

DRAFT ANNUAL FINANCIAL REPORT 2020/21

1. Introduction

- 1.1 The Council's statutory Annual Financial Report, which includes 6 Statements of Account, will be presented to this Committee in December, after completion of the external audit (taking place throughout November). Prior to submission for audit, by the deadline of 31 July, it will be signed by the certified Responsible Financial (S151) Officer as complete and presenting the position of the Council, as at 31 March 2021.
- 1.2 In January 2021, the Government consulted on amendments to the Accounts and Audit Regulations 2015, to extend the deadline for publishing audited local authority accounts to 30 September from 31 July. The Government response said the deadline would be extended for two years from 2020/21 and to review at that point whether there is a continued need to have an extended deadline. These Accounts and Audit (Amendment) Regulations 2021 came into force on 31 March 2021.
- 1.3 As covered on this Committee agenda, the Council's External Auditor will explain why their audit timings do not fit with the revised dates as per the (Amended) regulations.

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 2020/21, 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 July 2021. Should any member of the Audit Committee wish to raise any queries on the statement before the December Committee

meeting, the contact details for the Council's Chief Financial Officer 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 2020/21.
- 4.2 The original budget for 2020/21 included a £1.062 million contribution to the Budget Equalisation Reserve to assist in balancing the budget over the medium term. It also included a £1.25 million budget to allow for the potential re-instatement of a secondary pension contribution rate, should the pension fund be in a deficit once the 2022 triennial revaluation takes effect. The £1.25 million has been transferred to the Capital Programme reserve, as has the overall General Fund underspend for the year. This reserve supports the delivery of the Council's Capital Programme over the Medium term period.
- 4.3 For 2020/21, the National Non Domestic Rate (NNDR or Business Rates) collection fund shows a deficit of £28.4 million. This has primarily come about as a result of the additional reliefs announced by the government in response to the pandemic. The cost of the reliefs has been fully funded by the Government through additional Section 31 grant. In accordance with collection fund accounting, the 2020/21 collection fund doesn't recognise the additional section 31 grant, and instead this is brought into consideration in 2021/22. The Council's share of the deficit is 40%. The Council's share of the additional section 31 grant is also 40%. The 2 items therefore largely cancel each other out. The Council's share of the additional Section 31 grant has been placed into a new reserve entitled 'Business Rates Reserve' to use in covering the significant proportion of the Council's share of the collection fund deficit in 2021/22.
- 4.4 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 2020 the total provision was £9.570 million, of which the Council's share totalled £3.828 million (40%). Table 1 confirms the movements in the provision during 2020/21, and the revised balances as at 31 March 2021:

Table 1	Total	NFDC
	£'000	£'000
Appeal Provision 1 April 2020	(9,570)	(3,828)
Additional Provisions Made 2020/21	(1,993)	(797)
Amounts Used 2020/21	4,323	1,729
Appeal Provision 31 March 2021	(7,240)	(2,896)

- 4.5 New Forest District Council has been significantly impacted by the Coronavirus COVID-19 pandemic and many of the transactions in the 2020/21 accounts are not re-occurring in the ordinary course of business. Judgements have been made throughout with the reader of the accounts in the forefront of decisions on presentation of certain items. In producing the accounts to 31 March 2021, no adjustment is necessary in terms of the accounts being produced in a manner befitting with a 'Going Concern' status.

4.6 In producing the accounts for 2020/21, the Council's wholly owned group of companies (Appletree Property Group) need to be consolidated as 'Group Accounts'. This means that transactions that took place within the Company accounts need bringing into NFDC accounts, with transactions that took place between NFDC and Appletree being largely cancelled out. The statements produced within this Agenda are the NFDC accounting statements, pre-consolidation. A further set of consolidated accounting statements will be finalised, signed, audited and published.

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 £6.259 million during 2020/21. The value of net assets held by the Council now totals £267 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	7,424	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%; text-align: right;">9,208</td> <td>Council Dwellings</td> </tr> <tr> <td></td> <td style="text-align: right;">(663)</td> <td>Other Land and Buildings</td> </tr> <tr> <td></td> <td style="text-align: right;">(798)</td> <td>Vehicles, Plant and Equipment</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">(323)</td> <td>Infrastructure</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">7,424</td> <td></td> </tr> </table>		9,208	Council Dwellings		(663)	Other Land and Buildings		(798)	Vehicles, Plant and Equipment		(323)	Infrastructure		7,424		
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	(663)		Other Land and Buildings															
	(798)		Vehicles, Plant and Equipment															
	(323)	Infrastructure																
	7,424																	
Assets Under Construction	(1,027)																	
Increase in Investment Property	2,929																	
Decrease in Long-Term Investments	(1,515)																	
Increase in Short-Term Investments	4,940																	
Increase in Long Term Debtors	1,245																	
Increase in Short-Term Debtors	5,829																	
Increase in Short-Term Creditors	(3,292)																	
Decrease in Cash and Cash Equivalents	(9,624)																	
Decrease in Long-Term Borrowing	4,301																	
Decrease in Provisions	910																	
Increase in Pensions Liability	(17,234)																	
Capital Grants - Receipts in Advance	(857)																	
Net Other	(288)																	
	(6,259)																	
		↙	↘															
		Usable Reserves	Unusable Reserves															
Earmarked Reserves	12,372		4,700 Revaluation Reserve															
Capital Programme Reserve	1,847		3,168 Capital Adjustment Account															
Capital Receipts Reserve	(959)		1,130 Financial Instruments Revaluation Reserve															
Community Infrastructure Levy Unapplied	786		(114) Deferred Capital Receipts Reserve															
Developers' Contributions Unapplied	361		(17,234) Pensions Reserve															
			(12,004) Collection Fund Adjustment Account															
			(312) Accumulating Absences Adjustment Account															
	14,407		(20,666)															

5.2 Usable reserves have increased by £14.407 million, with the majority being down to a £11.357 million contribution to the Business Rates Reserve, as explained in paragraph 4.3 above.

5.3 The 2020/21 original net budget requirement for the General Fund was £19.194 million, an increase of £1.701 million from 2019/20. The Council's budget anticipated being

funded £12.751 million from Council Tax (including a £5 increase) and £7.287 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 £1.062 million to be credited to the Budget Equalisation Reserve.

- 5.4 Net income shortfalls and additional expenditure pressures in services during the year were £2.771 million and transfers necessary to earmarked reserves were £1.551 million more than originally budgeted. Business Rate income was below the original budget by £848,000. Government support of £6.530 million was received above the original budget. The combination of the aforementioned variations resulted in a net transfer to the Capital Programme reserve above the original plan of £1.899 million.
- 5.5 The Housing Revenue account deficit for 2020/21 was £136,000 compared with an originally budgeted break-even position. Income was £74,000 less than originally budgeted, and Repairs and Maintenance spend £330,000 higher than originally budgeted due in part to initial supply chain disruption which led to a backlog in property voids requiring additional resource to turn them around and get the properties re-tenanted. There was a reduced level of Supervision & Management expenditure in comparison to the original budget. The balance on the account as at 31 March 2021 was retained at £1 million. The budget for 2021/22 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 2020/21 (including the gross value of the Coastal Regional Monitoring Programme) was £25.694 million. This was initially supplemented by rephasings and additional projects. The final financial monitoring report for the year adjusted the budget to £27.238 million. Actual expenditure of £26.959 million (including overall financing to Appletree Property Group) was £279,000 less than the last approved budget.
- 5.7 The Council retained its investments in a variety of pooled funds in 2020/21. Total treasury management interest earnings were £0.82 million in 2020/21. The impact of the COVID-19 pandemic on financial markets at the end of the 2019/20 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 the markets recovered well in 2020/21 and the value of the funds have largely returned to the original investment levels. Under the accounting standard IFRS 9 the Council must defer any 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 £116.704 million; an increase of £17.234 million from 31 March 2020. 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. The next triennial review will take place during 2022 and will result in new contribution rates being set for 2023/24 – 2025/26.

6. Recommendations

- 6.1 That Members 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 the submission to the external auditor by the deadline of 31 July.

For Further Information Please Contact:

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