HIGH PEAK BOROUGH COUNCIL

Audit & Regulatory Committee

24th November 2020

TITLE:	**Statement of Accounts 2019/20**
EXECUTIVE COUNCILLOR:	**Councillor Alan Barrow – Executive Councillor for Corporate Services and Finance**
CONTACT OFFICER:	**Keith Pointon – Head of Finance**
	Stephen Robinson – Principal Finance Officer (Financial Reporting)
WARDS INVOLVED:	**Non-specific**

Appendix A: High Peak Draft Statement of Accounts (separate document using link:) https://www.highpeak.gov.uk/article/1281/Annual-statement-of-accounts

Appendix B Attached: Chief Finance Officer Review of Accounts

1. Reason for the Report

1.1 To allow for scrutiny of the draft Statement of Accounts 2019/20 in compliance with the legislative provisions in relation to financial reporting and the Council's commitment to transparency and accountability in the stewardship of public funds.

2. Recommendation

2.1 That Members approve the audited Statement of Accounts 2019/20.

3. Executive Summary

3.1 The Corporate Director & Chief Finance Officer is responsible for the preparation of the Council's financial statements. These, prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice') and based on International Financial Reporting Standards (IFRS), are required to present 'a true and fair view' of the financial position of the Council at the accounting date (period ended 31st March 2020).

3.2 Part 2, Section 8(2) of The Accounts and Audit (England) Regulations 2011 state that the Chief Finance Officer signs the Statement of Accounts by 31st May each year certifying that the accounts represent a 'true and fair view' of the Authority's financial position. Owing to the Covid 19 pandemic, this deadline was lifted and the authority released its draft statements on 13th July 2020.

3.3 In response to the Covid 19 pandemic, the new deadline for publication for the final, audited accounts is 30 November 2020 (normally 31 July). The formal public inspection period was also delayed and commenced on the 7th September for 15 working days.

3.4 Covid 19 has also directly impacted the Statements by increasing significantly the level of uncertainty included in the assumptions behind the estimated values reported by the Authority. The items in the Authority's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are asset valuations and pension liability.

3.5 Members' are asked to approve the audited Statement of Accounts 2019/20 (see Appendix A https://www.highpeak.gov.uk/article/1281/Annual-statement-of-accounts for draft accounts). In doing so, the Chair of the Audit & Regulatory Committee will sign the accounts at this meeting (subject to the external audit being completed at that point).

3.6 By formally approving the Accounts, the Audit & Regulatory Committee will be demonstrating their confidence in the responsible financial officer (Executive Director & Chief Finance Officer) and in the process by which the Statement of Accounts has been prepared. The accounts have been externally audited by Grant Thornton and they will set out their opinion and findings within the Audit Findings Report presented as part of this meeting.

3.7 In order to assist Members with their scrutiny role, a training session was delivered on 18th June 2019 which included a bite-size briefing session relating to the Statement of Accounts. A further, more detailed training session may be organised in due course in response to the Audit Committee skills assessment to be undertaken.

3.8 To further aid Members, Appendix B provides the Chief Finance Officer review which challenges some of the more material financial movements compared to the previous year and requests further clarification on certain areas.

4. How this report links to Corporate Priorities

4.1 The preparation of the Statement of Accounts is dictated by legislation. As such it is not directly linked to a corporate priority, although the Council is firmly committed to the guiding principle of transparency and accountability in the stewardship of public funds.

5. Options and Analysis

5.1 The Statement of Accounts is primarily a record of fact. Areas of discretion are treated in accordance with guidance and professional judgement. Consequently, there are no real options to consider.

5.2 The Statement of Accounts have been subject to external audit by Grant Thornton.

6. Implications

6.1 Community Safety - (Crime and Disorder Act 1998)
None

6.2 Workforce
None

6.3 Equality and Diversity/ Equality Impact Assessment
This report has been prepared in accordance with the Council's Equality and Diversity policies.

6.4 Financial Considerations
There are a substantial number of financial considerations throughout the Statement of Accounts.

6.5 Legal
There are a number of legal requirements in respect of financial reporting that the Council is required to comply with, which are detailed in the appropriate sections within the Statement of Accounts.

6.6 Climate Change

None

6.7 Internal and External Consultation
The Accounts and Audit Regulations 2003 require the Statement of Accounts and supporting documents to be made available for public inspection for 30 full working days prior to the ‘appointed date for exercise of public rights’. Owing to Covid 19 authorities were granted an extension and flexibility in ensuring the public could exercise this right. The council gave formal notification to the public of a 15 working day period commencing 7th September.

6.8 Risk Assessment
There are a number of areas of risk embedded throughout the Statement of Accounts. These have been individually addressed and treated in accordance with guidance and professional judgement.

Claire Hazeldene

Acting Executive Directors (Finance & Customer Services)

Background Papers

2019/20 Closure of Accounts files (various)

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Appendix B

High Peak Statement of Accounts 2019/20 – Chief Finance Officer Review

1. Please provide the most significant reasons for the 2019/20 operating surplus of £295,441 (General Fund) and £2,114,450 (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 2020.

   The most significant reasons relate to:-

   GENERAL FUND

   - External Funding – £163,000 lower than budgeted as the level of S31 grants received to support Government Business Rates initiatives were below expectations.
   - Net underspend on various service areas more than offset the shortfall in income reported above. The largest contributor being Corporate Finance with an underspend against the establishment budget and an overachievement of savings from the efficiency programme which together totalled £460,000.

   HRA

   - Additional Income – improvements to void turnarounds and increased income from service charges were responsible for a £184,000 positive variance.
   - Contribution to Capital – a £1.8million underspend against the original budget reflects a £0.2million saving owing to delays in schemes and a £1.6million downward revision of the capital programme.
   - Supervision and Management - a large proportion of a £269,000 underspend relates to savings in salary and corporate costs

2. On page 65 within the Pension notes, there is reference to the McCloud judgement which has been an issue potentially affecting the valuation of the council's pension liability for a number of years now. Previously this has been recorded 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 are awaiting a decision on whether 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. Adjustment was incorporated into the 2018/19 Statements to reflect the estimated impacts of McCloud on the Pension Fund. During the summer Government announced a period of consultation on the proposed McCloud remedy. The actuary evaluated the contents of the proposal and concluded that the provision made in the 2018/19 assessments was likely overstated

   Following discussions with Grant Thornton, we requested revised IAS19 reports from the actuary to reflect the impact of the proposed McCloud remedy on the Fund. The impact on the IAS19 report is listed below:

- McCloud judgment - £227k decrease in past service cost.

This revaluation has produced what can be considered a more realistic valuation of the Council's pension liability reflecting the best estimate, based on latest available data, and therefore in line with CIPFA and NAO guidance. This adjustment did however necessitate a number of late changes to the primary statements and notes.

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

31st March 2019 £000's		31st March 2020 £000's	Variance >£400k
233,929	Property, Plant & Equipment	237,790	3,861
391	Heritage Assets	391	0
1,137	Investment Properties	1,028	(109)
38	Intangible Assets	102	64
199	Long-term Debtors	292	93
235,694	**TOTAL LONG TERM ASSETS**	**239,603**	**3,909**
6,182	Short-term Investments	10,681	4,499
56	Inventories	65	9
3,713	Short Term Debtors	2,472	(1,241)
8,719	Cash & Cash Equivalents	10,003	1,284
18,670	**TOTAL CURRENT ASSETS**	**23,221**	**4,551**
0	Cash & Cash Equivalents	0	0
0	Short-term Borrowings	0	0
(7,127)	Short-term Creditors	(9,452)	(2,325)
(1,547)	Provisions	(1,734)	(187)
(8,674)	**TOTAL CURRENT LIABILITIES**	**(11,186)**	**(2,512)**
(67,130)	Long-term Borrowing	(67,129)	1
(50,974)	Pensions Liability	(33,409)	17,565
(47)	Deferred Liabilities	(22)	25
(267)	Grant Receipts in Advance - Capital	(348)	(81)
(118,418)	**TOTAL LONG TERM LIABILITIES**	**(100,908)**	**17,510**
127,272	**TOTAL NET ASSETS**	**150,730**	**23,458**
24,813	Useable Reserves	27,714	2,901
102,459	Unusable Reserves	123,016	20,557
127,272	**TOTAL RESERVES**	**150,730**	**23,458**

Property, Plant & Equipment
Capital Spend £6.7m, including £2.9m re AES vehicles offset by capital spend derecognised, annual depreciation charge and asset disposals.
Short Term Investments; Short Term Debtors; Short-Term Creditors
These 3 headings plus in other years Cash & Cash Equivalents together with Short and Long Term Borrowings, represent how the Authority's overall working capital is invested or committed at the year end. When compared in total between years they show a £2.2m increase between years. This is all but accounted for by a £1.7m receipt at the year end of Rates Support grants to be applied in 2020/21.

Pension Liability
Reflects change in actuarial valuation which this year takes account of the latest full valuation of the scheme dated 31st March 2019. These detailed valuations recalibrate the fund every three years.
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 £0.9m. Increase in level of HRA balances £2.1m offset by net use of General Fund reserves of £0.1m.
Unusable Reserves
Actuary's year end valuation reduced the Debit balance on the Pension Reserve by £17.6m. There has also been a reduction in the liability carried in relation to non current assets with revaluations etc reducing by £3m the net balance of the Revaluation Reserve and Capital Adjustment Account.

This overall results in an increase in the net worth of the Authority of £23.458million.

4. On the Comprehensive Income & Expenditure Statement (page 39) there are a number of significant variations between years in net costs. Can you please provide an explanation for the following;

   Property Services (£991k increase) – This relates to Nominal Capital Charges some £800k more than in 2018/19. The most significant item being a £656k impairment of car parks.

   Other Operating Expenditure (£3.35m decrease) - Note 3a breaks this figure down, and while it shows improved capital receipts of £1m it highlights an even more significant difference in 'derecognition & disposal value of fixed assets' - £6.975m in 18/19 compared to £3.972m in 2019/20. This reflects that 2018/19 was distorted by the impact of the refurbishment of the Octagon at Pavilion Gardens where the costs incurred were derecognised to bring the carrying value of the asset in line with the year end valuation.

5. Page 95 presents the HRA Income & Expenditure Statement and shows some areas with significant variation from the previous year. Can you please provide an explanation for the following:

   Depreciation and impairment (£2.7m increase) – This reflects the different treatment of revaluation gains and losses, as either charges to the Revaluation Reserve or to the HRA I&E, as dictated by accounting requirements. In 2018/19 there were no revaluation losses that resulted in a charge to the HRA (all went to the Revaluation Reserve) however in 2019/20 £730k has been charged there. Additionally, 2018/19 saw a £1,843k gain charged back to the HRA because it reversed a previous loss that had been charged there.

   Gain or Loss on the sale or disposal of non-current assets (£1m increased gain) - In 19/20 we had 30 sales compared to 21 in 18/19 therefore an increase in the gains achieved on RTB sales (£300k). In 19/20 capital spend was less than in previous years therefore the write back of de-recognised components is lower than it was in 18/19 by £700k.

6. Overall borrowing (short-term and long-term) on the Balance Sheet (page 40) stands at £67.129million. However, the capital financing requirement (note 6e – page 73) is £80.9million – 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 £27.714million but only £20.7million 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		80,952
-	External Borrowing		(66,879)
	- *therefore under borrowing*		*14,073*
-	Amounts available to invest	(29,468)	
-	invested externally	20,543	
	- *therefore invested internally*		*(8,815)*
-	**balance being the Council's Working Capital**		**5,258**

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

Capital Financing Requirement		
Property Plant & Equipment	238,138	
Investment properties	1,038	
Intangible Assets	102	
Capital Long Term Debtors	250	
Revaluation Reserve	(46,188)	
Capital Adjustment Account	(112,378)	
CFR (as per Prudential Code)	80,952	
Finance Lease Liability	0	
Underlying Borrowing Requirement	80,952	
External Borrowing		
Short Term	0	
Long Term	(66,879)	
TOTAL External Borrowing (Principal)	(66,879)	
Under (Over) Borrowing?	**14,073**	**14,073**
Reserves / Balances		
General Fund Balance	(2,842)	
Collection Fund Adjustment Account	(88)	
Housing Revenue Account	(16,565)	
Earmarked reserves / other balances	(2,850)	
Capital Receipts Reserve	(4,529)	
Provisions (Exc any accumulated absences)	(1,660)	
Capital Grants Unapplied	(828)	
Amount Available for Investment	(29,468)	
Investments		
Short Term	10,650	
Cash & Cash Equivalents - in hand	10,003	
Cash & Cash Equivalents - overdrawn	0	
TOTAL Investments	20,653	
(internal investments)	**(8,515)**	**(8,515)**
		5,258
Working Capital		
Debtors	2,252	
Creditors	(9,680)	
Capital Grants Receipts in Advance	(348)	
Inventories / WIP	65	
NET Working Capital Deficit (Surplus)	(7,711)	(7,711)

Other

Financial Instruments Adjustment Account	2,161	
Deferred Capital receipts	0	
Balance Long Term debtors	292	
Other Long Term Working Capital	2,453	2,453
TOTAL Working Capital Surplus	**(5,258)**	**(5,258)**

7. Can you please briefly explain the reason for the restatement of the 2018/19 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 2019/20 the Council's Planning Service took over responsibility for Local Plans from Regeneration and Arboriculture from Horticulture. While neither of these changes would necessarily be classed as having a material impact on the financial information disclosed in the Statements it was considered useful to the reader to reflect these changes in comparative data. This necessitated the restatement of a number of tables as detailed in Note 17.

8. In simple terms – can you explain what note 5 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 5 details the transactions moving between the CIES reported outturn and the Unusable Reserves to replace nominal with actual.

9. 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 Borough, 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 2019. During 2019/20 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 £0.389m (£0.211m council tax surplus and £0.178m business rates surplus) of which the Council's share is £108k (£25k council tax surplus and £63k business rates surplus).

Substantial in-year surpluses or deficits can arise from variations in the factors listed above. During 2019/20 the take from Council Tax has exceeded that anticipated back in January 2019. In January 2020, when the 2020/21 budget was being compiled, a surplus was anticipated with £73,210 being set for distribution in the current year.

10. Can you please provide more information on the more significant 'other earmarked reserves' (total £1.1m) as stated in Note 11 Useable Reserves?

In summary, the balances are made up of:-

Service Area	Balance as at 31st March 2020	Description
Housing	£515,000	Homeless support grant
Benefits	£111,000	Benefit reform, economic downturn
Communities	£88,000	Community safety, community initiatives
Regeneration	£109,000	Custom build grant, Brownfield regeneration, Future High Streets
Corporate	£145,000	Toddbrook
Leisure & Countryside	£63,000	Sports activity, S106 maintenance etc
Other	£65,000	EU exit preparation, Individual Electoral Registration

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

Narrative Report (page 2): goes in to some detail about the effect of Covid 19 on the figures reported in the Statements as well as its potential impact on the financial standing of the council in the medium to long term. It also touches upon the level of funding that is now raised and retained locally as opposed to being provided by Central Government. These two issues make us vulnerable to both national and 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 £24.8m to £27.7m, including at £2.3m a contingency reserve that is some £1.5m above the value considered prudent.

Balance Sheet and Capital Notes (page 40 and page 68): 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 60): highlights the pension liability of £33m, valuation of which is based on the value of Corporate Bonds.

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 82): 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 90): 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.