

From: Su Martin, Financial Advisor, KEIFCA
To: KEIFCA Committee Meeting, 25th May 2023
Subject: **2022/23 Final Budget Monitoring Outturn Report and Annual Return**

Classification: Unrestricted

Summary: This report gives the financial position for the Authority as at 31st March 2023. It includes the revenue outturn for the year, the balance sheet and the position regarding Reserves and Balances if this report's recommendations are approved.

It also contains the Annual Return for the year which is to be reviewed by external auditors, PKF Littlejohn.

Recommendation(s):

1. The Authority is asked to review and approve the Final Outturn for the year together with the associated financial statements.
2. The Authority is asked to approve the movement of £44,071 underspend relating to surplus on the budget of KCC interest to KEIFCA to the Renewal Reserve. The Authority is also asked to approve the movement of £29,575.05 which is the remaining overall surplus. The total transfer to Renewals Reserve proposed is £73,646.
3. The Authority is asked to review and approve the Annual Return and Governance Statement for submission to the external auditors, PKF Littlejohn; and
4. The Authority is asked to review and approve the internal audit report for 2022/23

1. Introduction

- 1.1. This report shows the final revenue outturn for the 2022/23 financial year. As well as providing a report showing the outturn against budget with variances and explanations of the overall underspend of £107.2k in Appendix 1.
- 1.2. Appendix 2 shows the Balance Sheet as at 31st March 2023.
- 1.3. Appendix 3 shows the balances on the Reserves, assuming recommendations are accepted.
- 1.4. Appendix 4 shows movements in the Investment Account during the financial year.
- 1.5. Appendix 5 is the Annual Return that will be submitted to the external auditors, PKF Littlejohn for their review.

2. Revenue Outturn 2022/23

2.1 The Revenue Outturn for the year is an underspend of £107.2k This position can be broken down into increased income of £60.3k and an underspend across all the budgets of £46.9k The main variances against the 2022/23 revenue budget are shown below, with the full detail found in Appendix 1.

Budget Heading	Reason(s) for Variation	Amount (budget variation) £	Amount (generated revenue/proceeds) £
Staffing	Underspend on vacancies for the Scientific Officer, First Mate and Fisheries Officer Fewer meetings attended in person and less travel in own vehicles resulting in reductions in travel claims Reduced expenditure on uniforms	-29,728	
Premises	Underspend in Repairs and Maintenance mostly due to delays to anticipated works at Brightlingsea to 2023/24. Some of this was offset by boiler repair and replacement in Ramsgate	-24,267	
Vessels	Repair and maintenance for Tamesis - major repairs and the end of the refit, plus major repairs for Nerissa were offset by lower than expected costs for Vigilant Higher fuel costs particularly earlier in the year led to overspend	15,375	
Income: Vessels	Hire of Tamesis		-7,170

Vehicles	The overall expenditure came in close to budget, due to lower insurance premiums than expected offsetting the cost of minor repairs to vehicles and insurance recharge for replacement of cracked windscreen and higher fuel costs	-28	
Supplies & Services	Upgrades to the email archiving system, inception of a cyber security (2-factor ID) log in system Laptop replacement and repairs 2 x fire risk assessments MCSS Access database	3,579	
Support charges	Legal work completed during the year, this included payment received for court costs incurred in 2021/22	-5,435	-5,780
Other Costs	Reduced expenditure on room hire Slight increase in subscription costs	-1,431	
Other Costs: Contributions & Grants	Legacy balance of many years on debtors and creditors cleared	-4,994	
Surveys & Project Costs	Unbudgeted income from Natural England contribution for <i>Sabeleria</i> seagrass survey & increase in licence & survey fees offset by increases in costs for: Equipment for Whelk research Quad bike training, sea survival licence renewals and contribution to NLTO Accommodation and staff training for Easter Tide cockle surveys		-3,276
Interest Income	Interest from investment accounts held by KCC was higher than budgeted		-44,071
Subtotal		-46,929	-60,297
Net Operating Expenditure			-107,226
Appropriations	Transfer to General Reserves budgeted drawdown for Essex office not utilised and returned to General Reserves along with a legacy balance from debtors / creditors	51,812	
Appropriations	Transfer to Renewals Reserve Surplus to budget on interest income Surplus to overall expenditure at outturn	47,415	

2.3 The budget underspend of £107,226 was due in the main to higher than budgeted interest income from KCC, a budgeted refurbishment for the Essex office being delayed and staffing changes in year which led to reduced staffing costs. The Essex office refurbishment is still due to take place, the budget for this of £27,500 has been moved back into General Reserves to be utilised in the future.

2.4 The increase in interest rates led to a higher than budgeted interest payment from KCC of £46.1k which resulted in a variance credit of £44.1k (full details of which are provided in Agenda item B2). This, alongside the remaining budget underspend, is proposed to be transferred to the Renewal Reserve. The remaining underspend at year end is £29.6k and it is proposed that this is also transferred to the Renewals Reserve. This would see a total transfer of £73.6k moved to the Renewals Reserve bring it to a total balance of £699k.

2.5 The main areas of pressure this year were due to major repairs for Nerissa, the final costs relating to the refit for Tamesis and the fuel price increases, although this has eased off as the year progressed. Expenditure has also been incurred in necessary works to upgrade the email archiving and cyber security upgrades to ensure that the Authority's computer systems are safe.

3. Capital Expenditure and Financing

3.1 There was no new capital expenditure in 2022-23.

4. KEIFCA Balance Sheet as at 31st March 2023

4.1 Appendix 2 shows the Authority's balance sheet as at 31st March 2023.

Headline figures are outlined below, with full summary in Appendix 2.

- Fixed Asset Net Book Values have depreciated by £151k
- Current Assets have decreased by £2.3 million. Most of the movement is due to a decrease in the Investment Account of £3.2 million. Following last year's Outturn report, it had become clear that the high value of the investment account (£4.4 million) and the corresponding debt to KCC (at 31/3/22 was shown as £2.9 million) needed some investigation. This investigation alongside the Chief Accountant for KCC took place in July 2022 and it was discovered that, possibly owing to changes in staffing within the finance department, the creditor to KCC had been increasingly overstated as staffing costs were not being reflected in the current account and were showing as a mounting debt and held in the Investment Account. Appendix 4 shows the value of the staffing costs that were retrospectively recognised in the KEIFCA account and all staffing costs to date have now been recognised in KEIFCA's bank account. Therefore, the creditor to KCC position as reversed and this year there is a debtor from KCC of just over £500k. The Investment Account is no longer overstated and is showing a current balance of £1.2m.

- A further change to the balance sheet comes from changes in the Pension Fund, moving from a liability of £1.5 million at 31.3.22 to an asset of £437k at 31.3.23. The predominant reasons for this significant change is both an increase in the discount rate from 2.6% to 4.8% and a decrease in future inflation assumptions. This change is favourable and improves the balance sheet position, but it should be noted that the position may change in future years.
- Creditors have reduced by £2.8 million, predominantly due to the reasons outlined in the earlier point.
- Long Term liabilities have decreased to nil due to the positive changes this year in the pension fund.

The balance sheet shows that the net worth of the Authority has increased by £1.9 million and this is mainly due to the change in the pension from liability to asset in this financial year.

5. Balances on Reserves and their Utilisation for 2023/24

5.1 Appendix 3 shows the position of the reserves for the Authority as at 31st March 2023, if the recommendation of transferring the underspend and interest income of £73.6k to the Renewals Reserve is approved to support future capital expenditure.

5.2 No transfer to the General Reserve is proposed. The budgeted £27.5k for the Essex office refurbishment has been set aside for use in the next financial year.

6. Movement in the Investment Account

6.1 This has been referred to in point 4.1 to explain the movement of current assets in the balance sheet and the change in creditors. Working through the final position for 2021/22 last year, it became a concern that the creditor to KCC was higher than might be expected along with the increasing balance in the Investment Account.

An investigation alongside the KCC Chief Accountant discovered that staffing costs since 2017-18 had not been reflected in the bank account and was showing an increasingly overstated creditor to KCC each financial year. In July and August 2022 all staffing costs for previous years from 2017/18 to 2021/22 were reflected in the Investment account amounting to £3.3 million.

During the year, staffing and other charges that are journaled directly through KCC relating to 2022/23 have been reflected amounting to a total of £120k. This is broken down as a credit of £788k for staffing and a debit of £908k for non staffing which includes the Levy, insurance costs and internal audit recharge.

Appendix 4 details the breakdown of the movement. The balance carried forward at 31/03/23 is £1.2 million. Internal audit were made aware via email sent on 29 September 2022. A copy of Appendix 4 will also be included in the return to the External Auditor PKF Littlejohn.

7. Annual Return and Governance Statement

7.1 Appendix 5 is the Annual Return and Governance Statement for the Authority. This will be sent to the external auditors for their review. It contains all the information presented in the Final Monitoring Outturn Report and the Balance Sheet but is presented in a different format. This return has already been reviewed by Kent County Council's Internal Audit Team and is now ready for the Authority's review and approval.

8. Mid Year and End of Year Audit Report - Internal Audit

8.1 KCC's Internal Audit Team visited on 16th November 2022 for the mid year review and carried out tests on the following areas:

- Previous Financial Year Statement of Accounts
- Financial Regulations and Standing Orders
- Budget Setting
- Budget Reporting
- Contracts
- Cheque Books
- Purchase Cards
- Fuel Cards
- Expenditure
- Income
- Investments
- Banking
- Personal Cheques
- VAT and Fuel Duty Returns
- Insurance
- Salaries and Wages
- Progress on previous Audit Issues

Much of the audit work was carried out by sample testing a sufficient number of transactions to provide assurance that the systems of financial control work effectively and provide accurate information to support the Council's activities.

Recommendations for improvement were as follows:

- Two of the ten payments tested were over £50. Any orders over £50 should have an appropriate order form/purchase order as per the Financial Regulations

Partially resolved issue:

- Financial Regulations do not make provision for appropriate separation of duties with regards to the authorisation of BAC's transactions or the processing of cheques. There are no controls in place to prevent cheques from being written and signed by one sole signatory without prior authorisation or to prevent online transactions from being processed and authorised by one person.

8.2 The end of year Audit report on 11th May 2023 tested the following areas remotely.

- Risk Assessments
- Assets
- Account Books
- Bank Reconciliations
- Year-end/Annual Return

Recommendation for improvement:

- Risk Assessments undertaken do not currently include assessments against Cyber Security issues. This should be included within future risk assessments.

9. Recommendation:

9.1 The Authority is asked to review and approve the Final Outturn for the year together with the associated financial statements.

9.2 The Authority is asked to approve the movement of £44,071 underspend relating to surplus on the budget of KCC interest to KEIFCA to the Renewal Reserve. The Authority is also asked to approve the movement of £29,575.05 which is the remaining overall surplus. The total transfer to Renewals Reserve proposed is £73,646.

9.3 The Authority is asked to review and approve the Annual Return and Governance Statement for submission to the external auditors, PKF Littlejohn; and

9.4 The Authority is asked to review and approve the internal audit recommendations.

10. Contact Details

Report Author: Su Martin
Job title: Financial Advisor KEIFCA
Telephone number: 03000 412165
Email address: su.martin@kent.gov.uk