Appendix B

High Peak Statement of Accounts 2020/21 – Chief Finance Officer Review

1. **Please provide the most significant reasons for the 2020/21 operating surplus of £6,180,040 and explain why this figure looks so high.**

The £6.180m surplus is identified on page 9 of the Narrative Statement. Funding levels received were £5.282m above expectations owing primarily to monies received from Government to support local authority activities during the Covid 19 pandemic. £1.730m 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 £3.360m 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 £0.947m less than anticipated. However, £1.258m of this relates to Government funding for businesses and individuals impacted by Covid restrictions that was unspent at year end. This leaves a remaining small overspend of £0.311m. Whilst this consists of a number of variations (both savings and overspends), it is largely a combination of reduced income in areas like Car Parking and increased expenditure in services such as Leisure where substantial costs were incurred supporting the Borough's contracted leisure facilities during Covid restrictions.

Further explanations for the variances contributing to the overall underspend were reported within the Quarter Four (Provisional Outturn) Financial Report reported to the Executive on 5th August 2021.

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

31st March 2020 £000's		31st March 2021 £000's	Major Variances
237,790	Property, Plant & Equipment	241,135	3,345
391	Heritage Assets	514	123
1,028	Investment Properties	1,028	0
102	Intangible Assets	253	151
292	Long-term Debtors	199	(93)

239,603	**TOTAL LONG TERM ASSETS**	**243,129**	**3,526**
10,681	Short-term Investments	12,226	1,545
65	Inventories	77	12
2,472	Short Term Debtors	7,879	5,407
10,003	Cash & Cash Equivalents	15,264	5,261
23,221	**TOTAL CURRENT ASSETS**	**35,446**	**12,225**
0	Cash & Cash Equivalents	(1,289)	(1,289)
0	Short-term Borrowings	(3,749)	(3,749)
(9,452)	Short-term Creditors	(15,084)	(5,632)
(1,734)	Provisions	(1,601)	133
(11,186)	**TOTAL CURRENT LIABILITIES**	**(21,723)**	**(10,537)**
(67,129)	Long-term Borrowing	(63,380)	3,749
(33,409)	Pensions Liability	(47,251)	(13,842)
(22)	Deferred Liabilities	0	22
(348)	Grant Receipts in Advance - Capital	(650)	(302)
(100,908)	**TOTAL LONG TERM LIABILITIES**	**(111,281)**	**(10,373)**
150,730	**TOTAL NET ASSETS**	**145,571**	**(5,159)**
27,714	Useable Reserves	36,222	8,508
123,016	Unusable Reserves	109,349	(13,667)
150,730	**TOTAL RESERVES**	**145,571**	**(5,159)**

Property, Plant & Equipment (£3.345m)

This increase appears larger than it would in a “normal” or standard year, because in 2019/20 there was a change in the calculation base for Leisure Centres, that substantially reduced valuations. There is no “step change” for 2020/21 as we are using the same methodology. In percentage terms, the variance is just 1.4%, which is well within accepted variation for property, plant & equipment

Short Term Investments (£1.545m)

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 of 31st March.

Short-term Debtors (£5.407m)

The increase here is largely 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 (and also amounts owed from other local authorities).

Cash & Cash Equivalents (£5.261m)

This reflects the influx of cash received from Central Government to support the local authority, businesses and individuals (largely as a result of Covid), but not as yet applied at 31st March

Short-term Borrowings (£3.749m) & Long Term Borrowing (£3.749m)
In keeping with the Treasury Management strategy, this reflects loans coming up for maturity (with less than a year to go) and therefore reclassified as short term, alongside using internal borrowing and cheaper short term loans pending a longer term restructuring of debt where possible (generally Public Works Loans Board loans have punitive penalties precluding debt restructuring).

Short-term Creditors (£5.632m)
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 and unused Covid19 Business Support Grants where the Authority acts as Agent. The unused grants will be redistributed in 2021/22.

Pensions Liability (£13.842m)
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 55 identifies just how sensitive the liability figure is to actuarial assumptions around the discount rate. A 0.5% decrease in the real discount rate has a £14m monetary impact. 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 (£8.508m)
The General Fund operating surplus generated in 2020/21 has contributed £6.2m to useable reserves, although as noted in earlier comments, significant elements have been earmarked as committed, regarding the Collection Fund deficit (which will be applied in 2021/22) and in respect of Discretionary Covid19 grant funding (which we expect to use in 2021/22). In addition, there was an increase in HRA balances of £1.3m) and of capital reserves of £1.0m.

Unusable Reserves (£13.667m)
The decrease in unusable reserves primarily reflects a £13m increase in pension liability arising from valuations performed by the Scheme Actuary. There is also a £3.5m change on the Collection Fund Adjustment account as a result of the Covid19 reliefs granted to Businesses in year and revaluations of the Authority’s assets since 2007.

3. **Can you please provide an explanation for the £0.502m reduction in income for Property Services (Gross income in 2019/20 was £1.475m, compared to £0.973m in 2020/21) - Comprehensive Income & Expenditure Statement (page 32)**

   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 £18.040m compared with £16.781m in 2020/21; and income was £17.606m in 2019/20 compared with £16.189m in 2020/21)**

   This reflects the continuing trend of less benefits being paid out, as entitlement is reduced and levels of employment have generally increased (partly offset by furlough). As income reclaimed is based on expenditure incurred (that is, the majority is claimed back from Government), it too has reduced by a similar amount, leaving the net cost fluctuating by a far lesser amount between the two years (£0.434m in 2019/20, compared with £0.158m 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 £0.351m compared with £3.849m in 2020/21; and income was £1.210m in 2019/20 compared with £5.859m 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 (£4.5m) and that paid to businesses and individuals during the year was (£3.24m), with the expectation that the remainder would be paid out in 2021/22.

6. **Please explain the difference in both Gross Expenditure (£1.228m) and Net Expenditure (£1.176m), 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 (£5.797m) to (£8.763m) 2020/21 on the Comprehensive Income & Expenditure Statement (page 32)**

   The note in the Statement of Accounts on the Revaluation Reserve (Note 12a) on page 70 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. The 2020/21 figure is now similar to those achieved prior to 2019/20 reflecting the normal increase in asset values year on year.

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

2019-20				2020-21			Variance >£400k		
Council Tax	Business Rates	Total		Council Tax	Business Rates	Total	Council Tax	Business Rates	Total
£000	£000	£000		£000	£000	£000	£000	£000	£000
			Income						
	(26,778)		Income due form Business Rates Payers		(18,479)			8,299	
	(723)		Transitional Protection Payments for Business Rates		(272)			451	
(56,657)			Income due from Council Tax Payers	(57,610)			(953)		
			Hardship Fund Grant Income paid to Collection Fun	(716)			(716)		
(56,657)	**(27,501)**	**(84,158)**	**Total Income**	**(58,326)**	**(18,751)**	**(77,077)**	**(1,669)**	**8,750**	**7,081**
			Expenditure						
			Preceptors						
	12,828		Central Government		13,319			491	
40,447	2,309		Derbyshire County Council	41,789	2,398		1,342	89	
6,623			Derbyshire Police Authority	7,018			395	-	
2,330	257		Derbyshire Fire & Rescue Authority	2,407	266		77	9	
6,463	10,263		High Peak B.C.	6,674	10,656		211	393	
		81,520				**84,527**			**3,007**
			Distribution of Previous Year Surplus / (Deficit)						
	244		Central Government		527			283	
490	(69)		Derbyshire County Council	458	56		(32)	125	
74			Derbyshire Police Authority	75			1	0	
29	3		Derbyshire Fire & Rescue Authority	27	10		(2)	7	
79	80		High Peak B.C.	73	382		(6)	302	
		930				**1,608**			**678**
			Charges to the Collection Fund						
135	563		Write offs of Uncollectable Amounts	25	27		(110)	(536)	
348	(349)		Increase/Decrease in Impairment Allowance	534	218		186	567	
	(309)		Refunds charged to provision for appeals		(1,098)			(789)	
	1,549		Increase/derease in provision for appeals		767			(782)	
	133		Cost of collection alowance		133			0	
		2,070				**606**			**-1464**
57,018	**27,502**	**84,520**	**TOTAL EXPENDITURE**	**59,080**	**27,661**	**86,741**			

Income due from Business Rates Payers (variation £8.299m)

This reflects a large reduction as Government provided rate reliefs to businesses and replaced the income foregone to Councils largely by grant

Income due from Council Tax Payers (variation £0.953m)

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

Hardship Fund Grant income paid to Collection Fund (£0.716m)

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

Preceptor Derbyshire County Council (Council Tax £1.342m)

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.

Write offs of Uncollectable Amounts (£0.536m)
This largely reflects a tidying up of the balance sheet position and subsequent purge of business rates bad debts in Quarter 1 of 2019/20. Business rates write offs generally occur when companies have been liquidated and so there is little opportunity for recovering debt.

Increased Impairment Allowance (£0.567m)
The impairment proportion allowed to be charged per annum has increased because of Covid-19 risks.

Refunds and Provision for appeals (£0.789m and £0.782m)
Both the refunds charged and the level of provision has been reduced (on a risk based assessment), as the further time passes from a business rates valuation, generally the more cases get settled.

9. 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 3). 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 financial position, 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 33) 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 £47m, 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 73 to 81) : 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 81) : 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.

Housing Revenue Account

Please explain the variations (overleaf)

Depreciation and Impairment of Non-Current Assets (£1.966m)

In 2020/21 revaluation gains of £2.464 million were credited to the HRA to reverse impairment losses that had been charged to the HRA in previous years. Under statutory requirements, so as not to impact on the surplus or deficit generated by the Authority (which would impact on rents, much in the same way that the accounts are treated differently for council tax setting purposes), the charges were reversed out of the accounts through the Movement on the HRA Statement. This has the effect of exaggerating the variance between the two years.

(Gain) or loss on sale/disposal of HRA non-current assets (£2.063m)

This line includes details of sales during the year plus any write back of components that have been de-recognised. In 19/20 capital spend was less than in previous years while in 20/21 it has returned to more normal levels. The relative derecognition of this capital spend being £1.995m for 2019/20 and £3.705m for 2020/21 accounts for the variation between years.

2019/20	HRA Income and Expenditure Statement	2020/21	Variance >£1m
£000		£000	
	Expenditure		
4,442	Repairs and Maintenance	4,284	(158)
2,323	Supervision and Management	2,323	0
121	Rents, Rates, Taxes and Other Charges	102	(19)
1,634	Depreciation and Impairment of Non-Current Assets	(332)	(1,966)
54	Debt Management Costs	54	0
195	Movement in the allowance for bad debts	3	(192)
0	Sums directed by the Secretary of State that are expenditure in accordance with the Code		0
8,769	**Total Expenditure**	**6,434**	(2,335)
	Income		
(14,379)	Dwelling Rents	(14,383)	(4)
(247)	Non Dwelling Rents	(249)	(2)
(380)	Charges for Services and Facilities	(376)	4
(125)	Contributions towards expenditure	(137)	(12)
0	HRA Subidy receivable		0
0	Sums directed by the Secretary of State that are income in accordance with the Code		0
(15,131)	**Total Income**	**(15,145)**	(14)
(6,362)	**Net Expenditure or Income of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement**	**(8,711)**	**(2,349)**
252	HRA Services share of Corporate and Democratic Core	213	(39)
591	HRA share of other amounts included in whole authority Net Expenditure of Continuing Operations but not allocated to specific services	616	25
(5,519)	**Net Income/Expenditure of HRA Services**	**(7,882)**	**(2,363)**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:		
1,492	(Gain) or loss on sale/disposal of HRA non-current assets	3,555	2,063
1,875	Interest payable and similar changes	1,787	(88)
(67)	HRA Interest and investment income	(18)	49
0	Capital grants and contributions receivable	0	
0	Loss on Discontinued Operations	0	
(2,219)	**(Surplus)/Deficit for the year on HRA services**	**(2,558)**	**(339)**