

**NEWCASTLE-UNDER-LYME BOROUGH COUNCIL**

**EXECUTIVE MANAGEMENT TEAM'S  
REPORT TO**

**Audit & Standards Committee**  
**27 July 2020**

**Report Title:** **Draft Statement of Accounts 2019/20**

**Submitted by:** **Head of Finance**

**Portfolios:** **Finance and Efficiency**

**Ward(s) affected:** **All**

**Purpose of the Report**

To report upon the provisional financial outturn for 2019/20. The report highlights key issues arising, including a commentary on the General Fund outturn, the Collection Fund and the Council's reserves.

**Recommendation**

**That**

- 1. The provisional General Fund outturn and key issues in respect of the Council's financial position as at 31 March 2020 be noted.**

**Reasons**

Regular reporting of the Council's financial position is a key discipline supporting sound financial management and corporate governance.

**1. Background**

- 1.1** In response to the Covid-19 crisis, the Secretary of State has announced, per the Accounts and Audit Regulations (Coronavirus Amendment) 2020 that for the 2019/20 accounting period the period of publication of authority accounts is to be extended from 30 September to 30 November 2020.
- 1.2** 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. 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.
- 1.3** 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 August and this was done on 17 July 2020. On presentation to the committee for approval the final audited version of the Statement of Accounts will be recertified by her. The period during which the public have the right to inspect the accounts commenced on 17 July 2020 and closes on 28 August 2020.

- 1.4 The external audit of the 2019/20 Statement of Accounts is planned to commence in July leading up to the production of the auditor's final audit findings report.
- 1.5 The audited Statement of Accounts will be submitted to the Committee for formal approval at the 9 November meeting, when members can concentrate on reviewing an audited rather than draft Statement of Accounts. Should members wish to view the draft Statement of Accounts at this stage it is included as an appendix to this report.
- 1.6 This report consists of commentary on the General Fund outturn and information and explanations in respect of key areas in relation to the financial position at 31 March 2020.
- 1.7 The Statement of Accounts include the Annual Governance Statement, the Accounts and Audit Regulations 2015 require it to be published at the same time that the Statement of Accounts is first published for public inspection purposes.

## 2. Issues

### The General Fund Budget

- 2.1 The General Fund is the main revenue 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 2019/20 was originally set on 20 February 2019 and amounted to a net total of £13.050m. The outturn for the year was an adverse variance against this figure of £0.207m.

### The General Fund Outturn

- 2.3 As highlighted in quarterly financial monitoring reports throughout the year, there were adverse variances against a number of budgets, the most significant of which were as follows:

Item	Additional expenditure
	£000s
Jubilee 2	
- <i>Income shortfall of £0.140m excluding COVID-19 impact</i>	219
- <i>Employee costs adverse variance of £0.085m re. sickness and additional holiday pay</i>	
Car Parking	
- <i>Income shortfall of £0.208m excluding COVID-19 impact</i>	274
- <i>Non-receipt of Bemrose Booth contribution £0.050m</i>	
Planning Application Fees	
- <i>Income shortfall due to decreased major applications</i>	136
Interim Staff	
- <i>Net cost of the provision of interim management staff throughout the year to address capacity issues. The vast majority of these posts have now been recruited to permanently</i>	282
Housing Benefits Payments	

- <i>Costs of accommodation for the homeless and vulnerable for which the Council cannot claim the full amount via Housing Benefit subsidy</i>	374
<b>COVID-19 Related Adverse Variances</b>	
- <i>Jubilee 2 loss of income re swimming lessons and cash income following closure during March (£0.85m)</i>	
- <i>Car Parking loss of income due to free parking offered during March (£0.012m)</i>	
- <i>Licensing loss of income regarding applications put on hold (£20k)</i>	
- <i>Court summons loss of income due to hold on recovery action (£79k)</i>	
- <i>Investment in ICT equipment re homeworking (£12k)</i>	
<b>Total</b>	<b>1,492</b>

2.4 These adverse variances were largely offset by favourable variances on other budget heads, the more significant of which were:

<b>Item</b>	<b>Saving or additional income</b>
	£000s
<b>Additional Income:</b>	
- <i>Business Rates Pilot income</i>	115
<b>Staffing Efficiencies:</b>	
- <i>Revenues and Benefits staff vacancies</i>	169
- <i>Streetscene staff vacancies</i>	88
<b>Corporate:</b>	
- <i>Credit from HMRC re. historical payments</i>	264
- <i>Contributions to reserves budgeted but not undertaken</i>	202
- <i>Project expenditure met from capital resources</i>	382
- <i>Allocation of staff time to capital grants</i>	65
<b>Total</b>	<b>1,285</b>

2.5 A sum of £207k has been transferred from the General Fund Reserve in respect of the overall adverse variance for 2019/20.

### **Flexible Use of Capital Receipts**

2.6 The Executive Director of Resources and Support Services informed the Ministry of Housing, Communities and Local Government by letter on 5 December 2018 of the Council's intention to make flexible use of up to £0.500m of capital receipts in each of the financial years 2018/19 and 2019/20. The flexible use of capital receipts has been utilised in 2019/20 for expenditure to a value of £0.500m that meets the eligibility criteria, in that it relates to initiatives (Digital Delivery - £0.128m, New Recycling Services - £0.135m, Green Waste Service - £0.037m, Restructuring £0.200m), that are forecast to generate, or have generated, on-going revenue savings through reducing the costs of service delivery.

## The Collection Fund

- 2.7 The Collection Fund (page 66 in the draft Statement of Accounts) 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.
- 2.8 Overall the Fund experienced a surplus of £2.700m for the year (including contributions to the previous year's surpluses or deficits), leaving a balance of an accumulated surplus of £3.977m 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
Brought Forward – surplus/(deficit)		1.460		(0.183)	1.277
Contribution to previous years			0.716		
Surplus/(deficit) relating to 2019/20 (B)	(0.411)		4.394		
Overall surplus/(deficit) for year (A + B)		(2.410)		5.110	2.700
<b>Carried Forward – surplus/(deficit)</b>		<b>(0.950)</b>		<b>4.927</b>	<b>3.977</b>

- 2.9 As can be seen the Council Tax element of the Fund as at 31 March 2020 shows a deficit of £0.950m, which compares to a surplus of £1.460m at 31 March 2019. 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 2021/22. The primary reason for the deficit relates to the write off of bad debts at the year-end for both 2018/19 (which resulted in an actual surplus of £1.460m, £0.539m less than had been estimated for 2018/19) and 2019/20. The Council's share of this deficit is £0.115m.
- 2.10 The Business Rates element of the Fund as at 31 March 2020 shows a surplus of £4.927m which compares to a deficit of £0.183m at 31 March 2019. The surplus will be repaid to the four participants in the business rates retention scheme, the Borough Council, Staffordshire County Council, the Fire Authority and central government. The Council's share of this surplus is £1.971m. The significant surplus can be attributed to the provision for appeals which has proven to be more than sufficient and continued business rates growth within the Borough. This surplus will be transferred to the Business Reserve and will be available to help cushion the impact of Covid-19 on the Collection Fund in the current financial year, which is expected to be substantial.

## Balance Sheet

- 2.11 The main features of the balance sheet (page 26 in the draft Statement of Accounts) are as follows:
- There are Net Tangible Fixed Assets of £64.364m (£66.054m at 31 March 2019) which consist of Plant, Property and Equipment, Surplus Assets, Investment Properties and Heritage Assets.
  - There is an increase in Cash and Cash Equivalents of £2.481m due to cash flow.

- The amount the Council owes to its creditors is £11.306m. Creditors have increased by £3.951m compared to 31 March 2019. This is primarily due to the surplus generated on the NNDR collection fund, and the shares of this payable to Central Government, Staffordshire County Council and Staffordshire Fire and Rescue Service.
- The amount that the Council is due from its debtors is £12.437m. Debtors have increased by £4.469m compared to 31 March 2020. This is primarily due to the Housing Benefits subsidy estimated by the Department of Works and Pensions to be payable for 2019/20 being significantly less than the amount that has been calculated as due per the Housing Benefit Subsidy claim and Right to Buy receipts being due to the Council from Aspire Housing. The Housing Benefit Subsidy amount will be repaid to the Council during 2020/21, Aspire Housing have paid the amount due.
- The liability (and the corresponding reserve) relating to defined benefit pension schemes decreased from £76.138m at 31 March 2020 to £59.846m at 31 March 2020. These amounts are required to be included in the Council's accounts as a result of the application of International Accounting Standard 19 (IAS19). They relate to transactions of the Staffordshire County Council Pension Fund of which the Council is a member and represent the Council's share of net scheme liabilities.
- Formal actuarial valuations are carried out every three years, where each employer's assets and liabilities are calculated on a detailed basis, using individual member data, for cash contribution setting purposes. The 31 March 2019 formal valuations for English and Welsh Local Government Pension Scheme Funds were concluded by 31 March 2020. The liability position as at 31 March 2020 is therefore based on this new roll forward from the 2019 formal valuation. This differs to the balance sheet position as at 31 March 2019 which was based on a roll forward from the 2016 formal valuation. This 'step change' can lead to sizeable asset and liability 're-measurement experience' items in the reconciliation of the balance sheet from 31 March 2019 to 31 March 2020 as can be seen in the 'Transactions relating to post-employment benefits' table in Note 29 (page 59) of the Statement of Accounts.

## Reserves

2.12 The Council has usable revenue reserves totalling £3.574m. The main items, with their balances at 31 March 2020, and a comparison to the balances forecast per the 2020/21 budget setting, are:

Reserve/Fund	Balance 31 March 2020 (£'000's)	Balance Forecast Budget Setting (£'000's)	Variance (£'000's)	Comments
General Fund	1,241	1,448	(207)	Adverse variance
Contingency	100	100		-
Equipment Replacement	462	621	(159)	Budgeted contributions of £141k not made as part of outturn balancing
Renewals & Repairs	-	-	-	-
ICT Development	21	16	5	-
Budget Support	1,312	396	916	Grants received during 2019/20 to be utilised during 2020/21 (e.g. Air Quality, Future High Streets, Town Fund)

Borough Growth	30	63	(33)	-
Conservation & Heritage	27	38	(11)	-
Mayor's Charity	8	9	(1)	-
Museum Purchases	136	42	94	-
Business Rates	209	-	209	Additional windfall from Business Rates Pilot
Keele Master Plan	24	18	6	-
Elections	-	50	(50)	Budgeted contribution of £50k not made as part of outturn balancing
Clayton Community Centre	4	-	4	-
<b>Totals</b>	<b>3,574</b>	<b>2,801</b>	<b>773</b>	

2.13 The General Fund Balance is (£1.241m) as at 31 March 2020. 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. Covid-19 related and other financial risks are being kept under continuous review and Cabinet will be advised should the need to increase these in-year arise.

2.14 The levels of reserves will be considered as part of the budget preparation process for 2021/22. Some may require "topping up", either from the revenue budget or a transfer from another reserve.

## Capital Expenditure

2.15 Capital expenditure totalled £2.923m in 2019/20.

2.16 A Capital Programme totalling £5.606m was approved for 2019/20. Of this total £3.606m relates to the total cost of new schemes for 2019/20 together with £1.000m for schemes funded by external sources (Disabled Facilities Grants) and a £1.000m contingency. In addition £1.327m was brought forward from the 2018/19 Capital Programme, resulting in a total Capital Programme of £6.948m for 2019/20.

2.17 Actual capital expenditure during 2019/20 was £2.923m, leaving a balance of £4.025m (including £1.000m contingency) to be carried forward to 2020/21. This expenditure was financed entirely by capital receipts, government grants and other contributions. Borrowing to finance the 2019/20 expenditure was not required.

2.18 Projects in progress or committed will be completed or commenced in 2020/21. 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.

2.19 The expenditure of £2.923m was financed as shown below:

<b>Financed by:</b>	<b>£ (000)</b>
Capital Receipts	2.199
Government Grants (DFG's)	0.308
Section 106 payments/Capital Grants	0.416
<b>Total</b>	<b>2.923</b>

2.20 The Capital Receipts Reserve is almost entirely committed to financing the currently approved capital programme plus slippage from 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.

### 3. **Proposal**

3.1 The provisional General Fund outturn and key issues in respect of the Council's financial position as at 31 March 2020 be noted.

### 4. **Legal and Statutory Implications**

4.1 The Secretary of State has announced that for the 2019/20 accounting period the period of publication of authority accounts is to be extended from 30 September to 30 November 2020.

4.2 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 August and this was done on 17 July 2020.

### 5. **Equality Impact Assessment**

5.1 There are no differential equality issues arising directly from this report.

### 6. **Financial and Resource Implications**

6.1 A sum of £0.207m has been transferred from the General Fund Reserve in respect of the overall adverse variance for 2019/20.

### 7. **List of Appendices**

Appendix 1: Draft Statement of Accounts 2019/20