Appendix C

Staffordshire Moorlands Statement of Accounts 2020/21 – Chief Finance Officer Review

1. **Please provide the most significant reasons for the 2020/21 operating surplus of £8,498,026 and explain why this figure looks so high.**

The £8.498m surplus is identified on page 8 of the Narrative Statement. Funding levels received were £6.514m above expectations owing primarily to monies received from Government to support local authority activities during the Covid 19 pandemic. £1.96m was received to support the District's own Covid hit activities (such as Planning and Car Parking services experiencing a considerable reduction in income). The Authority received £4.55m of funding in respect of Business Rates reliefs granted to businesses in the District. This was to compensate the Authority for the subsequent reduced tax take. The reduction in cash collected creates a deficit on the Authority's Collection Fund in 2020/21 which has to be recouped in future years, so this money has been set aside to cover this deficit in 2021/22.

Actual spend on activities during 2020/21 was £2.210m less than anticipated. £1.182m relates to Government funding for businesses and individuals impacted by Covid restrictions that was unspent at year end. The remaining underspend of £1.028m relates to savings made across a number of services, the most notable of which was a £0.740m windfall distribution of funds upon the dissolution of the Staffordshire Business Rates Pool.

Further explanations for the variances contributing to the overall underspend were reported within the Quarter Four (Provisional Outturn) Financial Report reported to Cabinet on 28th July 2021.

2. **Please explain the movement between years on the following lines on the Balance Sheet (highlighted yellow):-**

31st March 2020	Balance Sheet	31st March 2021		Major Variances (2020/21 compared to 2019/20)
29,838	Property, Plant & Equipment	29,725		(113)
572	Heritage Assets	584		12
3,879	Investment Properties	3,829		(50)
109	Intangible Assets	183		74
2,359	Long-term Debtors	1,654		(705)
36,757	**TOTAL LONG TERM ASSETS**	**35,975**		**(782)**
2,202	Short-term Investments	4,913		2,711
76	Inventories	78		2
15,825	Short Term Debtors	23,256		7,431
7,704	Cash & Cash Equivalents	12,492		4,788
25,807	**TOTAL CURRENT ASSETS**	**40,739**		**14,932**
	Cash & Cash Equivalents	**(540)**		(540)
(10,053)	Short-term Borrowings	(7,007)		3,046
(6,439)	Short-term Creditors	(15,225)		(8,786)
(1,419)	Provisions	(1,120)		299
(17,911)	**TOTAL CURRENT LIABILITIES**	**(23,892)**		**(5,981)**
0	Long-term Borrowing	(8,051)		(8,051)
(34,127)	Pensions Liability	(40,765)		(6,638)
(25)	Other Long-term Liabilities	0		25
(130)	Grant Receipts in Advance - Capital	(130)		0
(34,282)	**TOTAL LONG TERM LIABILITIES**	**(48,946)**		**(14,664)**
10,371	**TOTAL NET ASSETS**	**3,876**		**(6,495)**
9,962	Useable Reserves	18,931		8,969
409	Unusable Reserves	(15,055)		(15,464)
10,371	**TOTAL RESERVES**	**3,876**		**(6,495)**

Short Term Investments (£2.711m)
This change is considered to be of little significance as it represents the impact of operational Treasury Management (TM) cash flow requirements at and around the balance sheet date.

Short-term Debtors (£7.431m)
The increase here is due to the Covid 19 impact on the Collection Fund and is reflected in the large increase in Central Government and County shares of the in-year deficit.

Cash & Cash Equivalents (£4.788m)
This reflects the influx of cash received from Central Government to support the local authority, businesses and individuals, but not as yet applied at 31st March

Short-term Borrowings (£3.046m)
Treasury Management strategy and transaction timings has seen a shift to long term borrowing and away from short term borrowing.

Short-term Creditors (£8.786m)
The Covid 19 impact on the Collection Fund is reflected in the large increase in Central Government and County shares of the in-year Section 31 grants received to support Businesses in-year [£6m+} and unused Covid19 Business Support Grants where the Authority acts as Agent [£3m+]. Where a support scheme has remained open in the current year further disbursements have been made with any remaining balance to be reconciled and returned to Central Government in due course.

Long-term Borrowing (£8.051m)
As noted above, Treasury Management actions and transaction timings has seen a shift to long term borrowing and away from short term borrowing.

Pensions Liability (£6.638m)
The increase in the pension liability arises from the year end valuations performed by the Scheme Actuary, which this year have been impacted by a change in the discount rate that is applied to calculate the value of assets/liabilities. The Note 4f on page 53 identifies just how sensitive the liability figure is to actuarial assumptions around the discount rate. The discount rate relates to the present value of future payments (i.e. pension benefits). The present value of a pension benefit is how much it is worth today. By their nature, estimates of future value are imprecise. The discount rate is used to allocate the cost of future benefits over time, to answer the basic question “how much should we contribute today so we hit our funding target in the future”. The discount rate used is important because if it is lowered, then it makes pensions appear to be more expensive, because you are assuming that the pension fund will earn less money over time, meaning more money needs to be contributed

Useable Reserves
The operating surplus generated in 20/21 has contributed £8.98m to useable reserves, though significant elements have been earmarked as committed – in particular, £4.55m regarding the Collection Fund deficit (which will be applied in 2021/22) and £1.18m in respect of Discretionary Covid19 grant funding (which we expect to use in 2021/22).

Unusable Reserves
The decrease in unusable reserves primarily reflects a £8.67m increase in pension liability arising from the year end valuations performed by the Scheme Actuary. Note that this differs from the increase in pension liability because of the lump sum contribution the Council makes to reduce the deficit. There is also a £4m change on the Collection Fund Adjustment account as a result of the Covid19 reliefs granted to Businesses in year. Movement on the Council’s Capital Adjustment Account of some £2m reflects the cumulative impact of revaluations and impairments on the charge for assets consumed in the year.

3. **Can you please provide an explanation for the £0.475m reduction in income for Property Services (Gross income in 2019/20 was £1.040m, compared to £0.565m in 2020/21)**

   This reflects the loss of Car Parking income due to Covid-19 restrictions.

4. **Can you please provide an explanation for the reduction in both gross expenditure and gross income for the Benefits service (expenditure in 2019/20 was £12.484m compared with £11.946m in 2020/21; and income was £12.355m in 2019/20 compared with £11.721m in 2020/21)**

   This reflects the continuing trend of less benefits being paid out, as entitlement is reduced and levels of employment increase. As income is based on expenditure (that is, the majority is claimed back from Government), it too has reduced by a similar amount, leaving the net cost fairly consistent between the two years (£0.129m in 2019/20, compared with £0.225m in 2020/21).

5. **Please explain the considerable differences in both gross expenditure and gross income for the Corporate Finance service (expenditure in 2019/20 was £0.350m compared with £3.318m in 2020/21; and income was £0.104m in 2019/20 compared with £5.402m in 2020/21)**

   The figure reflect the way that the Council has chosen to manage the majority of the discretionary Covid19 support grant, which it did through the Corporate Finance account. It is important here to distinguish between the discretionary grant scheme, where the Council had a degree of choice over its deployment to businesses and individuals, and the mandatory schemes, where the Council effectively acted as an agent for central Government. Here, income received was (£4.11m) and that paid to businesses and individuals during the year was (£2.92m), with the expectation that the remainder would be paid out in 2021/22.

6. **Please explain the difference in both Gross Expenditure (£0.533m) and Net Expenditure (£0.686m), from 2020/21 compared with 2019/20, for Leisure services.**

   This reflects the subsidy paid to the Leisure Centre contractor to support them during the pandemic (and resultant less income generated).

7. **Please explain the "(Surplus) or Deficit on Revaluation of Property, Plant and Equipment Assets" change in figures from 2019/20 (£2.337m) to (-£0.713m) 2020/21.**

   The note in the Statement of Accounts on the Revaluation Reserve (Note 12a) on page 68 provides more detail, where the effect of last year's downward revaluation of assets reflects the Valuer's use of the Modern Equivalent Assets methodology as part of the DRC (depreciated replacement cost) valuations. This particularly had an impact on Leisure Centre valuations, where the existence of alternative cheaper sites has been taken into account and this has now been normalised in the accounts.

8. Can you please provide more information on the more significant 'unused 3rd party funds' (total £0.643m) as stated in Note 11 (page 66)(on Useable Reserves?

In Summary, the balances are made up of:

Service Area	Balance as at 31st March 2021 £000	Decription
Communities	97	Community safety, community planning initiatives
Housing	242	Homeless support grant
Regeneration / Planning	156	Custom build grant, Neighbourhood planning, Green Belt enforcement
Benefits	20	Benefit Reform
Leisure / Countryside	52	Leisure and Country parks development
Other	76	EU exit preparation, Individual Electoral Registration, LA Mortgage Scheme

9. Can you explain the following major variations (highlighted in yellow) on the Collection Fund (pages 94 to 97)?

			Collection Fund						
2019/20				**2020/21**			**Major Variances**		
Council Tax £000	**Business Rates £000**	**Total £000**		**Council Tax £000**	**Business Rates £000**	**Total £000**	**Council Tax £000**	**Business Rates £000**	**Total £000**
			Income						
	(20,187)		Income due form Business Rates Payers		(8,620)			11,567	
	(936)		Transitional Protection Payments for Business Rates		(477)			459	
(58,114)			Income due from Council Tax Payers	(59,835)			(1,721)		
			Hardship Fund Grant income paid to Collection Fund	(517)			(517)		
(58,114)	**(21,123)**	**(79,237)**	**Total Income**	**(60,352)**	**(9,097)**	**0**	**(2,238)**	**12,026**	**79,237**
			Expenditure						
			Preceptors						
	4,926		Central Government		10,271			5,345	
41,236	6,699		Staffordshire County Council	43,058	1,849		1,822	- 4,850	
7,166			Staffordshire Police Authority	7,479			313	-	
2,506	197		Staffordshire Fire & Rescue Authority	2,566	205		60	8	
6,660	7,881		Staffordshire Moorlands D.C.	6,880	8,216		220	335	
		77,271				**80,524**			**3,253**
			Distribution of Previous Year Surplus / (Deficit)						
	(333)		Central Government		184			517	
447	(60)		Staffordshire County Council	213	324		(234)	384	
71			Staffordshire Police Authority	37			(34)	0	
27	(7)		Staffordshire Fire & Rescue Authority	13	9		(14)	16	
72	(266)		Staffordshire Moorlands D.C.	35	345		(37)	611	
		-49				**1,160**			**1209**
			Charges to the Collection Fund						
211	48		Write offs of Uncollectable Amounts	4	140		(207)	92	
296	122		Increase/Decrease in Impairment Allowance	418	48		122	(74)	
	(510)		Refunds charged to provision for appeals		(750)			(240)	
	(566)		Increase/derease in provision for appeals		2			568	
	112		Cost of collection alowance		112			0	
		-287				**-26**			**261**
58,692	**18,243**	**76,935**	**TOTAL EXPENDITURE**	**60,703**	**20,955**	**81,658**			

Income due from Council Tax Payers (variation £1.721m)

This relates to the growth in the Council tax collectable between years, reflecting both expansion of the taxbase plus an average 4.17% increase in the individual charges made (the increase is the composite of the precepting Authorities, not just the Staffordshire Moorlands element of the council tax bill).

Hardship Fund Grant income paid to Collection Fund (£0.517m)

This is new for 2020/21 and reflects direct Government compensation in respect of the Fund for Hardship awards in relation to Covid-19.

Preceptor - Central Government (£5.345m)

With the end of the Staffordshire Pooling Pilot arrangement, the Government share of business rates has significantly increased (previously more would have been retained locally under the business rates pooling scheme) . The pilot shares were as follows: Central Government 25%, County Council 34%, Fire Authority 1%, Staffordshire Moorlands DC 40%). In 2020/21 this became Central Government 50%, County Council 9%, Fire Authority 1%, Staffordshire Moorlands DC 40%.

Preceptor Staffordshire County Council (Council Tax £1.822m; Business Rates - £4.850m)

The growth in the Council tax precept between years reflects both expansion of the taxbase plus the increase in the individual charges levied by the County Council. With the end of the Staffordshire Pooling Pilot arrangement the County Council's share significantly decreased (from 34% to 9%, a detailed above).

Distribution of Previous Year Surplus / (Deficit) - Central Government (£0.517m)

This reflects changed Government share following end of the Staffordshire Pooling arrangement.

Charges to the Collection Fund (provision for appeals) (£0.568m)

This is the prior year reduction in provision reflecting the withdrawal of certain significant appeals (eg Alton Towers). The provision is now considered to be adequate.

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

Narrative Report: this goes into 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 (on pages 2 to 4). 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 the Council more vulnerable to both national and local economic factors (but also more open to benefiting from above average economic growth too).

To manage these risks, there is robust budgetary control (evidenced by the in-year underspend, despite considerable Covid-19 pressures) and the maintenance of adequate reserves - both those that are earmarked to support particular activities and as a contingency against unplanned changes in income and expenditure. At the end of 2020/21, the general revenue reserve stood at £4.1million, which is £2.6million above the minimum contingency level.

Balance Sheet (on page 31) and Capital Notes (primarily Note 6): these list the extensive assets of the Authority. Assets such as these can become individual or collective liabilities if they are not adequately maintained. This risk is mitigated by the Council's Asset Management Plan (AMP), which ensures that capital resources are focused on maintaining the structural integrity and value of property assets. The AMP is in the process of being refreshed, with a particular emphasis on obtaining up to date site assessments.

Pension Notes (primarily Note 4): this highlights the pension liability of £40.8m, valuation of which is based primarily 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. Future contribution rates (combined with investment strategies) are designed to ensure that the Fund is in balance over the longer term.

Financial Instrument Notes (Note 13 – page 71 to 79) : This Include a comprehensive analysis of the various risks around the value of all financial assets including cash, receivables and investments. This risk is managed through the Authority's budgetary control and treasury management strategy / procedures. Realistic budgeting is supported by robust risk adverse borrowing and investment strategies.

Contingent Liabilities (Note 14 – page 80) : 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 and managed 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.