



The Members of Staveley Town Council

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Staveley Town Council: Public Interest Report in respect of the years ended 31 March 2022 and 31 March 2023

Dear Members

As appointed auditors, we have a duty to consider whether to issue a report in the public interest when a matter comes to our attention which we believe the authority should consider or about which the public should be made aware.

The authority is responsible for the use of funds raised by local taxation and should properly account for how it has used and protected those funds. Staveley Town Council (the Council) is required by law to prepare an Annual Governance and Accountability Return (AGAR):

- summarising its financial position; and
- giving assurances that it has adequate governance arrangements to protect public funds.

The authority is required to submit the AGAR to their appointed auditor, together with all supporting documentation requested by the auditor as set out in their instructions for the relevant year.

This letter constitutes a public interest report (PIR) using our powers for the 2022/23 reporting year under the Local Audit and Accountability Act 2014 (the Act).

We have completed the limited assurance reviews for the Council for the years ended 31 March 2022 and 31 March 2023 and have today issued our final external auditor report and certificate for each of those years. We are issuing this PIR in conjunction with those reports to highlight in more detail the circumstances surrounding the insolvency of the Council, how this is being resolved and, in our view, the actions that the Council should take to ensure that this situation does not recur.

Background

There has been considerable publicity regarding the situation that the Council found itself in during 2022, being unable to pay its bills, including payroll, and reporting negative reserves of approximately £263,000 as at 31 March 2022. In fact, the Council had been reporting low or negative reserves for several years prior to this and it is now apparent that the fundamental causes of this were not being addressed by the Council.

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In our external auditor reports for the previous three years (2018/19, 2019/20 and 2020/21), we had reported on the low or negative reserves held by the Council. We had reported that the Council should:

- take action as a matter of urgency to improve the situation;
- build reserves to a reasonable level to avoid any cash flow problems in the future;
- consider its budgetary procedures; and
- ensure that the precept requested was sufficient to cover its requirements.

During our review of the 2019/20 AGAR, we were informed of measures taken during 2019/20 and the first part of 2020/21 to address the situation, including a cost cutting exercise and deferral of loan repayments. By 31 March 2021 the Council's negative reserves, as reported in the 2020/21 AGAR, had reduced to £14,872 compared to £24,396 as at 31 March 2020. The Council did not, however, provide us with any update on its efforts to rectify the situation during our review of the 2020/21 AGAR.

There were also various queries and requests for missing information in respect of 2020/21 which were not addressed by the Council and were therefore raised in our external auditor report on the 2020/21 AGAR.

During the year ended 31 March 2022, the situation worsened significantly with negative reserves of £263,898 being reported in the AGAR for that year. Whilst the cash book showed a small positive balance, this was due to the high level of creditors at the year end indicating that supplier payments were being withheld due to the lack of funds at the bank.

Accounting treatment of grants

During 2022/23, it came to light that the Council had for several years not been preparing its accounts in accordance with proper practices in respect of grants receivable. The Practitioners' Guide requires that grants receivable are accounted for in the year that they are received; however, the Council had been accruing for grants that were expected but not yet received and in some cases had also been deferring grants already received to a future period. These accruals had not been itemised in the Box 7 to 8 reconciliations for each year, and so were not corrected as part of the limited assurance review process.

In the accounts for the year ended 31 March 2022, there was a write off of £71,074 of accrued grants that were no longer expected to be received. If the previous years' accounts had been prepared according to proper practices then part of the deficit as at 31 March 2022 would have been recognised in earlier years. In our view, this incorrect accounting treatment contributed to masking the magnitude of the issue in previous years. As noted above, this error in accounting treatment had not been identified in previous limited assurance reviews as there was no indication of it in the documents that were submitted for our review each year.

2021/22 AGAR

The AGAR for the year ended 31 March 2022 was not completed in time to be approved and published by the Council before the statutory deadline (by 1 July 2022). In fact, the 2021/22 AGAR was not approved and published until several months later and was submitted to us for our limited assurance review until December 2022 (i.e. six months late).

In a full Council meeting on 28 June 2022, it was announced that a new clerk, who would also act as the responsible financial officer (RFO), had been appointed following interviews held by the Council's appointment panel. The new clerk was due to start in September 2022 with handover meetings planned for July and August. It was minuted that the internal audit would take place in the first two weeks of July and be reported to the Council in July. In fact, there was no meeting held in July and the next full Council meeting was not held until 18 October 2022, by which time the previous clerk had left and the new clerk was in post. It was noted at this meeting that the accounts for 2021/22 were not ready to be approved yet and would be sent to the internal auditor by the end of that week.

When the 2021/22 AGAR was submitted for our review in December 2022, the new clerk also provided us with a letter from Emerald Accountancy Services, the accountants contracted by the Council to provide day to day accounting support. This letter, dated 13 July 2022, pointed out serious concerns regarding internal controls, accounting entries and the matter of whether or not the Council was a going

concern. We have not seen any evidence that this letter was brought to the attention of the full Council at the time of receipt or, if it was, evidence of any action taken by the Council.

The new clerk carried out a detailed review of the operations of the Council and presented a confidential report to the full Council meeting on 30 November 2022 detailing her findings and recommendations. This built on the findings of the internal auditor who had reported on 10 November 2022 answering 'No' to the majority of the internal control objectives on the 2021/22 Annual Internal Audit Report and providing a supplementary report noting the breakdown of the Council's internal control system during 2021/22.

The clerk's confidential report was comprehensive and detailed. It included:

- an introduction explaining the reasons for the review and summarising the financial situation;
- a section detailing the key points of failure of internal controls as highlighted by the internal auditor;
- a summary of additional risks identified by the clerk;
- consideration of the future implications of the current financial situation;
- a list of immediate actions undertaken by the clerk to reduce expenditure;
- a list of options for additional savings and income (including calculations of estimated savings); and
- a comprehensive list of recommendations for the Council.

The report noted that, even if all of the recommendations were followed, a significant increase in the 2023/24 precept would be required to address the deficit unless any alternative funding could be found.

The Council considered the report in confidential session at the November meeting, an in depth discussion was held and resolutions were passed to follow the recommendations made in the report. At the same meeting, the 2021/22 AGAR was approved; the Council resolved to answer 'No' to all the governance assertions in Section 1, apart from Assertion 7 on the basis that it had taken action to improve reserves through the budget and Assertion 9 which was not applicable.

The 2021/22 AGAR and supporting documents were then submitted to us for review. As a result of our limited assurance review, we have raised three 'except for' matters (or qualifications of our opinion) in our final external auditor report covering the following issues:

- Assertion 7 should have been answered 'No' since during 2021/22, the Council had not addressed matters raised by internal and external auditors in previous years in respect of the low and negative reserves.
- The 2021/22 accounting statements had not been prepared in accordance with proper practices in respect of grants receivable and included an amount of deferred income carried forward. Also we have noted that the accounts include a write off of £71,074 of accrued income as referred to above.
- We had been unable to verify £88,650 of loan balances included in Section 2, Box 10 to supporting documentation and we noted that the subsequent investigation into our queries by the clerk had revealed the total Box 10 figure to be incorrect due to errors in accounting during the 2021/22 financial year.

2022/23 AGAR

As part of her work on the 2022/23 Accounts and AGAR, the clerk investigated the accounting errors that we have referred to in our 2021/22 final external auditor report and restated the figures correcting these errors. The prior year comparative column in the 2022/23 AGAR was restated accordingly and shows that the negative reserves balances as at 1 April 2021 and 31 March 2022 were £110,799 and £219,093 respectively.

The 2022/23 AGAR was prepared, approved and published by the Council by the statutory deadline. The AGAR and supporting documents were then submitted to us for review. As a result of our limited assurance review, we have raised two 'except for' matters (or qualifications of our opinion) in our final external auditor report covering the following issues:

- Section 1, Assertion 5 should have been answered 'No' as the Council had not approved the overall risk management arrangements at a Council meeting during the financial year.
- The precept figure reported in Section 2, Box 2 incorrectly included an element of grant money that should have been reported in Box 3.

We have also raised a number of 'other' matters (not impacting on our opinion) in our reports on the 2021/22 and 2022/23 AGARs, one of which we would like to highlight in this report and which concerns the Council's website. We note that there is no dedicated section for finance documents on the website. Although we were able to find the documents that we were looking for by scrolling down through the 'Latest News' section, it is not clear to the user what documents have been published on the website or an obvious place to look for them. We recommend that a dedicated finance section is set up where all relevant financial documents can be published and which is easy for users to find.

Action taken during 2022/23 and 2023/24

As part of the action taken by the Council after receiving the clerk's November 2022 report, the majority of staff were made redundant and the cleaning staff were transferred via TUPE to an external company, in order to keep costs down and to start to recover the reserves balances. The clerk also identified and chased outstanding debtors and the rents at Staveley Hall were increased.

Following the clerk's report in November 2022 and the subsequent actions taken by the Council, the financial position of the Council caught the attention of the press and a question regarding the situation was raised in Parliament in January 2023. By this time, the precepting authority, Chesterfield Borough Council, had become involved and a financial rescue package was being discussed with the Council.

In February 2023, the Council resolved to accept the offer of a loan of up to £400,000 from Chesterfield Borough Council (secured against the Council's assets) to enable the outstanding debts of the Council to be settled and to set a balanced 2023/24 budget without needing to increase the precept by more than inflation. £320,000 of this loan was drawn down during 2022/23 to cover existing liabilities.

A budget for 2023/24 was prepared which showed the Council ending 2023/24 with a reduced level of negative reserves together with a five year plan showing how reserves will be built up over that period.

During 2023, whilst working on the detail of the 2022/23 accounting statements, a review of energy invoices was undertaken resulting in the identification of several duplicate entries in the accounting system which reduced the overall liabilities. Other accounting errors were identified by the clerk and after these were all corrected, as well as the errors in accounting noted earlier in this report, the accounting statements for 2022/23 showed a negative balance of reserves at the year end of £164,872.

As part of the loan arrangement with Chesterfield Borough Council, the Council agreed to establish an Improvement Board with an independent chair. The Board's remit was to investigate what had happened in the past to create the situation that the Council had found itself in and to support the introduction of better governance practices to ensure that this does not happen again.

In May 2023, the Improvement Board was established and Mr N Taylor was appointed as independent Chair and leader of the Board. The clerk was authorised to make the arrangements for the investigation to commence at a cost of up to £20,000. The investigation took place and the Improvement Board presented its report and findings to the full Council meeting on 28 November 2023, where it was resolved that the report and recommendations be accepted and adopted in full.

In carrying out its investigation, the Improvement Board issued open invitations to all local councillors, residents and local stakeholders to ensure that as many people as possible who wanted to discuss matters with the Board could do so and the Board reported that it had received a full spectrum of views.

The Board's report comprehensively explored the financial and non-financial reasons for the Council's failures covering the financial years from 2010/11 to 2022/23 and acknowledged that the financial situation had built up over many years and different administrations. The Board made recommendations which were split into two sections; those to regain public trust and confidence in the Council and those to demonstrate the Council's ability to deliver value for money services. Full details can be found in the [report](#) on the Council's website.

Following the Council meeting on 28 November 2023, the Council made an announcement that it fully accepted the report and findings of the Improvement Board and that it was committed to implementing its recommendations which had been incorporated into the Council's own improvement plan. Since making this commitment, the Council has been working to implement the recommendations of the report. The clerk has reported that the Civility and Respect Pledge has been adopted and some Councillor training has taken place. The clerk is in the process of putting in place a Councillor training policy and strategy and is intending to arrange for further training sessions to take place. The clerk produces finance reports for each Council meeting which include budget monitoring and she also produces a regular cashflow report for Chesterfield Borough Council as part of the loan agreement. The clerk reports that the 2023/24 financial figures are broadly in line with budget, subject to some adjustments that had to be made in respect of CIL funded expenditure that had to be completed before the year end.

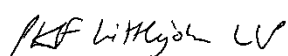
Conclusion

In our view, the clerk has been extremely effective since her appointment in 2022, in first identifying and then immediately addressing the extent of the financial difficulties facing the Council and then subsequently bringing the accounting systems under control and assisting the Council to improve its governance and transparency. Balanced budgets for 2023/24 and 2024/25 as well as the five year plan were set and are being followed, and the Council is committed to the recommendations of the Improvement Board, which the clerk and councillors are working to implement.

The principal reasons for issuing this PIR to the Council are to highlight in more detail the circumstances surrounding the insolvency of the Council, how this is being resolved and, in our view, the actions that the Council should take to ensure that this situation does not recur. We do not have any additional recommendations to raise. We expect that the Council will continue the implementation of the recommendations of the Improvement Board and follow its own Improvement Plan. We plan to follow up on progress against these plans during our limited assurance review of the 2023/24 AGAR.

The Act requires the authority to consider this public interest report at a public meeting within one month of the date that this letter was sent. The full requirements of Schedule 7 can be found [here](#) and the authority should ensure that it complies with all requirements. We have a duty to send a copy of this report to the Secretary of State and the power to send a copy to anybody we think appropriate.

Yours sincerely



PKF Littlejohn LLP

cc Clerk - Staveley Town Council, Secretary of State - DLUHC, National Audit Office, Smaller Authorities' Audit Appointments Ltd, Monitoring Officer – Chesterfield Borough Council