

# Audit and Performance Committee Report

<b>Date:</b>	24 July 2023
<b>Classification:</b>	General Release
<b>Title:</b>	2022/23 Annual Accounts
<b>Wards Affected:</b>	All
<b>Policy Context</b>	The draft accounts detail the Council's financial performance for 2022/23. Further detail regarding the Council's Fairer Westminster vision, opportunities and risks can be obtained in the Narrative Statement and Annual Governance Statement
<b>Financial Summary:</b>	This report presents the draft Statement of Accounts for the Council for the financial year ended 31 March 2023
<b>Report of:</b>	Gerald Almeroth, Executive Director – Finance & Resources

## 1. Executive Summary

- 1.1 This is a report summarising the key aspects of the 2022/23 statement of accounts. The statement of accounts appended to this report are draft at this stage and the external auditors' workplan is to present an audited version of the accounts to the 24 October 2023 Committee. The public inspection period began on 19 June and is due to end on 28 July 2023. The published draft accounts can be found at Appendix 1.
- 1.2 These draft statements of accounts complement the financial outturn position and reports the Council's financial position in line with CIPFA reporting requirements and International Financial Reporting Standards.
- 1.3 The 2022/23 draft accounts report some large year-on-year variances compared with the previous year. This is mostly due to the £471m

reduction in the valuation of the council's pension fund liabilities as the Pension Fund is now 128% funded (up from 99% at the last triennial valuation).

- 1.4 The total value of the net assets on the balance sheet as at 31 March 2023 was £3.373bn. Overall there has been an increase of £0.558m in comparison to last year.

## **2. Recommendations**

- 2.1 That the Audit and Performance Committee approve the draft 2022/23 statement of accounts subject to the public inspection period and the audit currently underway.
- 2.2 That the Audit and Performance Committee approve the draft Annual Governance Statement included in the statement of accounts subject to the public inspection period and the audit.

## **3. Background**

- 3.1 The audit sector for Local Government remains under enormous pressure as the backlog for accounts sign-offs has reduced capacity to meet accounts publication deadlines and audit sign-off deadlines.
- 3.2 Due to these national issues, Westminster City Council's draft 2022/23 accounts were published two weeks after the 31 May deadline, on the 16 June. The 31 May deadline was a reversion back to the original timeframe after the publication dates were extended to 31 July during the Covid-impacted years. By 31 May, 30% of English authorities had published their draft accounts. In London, it was 25%. By 16 June, London's publication rate had increased to 30%.
- 3.3 While by the 31 May, the 2022/23 accounts (including pension and group) had been largely completed, a decision was taken to delay publication of the draft accounts to ensure that they were of the highest possible quality, as that will ultimately benefit us during the audit process.
- 3.4 Westminster's position reflects the well-documented sector-wide challenges, and the 2022/23 deadline has been impacted by these challenges - as the Chief Executive of CIPFA reported in late May. In his statement, he was of the opinion that a "balance [should be] struck between the timeliness and the quality of unaudited financial statements".

## **4. Update to 2021/22 accounts**

- 4.1 At the point of writing, Grant Thornton is updating the final elements of their Audit Findings Report before issuing the final certificate for the accounts. The report to the Audit & Performance Committee on 23 February 2023 outlined that the final opinion was expected to be unqualified subject to the following outstanding minor matters:

- Completion of the documentation of audit testing
- Completion of subsequent events work
- Final senior management and quality reviews
- Receipt of management representation letters, and
- Review of the final sets of financial statements, Annual Governance Statement and Narrative Reports

- 4.2 While the outstanding matters in the paragraph above were completed, another national issue arose in March which has delayed accounts across England being signed-off, which was a question as to what the impact of the triennial (IAS19) valuation of Local Authority Pension Funds would be on the 2021/22 accounts. The triennial valuations were being formally issued by the actuaries in early 2023, with a valuation date of 31 March 2022.
- 4.3 The delay on providing an audit opinion on the 2021/22 Statement of Accounts meant that the updated information arising from the March 2022 triennial funding valuation potentially had an impact on the IAS19 data reported in the 2021/22 Statement of Accounts.
- 4.4 The 2021/22 IAS19 disclosures are based on membership data “rolled forward” from the 2019 triennial funding valuation and actuarial assumptions set out by the actuary as at 31 March 2022. At the time the 2021/22 Statement of Accounts were authorised for issue, the results of the March 2022 funding valuation were not available.
- 4.5 Given that the opinion on the 2021/22 Statement of Accounts has not been issued, the external auditors are required to undertake procedures under International Accounting Standards to determine whether events occurring between the date the Statement of Accounts were authorised for issue and the date of the auditor’s report should be reflected in the Statement of Accounts.
- 4.6 The Council quickly reviewed the data and drafted a procedure note (with the actuary’s assistance) and deemed this change to be £0.551m and therefore below Grant Thornton’s threshold for triviality. Grant Thornton is finalising its internal checks to sign it off. It was this note that was relied upon by the wider sector, used by CIPFA to update its national guidance and fed into the NAO’s resolution of the matter.
- 4.7 By 24 July, Grant Thornton anticipates that all work required to formally sign the 2021/22 accounts will have been completed.
- 4.8 The 2022/23 accounts will be subject to Grant Thornton’s “hot review”. This is a cyclical spot check of a number of accounts in its portfolio that will undergo additional quality assurance checks. This “hot review” on the 2022/23 accounts should not impact the 2021/22 sign-off.

## 5. 2022/23 Accounts Balance Sheet

- 5.1 The balance sheet in the table below shows the Council has net assets of £3.373bn. An increase of £0.558m in comparison to 2021/22.
- 5.2 The accounts follow CIPFA reporting requirements for valuation and depreciation of non-current assets. CIPFA regulations create accounting overrides of IFRS to ensure that valuation or depreciation movements are not chargeable to the General Fund.
- 5.3 The CIPFA Code also makes accounting overrides for the recognition of post-employment benefits (i.e. pension payments), whereby the charge payable to the General Fund is the cash payable each year. The real cost (i.e. the cost on a accruals basis) of post-employment benefits must be reversed out through the Movement in Reserves Statement to avoid being chargeable to Council Tax.

31 March 2022	Note	31 March 2023
£'000		£'000
<b>ASSETS</b>		
<u>Non-current</u>		
3,014,314	Property, plant and equipment	3,093,364
44,578	Heritage assets	44,578
462,801	Investment property	525,064
4,997	Intangible assets	7,374
33,318	Long-term investments	34,300
132,034	Long-term debtors	86,187
<b>3,692,042</b>	<b>Total long-term assets</b>	<b>3,790,867</b>
<u>Current</u>		
383,429	Short-term investments	656,569
138	Inventories	131
395,846	Short-term debtors	191,736
64,998	Cash and other cash equivalents	209,047
19,086	Assets held for sale	2,609
<b>863,497</b>	<b>Current assets</b>	<b>1,060,092</b>

31 March 2022		Note	31 March 2023
£'000			£'000
<b>LIABILITIES</b>			
(62,229)	Short-term borrowing	Note 21a	(12,726)
(580,393)	Short-term creditors	Note 28	(682,641)
(40,279)	Short-term provisions	Note 29	(116,252)
(49,358)	Revenue receipts in advance	Note 13	(18,938)
<b>(732,259)</b>	<b>Total current liabilities</b>		<b>(830,557)</b>
<u>Long term</u>			
(1,269)	Long-term creditors	Note 28	(6,051)
(91,424)	Long-term provisions	Note 29	(23,810)
(237,616)	Long-term borrowing	Note 21a	(389,398)
(577,597)	Other long-term liabilities	Note 30	(101,172)
(100,274)	Capital receipts in advance	Note 13	(127,317)
<b>(1,008,180)</b>	<b>Long-term liabilities</b>		<b>(647,748)</b>
<b>2,815,100</b>	<b>Net assets</b>		<b>3,372,654</b>
(1,101,321)	Total Usable Reserves	Note 15	(851,865)
(1,713,779)	Total Unusable Reserves	Note 16	(2,520,789)
<b>(2,815,100)</b>	<b>Total Reserves</b>		<b>(3,372,654)</b>

- 5.4 There has been an £197m increase in current assets. This has been driven by £144m increase in the short-term liquid deposits held by the Council.
- 5.5 Current liabilities have increased overall by £98m, mainly due to a £102m increase in short term creditors, reflecting the amount that Westminster owes to preceptors in relation to business rates income as part of the collection fund. This is similar to the experience of all other business rate local authorities due to the covid reliefs given by central government.
- 5.6 The Council's has reported overall increase in the net asset position due to Pension liabilities that have reduced following the triennial revaluation which assessed the Pension Fund as being 128% funded, compared to 99% funded in 2019. This is partly due to improved investment returns and partly the result of the Council making upfront payments into the Fund of £80m during 2021/22.

- 5.7 Alongside changes to the discount rate, this improved funding position has reduced pension fund liabilities in the Balance Sheet from £561m at 31 March 2022 down to just £85m at 31 March 2023.
- 5.8 Furthermore, the Council's increasing net asset position is supported by an increase in Long Term Assets, which have increased by £98. This has been mainly driven by Property, Plant and Equipment increasing by £79m, caused by acquisitions and enhancements of £232m, offset by falling valuations of £156m. This has been offset by £45m reduction in long term debtors due to the settlement of the £40m Luton street loan between Westminster and the Council's wholly owned subsidiary, Westminster Housing Investments Ltd (Westminster Builds)
- 5.9 The draft statement of accounts carries a drawdown of £276m from the Business Rates Deficit Section 31 earmarked reserve (held within usable reserves in the balance sheet). This reserve was established to hold government funding received to offset the impact of business rate reliefs granted as part of the governments COVID-19 support measures to businesses. This funding ensures the Council does not lose funding when businesses were given business rates support during the pandemic. This reserve has been fully utilised in 2022/23 to offset the collection fund deficit recognised this year which resulted from these support measures.

#### **Comprehensive Income and Expenditure Statement and Movement in Reserves Statement (MiRS)**

- 5.10 Local government accounting requires the production of a comprehensive income and expenditure statement and movement in reserves statements, using International Financial Accounting Standards (IFRS). The movement in reserves statement is designed to adjust for technical transactions such as depreciation which does not impact the bottom line of local authority accounts.
- 5.11 A reconciliation of the Comprehensive Income and Expenditure Statement (CIES) with budget monitoring is shown below.

	General Fund Balance 2022-23 £'000	Housing Revenue Account 2022-23 £'000	Total 2022-23 £'000
(Surplus) for the year	(29,914)	(84,774)	(114,688)
Technical accounting adjustments	271,041	76,369	347,410
(Use)/Top up of earmarked reserves	(244,095)	8,210	(235,885)
<b>Net surplus against budget</b>	<b>(2,968)</b>	<b>195</b>	<b>3,163</b>

- 5.21 The technical accounting adjustments consist of movements for:

- Neutralisation of depreciation
- Revaluation gain/losses for the Council's property portfolio
- The transfer of capital grants to be capital grants reserve
- Revenue expenditure funded from capital under statute
- Adjustments to the pension reserve which neutralises the current service costs and ensures that the actuarial estimates are not charge to council tax

## **6. Objections**

6.1 At the time of writing the auditors have not received any objections in relation to the 2022/23 statement of accounts.

## **7. Conclusion**

7.1 The statement of accounts appended to this report are draft at this stage and an audited version of the accounts will be presented to the Committee at its October meeting for final sign off following the finalisation of audit.

**If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:**

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## **BACKGROUND PAPERS:**

*Statement of Account 2022-23*