

DRAFT STATEMENT OF ACCOUNTS 2018/19

Submitted by: Finance Manager

Portfolio: Finance and Efficiency

Ward(s) affected: All

Purpose of the Report

To report upon the General Fund outturn for 2018/19 and the financial position as at 31 March 2019 as shown in the draft statement of accounts. The report highlights key issues arising, including a commentary on the General Fund outturn, the Collection Fund and the Balance Sheet and to note the position regarding the Council's reserves.

Recommendations

(a) That the information in respect of the outturn and key issues in respect of the Council's financial position as at 31 March 2019 be noted.

Reasons

The completion of the draft statement of accounts provides an opportunity to report upon the outturn position and key issues.

1. Background

- 1.1 The Accounts and Audit Regulations 2015 govern the way in which a local authority should present its financial affairs. The regulations require the Council to produce a statement of accounts for the financial year detailing its financial transactions for the year and its position at the year end and that this Statement be scrutinised and approved by an appropriate committee, in this case the Audit and Standards Committee, by 31 July. The Statement is produced in a standardised form in line with CIPFA (the Chartered Institute of Public Finance and Accountancy) guidelines. They set out procedures which must be followed with regard to public inspection rights, audit, approval and publication of the statement.
- 1.2 The Regulations require the draft Statement of Accounts to be certified by the responsible financial officer, the Executive Director (Resources and Support Services), as presenting a true and fair view of the Council's financial position by 31 May and this was done on 30 May. On presentation to the committee for approval the final audited version of the Statement will be recertified by her. The period during which the public have the right to inspect the accounts commenced on 3 June 2019 and closes on 12 July.
- 1.3 The audit of the 2018/19 statement of accounts is planned to commence on 10 June leading up to the production of the auditor's final audit findings report. The final version of the Statement of Accounts will then be submitted to the committee for scrutiny and approval at the meeting scheduled for 29 July 2019, following which the statement can be published to meet the 31 July deadline set out in the Regulations.
- 1.4 The full statement of accounts will be submitted to the Committee for formal approval at the 29 July meeting, when members can concentrate on reviewing an audited rather than draft statement. Should members wish to view the draft statement at this stage, it can be accessed via the Council's website and in addition a copy has been placed in the members' room. This report, therefore, concentrates on reporting upon the outturn position and the key elements of the Council's financial position as at 31 March.
- 1.5 Accordingly, the rest of this report consists of commentary on the outturn and information and explanation in respect of key areas in relation to the financial position. Appendix 1 shows the income and expenditure account, movement in reserves statement, balance sheet, and collection fund account, as included in the

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published draft Statement of Accounts, to provide background information and context for what is discussed in the report.

- 1.7 Training has been provided for members of the committee to assist them in carrying out their role of approving the statement of accounts.
- 1.8 Elsewhere on your agenda the Annual Governance Statement is being submitted for approval, the Accounts and Audit Regulations require it to be published at the same time that the statement of accounts is first published for public inspection purposes (i.e. 3 June in respect of the 2018/19 statement) and finally by 31 July, if the initial publication was of an unapproved governance statement. It is intended to include it in the audited Statement of Accounts to be published at the end of July, as in previous years.

2. The General Fund Budget

- 2.1 The General Fund is the main account of the Council and relates to all of those services which are funded by the Council Tax, Retained Business Rates and Revenue Support Grant from the Government.
- 2.2 The budget for the General Fund for 2018/19 was originally set in February 2018 and amounted to a net total of £13,335,420. The eventual outturn for the year was a positive variance against this figure, of £8,155.

3. The General Fund Outturn

- 3.1 As mentioned above, the outturn in respect of the General Fund Revenue Account was £8,155 better than the original estimate. Whilst there were adverse variances against some budget heads, these have been offset by positive variances against others.

A number of areas of income, the majority being ones that are sensitive to the state of the local and national economy, were particularly adversely affected as shown in the following table:

Type of Income	Budget	Outturn	Variance
	£000s	£000s	£000s
Commercial Portfolio Rents	947	848	99
Car Parking Income	1,087	976	111
Jubilee 2 Income	1,474	1,354	120
Council Tax Court Costs	620	444	176
Waste Service - Recycling Credits and Material Sales	2,025	1,522	503
Total	6,153	5,144	1,009

There was also additional expenditure on a number of headings, which is outlined in the following table:

Item	Additional expenditure
	£000s
Elections	74
Resources and Support Services Management	70
Human Resources	25
Payroll	23
Total	192

These adverse variances, shown in the two tables above, have however, been met by favourable variances on other budget heads, the more significant of which are highlighted in the table below.

Item	Saving or additional income
	£000s
Additional Income:	
Markets	73
Planning Applications Fees	353
Bereavement Services - Crematorium	43
Chargeable Green Waste	107
Procurement Savings	
Materials – Streetscene and Parks	28
Good Housekeeping Efficiencies:	
Community Chest and Third Sector Commissioning Grants	20
Staffing Efficiencies:	
Overall employee costs savings	56
Corporate:	
Additional government grants	215
Capital financing Costs not required (re Castle House)	200
Business Rates Retention Pool	100
Other Variances	14
Total	1,209

- 3.2 An amount of £8,155 has been transferred into the Budget Support Fund in respect of the positive variance.
- 3.3 Some income streams continue to suffer adverse variances in the current financial year. The ongoing situation will be monitored and any significant shortfalls will be reported in the quarterly monitoring reports to Cabinet. The likely levels of income will also be considered during the compilation of the Medium Term Financial Strategy which is part of the budget setting process for 2020/21.
- 3.4 Further steps have been taken to strengthen the Council's financial position. These include a significant increase in the provision of Doubtful debts (from £0.104m to £0.275m) and to write off a large number of historical debts that are not collectible for which all recovery options have been exhausted.

4. The Collection Fund

- 4.1 The Collection Fund is a separate account which contains the financial details which refer to the collection of Council Tax and Business Rates. The purpose of the account is to illustrate how much of the above income has been collected and to see how this compares to the amounts of the levies and other pre-determined payments that have been made for the Borough Council, the County Council, the Office of the Police and Crime Commissioner and the Fire Authority and to central government.
- 4.2 Overall the Fund experienced a surplus of £1.261m for the year (including contributions to the previous years surpluses or deficits), leaving a balance of an accumulated surplus of £1.277m at the year-end. Separating this out into its individual components, the respective positions were as follows:

	Council Tax		Business Rates		Total
	£m	£m	£m	£m	£m
Balance Brought Forward – surplus/(deficit)		1.999		(1.983)	0.016
Contribution to previous years (surplus)/deficit (A)	(0.039)		0.062		
Surplus/(deficit) relating to 2018/19 (B)	(0.500)		1.738		
Overall surplus/(deficit) for year (A + B)		(0.539)		1.800	1.261
Balance Carried Forward – surplus/(deficit)		1.460		(0.183)	1.277

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Details of the Collection Fund transactions are shown in the Collection Fund Account at Appendix 1.

- 4.3 As can be seen the Council Tax element of the Fund as at 31 March 2019 shows a surplus of £1.460m, which compares to a surplus of £1.999m at 31 March 2018. This will be shared with the precepting authorities (Newcastle Borough Council, Staffordshire County Council, Office of the Police and Crime Commissioner, Fire Authority) and will be used in calculating how much Council Tax will be levied in 2020/21. The main reason for the decreased surplus relates to the write off of bad debts and the subsequent replenishment of the bad debts provision to an agreed level.
- 4.4 The Business Rates element of the Fund as at 31 March 2019 shows a deficit of £0.183m which compares to a deficit of £1.983m at 31 March 2018. The deficit must be made good in subsequent years by the four participants in the business rates retention scheme, the Borough Council (40%), Staffordshire County Council (9%), the Fire Authority (1%) and central government (50%). The amounts each body must contribute are shown in brackets and are prescribed by regulations. The reduction in the deficit can be attributed to the provision for appeals which has not been required to be utilised to the extent anticipated when estimating 2018/19's movements.
- 4.5 The provision created in relation to business rates property value appeals to the Valuation Agency considers the amounts which may have to be refunded in respect of payments already made by ratepayers. This is intended to provide for appeals already lodged and appeals which may arise in the future relating to bills which have been paid. Movements on the Provision in 2018/19 were as follows:

	£m
Balance Brought Forward at 1 April 2018	4.695
Used in 2018/19	(1.321)
Contribution to Provision	1.774
Balance at 31 March 2019	5.148

The balance of £5.148m was assessed, using data supplied by a specialist firm, as being a prudent amount to set aside to meet future appeals. The arrangements for business rates retention mean that only 40% of the cost of contributions to the provision is borne by the Borough Council (because it affects the amount of rates retained), the rest falling to the other participants in the arrangements. The value included in the balance sheet is also 40%, i.e. £2.059. The amount has increased during 2018/19 to reflect appeals that may be settled in years during and after the financial year 2019/20.

5. The Balance Sheet

5.1 The main features of the Balance Sheet, which is shown in full at Appendix 1, are as follows:

- There are Net Tangible Fixed Assets of £71.066m (£67.126m at 31 March 2018) which consist of Plant, Property and Equipment, Surplus Assets, Investment Properties and Heritage Assets. The increase of £3.940m largely arises from revaluations in relation to Jubilee 2 £4.770m and car parks (£0.976m).
- Investments (all short term at 31 March 2019 - i.e. with less than 1 year to run from that date) were nil at 31 March 2019 compared to £0.081m at 31 March 2018. The amount invested at any one time reflects the prevailing cash flow situation but as reserves and capital receipts balances are reducing the sums available for investment correspondingly reduce.
- There is an increase in Cash and Cash Equivalents of £1.293m.
- The amount the Council owes to its creditors is £7.355m. Creditors have increased by £1.479m compared to 31 March 2018. This can largely be attributed to year end accruals relating to Disabled Facilities works undertaken, green waste income relating to collections during 2019/20 and a grant received for air quality works to be undertaken during 2019/20.
- The Net Liability relating to Defined Benefit Pension Schemes (i.e. the difference between liabilities and assets of the pension scheme) increased from £68.025m to £73.810m. Normally this decrease would be mirrored by an increase in the Pensions Reserve balance of the same amount, the two accounts

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appearing in the balance sheet as equal and opposite amounts. However, this is not the case because of the prepayment of pension contributions in respect of 2018/19 and 2019/20 totalling £3.130m. These were paid in 2017/18 in return for a discount paid by the pension fund which significantly reduced the cost of pension contributions to the Borough Council in 2018/19 and 2019/20. In order to account for this transaction, the prepayment must be charged directly to the Pensions Liability, without any corresponding equal and opposite transaction in the Pensions Reserve. In 2018/19 the prepayment relating to that year will be transferred to the general fund revenue account via a transfer from the Pensions Reserve with a similar transaction in 2019/20. After these transactions have occurred, the two accounts will once more be mirror images of each other. These amounts are required to be included in the Council's accounts as a result of the application of International Accounting Standard 19 (IAS19) and the CIPFA Code of Accounting Practice. Neither directly relate to Borough Council transactions - they relate to those of the Staffordshire County Council Pension Fund of which the Council is a member and represent the Council's share of net scheme liabilities (after deduction of the value of scheme assets). Whilst the net liability indicates the Council's long term commitment to pay retirement benefits, statutory arrangements for funding the deficit mean that its financial position remains healthy.

6. Reserves

6.1 The Council has usable reserves totalling £6.404m. The main items, with their balances at 31 March 2019, are:

- General Fund Balance (£1.448m)
- Capital Receipts Reserve (£2.243m)
- Capital Grants Unapplied (£1.032m)
- Budget Support Fund (£0.302m)
- Contingency Reserve Fund (£0.100m)
- ICT Development Fund (£0.049m)
- Equipment Replacement Fund (£0.531m)
- Business Rates Reserve (£0.500m)

The majority of these balances are committed to various projects and initiatives and are not available for other use.

6.2 The General Fund Balance is (£1.448m) as at 31 March 2019. The amount required to be held in this reserve is assessed each year when the revenue budget is compiled, by identifying and quantifying the risks applicable to the revenue budget and using this information as the basis to calculate a prudent sum to keep in reserve to meet those risks should they arise.

6.3 The Capital Receipts Reserve is almost entirely committed to financing the currently approved capital programme plus slippage from 2018/19. As discussed at paragraph 7.2 and increased receipts from right to buy sales, will almost all need to be spent in 2019/20. The majority of the balance on the Capital Grants Unapplied Reserve is either already committed to finance current schemes or is earmarked for future schemes. The ICT Development Fund is also committed to finance new or replacement ICT software and hardware.

6.4 The balance of the Contingency Reserve remains at its agreed minimum level of £0.100m.

6.5 The Budget Support Fund and Business Rates Reserve are discussed at paragraphs 3.2 above and 3.4, respectively.

6.6 The levels of reserves will be considered as part of the budget preparation process for 2020/21. Some may require "topping up", either from the revenue budget or a transfer from another reserve. In particular, the Renewals and Repairs Fund was exhausted in 2018/19.

6.7 The introduction of the Flexible Use of Capital Receipts Strategy during 2018/19 has enabled the Council to increase the minimum level of un-earmarked reserves and contingencies from £1.300m to £1.548m in line with the Council's Section 151 Officer's recommendation to reflect the level of risk shown to the revenue budget.

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7. **Capital Expenditure**

7.1 Capital expenditure totalled £2.980m in 2018/19.

7.2 A Capital Programme totalling £2,549,000 was approved for 2018/19 on 21 February 2018. Of this total £1,502,000 relates to the total cost of new schemes for 2018/19 together with £1,000,000 for schemes funded by external sources (Disabled Facilities Grants) and £47,000 brought forward from the original 2017/18 Capital Programme. In addition £347,630 slippage was incurred in 2017/18, and £446,134 additional Disabled Facilities Grants funding was received than originally budgeted for resulting in a total Capital Programme of £3,342,764 for 2018/19.

7.3 Actual capital expenditure during 2018/19 was £2.980m, leaving a balance of £0.363m to be carried forward to 2019/20. This expenditure was financed entirely by capital receipts, government grants and other contributions. Borrowing to finance the 2018/19 expenditure was not required.

7.4 Projects in progress or committed will be completed or commenced in 2018/19. The remainder will be reviewed to confirm they are still required and considered in the context of available resources to finance the capital programme, particularly in view of the continuing uncertainty regarding the timing of receipts from land sales, upon which much of the financing of the capital programme is dependent, owing to the delay in commencing the assets disposal programme. The new projects included in the 2018/19 programme will also need to be reviewed for the same reason.

7.5 The expenditure of £2.980m was financed as shown below:

Financed by:	£ (000)
Capital Receipts	1.265
Government Grants (DFG's)	1.574
Section 106 payments	0.141
Total	2.980

8. **List of Appendices**

Appendix 1: Extracts from Draft Statement of Accounts

9. **Link to Draft Statement of Accounts**

9.1 An electronic copy of the 2018/19 Statement of Accounts is available as one of the agenda documents on the Council's website.

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost of providing services in accordance with accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the Movement in Reserves Statement and the Expenditure and Funding Analysis.

2017/18				2018/19		
Gross expenditure	Gross income	Net expenditure		Gross expenditure	Gross income	Net expenditure
£000	£000	£000		£000	£000	£000
3,455	968	2,487	Chief Executive	3,080	510	2,570
35,483	30,782	4,701	Resources & Support Services	33,878	30,246	3,632
8,650	5,457	3,193	Regeneration & Development	8,981	5,980	3,001
12,572	5,726	6,846	Operational Services	13,745	5,677	8,068
763	169	594	Corporate	571	108	463
60,923	43,102	17,821	Cost of services	60,255	42,521	17,734
411	981	(570)	Other operating expenditure (Note 10-p45)	560	(1,227)	1,787
6,447	4,281	2,166	Financing & investment income/expenditure (Note 11-p45)	6,408	4,386	2,022
9,279	24,251	(14,972)	Taxation & non-specific grant income/expenditure (Note 12-p45)	8,826	23,612	(14,786)
		4,445	(Surplus)/deficit on service provision			6,757
		1,083	(Surplus)/deficit on revaluation of assets			(8,510)
		(3,084)	Remeasurement of the defined benefit liability/asset (Note 29-p57)			2,263
		(2,001)	Other income & expenditure			(6,247)
		2,444	Total income & expenditure			510

- Resources and Support Services includes housing benefits grant income and expenditure of circa £29m.

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Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves. The movements in the year are broken down between gains and losses incurred in accordance with accounting practices and statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following those adjustments.

	General Fund balance	Capital receipts reserve	Capital grants Unapplied	Total usable reserves	Unusable reserves	Total Council reserves
2018/19	£000	£000	£000	£000	£000	£000
Balance at 31 March 2018 b/fwd	(4,019)	(2,162)	(1,158)	(7,339)	8,867	1,528
Movement in Reserves 2018/19						
Total comprehensive income & expenditure	6,757	-	-	6,757	(6,247)	510
Adjustments between accounting & funding basis (Note 8-p43)	(5,867)	(81)	126	(5,822)	5,822	-
Increase/decrease in year	890	(81)	126	935	(425)	510
Balance at 31 March 2019 c/fwd	(3,129)	(2,243)	(1,032)	(6,404)	8,442	2,038
2017/18						
Balance at 31 March 2017 b/fwd	(3,075)	(1,611)	(1,126)	(5,812)	4,896	(916)
Movement in Reserves 2017/18						
Total comprehensive income & expenditure	4,445	-	-	4,445	(2,001)	2,444
Adjustments between accounting & funding basis (Note 8-p43)	(5,389)	(551)	(32)	(5,972)	5,972	-
Increase/decrease in year	(944)	(551)	(32)	(1,527)	3,971	2,444
Balance at 31 March 2018 c/fwd	(4,019)	(2,162)	(1,158)	(7,339)	8,867	1,528

- The General Fund Balance includes £1.681m of Earmarked Reserves, leaving a general balance of £1.448m

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Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31/03/2018 £000		31/03/2019 £000
42,837	Property, plant & equipment (Note 19-p48)	52,607
830	Surplus assets (Note 19-p48)	330
17,835	Investment property (Note 20-p51)	16,700
4,195	Assets under construction (Note 19-p48)	-
1,429	Heritage assets (Note 21-p52)	1,429
77	Intangible assets	94
444	Long term debtors (Note 22-p52)	442
67,647	Long term assets	71,602
81	Short term investments (Note 31-p61)	-
194	Inventories	215
8,570	Short term debtors (Note 22-p52)	7,968
930	Cash/cash equivalents (Note 31-p61)	2,223
9,775	Current assets	10,406
(5,876)	Short term creditors (Note 23-p52)	(7,355)
(2,555)	Short term borrowing (Note 31-p61)	(77)
(1,004)	Provisions (Note 24-p53)	(1,216)
(9,435)	Current liabilities	(8,648)
(1,047)	Provisions (Note 24-p53)	(1,021)
(68,025)	Net pensions liability (Note 29-p57)	(73,810)
(443)	Capital grants receipts in advance	(567)
(69,515)	Long term liabilities	(75,398)
(1,528)	Net assets	(2,038)
	Usable reserves (MIRS-p25)	
1,200	General Fund balance	1,448
2,819	Other usable reserves	1,681
2,162	Capital receipts reserve	2,243
1,158	Capital grants unapplied account	1,032
7,339	Total usable reserves	6,404
	Unusable reserves (Note 25-p53)	
13,772	Revaluation reserve	22,282
49,014	Capital adjustment account	44,460
443	Deferred capital receipts reserve	443
(71,155)	Pensions reserve	(75,411)
(558)	Collection fund adjustment account	107
(383)	Accumulated absences account	(323)
(8,867)	Total unusable reserves	(8,442)
(1,528)	Total reserves	(2,038)

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Collection Fund Account

2017/18 Council Tax £000	2017/18 Business Rates £000	2017/18 Total £000		2018/19 Council Tax £000	2018/19 Business Rates £000	2018/19 Total £000
(58,343)	-	(58,343)	Income	(61,928)	-	(61,928)
-	(34,777)	(34,777)	Council Tax Payers	-	(33,725)	(33,725)
-	-	-	Business Rates Payers	-	(25)	(25)
-	-	-	Transfer of previous years deficit	-	(5)	(5)
-	-	-	- Newcastle-under-Lyme Borough Council	-	-	-
-	-	-	- Staffordshire County Council	-	(1)	(1)
-	-	-	- Office of Police & Crime Commissioner	-	(31)	(31)
-	-	-	- Staffordshire Fire and Rescue Authority	-		
-	-	-	- Central Government	-		
(58,343)	(34,777)	(93,120)	Total income	(61,928)	(33,787)	(95,715)
			Expenditure			
			Council Tax precepts			
7,188	-	7,188	- Newcastle-under-Lyme Borough Council	7,570	-	7,570
41,748	-	41,748	- Staffordshire County Council	44,562	-	44,562
6,620	-	6,620	- Office of Police & Crime Commissioner	7,088	-	7,088
2,615	-	2,615	- Staffordshire Fire and Rescue Authority	2,707	-	2,707
			Business Rates apportionment			
-	12,946	12,946	- Newcastle-under-Lyme Borough Council	-	12,493	12,493
-	2,913	2,913	- Staffordshire County Council	-	2,811	2,811
-	324	324	- Staffordshire Fire and Rescue Authority	-	312	312
-	16,182	16,182	- Central Government	-	15,617	15,617
			Other expenditure			
-	138	138	Cost of Collection	-	140	140
-	907	907	Transitional Protection	-	22	22
(1,828)	288	(1,540)	Provision for Bad Debts	501	140	641
-	2,883	2,883	Provision for Appeals	-	452	452
			Transfer of previous years surplus			
44	19	63	- Newcastle-under-Lyme Borough Council	5	-	5
260	4	264	- Staffordshire County Council	28	-	28
44	-	44	- Office of Police & Crime Commissioner	4	-	4
17	1	18	- Staffordshire Fire and Rescue Authority	2	-	2
-	24	24	- Central Government	-	-	-
56,708	36,629	93,337	Total expenditure	62,467	31,987	94,454
(1,635)	1,852	217	Deficit/(surplus) for the year	539	(1,800)	(1,261)
(364)	131	(233)	Balance brought forward at 1 April	(1,999)	1,983	(16)
(1,635)	1,852	217	Deficit/(surplus) for the year	539	(1,800)	(1,261)
(1,999)	1,983	(16)	Balance carried forward at 31 March	(1,460)	183	(1,277)
			Allocation of Collection Fund balance			
(235)	793	558	- Newcastle-under-Lyme Borough Council	(179)	73	(106)
(1,445)	178	(1,267)	- Staffordshire County Council	(1,055)	17	(1,038)
(90)	20	(70)	- Staffordshire Fire and Rescue Authority	(64)	2	(62)
-	992	992	- Central Government	-	91	91
(229)	-	(229)	- Office of Police & Crime Commissioner	(162)	-	(162)
(1,999)	1,983	(16)		(1,460)	183	(1,277)