

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

**EXECUTIVE MANAGEMENT TEAM'S
REPORT TO**

Audit & Standards Committee
26 July 2021

Report Title: Draft Statement of Accounts 2020/21

Submitted by: Head of Finance (Section 151 Officer)

Portfolios: Finance, Town Centres and Growth

Ward(s) affected: All

Purpose of the Report

To report upon the financial outturn for 2020/21. The report highlights key issues, including a commentary on the General Fund outturn, the Balance Sheet the Collection Fund, the Capital Programme and the Council's reserves.

Recommendations

- 1. The General Fund outturn and key issues in respect of the Council's financial position as at 31 March 2021 be noted.**
- 2. The draft Statement of Accounts for 2020/21 be approved for publication and audit.**

Reasons

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

1. Background

- 1.1 Regulations, extending the audit publication deadline for the Statement of Accounts to 30 September for 2 years, came into force on 31 March 2021. At the close of this period a review will be undertaken to determine whether there is a continued need to have an extended deadline.
- 1.2 The regulations require the draft Statement of Accounts to be published on or before 1 August. This in turn means that they will be made available for public inspection during the first 10 working days of August.
- 1.3 The external audit will commence during the week commencing 19 July 2021, primarily for the selection of samples and will be completed during the period 6 September 2021 to 30 September 2021.
- 1.4 The final Statement of Accounts will be presented to the Audit and Standards Committee for approval on 27 September 2021.
- 1.5 This report focuses on reporting the provisional outturn position and the key elements of the Council's provisional financial position as at 31 March 2021.

2. Issues

The General Fund Outturn

- 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 Government Grant.
- 2.2 The COVID pandemic has had a significant impact on the Council's financial position through a mixture of lost income and additional costs. For 2020/21 Government COVID funding of £2.328m has been secured (including £346k of new burdens funding to offset the costs of administering Coronavirus business support grant, hardship relief, and self-isolation grant schemes), this has significantly reduced the pressures of additional spending and pressures on the futureproof of the Council finances.
- 2.3 Further Government funding to assist with the Council's response to the Coronavirus has also been secured during 2020/21 in relation to rough sleepers (£0.196m), outbreak control (£0.179m), enforcement (£0.061m) and the reopening of the high street (£0.115m).
- 2.4 The Council's revenue budget relies on service income from fees and charges of around £850k per month across a wide range of services, with a significant proportion coming from J2 and car parking. Income losses from fees and charges for the financial year have amounted to £3.075m, net of furlough scheme assistance of £0.197m.
- 2.5 The Government announced that it will fund income losses, relating to irrecoverable fees and charges, above the first 5% at the rate of 75p in the pound for 2020/21, which again has significantly insulated the Council from income related financial risks. The Government's income compensation scheme will offset these income losses to the sum of £1.994m.
- 2.6 Additional expenditure pressures have inevitably been incurred as a result of the COVID-19 pandemic. These amount to £1.865m for 2020/21 (excluding the provision of services/activity for which specific funding has been received).
- 2.7 Expenditure has been reduced wherever possible throughout the Council to ensure that only absolutely necessary spending has been incurred, this has helped to reduce the adverse variance on a service by service basis.
- 2.8 The Council approved a General Fund Revenue Budget of £15.690m on 19 February 2020. The outturn is a favourable variance of £0.005m against this budget.
- 2.9 A number of adverse variances have occurred, these include:
 - a. Income shortfalls from sales, fees and charges which are eligible for partial reclaim via the Income Losses Scheme, these amount to £3.075m for the financial year.
 - b. Additional expenditure pressures as a result of the COVID-19 pandemic amount to £1.865m (a further £551k has been spent regarding the provision of services/activity for which specific funding has been received).

These include Waste and Recycling (£798k disposal costs and hire of vehicles to allow social distancing) and a top up of the general fund reserve to its minimum level regarding the 2019/20 deficit of £0.207m.

- c. Housing Benefits payments made by the Council which are not fully subsidised by the Department of Works and Pensions, mainly around the provision, often emergency, of accommodation for vulnerable and homeless people, the shortfall from this and the under recovery of overpayments will amount to £0.450m for 2020/21.

2.10 These adverse variances have been offset in full by the following favourable variances:

- a. Government Funding to offset pressures that the Council has/will continue to face as a result of the COVID-19 pandemic, £3.076m has been received or is due for the financial year (£551k relates to the specific provision of services/activity and £196k relates to Furlough).
- b. The Council will be reimbursed £1.994m in relation to the Income Losses scheme for eligible sales, fees and charges income shortfalls for the year.
- c. Expenditure has been reduced wherever possible throughout the Council to ensure that only absolutely necessary spending is being incurred, this has helped to reduce the adverse variance on a service by service basis.

Flexible Use of Capital Receipts

2.11 The former Interim Executive Director of Resources and Support Services informed the Ministry of Housing, Communities and Local Government by letter on 5 December 2019 of the Council's intention to make flexible use of up to £0.400m of capital receipts in the financial year 2020/21. The flexible use of capital receipts has been utilised in 2020/21 for expenditure to a value of £0.400m that meets the eligibility criteria, in that it relates to initiatives (Digital Delivery - £0.099m, New Recycling Services - £0.151m and the time of existing staff in preparing the One Council Programme - £0.150m), that are forecast to generate, or have generated, on-going revenue savings through reducing the costs of service delivery.

Balance Sheet

2.12 The main features of the balance sheet (page 31) in the draft Statement of Accounts) are as follows:

- a. There are Net Tangible Fixed Assets of £62.802m (£65.069m at 31 March 2020) which consist of Plant, Property and Equipment, Surplus Assets, Investment Properties and Heritage Assets, the decreased net book value relates primarily to the depreciation of assets.
- b. The amount the Council owes to its creditors is £17.368m. Creditors have increased by £4.980m compared to 31 March 2020. This is due to a repayment of £7.949m being due at 31 March 2021 relating to Section 31 grant initially paid to the Council to assist with cash flow during the year as a result of relief being given to Business Rates payers and grants for which the Council acts as an agent for Central Government being held at 31 March 2021 totalling £3.947m. Offsetting these 2 increases is a change in the balances attributable to Business Rates preceptors, this has moved from a creditor position (i.e. the net position being that preceptors would be due £5.719m of balances including a surplus on the collection fund and debtors relating to Business Rates) to a debtor position (i.e. the net position being that preceptors would owe £7.919m of balances including a deficit on the collection fund net of debtors relating to Business Rates).

- c. The amount that the Council is due from its debtors is £21.771m. Debtors have increased by £8.252m compared to 31 March 2020. This is primarily due to a change in the balances attributable to Business Rates preceptors, as described at point b.
- d. The liability (and the corresponding reserve) relating to defined benefit pension schemes increased from £58.899m at 31 March 2020 to £71.636m at 31 March 2021. 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. The increased liability relates to the annual re-measurement of the return on plan assets (an increased estimated return of £29.786m) and changes in financial assumptions (an increased liability of £40.506) made by the actuary.

The Collection Fund

- 2.13 Local tax income is collected by billing authorities and paid into local 'collection funds' (the Council is a billing authority). Where there is a shortfall in tax receipts (compared to expected levels), this leads to a deficit on the collection fund. Billing and major precepting authorities are usually required to meet their share of any deficit during the following financial year.
- 2.14 In response to forecast shortfalls in tax receipts relating to COVID-19 (primarily incurred regarding additional Council Tax Support, Business Rates reliefs and Business Rates bad debts), the government announced that repayments to meet collection fund deficits accrued in 2020- 21 will be phased over a three-year period (2021-22 to 2023-24) to ease immediate pressures on future budgets.
- 2.15 It was announced as part of the Local Government Finance Settlement that there would be an equitable sharing of irrecoverable local taxation collection losses between local authorities and the Treasury. The government has implemented a scheme that will cover 75% of local government's collection fund deficits, with a small number of exclusions.
- 2.16 The shortfalls in tax receipts for 2020/21, and the forecast repayments under this scheme are shown below:

Tax	Total Deficit Forecast	Council's Share	Repayable 2021/22	Repayable 2022/23	Repayable 2023/24
Council Tax	£1.119m	£0.134m (11.8%)	£0.048m	£0.043m	£0.043m
Business Rates	£18.500m	£7.400m (40%)	£5.375m	£1.013m	£1.012m
Business Rates Section 31 Measures (above budgeted)	(£13.343m)	(£5.337m) 40%	(£5.337m)	-	-
Total	£6.276m	£2.197m	£0.086m	£1.056m	£1.055m
75% Income Compensation	N/A	(£1.711m)	(£0.086m)	(£1.056m)	(£0.569m)
Levy Saving (Pooling)	N/A	(£0.395m)	-	-	(£0.395m)
Remaining Repayment	N/A	£0.091m	-	-	£0.091m

Reserves

2.17 The Council has usable revenue reserves totalling £13.428m. The main items, with their balances at 31 March 2021, and a comparison to the balances forecast per the 2021/22 budget setting, are:

Reserve/Fund	Balance 31.03.21 (£'000's)	Balance Forecast Budget Setting (£'000's)	Variance (£'000's)	Comments
General Fund	3,000	3,000	-	Unforeseen adverse events. Approved balance of £3.000m
Income Contingency	100	100	-	To manage year to year income variations. Approved balance of £0.100m
Equipment Replacement	48	23	25	Replacement of Environmental Heath equipment, contribution to Cremator Maintenance
Budget Support – General	348	-	348	Funding committed to during 2020/21 to be utilised in 2021/22
Budget Support – Planning Policy	375	360	15	To provide funding for the Borough Local Plan
Budget Support – Housing	81	-	81	Homelessness funding to be utilised in future periods
Borough Growth	70	70	-	To fund investment in corporate priorities
Conservation & Heritage	26	27	(1)	To provide repair grants to owners of historic buildings
Mayor's Charity	4	-	4	To hold funds on behalf of the Mayor's charity
Museum Purchases	178	-	178	Balance held to be utilised on Museum capital project
Business Rates	9,131	6,549	2,582	Section 31 grant, Tax Income Losses grant and levy saving transferred into reserve to offset 2020/21 deficits repayable in future years (£7.534m). £0.220m held as business rates contingency. Remainder (£1.377m) held as contingency re. forthcoming fair funding review
Keele Master Plan	8	-	8	To meet the costs of the Keele master planning exercise
Elections	50	50	-	To provide budget on a 4 year cycle for Borough Elections
Clayton Community Centre	9	9	-	Sinking fund held on behalf of Committee (contributions made by Committee)
Totals	13,428	10,188	3,240	

2.18 The General Fund Balance is £3.000m as at 31 March 2021, an increase from £1.448m 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.

2.19 The levels of reserves will be considered as part of the budget preparation process for 2022/23. Some may require contributing to, either from the revenue budget or a transfer from another reserve.

Capital Expenditure

2.20 A Capital Programme totalling £12.454m was approved for 2020/21. Of this total £10.454m relates to the total cost of new schemes for 2020/21 together with £1.000m for schemes funded by external sources (Disabled Facilities Grants) and a £1.000m contingency. In addition £3.025m was brought forward from the 2019/20 Capital Programme, resulting in a total Capital Programme of £15.479m for 2020/21.

2.21 Due to the COVID-19 pandemic and the financial impact this has placed on the Council, a review of the 2020/21 Capital Programme has been completed with the assistance of Budget Holders and members of the Capital, Assets and Commercial Investment Review Group. The rationale behind this review was to establish which of the capital projects approved in the programme were essential or health and safety related, were unable to be commenced due to the pandemic, could be deferred to the following year due to resources and services available during the crisis or were no longer required.

2.22 The revised 2020/21 Capital Programme totalled £7.303m which includes £1.000m for schemes funded by external sources (Disabled Facilities Grants) and £0.250m contingency to reflect the remainder of the year.

2.23 In addition to the revised 2020/21 Capital Programme, capital expenditure of £1.750m regarding the Advanced Towns Deal funding £0.400m regarding the Flexible Use of Capital Receipts, £0.103m of One Council expenditure and £0.220m regarding Section 106 works were planned.

2.24 Planned expenditure financed via capital for 2020/21 therefore totalled £9.776m. Actual expenditure has totalled £7.521m, £2.255m below that planned. This relates in its entirety to expenditure that has been rolled forward into 2021/22.

2.25 The expenditure of £7.521m was financed as shown below:

Financed by:	£ (000)
Capital Receipts	3.119
Government Grants and Other Contributions	3.330
Internal Borrowing	1.072
Total	7.521

3. Proposal

3.1 The General Fund outturn and key issues in respect of the Council's financial position as at 31 March 2021 be noted.

3.2 The draft Statement of Accounts for 2020/21 be approved for publication and audit.

4. **Reasons for Proposed Solution**

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

5. **Options Considered**

5.1 No further options, the Council would breach the Accounts and Audit Regulations is it did not report the draft Statement of Accounts to the Audit and Standards Committee.

6. **Legal and Statutory Implications**

6.1 The draft and audited Statement of Accounts are required to be considered by the Audit and Standards Committee in accordance with the Accounts and Audit Regulations 2015.

7. **Equality Impact Assessment**

7.1 There are no differential equality issues arising.

8. **Financial and Resource Implications**

8.1 The General Fund outturn for the financial year 2020/21 shows a favourable variance against the budget of £0.005m. This amount has been paid into the Budget Support Fund.

8.2 The Capital Programme outturn shows a balanced position at the close of the financial year 2020/21. £2.255m of this will be carried forward to the financial year 2021/22.

8.3 The General Fund Reserve has been increased from £1.448m to £3.000m in accordance with the risk assessed minimum value as approved as part of the 2021/22 budget setting process.

8.4 The Council's share of the Collection Fund deficit amounts to £7.534m which is repayable in future years, this will be met from amounts contributed to the Business Rates Reserve.

9. **Major Risks**

9.1 The ongoing COVID pandemic and changing market conditions represents the greatest risk to the revenue budget, particularly with regard to the impact it may have upon income receivable in relation to services where customers may choose whether or not to use Council facilities or in the case of the waste/recycling service where the volume of recycled materials is liable to fluctuate. The impact of Covid 19 is apparent in the reporting of this provisional outturn, impacting on many areas and the situation will continue to be monitored through the normal budget monitoring procedures during the financial year 2021/22.

8.2 The capital programme requires regular monitoring to identify any projects which are falling behind their planned completion dates. This will be carried out by the Capital, Assets and Commercial Investments Review Group, which meets on a bi-monthly basis together with quarterly and annual reports to Cabinet.

8.3 The above represents a high level view of risk. There are detailed risk registers available if members wish to see them.

10. **UN Sustainable Development Goals (UNSDG)**

10.1 Not applicable for this report.

11. **Key Decision Information**

11.1 This is not a key decision.

12. **Earlier Cabinet/Committee Resolutions**

12.1 Finance and Performance Review Report to Cabinet (9 June 2021).

12.2 Provisional Financial Outturn Report to Cabinet (7 July 2021).

13. **List of Appendices**

13.1 Draft Statement of Accounts 2020/21.

14. **Background Papers**

14.1 Finance and Performance Review Report to Cabinet (9 June 2021).

14.2 Provisional Financial Outturn Report to Cabinet (7 July 2021).