

7.3 Equalities implications

The council must have 'due regard' to the need to eliminate unlawful discrimination, harassment and victimisation, as well as to the need to advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not.

The terms of appointment of an Audit and Risk Assurance Committee member should be clearly set out at the time of appointment.

There are no direct equality implications arising from this report.

Surinder Singh, Equality Officer, Ext 37 4148

7.4 Climate Emergency implications

There are no significant climate emergency implications directly associated with this report.

Aidan Davis, Sustainability Officer, Ext 37 2284

7.5 Other implications (You will need to have considered other implications in preparing this report. Please indicate which ones apply?)

N/A

8. Background information and other papers:

Draft audit findings report presented to Audit & Risk Committee in September 2021

<https://cabinet.leicester.gov.uk/documents/s124728/Appendix%20A%20-%20LCC%20-%20Audit%20Findings%20Report%20LG%202020-21-%20DRAFT.pdf>

Revenue Budget Report 2022/23

[Budget 2022/23 leicester.gov.uk](https://www.leicester.gov.uk/budget-2022-23/)

Leicester City Council Interests in Third Parties Report presented to Audit & Risk Committee in March 2021

<https://cabinet.leicester.gov.uk/documents/s118050/LCC%20interests%20in%20third%20parties%20-%20CMB%20v4%20FINAL.pdf>

External audit delays – Public Sector Audit Appointments

<https://www.psa.co.uk/2021/10/news-release-2020-21-audited-accounts-psaa/>

9. Summary of appendices:

Appendix A – Summary table of CIPFA financial management standards and how Leicester City Council complies

10. Is this a private report (If so, please indicate the reasons and state why it is not in the public interest to be dealt with publicly)? No

11. Is this a “key decision”? If so, why? No

Appendix A

Summary table of CIPFA financial management standards and how Leicester City Council complies

CIPFA financial management standard	How the Council demonstrates it complies
<p>The leadership team is able to demonstrate that the services provided by the authority provide value for money.</p>	<p>Annually this is supported by the external audit value for money opinion.</p> <p>Ensuring value for money is also the role of the section 151 officer and this is evidenced in the Annual Governance Statement, under the summary of the Council's governance arrangements.</p>
<p>The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.</p>	<p>The section 151 officer and Deputy Director of Finance are both professionally qualified and have suitable experience. They are both key members of the leadership team and are actively involved in all material business decisions, ensuring they are in line with the Council's financial strategy.</p> <p>They safeguard public money through good financial management and lead a finance team that is resourced and fit for purpose. Annually this is supported by the value for money opinion and the audited statement of accounts.</p>
<p>The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.</p>	<p>The annual governance statement that is included in the Council's statement of accounts supports the leadership team meeting these requirements. The annual governance statement includes:</p> <ul style="list-style-type: none"> • How governance and internal control are supported by scrutiny and review, in particular through the audit and risk committee. • A statement from the Council that it complies with the CIPFA/SOLACE Delivering Good Governance Framework (2016).
<p>The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).</p>	

<p>The financial management style of the authority supports financial sustainability.</p>	<p>Annually the Council approves the budget strategy which includes the Revenue and Capital budgets, alongside the Treasury Management Strategy and Investment Strategy. As part of the budget strategy the medium term financial outlook is considered and it is acknowledged the Council is using managed reserves to balance the budget, evidencing the Council understands its prospects for financial sustainability in the longer term and it is reported clearly to members. The budget report includes a statement from the Chief Finance Officer on the robustness of estimates and the adequacy of financial reserves.</p> <p>Throughout the year monitoring is then conducted to identify any variations from what was budgeted and allows for timely corrective action to be taken. Monitoring reports are subject to scrutiny and go to the overview select scrutiny committee on a periodic basis. This includes the capital and revenue budget monitoring, income collection and treasury management reports.</p>
<p>The authority has carried out a credible and transparent financial resilience assessment.</p>	
<p>The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.</p>	
<p>The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.</p>	
<p>The authority complies with its statutory obligations in respect of the budget setting process.</p>	
<p>The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.</p>	
<p>The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.</p>	<p>Annually the Council approves the budget strategy which includes the Treasury Management Strategy and the Investment strategy. These strategies comply with the prudential code. The Council will also report its compliance to these strategies twice for each financial year.</p>
<p>The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.</p>	<p>Annually as part of the draft budgeting setting process, the draft budgets are issued for consultation before they are submitted for formal approval.</p>
<p>The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.</p>	<p>As part of the executive approval process, decision reports are submitted to the executive which where appropriate contain option appraisals and a recommended course of action. Decisions are published on the Council's website.</p>

<p>The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.</p>	<p>Throughout the year monitoring is conducted to identify any variations from what was budgeted and allows for timely corrective action to be taken. Monitoring reports are subject to scrutiny and go to the overview select scrutiny committee on a periodic basis. This includes the capital and revenue budget monitoring, income collection and treasury management reports.</p>
<p>The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.</p>	
<p>The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.</p>	
<p>The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.</p>	<p>Annually the statement of accounts are published and complying with the CIPFA code of practice is included within the statement of responsibilities signed by the section 151 officer. The statement of accounts are audited annually and we regularly receive an unqualified audit opinion.</p>