

Members' Briefing Pack



14 June 2023

Title	<i>Audited accounts for Knowle Green Estates Ltd, for the year end 31 March 2022.</i>
Purpose of the report	To note
Report Author	<i>Paul Taylor Chief Accountant</i>
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Environment Service delivery
Recommendations	Committee is asked to note the report.
Reason for Recommendation	<i>The Board of Directors at Knowle Green Estates Ltd approved the unqualified audited accounts for the year ended 31 March 2022 on 29 March 2023, following a meeting with the Auditors.</i>

1. Summary of the report

- 1.1 The unqualified audited accounts for the year ended 31 March 2022, were approved by the Knowle Green Estates (KGE) Board on 29 March 2023 and filed at Companies House.
- 1.2 There was no Corporation Tax to pay.
- 1.3 The accounts show the following:

	2021/22	2020/21
Profit/(loss) for the year	£144,334	(£93,643)
Total Comprehensive Income/(Expenditure) for the year	£3,464,975	(£2,419,995)
Total equity	£3,179,115	(£285,860)

- 1.4 The main reason for the improvement in performance from 2020/21 to 2021/22 is twofold:
 - (a) The transfer of the Harper House back to the Council from KGE that created a paper loss in KGE, which is cancelled out on consolidation in the Council's Group Accounts.

- (b) The improvement to the property valuations, based on full occupancy and strong rental streams from private renters and affordable housing.

2. Key issues

- 2.1 KGE changed its auditors during the year, so that all the Council's tax compliance work was with one firm, and this was a major reason for the delay in finalising the accounts for the year end 31 March 2022. Noting that the audit for the year ended 31 March 2023 has already commenced and is expected to be completed by the end of June 2023.
- 2.2 Following a meeting with Tracey Wickens, the Senior Statutory Auditor at MGI-Midgely Snelling, the KGE Board of Directors formally accepted and signed the accounts (Appendix A) on 29 March 2023,
- 2.3 Also attached is the Letter of Communication from the Auditor, which states that:
 - (a) There was no change in the audit process.
 - (b) There were no significant findings coming from the audit.
 - (c) There was an initial weakness identified regarding the assets, however, as explained to the Senior Statutory Auditor, KGE maintains accurate records of where each bin is located.
 - (d) A list of immaterial audit adjustments, see Appendix C in next section.
 - (e) Some commentary on internal controls:
 - i) There are some challenges with the Bluebox (a Tenancy based application) when producing final accounts, as there has been little development work carried out by the Assets team to develop the software to deliver a recognisable trial balance from the system, making it a labour intensive process.

This is being addressed by Officers going forward.
 - ii) The two sums referred to come from the previous year which was audited by Azets, and therefore, there should have been sufficient information in the audit files to deal with matter.

Officers subsequently review the journals from the previous auditors and ascertained that figures were as follows:
 - £10,793 – this was written off in yearend 2021, by agreement with the auditors and the Board.
 - £4,134 – this was deferred income from 2021 and should be written to the profit and loss account.

Please note that both adjustments are favourable and under the companies materiality levels, and will be adjusted accordingly going forward.
 - (f) Confirmation of an anticipated clean audit report being issued, subject to final checks and submissions.
 - (g) Confirmation that the auditors agree with the Directors views on:
 - i) Going concern
 - ii) Accounting policies and disclosures

- (h) There were no related party issues.
 - (i) All third-party confirmations were received.
 - (j) Confirmation of MGI-Midgley Snellings independence.
- 2.4 As part of the normal audit process, the Directors were asked to sign the attached Letter of Representation (Appendix C) and return to the auditors.
- 2.5 This letter sets out key affirmations that the Directors have made during the audit process and that the auditors have highlighted, particularly in respect of Appendix 1 and 2.
- 2.6 Appendix 1 – The initial draft accounts were prepared based on a valuation report received from the valuers Wilks Head Eve. This was queried and additional information supplied, as a result the valuations were significantly revised by WHE. This was a material audit adjustment.
- 2.7 Appendix 2 – A trade creditor amounting to £1,048 was not included in the accounts. This figure is immaterial for audit purposes.
- 2.8 Where adjustments are material, the Board requested that the financial statements were amended to reflect these adjustments. As a result of these adjustments the Spelthorne Borough Council Group accounts will need to be updated to reflect these favourable adjustments.
- 3. Financial implications**
- 3.1 There are no further financial implications in respect of the financial accounts.
- 4. Risk considerations**
- 4.1 The property valuations are based on a variety of data, and does not reflect the best valuation, i.e., an offer to buy the premises or company, which could be higher or lower than the asset carrying value included in the audited financial accounts for the year ended 31 March 2022.
- 4.2 The Bluebox financial system, is not widely recognised within the finance profession and it has been difficult for the Finance Team to support the Assets Team to deliver timely year end accounts, management accounts and budgets. Officers are in discussion to look at moving the accounts production to Centros, where greater resilience and support can be provided.
- 4.3 Delays to the Development Projects has put financial pressure on KGE, and at the Extraordinary Council Meeting it requested a refinancing package, including the purchase of equity shares, to match the potential Homes England Funding and reduce the Loan to Property Value to 50%, as current PWLB interest rates are circa 5% and expected to rise further in mid-June, when the Bank of England meet to review the Base Rate.
- 4.4 The original projections approved by the KGE Board in June 2021, where prepared on the assumptions that Thameside House and Victory Place would be occupied from January 2024 and November 2023 respectively, as neither development has commenced yet, this is putting pressure on KGE, not only from a cashflow perspective, but also in its ability to establish a truly independent Board, as it is unable to generate the cashflow to support this additional expenditure.

4.5 Since the change of Council policy on 22 March 2022 – Transferring property to KGE at cost - this has ensured that there is no chance of a loss materialising upon transfer to KGE, in the Council’s accounts.

4.6 To reduce the financial risk on KGE being unable to afford to manage any of the Council’s development properties, since the last property was transferred in December 2021, viability assessment are now carried out on each development, which will include modelling over a 50 year period different scenarios, such as, changes in interest rates, loan term, rent increases and capital cost.

5. Procurement considerations

5.1 The external auditors were appointed following an appropriate procurement exercise.

6. Legal considerations

6.1 There are none.

7. Other considerations

7.1 The main items have been discussed in the other sections for the report.

8. Equality and Diversity

8.1 There are none for this report.

9. Sustainability/Climate Change Implications

9.1 Not directly applicable. Ensuring a viable company assists the Council in supporting businesses to more sustainably manage their waste.

10. Timetable for implementation

10.1 Not applicable, as report is just for noting.

11. Contact

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Background papers: There are none.

Appendices:

Appendix A – KGE Audited accounts 31 March 2022

Appendix B – KGE Letter of Communication 31 March 2022

Appendix C – KGE Letter of Representation 31 March 2022