

Audit Committee

28 July 2022



Title	<i>2021/22 Draft Unaudited Financial Statements</i>
Purpose of the report	To note
Report Author	<i>Paul Taylor Chief Accountant</i>
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Affordable housing Recovery Environment Service delivery
Recommendations	Committee is asked to note the report and the draft unaudited financial statements.
Reason for Recommendation	<i>Spelthorne Borough Council must publish a draft set of unaudited accounts for 2021/22 by 31 July, in accordance with statutory deadlines.</i>

1. Summary of the report

- 1.1 In accordance with the Finance Team's audit timetable, on 31 May 2022, they had produced a draft set of unaudited accounts for the year ended 31 March 2022. The national target for councils to publish their draft accounts is 31st July for the 2021/22 accounts.
- 1.2 The draft unaudited 2021/22 financial statements as per appendix A are made available for the Audit Committee to note.
- 1.3 Please be aware that officers have updated note 36 in respect of Knowle Green Estates Ltd, to reflect the latest valuation report.
- 1.4 Officers are meeting with the Leader of the Council on 21 July to confirm the Annual Governance Statement, prior to him signing same and the Committee will be advised of any amendments.
- 1.5 These draft accounts must be published on the Council's website by 31 July 2022, together with the relevant declarations, in order to meet our statutory deadlines.

2. Key issues

- 2.1 The Council's unaudited financial statements take the approved net expenditure outturn position at 31 March 2022, and then applies the capital

adjustments for depreciation, etc., together with the items included in other income, and expenditure, tax and nonspecific, financing and interest income and expenditure to arrive at the Comprehensive Income and Expenditure Statements (CIES) shown in the Accounts.

2.2 The main observation from the draft unaudited accounts are as follows:

- (a) The CIES shows an overall accounting surplus of £22.8m (page 34) after applying all the technical and statutory adjustments mentioned in section 2.1 above. (These technical and statutory adjustments are set out in detail on Note 7 (page 60). The main reasons for the surplus are as follows:
 - i) An upward revaluation of (£4.9m) (2020/21: (£14.2m)) on our municipal assets that are revalued every 5 years, and officers will be reviewing this next year, as it is indicating that we may need to go to a two to three year revaluation programme.
 - ii) An upward revaluation of (£15.6m) (2020/21: £8.9m deficit) in the Council's share of Surrey Local Government Pension Fund net liabilities due to actuarial gains.
- (b) This year saw a further £23.0m (2020/21: £51.9m) reduction in our investment portfolio valuation. (Note 13 on page 69). This is a short term ongoing national situation as a result of the COVID-19 Pandemic, and represents a paper loss, Officers are of the opinion, that the long term upward trend in property values, as experienced with our municipal assets in 2.2 (a) I above, will return in the next two to three years and expect to see these impairment losses recovered. The Council holds these assets for their long term income streams, rather than capital appreciation, in 2021/22 the Council collected 99.98% (2020/21: 99.7%) of rental invoiced on its investment assets.
- (c) Council currently has no plans to sell off any of these properties and therefore, these losses will not crystallise, as any losses on disposal would significantly impact on the Council's earmarked reserves balances, as the Council, would have to cover any shortfalls in the General Fund.
- (d) The Council has managed to maintain its level of investment income, notably rents (see note 13 on page 59) from our investment properties at £53.3m (2020/21: £52.5m).
- (e) As a result of this strong performance in rental income received, the Council has managed to increase its contributions to the sinking fund reserves by £7.7m (2020/21: £5.3m) resulting in a balance of £33.6m on its sinking funds reserves, ensuring that it continues to protect residents from any significant downturn in rental income received. (subject to final confirmation of the revenue outturn report).
- (f) While Officers monitor the capital values, their focus will continue to remain on delivering rental yield that contributes to the approved regeneration programme, housing development, service delivery and increasing the contributions to our sinking fund reserves.
- (g) Officers have also taken the opportunity to increase the General Fund Reserve (general contingency reserve) to just over £2m and will

continue to increase this over the coming years to ensure that Council has sufficient non-earmarked funds to deal with year on year fluctuations.

- (h) The other factors mentioned in the Outturn Report for the year end 31 March 2022 have been reflected in these accounts.
- (i) Group accounts – Knowle Green Estates Ltd. (KGE), showed a revaluation loss of £2.0m (2020/21: £nil) and this was offset by a revaluation surplus of £3.6m (2020/21: £nil). Officer comments made in (f) above for Spelthorne Borough council draft accounts, apply to KGE, as the focus is on providing housing stock for keyworkers, young married couples, and disabled people within the Borough. Again, neither KGE nor the Council has any plans to sell these assets in the short to medium term.

3. The process

- 3.1 Once the draft accounts have been published on our website, that is it as far as amendments are concerned until completion of the audit.
- 3.2 Should there be any amendments required during the period from publication on 29 July 2022 to receiving the audit findings report, these will be documented and reported to the Audit committee, as part of the statutory audit process.

4. Financial implications

- 4.1 Addressed in the report above

5. Risk considerations

- 5.1 Whilst there are no financial risks involved with missing the statutory deadlines, for publishing the draft audited accounts, the Finance Team working closely with the Chief Finance Officer are keen to ensure that we comply with this and all our statutory deadlines.
- 5.2 As the Council processes evolve following the change to the Committee Structure of governance, officers will be requesting that in 2023/24, the Corporate Policy and Resources Committee hold a meeting in early May, to review the Outturn report for the year ended 31 March 2023. This will enable officers to reflect the Committee's recommendations in the draft financial statements for 2022/23, which will need to be published on 31 May 2023, as the government is reverting back to the original timeline for publication of the council's draft unaudited statement of accounts, following the pandemic.

6. Legal considerations

- 6.1 The Council must publish its 2021/22 unaudited financial statements by 31 July 2022 in accordance with statutory requirements.

7. Other considerations

- 7.1 None.

8. Equality and Diversity

- 8.1 None from this report

9. Sustainability/Climate Change Implications

- 9.1 None from this report

10. Timetable for implementation

10.1 The timeline for publishing the draft 2021/22 unaudited statement of accounts is as follows:

- (a) Audit Committee to note the draft 2022/23 unaudited financial statements, subject to any amendments in b above. On 28 July 2022.
- (b) Officers to publish the draft 2022/23 unaudited financial statements on the Council's website on 31 July 2022.

11. Contact

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Background papers: There are none.

Appendices:

Appendix A – Draft 2021/22 unaudited financial statements