

# Audit Committee

27 July 2023



<b>Title</b>	<i>2022-23 Draft Unaudited Financial Statements</i>
<b>Purpose of the report</b>	To note
<b>Report Author</b>	<i>Paul Taylor Chief Accountant</i>
<b>Ward(s) Affected</b>	All Wards
<b>Exempt</b>	No
<b>Corporate Priority</b>	Community Affordable housing Recovery Environment Service delivery
<b>Recommendations</b>	<b>Committee is asked to note the report and the draft unaudited financial statements, which were published on the Council's website on 31 May 2023, in accordance with the statutory deadline.</b>
<b>Reason for Recommendation</b>	<i>Spelthorne Borough Council must publish a draft set of unaudited accounts for 2022-23 by 31 May, in accordance with statutory deadlines.</i>

## 1. Summary of the report

- 1.1 In accordance with the Finance Team's audit timetable, the Council published, the following items, as required and by the statutory deadline of 31 May 2023:
  - (a) Declaration of inspection period
  - (b) Declaration of publication of draft unaudited statement of accounts
  - (c) Draft set of unaudited statement of accounts (see appendix A) for the year ended 31 March 2023.
- 1.2 Based on the statistics supplied by LG Futures, Spelthorne Borough Council was part of the 30% of Council's in England that met the statutory deadline.
- 1.3 The accounts give a true and fair view of the Council's finances at 31 March 2023.
- 1.4 There are a number of minor issues, around roundings, some incorrect figures in the prior year tables and the challenge with the Knowle Green Estates Audit (see 2.2(j) below) that were identified prior to publishing and considered to be immaterial. In consultation with our external auditors on these matters around the publication process, we were asked not to update

the draft unaudited statement of accounts, until after the Public Inspection Period had closed on the 13 July.

- 1.5 The draft unaudited financial statements for the year ended 31 March 2023 will be updated after this meeting.

## **2. Key issues**

- 2.1 The Council's unaudited financial statements take the approved net expenditure outturn position at 31 March 2023, (Corporate Policy and Resources Committee (CPRC)) approved a balanced Outturn at 2022-23) 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 Statement (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 (not a cash) deficit of £108.5m (2021-22: a surplus of £22.8m) (see 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 65). The main reasons for the deficit are as follows:
- i) A downward revaluation of £1.4m (2021-22: an upward revaluation of (£4.9m)) on our municipal assets that are revalued every 5 years.
  - ii) An upward revaluation of (£36.6m) (2021-22: (£15.6m surplus) in the Council's share of Surrey Local Government Pension Fund net liabilities due to actuarial gains and changes in assumptions made by the Fund.
- (b) This year saw a net reduction of £161.2m (2021-22: £23.4m net reduction) in our investment portfolio valuation. (Note thirteen on page 70). This is a short term ongoing national situation as a result of the COVID-19 Pandemic, the Cost-of-Living Crisis and a significant increase in the Bank of England Base Rate and represents a paper loss. Officers are of the view, that the long-term upward trend in property values, as experienced over the last 150 years will return and the impairment losses are likely to be recovered over a number of years.
- (c) The Council holds these assets for their long-term income streams, rather than capital appreciation, in 2022-23 the Council has collected to date 99.19% (2021-22: 99.98%) of rental invoiced on its investment assets.
- (d) Council currently has no plans to sell off any of these proprieties and therefore, these paper losses will not crystallise, as any losses on disposal would significantly impact on the Council's revenue budget and earmarked reserves balances, as the Council, would have to cover any shortfalls in the General Fund.
- (e) The Council has managed to maintain its level of investment income, notably gross rents (see note thirteen on page 59) from our investment properties at £52.5m (2021-22: £53.3m).
- (f) As a result of this strong performance in rental income received, the Council has managed to increase its cash contributions to the sinking

fund reserves by £4.2m (2021-22: £7.7m) resulting in a balance of £37.8m (2021-22: £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).

- (g) 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.
- (h) On 26 June 2023, Corporate Policy & Resources Committee approved the £0.48m increase in the General Fund Reserve (general contingency reserve) to just £2.5m (2021-22: £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.
- (i) The other factors mentioned in the Outturn Report for the year end 31 March 2023 have been reflected in these accounts.
- (j) Group Accounts – Because of the delay in completing the 2021-22 annual audits for Knowle Green Estates Ltd., following a change of external auditors, it was not possible for the Group Accounts to be finalised. Therefore, Officers made the decision to publish the draft unaudited statement of accounts without any group accounts. The decision was made because the 2022-23 audit for KGE should be completed by end of July 2023 and that each subsidiary publishes full accounts.

The 2022-23 Revenue Outturn report gave updated details on both of the Council's subsidiaries performance in 2022-23.

Once the 2022-23 audits have been completed, the Group Accounts will be finalised, and Officers will update the draft unaudited statement of accounts.

Please also note that both the Council's subsidiaries publish full financial statements.

### **3. The process**

- 3.1 Once the draft unaudited statement of accounts has been published on our website, that is it as far as amendments are concerned until completion of the audit.
- 3.2 The minor adjustments mentioned above will be made and the external auditors notified.
- 3.3 All significant amendments made to the first draft of the published unaudited statement of accounts, will be notified to the Audit Committee via the audit findings report, once the external auditors have completed their work and formed their audit opinion, 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 unaudited statement of accounts, the Finance Team working closely with the Chief Finance Officer were keen to ensure that the Council comply with this and all our statutory deadlines.

5.2 This is particularly relevant given the recent CIPFA/DLUHC review.

## **6. Procurement**

6.1 There are no procurement considerations.

## **7. Legal considerations**

7.1 The Council must publish its 2022-23 unaudited financial statements by 31 May 2022 in accordance with statutory requirements.

## **8. Other considerations**

8.1 Officers are working to change the format of the 2023/24 statement of Accounts to include a five-column table in the Statement of Expenditure & Funding Analysis, rather than the current three-column table, this will enable council to see the movement for the Council approved Revenue Outturn Report to the final balances in the statement of Accounts.

8.2 Officers will also work with the Financial Reporting Working Party to prepare a summary one-page report of the Statement of Accounts.

## **9. Equality and Diversity**

9.1 None from this report

## **10. Sustainability/Climate Change Implications**

10.1 None from this report

## **11. Timetable for implementation**

11.1 The timeline for publishing the draft 2022-23 unaudited statement of accounts is as follows:

- (a) Officers to publish the draft 2022/23 unaudited financial statements on the Council's website on 31 May 2022.
- (b) Audit Committee to note the draft 2022/23 unaudited financial statements.
- (c) External audit to commence at a future date to be confirmed.
- (d) All material substantial adjustments to the draft unaudited statement of accounts to be notified to the Audit Committee when the External auditors present their report once the audit has been completed.

## **12. Contact**

12.1 Paul Taylor Chief Accountant Tel: 01784 444262 E-mail: [p.taylor@spelthorne.gov.uk](mailto:p.taylor@spelthorne.gov.uk) .

**Background papers:** There are none.

## **Appendices:**

**Appendix A** – Draft 2022-23 unaudited financial statements (updated after 13 July)