

DRAFT ANNUAL FINANCIAL REPORT 2019/20

1. Introduction

- 1.1 The Council's statutory Annual Financial Report, which includes 6 Statements of Account, will be presented to this Committee in October, after completion of the external audit (taking place throughout September). Prior to submission for audit, by the deadline of 31 August (see 1.2), it will be signed by the certified Responsible Financial (S151) Officer as complete and presenting the position of the Council, as at 31 March 2020.
- 1.2 New 'Accounts and Audit (Coronavirus)(Amendment) Regulations 2020' came into force from 30 April 2020, which had the effect of extending the draft accounts publication date from 31 May 20 to 31 August 20, and the audit timeline back from 31 July 20 to 30 November 20. It is the intention of the Council's Responsible Financial Officer to release the draft Annual Financial Report to the external auditor ahead of the revised publication deadline.

2. Purpose of the Report

- 2.1 This report updates Members on progress to achieve the required timetable, to advise Members of key issues in the planned report and to seek Members approval for any changes to Accounting Policies (if applicable).

3. Statement of Accounts Position

- 3.1 The Council is required to include the following accounting statements within the Annual Financial Report:
 - 1a) Comprehensive Income and Expenditure Statement
 - 1b) Expenditure and Funding Analysis (in NFDC management format)
 - 2) Movement in Reserves
 - 3) Balance Sheet
 - 4) Housing Revenue Account
 - 5a) Collection Fund – Council Tax
 - 5b) Collection Fund – Business Rates
 - 6) Cash Flow Statement
- 3.2 The draft Accounting Statements for 2019/20, prior to external audit, are set out in Appendices 1 – 6. The Expenditure and Funding Analysis Statement included as appendix 1b, is a supporting statement to the Comprehensive Income and Expenditure Statement.
- 3.3 The full Draft Unaudited Annual Financial Report will be made available on the Council's Website before the statutory deadline of 31 August 20. Should any member of the Audit Committee wish to raise any queries on the statement before the October Committee meeting, the contact details for the Council's Head of Finance are included at the foot of this report.

4. Accounting Policy Changes and Other Key Issues

- 4.1 There has been no requirement to change any Accounting Policies for 2019/20.
- 4.2 From 2020/21, the Council's new Finance System supports a more accurate costing methodology for the issue of stock from the Council's central store. The previous policy of issuing stock at average price will be replaced with the more commonly used FIFO method, representing 'First in First Out'. Business units will be charged for items removed from stores based on the value the Council paid for those specific items.
- 4.3 Previous years' reports highlighted changes to the Business Rates Retention scheme that took place in April 2013 and the need for the Council to hold a provision for anticipated successful appeals against rating assessments. As at 1 April 2019 the total provision was £9.975 million, of which the Council's share totalled £3.990 million (40%). Table 1 confirms the movements in the provision during 2019/20, and the revised balances as at 31 March 2020:

| Table 1 | Total | NFDC |
|---------------------------------------|----------------|----------------|
| | £'000 | £'000 |
| Appeal Provision 1 April 2019 | (9,975) | (3,990) |
| Additional Provisions Made 2019/20 | (2,340) | (936) |
| Amounts Used 2019/20 | 2,745 | 1,098 |
| Appeal Provision 31 March 2020 | (9,570) | (3,828) |

- 4.4 New Forest District Council has been significantly impacted by the Coronavirus COVID-19 pandemic. In producing the accounts to 31 March 2020, the impact has been considered in the context of a Post Balance Event, but ultimately no adjustment is necessary in terms of the accounts being produced in a manner befitting with a 'Going Concern' status, and appropriate narrative has been included within the notes confirming the basis of property valuation in the context of 'Material Valuation Uncertainty'.

5. Summary of Financial Position

- 5.1 The Comprehensive Income and Expenditure Statement and Balance Sheet show the value of the Council's net worth to have decreased by £7.322 million during 2019/20 (of which £7.306 million has reduced usable reserves as shown below). The value of net assets held by the Council now totals £273 million. The principal reasons and the breakdown of this year-on-year decrease between the various reserves are summarised as follows:

| | £'000 | | |
|---|------------------------|--|---|
| Net Increase in PPE Assets | 3,520 | <div style="display: flex; align-items: center;"> <div style="border-left: 1px solid black; border-right: 1px solid black; border-bottom: 1px solid black; width: 20px; height: 20px; margin-right: 5px;"></div> <div style="display: flex; flex-direction: column; align-items: center; justify-content: center;"> <div style="margin-bottom: 5px;">5,535</div> <div style="margin-bottom: 5px;">(1,073)</div> <div style="margin-bottom: 5px;">(616)</div> <div style="margin-bottom: 5px;">(326)</div> <div style="border-top: 1px solid black; width: 100%;"></div> <div>3,520</div> </div> </div> | Council Dwellings |
| Community Assets | 325 | | Other Land and Buildings |
| Assets Under Construction | (2,361) | | Vehicles, Plant and Equipment |
| Increase in Investment Property | 4,273 | | Infrastructure |
| Decrease in Long-Term Investments | (10,150) | | |
| Decrease in Short-Term Investments | (8,746) | | |
| Increase in Short-Term Debtors | 1,152 | | |
| Increase in Short-Term Creditors | (5,946) | | |
| Increase in Cash and Cash Equivalents | 12,679 | | |
| Decrease in Long-Term Borrowing | 4,301 | | |
| Decrease in Provisions | 388 | | |
| Increase in Pensions Liability | (6,378) | | |
| Capital Grants - Receipts in Advance | (376) | | |
| Developers' Contributions - Receipts in Advance | 62 | | |
| Increase in Long-Term Debtors | 99 | | |
| Inventories | (53) | | |
| Increase in Bad Debt Provision | (238) | | |
| Short-Term Borrowing | 1 | | |
| Developers' Contributions - Receipts in Advance | 126 | | |
| Net Other | (3) | | |
| | (7,322) | | |
| | | ↙ ↘ | |
| | Usable Reserves | | Unusable Reserves |
| Earmarked Reserves | (5,844) | | 3,537 Revaluation Reserve |
| Capital Programme Reserve | (2,118) | | 3,849 Capital Adjustment Account |
| Capital Receipts Reserve | (1,183) | | (1,391) Financial Instruments Revaluation Reserve |
| Community Infrastructure Levy Unapplied | 1,118 | | 3 Deferred Capital Receipts Reserve |
| Developers' Contributions Unapplied | 721 | | (6,378) Pensions Reserve |
| | | | 353 Collection Fund Adjustment Account |
| | | | 11 Accumulating Absences Adjustment Account |
| | (7,306) | | (16) |

5.2 Usable reserves have reduced by £7.306 million, with the majority being down to a £5.994 million reduction in the (Earmarked) Housing Acquisition and Development Reserve. The Council will utilise cash reserve first ahead of any new external borrowing to avoid unnecessary cost of carry when considering the financing arrangements for the Capital Programme (including the additional housing being acquired and developed by the Council; 5,120 owned Council dwellings as at 31 March 20, up 66 on the previous year).

5.3 The 2019/20 original net budget requirement for the General Fund was £17.493 million, an increase of £250,000 from 2018/19. The Council's budget anticipated being funded £12.3 million from Council Tax (including a £5 increase) and £5.7 million from retained business rates. In order to support the delivery of a balanced budget over the Medium Term and to flatten out Business Rate Collection Fund adjustments, the budget allowed for £748,000 to be credited to the Budget Equalisation Reserve.

- 5.4 Net income shortfalls and additional expenditure pressures in services during the year were £859,000 (£1.284 million in services partially offset through direct transfers from earmarked reserves of £425,000). A one-off VAT refund of £834,000 was received and Interest Earnings were £436,000 ahead of the original target. Retained business rates were £527,000 below the original budget; this has resulted in a lower credit transfer to the Budget Equalisation Reserve.
- 5.5 The Housing Revenue account deficit for 2019/20 was £757,000 compared with an originally budgeted break-even position. Income was £286,000 higher than originally budgeted, and Repairs and Maintenance spend £753,000 higher than originally budgeted due in part to the revised Voids policy adopted by the Council part way through the year and as a direct consequence of the number and type of reactive jobs required during the year. There was an increased level of Supervision & Management expenditure in comparison to the original budget as a result of the structural changes approved during the year. The balance on the account as at 31 March 2020 was retained at £1 million, after allowing for the transfer of £757,000 from the earmarked Housing Acquisitions and Developments Reserve. The budget for 2020/21 anticipates a break-even position for the year.
- 5.6 The level of approved capital expenditure is reviewed regularly throughout the year, to ensure that it is achievable within the estimated resources available. The original Capital Programme for 2019/20 (including the gross value of the Coastal Regional Monitoring Programme) was £27.919 million. This was initially supplemented by rephasings of £1.660 million from 2018/19. A review of the programme during the year as reported through Financial Monitoring increased the approved budget to £34.810 million. Actual expenditure of £27.481 million was £7.329 million less than the last approved budget, predominately in relation to lower expenditure on Housing Acquisitions and scheme rephasings to 2020/21.
- 5.7 The strategy to diversify investments in a variety of pooled funds has continued in 2019/20. Interest earnings have increased to £1.29 million in 2019/20. The impact of the COVID-19 pandemic on financial markets at the end of the financial year meant that the Council's investments in its pooled funds suffered a £1.3m fall in capital value (9.82%) over the year to 31 March 2020, however this loss will only be realised if the assets are sold before they have regained their value. Under the accounting standard IFRS 9 the Council must in the meantime defer these fair value losses to the Financial Instruments Revaluation Reserve until at least 2023/24.
- 5.8 The Council's Balance Sheet shows a net pension liability of £99.470 million; an increase of £6.378 million from 31 March 2019. Whilst this has a substantial impact on the net worth of the Council, as recorded in the Balance Sheet, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy, as the liabilities under the scheme will be made good by increased contributions over the working lives of employees. The Pension Fund actuary completed their 3 yearly actuarial review during 2019/20, resulting in individual primary rate contribution percentage for each scheme member (at organisation level) and confirming the elimination of the fund deficit, resulting in 0% deficit contributions required for the 3 years covering 2020/21 – 2022/23.

6. Recommendations

- 6.1 That the Committee note the draft Accounting Statements set out in Appendices 1-6 (which are a summary) of the Annual Financial Report that will be certified by the Responsible Financial (S151) Officer for submission to the external auditor by the deadline of 31 August.

For Further Information Please Contact:

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