APPENDIX B

High Peak Statement of Accounts 2018/19 – Chief Finance Officer Review

1. Please provide the most significant reasons for the 2018/19 operating surplus of £1,381,988 (General Fund) and £1,409,779 (HRA)

   The explanations for the variances contributing to the overall underspend are reported within the Quarter Four (Provisional Outturn) Financial Report reported to Committee in July 2019: https://democracy.highpeak.gov.uk/ieListDocuments.aspx?CId=143&MId=1436&Ver=4

   The most significant reasons relate to:-

   GENERAL FUND
   - External Funding – additional Business Rates Retention £872,000 relating to High Peak's participation in the 100% pilot (Derbyshire Business Rates pool)
   - Net underspend on various service areas including Benefits, Customer Services, Electoral Services, Housing Strategy, Waste Collection and Corporate Finance

   HRA
   - Additional Income – improvements to void turnarounds and increased income from service charges have been responsible for this positive variance.
   - Contribution to Capital – relating to delays in commencement and completion of a number of Capital Schemes
   - Supervision and Management - a large proportion of this variance relates to savings in salary and corporate costs

2. On page 58 within the Pension notes, there is reference to the McCloud judgement and any potential changes to the Accounts as a result of this. At the stage we presented the draft accounts, this was included as narrative only with no amendments to the actual figures. However, there have been developments in relation to this, can you please briefly explain the current position?

   There has been considerable discussion in regard to the McCloud ruling on age discrimination. In summary, the Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government has applied to the Supreme Court for permission to appeal but it will be July at earliest before a decision on permission is granted. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.

   Following discussions with Grant Thornton, the Council has requested revised IAS19 reports from the actuary to reflect the changes for:

   - McCloud judgment;
   - Guaranteed Minimum Pension (GMP); and
   - Q4 investment returns

   The reports are yet to arrive, but on the basis of the reports received for SMDC it is expected this will lead to a number of changes to the statements and notes including net worth and reserves.

3. Can you please explain the movement between years on the following lines on the Balance Sheet (highlighted yellow):-

31st March 2018 £000's		31st March 2019 £000's	Variance >£500k
225,759	Property, Plant & Equipment	233,927	8,168
391	Heritage Assets	391	0
1,043	Investment Properties	1,137	94
44	Intangible Assets	38	(6)
69	Long-term Debtors	199	130
227,306	**TOTAL LONG TERM ASSETS**	**235,692**	**8,386**
7,173	Short-term Investments	6,182	(991)
99	Inventories	59	(40)
6,164	Short Term Debtors	3,713	(2,451)
7,271	Cash & Cash Equivalents	8,719	1,448
20,707	**TOTAL CURRENT ASSETS**	**18,673**	**(2,034)**
0	Cash & Cash Equivalents	0	0
(5,050)	Short-term Borrowings	0	5,050
(6,227)	Short-term Creditors	(7,127)	(900)
(608)	Provisions	(1,547)	(939)
(11,885)	**TOTAL CURRENT LIABILITIES**	**(8,674)**	**3,211**
(67,131)	Long-term Borrowing	(67,131)	0
(44,086)	Pensions Liability	(49,076)	(4,990)
(181)	Deferred Liabilities	(47)	134
(273)	Grant Receipts in Advance - Capital	(267)	6
(111,671)	**TOTAL LONG TERM LIABILITIES**	**(116,521)**	**(4,850)**
124,457	**TOTAL NET ASSETS**	**129,170**	**4,713**
23,836	Useable Reserves	24,811	975
100,621	Unusable Reserves	104,359	3,738
124,457	**TOTAL RESERVES**	**129,170**	**4,713**

Property, Plant & Equipment
Capital spend £6.8m, valuation increases £12.4m, offset by capital spend derecognised (£5.6m) annual depreciation charge of (£4.1m) & asset disposals (£1.4m)
Short Term Investments
Fewer short term fixed investments at year end, cashflow held as 'cash and cash equivalent'
Short Term Debtors
£1.6m reduced Business Rates deficit balance to preceptors and greater appeals preceptor share netting off debtor balances, plus reduction in sundry debtor control
Cash & Cash Equivalents
Increase in instant access and money market fund balances at year end (contras to reduction in fixed short term investments)
Short Term Borrowings
Repayment of £5m in loans during 2018/19 to Local Authorities. No loans maturing 2019/20
Short-Term Creditors
£150k decrease in AES Joint Operation creditors; less £100k removal of deferred liabilities (repayment of finance leases); plus £660k increase in accrued creditors; plus £710k increase in collection fund preceptor creditors, less £250k reduction in revenue grant creditors
Provisions
Increase in Business Rates appeals provision
Pension Liability
Reflects change in actuarial valuation
Useable Reserves
Increase in level of capital receipts from asset sales and capital grants received in year and not used to fund capital expenditure of £1m. Increase in level of HRA balances £1.3m offset by net use of General Fund earmarked reserves of £1.3m.
Unusable Reserves
Actuary's year end valuation increased the Debit balance on the Pension Reserve by £5m; offset by increases in revaluations of non current assets credited to Revaluation Reserve

This overall results in an increase in the net worth of the Authority of £4.713million.

4. On the Comprehensive Income & Expenditure Statement (page 32) there is a significant variance against 'Other Operating Expenditure' compared to 2017/18 - £6.237million 2018/19 compared to £3.350million 2017/18 – a difference of £2.887million. Note 3a breaks this figure down, and highlights a significant difference in 'derecognition & disposal value of fixed assets' - £6.975million in18/19 compared to £4.078million in 2017/18.
   Can you please provide an explanation as to variance?

   De-recognition of £2.6m of capital spend against the refurbishment of the Octagon at Pavilion Gardens was the most significant variance. (The asset was revalued at the 31/03/2019 and the cost of the refurbishment £3.8m only partly increased the Gross Book Value.)

5. Page 90 presents the HRA Income & Expenditure Statement and illustrates a £0.793million increase in 'Repairs and Maintenance' – can you please explain the reason for this increase?

   The increase in repairs relates mainly to two new spending areas in 18/19 that were not included in 17/18:
   1) Loft Insulation Works - £338k
   2) Radon Fan Insulation Works - £223k

6. The Balance Sheet shows an increase of £0.939million in 'Provisions' - £1.547million 18/19 compared to £0.608million in 2017/18. Note 11 (page 68) provides more detail on this which highlights that the provision is in relation to Business Rates appeals with the Valuation Office (VO). Could you please explain the main reason for an increase in provision in 2018/19 – is this due to information we have from the VO?

   There is a current national case for the individual rating of ATMs to be removed from the list, i.e. to be included with their related hereditaments. There is an expectation that once this decision is made it will be applied nationally. It is anticipated that this could result in a full refund of all rates paid back to the beginning of the 2010 list (i.e. exceeding the normal 6 year backdated rule). Therefore we have provided for a full refund of all ATMs back to 2010.
   There is an acceptance that the 2017 list includes RVs which will be reduced throughout the life of the list; therefore an estimate to the value of this reduction for 2018-19 liabilities is included in the increase in provision.

7. Overall borrowing (short-term and long-term) on the Balance Sheet (page 33) has reduced by £5.050million to £67.131million. However, the capital financing requirement (note 7e – page 65) is £79.9million – this relates to capital expenditure which has not been funded (so the Council's underlying need to borrow). The Balance Sheet also shows useable reserves of £24.811million but only £14.9million in Cash and Short-Term Investments potentially showing that the Council is utilising internal resources to temporarily find capital expenditure rather than externally borrow. Can you please provide a reconciliation showing the internal borrowing / any working capital implications?

   The table below restates the Balance Sheet in such a way as to highlight;

-	Capital Finance / Borrowing Requirement		79,897
-	External Borrowing		(66,879)
	- *therefore under borrowing*		*13,018*
-	Amounts available to invest	(26,370)	
-	invested externally	14,869	
	- *therefore invested internally*		*(11,501)*
-	**balance being the Council's Working Capital**		**1,517**

Table: Balance Sheet presented so as to highlight use and level of internal borrowing.

Capital Financing Requirement		
Property Plant & Equipment	234,224	
Investment properties	1,137	
Intangible Assets	38	
Capital Long Term Debtors	140	
Revaluation Reserve	(42,066)	
Capital Adjustment Account	(113,576)	
CFR (as per Prudential Code)	79,897	
Finance Lease Liability	0	
Underlying Borrowing Requirement	79,897	
External Borrowing		
Short Term	0	
Long Term	(66,879)	
TOTAL External Borrowing (Principal)	(66,879)	
Under (Over) Borrowing?	**13,018**	**13,018**
Reserves / Balances		
General Fund Balance	(2,005)	
Collection Fund Adjustment Account	(108)	
Housing Revenue Account	(14,438)	
Earmarked reserves / other balances	(3,791)	
Capital Receipts Reserve	(3,900)	
Provisions (Exc any accumulated absences)	(1,449)	
Capital Grants Unapplied	(679)	
Amount Available for Investment	(26,370)	
Investments		
Short Term	6,150	
Cash & Cash Equivalents - in hand	8,719	
Cash & Cash Equivalents - overdrawn	0	
TOTAL Investments	14,869	
(internal investments)	**(11,501)**	**(11,501)**
		1,517
Working Capital		
Debtors	3,605	
Creditors	(7,329)	
Capital Grants Receipts in Advance	(267)	
Inventories / WIP	56	
NET Working Capital Deficit (Surplus)	(3,935)	(3,935)
Other		
Financial Instruments Adjustment Account	2,219	
Deferred Capital receipts	0	
Balance Long Term debtors	199	
Other Long Term Working Capital	2,418	2,418
TOTAL Working Capital Surplus	**(1,517)**	**(1,517)**

8. Can you please briefly explain the reason for the restatement of the 2017/18 figures in some of the core statements and notes

The statements and notes include comparative figures from the previous financial year. If there have been material changes in the way that the financial information is collated and presented in the current year, the prior year must be manipulated to allow a like for like comparison and marked as 'Restated'.

- During the course of 2018/19 the Council's Visitor Services department was disbanded following the outsourcing of the Pavilion Gardens concession. The remaining functions were transferred to other Council Service areas; Car Parking to Asset Services; Markets and Tourism to Regeneration Services; Museums and Collections to Democratic & Community Services; and Concession monitoring to Service Commissioning. This change necessitated the restatement of a number of tables as detailed in Note 18.
- Also during the year, the Council's Derbyshire Pension Fund pool membership was amended to incorporate Fund members from Alliance Environmental Services – further details are to be found in Note 5 – Retirement Benefits. This increased the historic pension liability of the Authority by £637,000 necessitating the restatement of the Balance Sheet to reflect the revised 2017/18 balance on both the Pensions Liability Account and Pensions Reserve.

9. In simple terms – can you explain what note 6 is showing the reader?

The Statement of Accounts are produced in accordance with statutory guidance as to what is reported in each individual Statement. Two underlying principles to this guidance are;

- Full Costing (Accounting Basis) – the figures reported in the Comprehensive Income and Expenditure Statement (CIES) should include all elements of cost not just cash backed transactions such as payment of suppliers and income received from clients. So, for instance, nominal charges are made to services for the use of assets such as buildings or for the liability to pay the future pensions of their staff.
- Fair Charging (Funding Basis) – those paying for the services (through taxation or fees and charges) should only have to cover those costs considered legitimately chargeable to the accounting period. So while the nominal charges in relation to the use of assets or pension liability reflect a longer term commitment the actual costs chargeable to the year should only record cash backed transactions.

In order to satisfy these competing principles the Statements include a mechanism that records the nominal charges against services in the CIES and then replaces them with the amounts considered legitimately chargeable to the year. The Authority's Balance Sheet includes a number of Unusable Reserve Accounts that hold the long term liability for the nominal charges. These accounts are used to record and carry forward the cumulative difference between the nominal charges made to services and the actual amounts. The Movement in Reserves Statement summarises and Note 6 details the transactions moving between the CIES reported outturn and the Unusable Reserves to replace nominal with actual.

10. Can you explain the overall surplus on the Collection Fund?

The Collection Fund is an account that the Council, as the billing authority for council tax and business rates, has to maintain to record the difference between the tax distributed and collectable in the year. By collectable we mean that it is based on what should have been not what was collected i.e. it takes no account of arrears and prepayments. It also records the amounts paid to precepting authorities, including the District, and Central Government in line with the precepts set at the beginning of the financial year. The difference between these precepts and the collectable amount is the surplus or deficit at the year end. This surplus or deficit is estimated prior to the year-end and is then paid to or recovered from all the preceptors in the following year.

The precepts were set against a predicted collectable amount in January 2018. During 2018/19 the actual collectable amounts would have been affected by changes in:
- the number of taxable homes and premises
- the granting or cessation of discounts or reliefs
- changes in the banding of houses or rateable value of buildings
- statutory changes such as the introduction of new reliefs and discounts

The Collection Fund is showing an overall surplus of £0.751m (£0.572m council tax surplus and £0.179m business rates surplus) of which the Council's share is £108k (£68k council tax surplus and £40k business rates surplus).

Substantial in-year surpluses or deficits can arise from variations in the factors listed above. During 2018/19 the take from Council Tax has exceeded that anticipated back in January 2018. In January 2019, when the 2019/20 budget was being compiled, a surplus was anticipated with £79,210 being set for distribution in the current year.

11. Can you please provide more information on the more significant 'other earmarked reserves' (total £0.8m) as stated in Note 12 Useable Reserves?

In summary, the balances are made up of:-

Service Area	Balance as at 31st March 2019	Description
Housing	£495,000	Homeless support grant
Benefits	£111,000	Benefit reform, economic downturn
Communities	£89,000	Community safety, community initiatives
Regeneration	£65,000	Custom build grant, Brownfield regeneration
Other	£62,000	EU exit preparation, sports activity, S106 maintenance etc

12. Are there any major risks to the authority indicated in the accounts? If so, how are these being dealt with?

Narrative Report (page 2): touches upon the level of funding that is now raised and retained locally as opposed to being provided by Central Government. This makes us vulnerable to local economic factors.

Countered by robust budgetary control and the maintenance of adequate reserves both earmarked to support particular activities and as a contingency against unplanned changes in income and expenditure. Usable reserves have increased from £23.8m to £24.8m, including at £2m a contingency reserve that is nearly double the value considered prudent.

Balance Sheet and Capital Notes (page 33 and page 61): lists the extensive assets of the Authority. Assets such as these can become individual or collective liabilities if not adequately maintained.

Countered by an Asset Management Plan that ensures capital resources are focused on maintaining the structural integrity and value of property assets.

Pension Notes (page 51): highlights the pension liability of £49m, valuation of which is based on the value of Corporate Bonds (subject to change following McCloud amendment).

This risk to the medium/long term viability of the Authority is countered by measures adopted by local government pension schemes to increase contributions and reduce entitlements over the medium to long term.

Financial Instrument Notes (page 75): Include a comprehensive analysis of the various risks around the value of all financial assets including cash, receivables and investments.

Countered by the Authority's budgetary control and treasury management procedures. Realistic budgeting is supported by robust risk adverse borrowing and investment strategies.

Contingent Liabilities Note (page 83): Highlights a number of areas where there may be a future call on the Council's resources if certain actions or events materialise.

These items are monitored as part of the Authority's financial planning process. Future budgets can if necessary be amended in response to any liability materialising. There are operating reserves available to ameliorate the impact on other services in any particular year.