

# **BARNSLEY MBC**

## **EXECUTIVE SUMMARY**

### **2019/20**



## **2019/20 NARRATIVE REPORT EXECUTIVE SUMMARY**

### **Executive Summary**

This executive summary is designed to assist the understanding of the readers of the accounts in respect of explaining the financial position of the Council, what each of the core financial statements are showing and why they have changed, and how ultimately the Council has performed financially, for the 2019/20 financial year.

### **What The Council Spent in 2019/20 – Day to Day (Revenue)**

The Council spent a net £162.2M on providing services to the public during 2019/20. Compared with the budget for the year £169.1M, this represented an underspend of £6.9M. Of this, the Council has approved to earmark (set aside for a specific purpose) £5.0M to increase the Council's minimum working balance which is the amount held by the Council in case of any unforeseen event. The remaining £1.9M was also earmarked to assist with the helping the Borough to recover from the impacts of COVID-19.

The Council also underspent on its housing revenue account by £2.4M. This account relates specifically to the costs of providing Council houses within the Borough. Of this underspend, and similar to the above for general services, the Council agreed to increase the housing minimum working balance by £1.8M with the remaining £0.6M earmarked for housing related COVID-19 recovery costs.

Further information is provided in the narrative report to the accounts and the Council's 2019/20 [201920 Corporate Revenue Final Accounts Summary.pdf](#) available at [www.Barnsley.gov.uk](http://www.Barnsley.gov.uk).

### **COVID-19 Impact**

The Covid 19 Pandemic took hold of the country in the final few weeks of 2019/20. Whilst this did not have much of an impact on the Council's financial position during 2019/20, it is having a significant impact during 2020/21.

The position recently reported to Cabinet shows an overall additional cost of around £42M (£24M additional costs and £18M fall in income). Further information is provided below.

In addition, the Council's valuers have issued a 'material uncertainty' statement along with their valuation certificate. This means that due to the Covid pandemic, they cannot place 100% reliability on the valuations provided due to the increased level of uncertainty in respect of the variables that affect valuation techniques.

### **The Council's Reserves Position**

Where the Council generates a surplus against its budget, the cumulative amount is held within reserves until required in the future. The Council's total reserves as at the end of 2019/20 totalled £165.7M split between general reserves of £133.9M and housing reserves of £31.8M. These reserves are earmarked for specific, one off projects/initiatives. A detailed breakdown can be found in Note 6 to the accounts.

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### **What The Council Spent in 2019/20 on Major Investment Projects (Capital)**

In addition to the day to day cost of running the Council highlighted above, the Council also has a capital investment plan relating to major projects across the Borough. The Council spent £141M on such projects in 2019/20. This included:

- the Glassworks project (£55M);
- the purchase of Westgate Plaza (£18M);
- investment in its infrastructure (roads) network (£13M); and
- investment in its Council houses (£13M).

### **The Glass Works**

The Council's major town centre redevelopment "The Glass Works" made significant progress during 2019/20 with the full opening of the Market and Market Kitchen, Library @ the Lightbox and a new public realm in the town centre.

Covid 19 has resulted in a slight delay in completion of the scheme which is now set to fully open in Autumn 2021 (as opposed to Summer 2021). This delay can be managed within the existing programme and no additional construction costs are anticipated at this stage.

Whilst the high street has suffered both pre-Covid and ongoing, the letting of the Glass Works remains buoyant with two new retailers (TK Maxx and Deichmann) recently announced. The leasing strategy remains under constant review as the development progresses to full opening next year and beyond and will be updated as and when required.

### **The Council's Cash Flow / Treasury Activities**

The Council holds a debt (borrowing) portfolio that has been used to pay for capital investment over recent years totalling £671M at the end of 2019/20. The largest proportion (£525M) of this relates to debt held with the Government (Public Works Loan Board) with £50M of debt with other local authorities. The remaining £96M relates to debt with other financial institutions such as banks.

The Council's Treasury Management strategy is to lock into fixed rate interest rates to provide certainty over the costs and guard against interest rate rises in the future.

The Council's Capital Financing Requirement measures the amount that the Council needs to borrow and at the end of the year, this totalled £787M excluding Finance Leases / PFI deals. This is expected to rise over the medium term (3 to 5 years) due to the approved capital investment, which indicates that there is a further need to borrow approximately £70M over this period, in line with the Council's Treasury Management Strategy.

The Council also utilises any surplus cash balances held by placing it in a prudent investment portfolio. The value of these investments stood at £132M at the end of the year. The balances are across short term deposits (£57M) and Instant Access Accounts (£75M).

The Council's strategy is to make prudent investment deposits with reputable institutions / local authorities and with money market funds that are highly liquid i.e. they can be withdrawn quickly as required.

# The Management Accounts - Revenue

## Net Revenue Expenditure 2019/20

The table below shows the total spend of the Council for 2019/20, displayed against the individual operational directorates, compared to the year-end budget, as per the Final Accounts Report.

<u>Management Accounts</u>	Budget	Actual Expenditure After Statutory Carry Forward	(Under) / Over Spend	Explanation
	£M	£M	£M	
Children's Services	36.579	36.321	(0.258)	The directorate underspent in year mainly to do with staff vacancies
Place	39.900	39.909	0.009	Home to School Transport and Waste overspent but this was offset by staff vacancies and increased income
Adults & Communities	62.862	59.495	(3.367)	The underspend related to the early delivery of future years planned savings and unexpected receipt of one off funding
Public Health	7.506	5.664	(1.842)	The underspend relates to staff vacancies and unspent money carried forward from 2018/19 no longer required
Core Services	(4.078)	(4.615)	(0.537)	The underspend was due to a delay in the appointment to new directorate structures
<b>Total Services</b>	<b>142.769</b>	<b>136.774</b>	<b>(5.995)</b>	
Corporate Services	26.294	25.381	(0.913)	This underspend was a result of the lower cost of borrowing (e.g. low interest rates)
<b>Total General Fund</b>	<b>169.063</b>	<b>162.155</b>	<b>(6.908)</b>	

## How is the Council Funded?

The Council's expenditure is funded from a variety of sources. The table overleaf shows the level of corporate, non-specific funding received by the Authority in 2019/20:

	£M
Revenue Support Grant	12.745
Business Rates	22.814
Business Rates Top Up Grant	32.240
Council Tax	97.677
Section 31 Grants	3.587
<b>Total</b>	<b>169.063</b>

Over the year the Council underspent on the delivery of its General Fund services. This totalled **£6.9M**. The Council also spent £36M of reserves previously earmarked. It has been agreed that **£1.9M** of the underspend be earmarked to support the COVID-

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19 Recovery with the remaining **£5.0M** used to increase the Council's General Fund minimum working balance, from £15M to £20M to offer further protection against the ongoing impact of COVID-19 and other future financial risks.

The Council's Housing Revenue Account, which records all costs and income associated with council housing, also underspent by **£2.4M**. **£0.6M** of this underspend has been set aside to support the recovery from Covid 19 with the remaining **£1.8M** increasing the HRA's minimum working balance.

### **The Council's Reserves Position 2019/20**

As at March 2020, the Council held a total of £134M in General Fund reserves and £32M of HRA reserves. These two amounts include a Minimum Working Balance which is set aside in case of emergency as well as money set aside to support the delivery of key priorities. The table below breaks these amounts down further:

<b>General Fund Reserves</b>	<b>As at 31<sup>st</sup> March 2020</b>	<b>HRA Reserves</b>	<b>As at 31<sup>st</sup> March 2020</b>
	<b>£M</b>		<b>£M</b>
Minimum Working Balance	20.000	Minimum Working Balance	7.000
<b>Total General Reserves</b>	<b>20.000</b>	<b>Total General Reserves</b>	<b>7.000</b>
Glassworks Scheme	15.208	Specific Housing Growth Schemes including St Michaels and Billingley Housing Developments	19.228
Future Council Capital Priorities including Principal Towns, and Property Investment Fund	24.872	Welfare Reform	3.000
Insurance Fund Reserve	6.703	Review of 30 Year Business Plan	0.874
Other Capital Priorities	4.000	COVID-19 Financial Recovery	0.590
Future Demography / Social Care Pressures	10.000	Electrical Testing	0.552
PFI / BSF Programme	6.014	New Build Bungalows	0.381
MRP Future Years	6.023	Other	0.192
COVID-19 - Recovery Strategy	1.909		
COVID-19 - Grant	6.736		
Service Specific Earmarkings including Schools' Balances, Area Councils Monies and Unspent Grant Income	32.410		
<b>Total Earmarked Reserves</b>	<b>113.875</b>	<b>Total Earmarked Reserves</b>	<b>24.817</b>
<b>Total General Fund Reserves</b>	<b>133.875</b>	<b>Total HRA Reserves</b>	<b>31.817</b>

# The Impact of COVID-19

As mentioned, the Covid 19 Pandemic started during the final few weeks of 2019/20. The pandemic had very little impact on the Council's 2019/20 accounts (£1.4M incurred on the Council's Covid related response) but is already having a significant impact on the delivery of Council Services during 2020/21 and beyond.

The position reported recently shows an overall cost of £39.8M. This position is constantly changing especially as the country faces a second wave of the virus and potentially enters a further lockdown either locally in Barnsley or on a national scale. The table below provides further details of this cost.

To date Government have provided funding in the region of £22.6M to help cover the additional cost incurred.

Further funding is also potentially available via the Fees and Charges Compensation Scheme which allows local authorities to claim for an element of fees and charges income lost due to the pandemic though the exact amount is yet unknown.

Regardless of this the Council faces a significant financial pressure during 2020/21 as a result of the pandemic. This will likely worsen should a second wave of the virus take hold later in the year. As such in June 2020 the Council agreed the Covid 19 Recovery & Renewal Strategy accompanied by a Financial Recovery Strategy. These two documents can be found online at this link - [Recovery & Renewal Strategy](#).

The Council continues to assess the ongoing implications of Covid 19 in terms of the delivery of services, linked to the Recovery and Renewal Strategy above, and has amended its governance arrangements accordingly. Details of these arrangements can be found in the Council's Annual Governance Statement (AGS), which is published alongside the Statement of Accounts.

Hard copies of these documents can be provided on request.

Specifically the Financial Recovery Strategy implemented a moratorium on all non-essential expenditure and new proposed investment has been instigated.

This moratorium follows three main steps:

- i. Review and delay all investment yet to start;
- ii. Review of all BAU procurement events and defer/stop where necessary;
- iii. Moratorium on all non-essential expenditure.

As a result the above some £42M of planned new investment was placed on hold (£17M has subsequently been released). The Council is also anticipating a £1.5M underspend (as at end of June) on non-essential business as usual expenditure.

The 2020/21 Quarter 1 corporate monitoring position reported a revised estimated impact on the Council totalling a net £15.7M during 2020/21 – the table below explains the detail:

On 24<sup>th</sup> October 2020, South Yorkshire was placed into Tier 3, in terms of the Government's latest restriction tier system, ranging from Tier 1 – Medium Alert through to Tier 3 – Very High Alert. The

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Council is currently working through the implications of this announcement in respect of both the additional obligations placed on the Council from an expenditure point of view, together with an assessment of the expected additional Government support made available as a result of moving into Tier 3.

Type	Estimated Impact in 2020/21 £M
<b>Additional Expenditure:</b>	
Adult Social Care	10.1
Children’s Services	1.0
Vulnerable	1.1
Supplier Relief	2.3
Outbreak Control	1.6
Other (Including PPE, additional Waste costs etc)	5.9
<b>Sub Total – Additional Expenditure</b>	<b>22.0</b>
<b>Lost Income:</b>	
Core Income (Business Rates/ C Tax)	9.2
Fees and Charges	8.6
<b>Sub Total – Lost Income</b>	<b>17.8</b>
<b>Total Cost of COVID 19</b>	<b>39.8</b>
Government Support	(22.6)
Anticipated BAU underspend in 2020/21	(1.5)
<b>Remaining Deficit to be Addressed</b>	<b>15.7</b>

In addition, the Government has also launched the Fees and Charges Compensation Scheme which allows local authorities to claim for an element of fees and charges income lost due to the pandemic. The Council has an active claim with the MHCLG but as at the time of writing, the final financial recompense due is unknown.

The estimated impact of Covid 19 on the Council’s financial position is constantly changing representing the national position of the pandemic.

The impact in respect of 2021/22 and beyond will be captured by the Council’s 2030 Plan and updated Medium Term Financial Strategy (MTFS).

This will impact on several things including:

- service delivery and consideration of different methods of delivery;
- major projects that the Council is involved in;
- the cost of running services;
- income collection;
- the wider community and economy; and
- Council employees.

Further detail can be found in the 2020/21 Quarter 1 Financial Performance report here [Quarter 1 2020/21 Corporate Finance Performance Report](#)

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# The Management Accounts - Capital

### Capital Expenditure 2019/20

The table below shows the total capital spend of the Council for 2019/20, displayed against the types of expenditure:

Asset Categories	2019/20 £M
Property, Plant & Equipment	20.7
Council Dwellings	38.0
Vehicles, Plant, Furniture & Equipment	5.5
Assets Under Construction	54.0
Infrastructure Assets	15.8
Intangible Assets	0.1
Heritage Assets	-
Non BMBC Assets	6.9
<b>Total</b>	<b>141.0</b>

Including **£18.0M** on purchasing Westgate Plaza.  
Including **£13.4M** on Maintaining the Council House Stock at Decency Standard  
Including **£5.2M** on purchase / new build of dwelling stock  
**£55.4M** on Glassworks – Including Metropolitan Centre, Public Realm, Market Gate Bridge, Library and Phase 2.  
**£12.5M** on highways maintenance

The table below shows how that capital expenditure was funded by the Council in 2019/20.

Funding Source	2019/20 £M
Capital Grants	18.6
Third Party Contributions (Inc. S106)	3.3
Capital Receipts	6.9
Revenue Contributions	0.3
Reserves	17.0
Major Repairs Reserve	16.7
Prudential Borrowing	76.6
Leasing	1.6
<b>Total</b>	<b>141.0</b>

## Treasury Management Activities

The Council's total external debt outstanding as at 31st March 2020 stood at **£671M**, an increase of £11M since the start of the financial year (£660M as at 1st April 2019). The breakdown is shown below:

Debt Type	As at 1 <sup>st</sup> April £M	Movement £M	As at 31 <sup>st</sup> March £M
PWLB Borrowing	573.7	(48.3)	525.4
Other Long Term Loans	55.0	40.0	95.0
Temporary Loans	2.0	(1.0)	1
Longer Term Local Authority Loans	29.5	20.0	49.5
<b>Total</b>	<b>660.2</b>	<b>10.7</b>	<b>670.9</b>

The Council's total treasury investments as at 31<sup>st</sup> March 2020 stood at **£132M**, a reduction of £63M since the start of the financial year (£195M as at 1<sup>st</sup> April 2019). The breakdown is shown below:

Investment Type	As at 1 <sup>st</sup> April £M	Movement £M	As at 31 <sup>st</sup> March £M
Short Term Deposits	156.5	(99.5)	57.0
Money Market Funds / Instant Access Accounts	38.1	36.9	75.0
<b>Total</b>	<b>194.6</b>	<b>(62.6)</b>	<b>132.0</b>

The Council has operated within the prudential and treasury indicators set out in the agreed strategy and in compliance with its Treasury Management Practices.

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### The Council's Statement of Accounts

The Council has a legal obligation to report its financial affairs in the form called "a statement of accounts". This represents the accounting / economic cost of providing services to the public. These accounts are governed by CIPFA and the Council must comply with CIPFA's Accounting Code of Practice which is in line with the International Financial Reporting Standards.

The Council is also governed by law in terms of what can and cannot be charged to the Council Tax / Rent payer, which is the basis on which the management accounts are based.

There can, and often is, a significant difference between these two formal financial positions with the Council's management accounts reflecting the funding position and the statement of accounts represents the accounting position. Within the accounts, there are a number of adjustments disclosed that reconcile one position to the other.

### The Four Main Accounting Statements – Key Messages

The four core accounting statements within the Statement of Account and that underpin the financial reporting framework are:

- **The Movement in Reserves Statement** – this demonstrates how the Council's reserves have moved during the financial year;
- **The Comprehensive Income & Expenditure Statement** – this explains the movement on the balance sheet from one year to the next and represents the accounting cost of providing services to the public; and
- **The Balance Sheet** – this demonstrates the Council's financial position at the start and end of the financial year;
- **The Cash Flow Statement** - this shows how the Council's cash position has changed during the year.

### The Four Main Statements – Key Messages / Explanations

#### The Movement in Reserves Statement

- The Council's useable reserves have increased over the financial year from £199M to £206M, an overall increase of £7M;
- The Council's general fund and housing reserves have been reduced by an overall £1.5M as a result of planned use of reserves on capital investments with a healthy £166M remaining at the year-end, split between general fund of £134M and housing £32M respectively, although it should be noted that majority of this balance is earmarked for future priorities;
- The Council's other useable reserves at the end of the financial year include as yet unspent capital receipts from the sale of fixed assets (£17M), Major Repairs Reserve which is a reserve ringfenced for capital investment on Council dwellings (£15M) and Unspent Capital Grants received for specific purposes (£9M).

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### The Comprehensive Income & Expenditure Statement

- The accounting cost of the Council for the financial year was a net £32M and made up of the following:
  - The accounting cost, net of specific grants, of direct service provision to the public was £171M for the year;
  - Other operating expenditure totalled £8M which relates primarily to the net loss on the sale of fixed assets;
  - The Council incurred a net £52M on financing and investment activities which relates to the servicing the Council's debt portfolio, the interest cost incurred on the Council's pensions deficit, offset by the interest returns and dividends from the Council's investment portfolio;
  - Taxation and non-specific grants received totalled (£199M), including Council Tax (£99M), Local Business Rates (£25M) and capital grants recognised (£25M).
- Other comprehensive income and expenditure totalled (£101M) for the year which relates to the impact of the change in key assumptions of the actuary relating to the Council's pension deficit (£61M) and movements on the revaluation of fixed assets (£40M).
- The total movement on the balance sheet, a betterment of £69M, is shown as a gain on the bottom of this statement and explains that movement from one balance sheet position to the other.

### The Balance Sheet

- The Council's net worth (the net position of what the Council owns/owes) improved by £75M;
- The Council's portfolio of **Property, Plant & Equipment** increased by £80M as a result of:
  - The Council's capital investment programme added a value of +£104M including £55M on the Glassworks scheme and £18M on the acquisition of Westgate Plaza;
  - The Council reviews the value of its significant assets annually to reflect market conditions and the net revaluation of these assets was an increase of £26M in 2019/20. This was made up of revaluation upwards of +£48M which predominately relates to the increase in the value of council houses which are uplifted annually in line with relevant industry indices, offset with revaluations downwards of (£22M) including (£12M) relating to the downward valuation on the Glassworks scheme where the value to the Council has reduced in comparison to the construction cost incurred (mainly due to aspects within the overall construction cost not adding value e.g. contractors profit / site preparation works / abnormal costs)
  - the Council's valuers have issued a 'material uncertainty' statement along with their valuation certificate. This means that due to the Covid pandemic, they cannot place 100% reliability on the valuations provided due to the increased level of uncertainty in respect of the variables that affect valuation techniques;

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The above is then netted down by:

- The consumption of the assumed use of the assets in the year (depreciation) of (£34M); and
  - Disposal of assets in the year of (£16M), including (£5M) council house sales and – (£10M) schools transferring to academy status.
- The Council's portfolio of **Short Term Investments and Cash Balances** reduced by a net £66M which was a result of using these cash/investment balances to pay for an element of the capital investment programme. The move to more liquid, instant access funds also reflects the movement from Short Term Investments to Cash, in line with the Council's Investment Strategy.
  - The Council's **Pension Liability** has reduced by £42M during the year, to £408M. This movement is primarily as a result of changes in the pension fund's assumptions, specifically in relation to the reduction in CPI, life expectancy, the rate of pensions growth and the rate of salary growth. All of which result in an overall reduction in terms of ongoing pensions obligations;
  - It should be noted here that the £408M pension deficit position is based on the accounting basis and is valued on a different basis to the funding position, which is currently showing a minor deficit and is factored into the Council's financial plans. The reason for this is to allow comparability across all organisations on an accounting basis as they use a standard methodology approach for the discount rate that's used in the calculations.

### The Cash Flow Statement

- The Council's cash and liquid investment balances increased by £33M during the year;
- The cash flow statement shows the movement in these balances across three headings:
  - **Operating Activities** – An overall cash inflow of £25M on day to day service provision, including the receipt of COVID related grants in 2019/20;
  - **Investing Activities** – An overall cash inflow of £5M on investing activities which relates to cashing out longer term investments of £101M and receiving capital receipts and capital grants in the year of £36M, offset with cash payments in relation to the capital investment programme of £133M; and
  - **Financing Activities** – An overall cash inflow of £4M on financing activities which relates to the impact of an increase in net external borrowing of £11M offset with repayments of PFI and lease liabilities in year of £7M.

The above statements are provided in summary below together within the main Statement of Accounts.

## The Financial Accounts

The financial accounts are significantly different to the Management Accounts as they are prepared for two different purposes, one to comply with the Law (Management Accounts) and one to comply with the accounting regulations (Financial Accounts). In order to convert the Management Accounts into a set of financial accounts, a number of accounting adjustments are required.

There are a number of notes included within the Statement of Accounts to assist the reader in terms of explaining the relationship between the two bases.

The Expenditure and Funding Analysis (EFA) and Note 1 are key to this understanding. The table below (**The Expenditure & Funding Analysis in the Accounts**) takes the management accounts, adds the **accounting adjustments**, resulting in the **financial accounts** position in the **Comprehensive Income & Expenditure Statement**.

	2019/20		
	Management Accounts	Accounting Adjustments	Financial Accounts
	£000s	£000s	£000s
Children's Services	38,895	13,987	52,882
Place	38,916	35,220	74,136
Housing Revenue Account	(18,018)	20,930	2,912
Adults & Communities	52,057	4,343	56,400
Public Health	4,397	355	4,752
Core Services	(6,304)	4,701	(1,603)
Corporate Services	(18,324)	22	(18,302)
<b>Net Cost of Services</b>	<b>91,619</b>	<b>79,558</b>	<b>171,177</b>
Other Operating Income & Expenditure	436	7,760	8,196
Financing & Investment Income & Expenditure	41,708	10,446	52,154
Taxation & Non Specific Grant Income	(172,050)	(27,211)	(199,261)
<b>(Surplus) / Deficit on Provision of Services</b>	<b>(38,287)</b>	<b>70,553</b>	<b>32,266</b>
Below the Line Items	39,783	(39,783)	-
<b>TOTAL</b>	<b>1,496</b>	<b>30,770</b>	<b>32,266</b>
<b>Split Between:</b>			
General Fund	(3,761)	23,880	20,119
Housing Revenue Account	5,257	6,890	12,147
<b>TOTAL</b>	<b>1,496</b>	<b>30,770</b>	<b>32,266</b>

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### Accounting Adjustments:

The accounting adjustments applied are to take account of items that need to be included in the **Financial Accounts** that are not in the **Management Accounts**, and vice versa. The table below breaks down the **Accounting Adjustments** into type:

<b><u>Adjustments from General Fund / HRA to Arrive at the Comprehensive Income and Expenditure Statement Amounts</u></b>	<b>2019/20</b>			
	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	<b>Total Adjustments</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Children's Services	9,827	4,550	(390)	<b>13,987</b>
Place	33,658	1,489	73	<b>35,220</b>
Housing Revenue Account	20,930	-	-	<b>20,930</b>
Adults & Communities	3,443	884	16	<b>4,343</b>
Public Health	-	344	11	<b>355</b>
Core Services	3,260	1,290	151	<b>4,701</b>
Corporate Services	-	21	1	<b>22</b>
<b>Net Cost of Services</b>	<b>71,118</b>	<b>8,578</b>	<b>(138)</b>	<b>79,558</b>
Other Operating Income & Expenditure	7,760	-	-	<b>7,760</b>
Financing & Investment Income & Expenditure	-	10,446	-	<b>10,446</b>
Taxation & Non Specific Grant Income	(25,289)	-	(1,922)	<b>(27,211)</b>
<b>Difference Between General Fund Surplus or Deficit and Comprehensive Income &amp; Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>53,589</b>	<b>19,024</b>	<b>(2,060)</b>	<b>70,553</b>
Below the Line Items	(30,613)	(8,534)	(636)	<b>(39,783)</b>
<b>TOTAL NET EXPENDITURE</b>	<b>22,976</b>	<b>10,490</b>	<b>(2,696)</b>	<b>30,770</b>

The respective adjustments are explained below together with examples of the practice:

### Adjustments for Capital Purposes:

These adjustments relate to the use of and funding of the Council's fixed assets. For example:

- the cost of the depreciation (the use of a property to deliver services) of the Council's fixed assets is shown in the **financial accounts** but not in the **management accounts**. This is because Local Government Accounting Law states that these costs shouldn't be charged to the tax payer.

### Adjustments for Pensions:

These adjustments relate to the adjustments required to account for pensions costs correctly. For example:

- The **management accounts** should be charged with the annual actual cost of pension contributions. But the **financial accounts** should be charged with the cost of the pension **earned** in year rather than what is paid. Therefore, the actual cost of pensions is removed and replaced with the earned pension cost.

### Other Adjustments:

These adjustments are differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute. For example:

- The charge representing the difference between what is chargeable under statutory regulations for Council Tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in The Code.

# The Core Financial Statements

The core financial statements are made up of 4 key statements, which will be described and explained below, and represent the **financial accounts** of the Authority. These 4 statements are:

## 1. The Movement in Reserves Statement

This statement shows the movement on reserves that can be used to fund spend / reduce council tax (useable reserves) and the movement on reserves that represent accounting / timing differences (unusable reserves). Ordinarily, the **accounting adjustments** adjust the useable reserves with the unusable reserves.

This statement also provides reconciliation between the **financial accounts** and **management accounts**.

Movement on Balance Sheet

<b>Movement in Reserves During 2019/20</b>								
Financial Accounts	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied Reserve	Total Usable Reserves	Total Unusable Reserves	Total Authority Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Balance of Reserves at 1st April 2019</b>	130,114	37,074	15,071	10,807	5,796	198,862	(219,001)	(20,139)
<b>Total Comprehensive Expenditure &amp; Income</b>	(20,119)	(12,147)	-	-	-	(32,266)	101,318	69,052
<b>Adjustments Between Accounting Basis &amp; Funding Basis Under Regulations</b>	23,880	6,890	1,739	4,014	3,058	39,581	(39,581)	-
<b>Net Increase / (Decrease) in 2019/20</b>	3,761	(5,257)	1,739	4,014	3,058	7,315	61,737	69,052
<b>Balance of Reserves at 31st March 2020</b>	133,875	31,817	16,810	14,821	8,854	206,177	(157,264)	48,913

Accounting Adjustments

Management Accounts

Capital Receipts Reserve:  
 • This reserve represents unspent capital receipts, received by the Council from sale of fixed assets.

Major Repairs Reserve:  
 • This reserve represents unspent ringfenced HRA funding set aside for capital purposes.

Capital Grants Unapplied Reserve:  
 • This reserve represents unspent capital grants received by the Council.

## NARRATIVE REPORT – EXECUTIVE SUMMARY

### 2. The Comprehensive Income & Expenditure Statement (CI&ES)

This statement shows the net **accounting cost** of providing services to the public for the year. In the private sector, the equivalent statement would be a profit and loss account. This statement represents the **management accounts** position as per statute plus **accounting adjustments** as explained above.

The **CI&ES** also explains the movement between the Authority's balance sheet at the start of the period, and the end of the period.

	2019/20		
	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
Net Cost of Services	572,898	(401,721)	171,177
Other Operating Expenditure	18,754	(10,558)	8,196
Financing & Investment Income & Expenditure	58,687	(6,533)	52,154
Taxation & Non Specific Grant Income	-	(199,261)	(199,261)
<b>(Surplus) / Deficit on Provision of Services</b>	<b>650,339</b>	<b>(618,073)</b>	<b>32,266</b>
Other Comprehensive Income & Expenditure	6,375	(107,693)	(101,318)
<b>Total Comprehensive Income &amp; Expenditure</b>	<b>656,714</b>	<b>(725,766)</b>	<b>(69,052)</b>

Financial Accounts

Movement on Balance Sheet

An explanation of the key components is shown below:

- **Net Cost of Services** – The direct accounting cost of providing operational services to the public;
- **Other Operating Expenditure** – The accounting 'profit / loss' on the disposals of the Authority's fixed assets – including the transfer of maintained schools to academy status;
- **Financing & Investment Income & Expenditure** – The accounting cost of servicing the Authority's debt and interest payments in respect of the pension fund;
- **Taxation & Non Specific Grant Income** – The accounting income of the Authority's corporate funding, including Council Tax, NNDR and Government Grants;
- **(Surplus) / Deficit on Provision of Services** – The overall accounting cost of running the Council;
- **Other Comprehensive Income & Expenditure** – Accounting adjustments that relate directly to movement in unusable reserves that do not have any effect the General Fund / Housing Revenue Account.

A breakdown of the CI&ES position into subjective headings is shown below (**Note 6 in the accounts**):

	2019/20 £000s		2019/20 £000s	(Surplus) / Deficit on Provision of Services
<b>Expenditure:</b>		<b>Income:</b>		
Employee Benefits Expenses	174,054	Fees, Charges & Other Service Income	(139,691)	
Other Services Expenses	317,810	Interest & Investment Income	(2,177)	
Depreciation, Amortisation, Impairment	86,004	Income From Council Tax & Non-Domestic Rates	(124,040)	
Interest Payments	53,717	Government Grants & Contributions	(341,607)	
Precepts & Levies	436	Receipts from Disposal of Assets	(10,558)	
Payments to Housing Capital Receipts Pool	1,666			
Disposal of Fixed Assets	16,652			
<b>Total</b>	<b>650,339</b>		<b>(618,073)</b>	<b>32,266</b>

## NARRATIVE REPORT – EXECUTIVE SUMMARY

### 3a. The Balance Sheet (The Net Worth)

This statement shows the financial position as at the 31<sup>st</sup> March, compared to the position as at 1<sup>st</sup> April the preceding year. The top half of the balance sheet shows the Authority's "Net Worth" which presents the net position in terms of what the Authority owns and what the Authority owes.

Below shows the Authority's balance sheet with high level analysis of movements in the year:

2018/19 £000s		2019/20 £000s	Change £000s
1,148,940	<b>PROPERTY &amp; EQUIPMENT</b>	1,229,099	+80,159
18,406	<b>OTHER LONG TERM ASSETS</b>	16,683	(1,723)
	<b>CURRENT ASSETS</b>		
5,330	Assets 'Held for Sale'	4,108	(1,222)
156,926	Short Term Investments	57,197	(99,729)
1,069	Inventories	1,101	+32
37,337	Short Term Debtors	54,788	+17,451
35,391	Cash & Cash Equivalents	68,569	+33,178
<b>236,053</b>	<b>Total Current Assets</b>	<b>185,763</b>	<b>(50,290)</b>
<b>1,403,399</b>	<b>TOTAL ASSETS</b>	<b>1,431,545</b>	<b>+28,146</b>
	<b>CURRENT LIABILITIES</b>		
(94,707)	Short Term Borrowing	(31,229)	(63,476)
(8,851)	Other Short Term Liabilities	(9,507)	+656
(54,362)	Short Term Creditors	(49,077)	(5,285)
(7,184)	Provisions	(6,380)	(804)
(21,954)	Grant Receipts in Advance	(25,851)	+3,897
<b>(187,058)</b>	<b>Total Current Liabilities</b>	<b>(122,044)</b>	<b>(65,014)</b>
	<b>LONG TERM LIABILITIES</b>		
(571,563)	Long Term Borrowing	(645,650)	+74,078
(210,922)	Other Long Term Liabilities	(202,861)	(8,061)
(3,736)	Long Term Provisions	(3,725)	(11)
(450,259)	Retirement Benefit Obligations	(408,352)	(41,907)
<b>(1,236,480)</b>	<b>Total Long Term Liabilities</b>	<b>(1,260,588)</b>	<b>+24,108</b>
<b>(1,423,538)</b>	<b>TOTAL LIABILITIES</b>	<b>(1,382,632)</b>	<b>(40,906)</b>
<b>(20,139)</b>	<b>NET ASSETS / (LIABILITIES)</b>	<b>48,913</b>	<b>+69,052</b>

**Property & Equipment +£80.2M**  
Assets held by the Council that assist in service delivery e.g. Land & Buildings, Vehicles, Equipment etc.

- Additions **+£104M** including **£55M** on Glassworks & **£18M** on the purchase of Westgate Plaza;
- Depreciation **(£34M)** for the consumption of the Council's assets;
- Revaluations **+£26M = +£47M** increases including **£32M** on Council Houses and **(£21M)** decrease including **(£12M)** on Glassworks;
- Disposals **(£16M)** including **(£10M)** school transfer to Academy and **(£5M)** Council House sales.

**Short Term Investments (£99.7M)**  
Total amounts of investment balances due to the Authority.

- Investments have been cashed in to help pay for the cost of the capital programme and to make the investments more liquid.

**Short Term Debtors + £17.5M**  
Total amounts due to the Council in the next 12 months.

- Increase in debtors due to a number of grants owed to the Council but not yet paid, including those related to Covid-19.

**Cash & Cash Equivalents +£33.2M**  
The Council's bank and cash balances & on call investments.

- See Cash Flow Statement
- The result of moving towards a more liquid portfolio. Cash equivalents increased

**Total Borrowing +£10.6M**  
Total amounts of loans owed by the Council

- Increase in borrowing as per Treasury Strategy of providing budgetary certainty by fixing out interest payments at relatively low levels, for longer term debt.

**Retirement Benefit Obligations (£41.9M)**  
The pension deficit of the Council's pension fund, as determined on an accounting basis.

NB. The ongoing contributions due to be made to the fund from the Authority addresses the pension position on a funding basis, which is measured using a different set of assumptions.

The overall reduction of the liability of **£42M** is as a result of:

- **£61M reduction** in liability as a result of changes to Actuary assumptions on CPI, life expectancy, pensions growth & salary growth all reducing;
- **£9M increase** in liability as a result of pensions earned being more than contributions paid;
- **£10M increase** in liability as a result of the net cost of interest added on the assets/liability.

Movement on Balance Sheet

## NARRATIVE REPORT – EXECUTIVE SUMMARY

### 3b. The Balance Sheet (Reserves & Balances)

The “Net Worth” of the balance sheet is matched / balanced by a number corresponding reserves, split between useable and unusable reserves. In the private sector, the indication of financial health of any organisation would be the net worth along with the accumulated profits. This is slightly different in the public sector where the financial health of any Authority can be measured by the level of useable reserves at its disposal.

2018/19 £000s		2019/20 £000s	Change £000s	
	<b>USABLE RESERVES:</b>			
130,114	- General Fund	133,875	+3,761	<b>(1,496)</b>
37,074	- Housing Revenue Account	31,817	(5,257)	
15,071	- Useable Capital Receipts Reserve	16,810	+1,739	
10,807	- Major Repairs Reserve	14,821	+4,014	
5,796	- Capital Grant Unapplied Reserve	8,854	+3,058	
<b>198,862</b>	<b>TOTAL USABLE RESERVES</b>	<b>206,177</b>	<b>7,315</b>	
	<b>UNUSABLE RESERVES:</b>			
(2,714)	- Capital Adjustment Account	(24,780)	(22,066)	<b>(20,139)</b>
61	- Deferred Capital Receipts Reserve	60	(1)	
(12,693)	- Financial Instruments Adjustment Account	(12,057)	+636	
(458,793)	- Pensions Reserve	(408,352)	+50,441	
(263)	- Financial Instrument Revaluation Reserve	(320)	(57)	
240,484	- Revaluation Reserve	271,208	+30,724	
(3,145)	- Accumulated Absences Account	(3,007)	+138	
18,062	- Collection Fund Adjustment Account	19,984	+1,922	
<b>(219,001)</b>	<b>TOTAL UNUSABLE RESERVES</b>	<b>(157,264)</b>	<b>+61,737</b>	
<b>(20,139)</b>	<b>TOTAL RESERVES</b>	<b>48,913</b>	<b>+69,052</b>	

Management Accounts

Movement on Balance Sheet

**Usable Reserves** – these reserves can be used to fund the expenditure of the Authority on a funding basis. Each of them is briefly explained on the Movement in Reserves section above.

**Unusable Reserves** – these reserves hold the Authority’s gains and losses incurred in accordance with generally accepted accounting practices, representing a timing difference with that and the statutory adjustments required to return to the amounts chargeable to council tax [or rents] for the year. Each of them is explained below:

Reserve	Description
Capital Adjustment Account	Holds the timing differences between when assets are consumed in service delivery and when they are financed.
Deferred Capital Receipts Reserve	Holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place.
Financial Instrument Adjustment Account	Holds the timing differences arising from the different arrangements for accounting for income (discounts) and expenses (premiums) relating to certain financial instruments, in accordance with statutory provisions.
Pensions Reserve	Holds timing differences between pensions being accrued and they are actually settled, in accordance with statutory provisions.
Financial Instrument Revaluation Reserve	Holds timing differences between unrealised gains / losses in value on the Authority’s financial instruments and when they are actually sold.
Revaluation Reserve	Holds timing differences between unrealised gains in value on the Authority’s assets and when they are actually sold.
Accumulated Absences Account	Holds the differences relating to the accruing of absences, earned but not taken in year e.g. leave entitlement carried forward. Statutory arrangements require that the impact on the General Fund balance is neutralised by transfer to or from the Account.
Collection Fund Adjustment Account	Holds the differences arising from the recognition of Council Tax income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

## NARRATIVE REPORT – EXECUTIVE SUMMARY

**Note 5 in the accounts** provides further analysis of these reserves.

### 4. The Cash Flow Statement

The cash flow statement details the movement in the Authority’s cash and cash equivalents during the period. The accounting cost of providing services as per the **financial accounts** is adjusted by the non-cash items e.g. depreciation. The cash flows are then analysed based on the type, between operating, investing and financing activities respectively.

	2019/20 £000s
<b>Net (Surplus) / Deficit on Provision of Services</b>	<b>32,266</b>
Adjustments to Financial Accounts for Non-Cash Movements:	(92,973)
<b>Adjustments for Non-Operating Activities:</b>	<b>35,847</b>
<b>Net Cash (Inflow) / Outflow From Operating Activities</b>	<b>(24,860)</b>
<b>Net Cash (Inflow) / Outflow From Investing Activities</b>	(4,705)
<b>Net Cash (Inflow) / Outflow From Financing Activities</b>	(3,616)
<b>Net (Increase) / Decrease in Cash &amp; Cash Equivalents</b>	<b>(33,178)</b>

Financial Accounts

**Non Cash Adjustments:**  
All non-cash transactions are removed e.g. depreciation, adjustments to pensions accounting etc. to equate to a cash position in terms of operating activities

**Non-Operating Activities:**  
This adjustment removes any cash flows within the financial accounts that relate to non-operating activities. E.g. capital grants received.

**Operating Activities:**  
**£24.9M Inflow**

The Authority saw an inflow of cash from its day to day operations of providing services to the public.

**Investing Activities:**  
**£4.7M Inflow**

The Authority saw an inflow of cash from its investing activities. This was due to cashing out investments of £101M, receiving capital grants of £25M and capital receipts of £11M, offset by spending £133M on fixed assets.

**Financing Activities:**  
**£3.6M Inflow**

The Authority saw an inflow of cash from its financing activities. This was predominately due to new net borrowing undertaken.

### **Disclosure Notes**

The Statement of Accounts provides substantial disclosure notes which corroborate the key figures within the 4 main financial statements, which are prescribed by the Code.