**HIGH PEAK BOROUGH COUNCIL**

**Report to the Audit & Regulatory Committee**

**25th July 2018**

| | |
|---|---|
| TITLE: | **Statement of Accounts 2017/18** |
| EXECUTIVE COUNCILLOR: | **Councillor Emily Thrane – Portfolio Holder for Finance and Operational Services** |
| CONTACT OFFICERS: | **Claire Hazeldene – Finance & Procurement Manager**<br>**Stephen Robinson – Principal Finance Officer (Financial Reporting)** |
| WARDS INVOLVED: | **Non-specific** |

**Appendices Attached:**
**Appendix A – Statement of Accounts (via weblink)**
**Appendix B Attached: Chief Finance Officer Review of Accounts**

## 1. Reason for the Report

1.1 The purpose of the report is to allow for scutiny of the Statement of Accounts 2017/18 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 It is recommended that the committee approve the audited Statement of Accounts 2017-18.

## 3. Executive Summary

3.1 The Executive Director (Transformation) & 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 2018).

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.

3.3 The committee is requested to approve the audited Statement of Accounts 2017/18 (see Appendix A). In doing so, the Chair of the Audit & Regulatory Committee will sign the accounts at this meeting.

3.4 By formally approving the Accounts, the Audit & Regulatory Committee will be demonstrating their confidence in the responsible financial officer (Corporate 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.

3.5 In order to assist the committee with their scrutiny role, a training session was delivered by Capita Asset Solutions (the Authority's treasury management and financial technical support advisor) on 21st July 2015 which included a session relating to the Statement of Accounts.

3.6 To further aid the committee, Appendix B provides the Chief Finance Officer review that was undertaken prior to the Statement of Accounts being signed on the 31st May 2018, 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 has 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 Sustainability
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 20 full working days prior to the ‘appointed date for exercise of public rights’. These have been made available at Buxton Town Hall, Buxton, from 4th June 2018 until 13th July 2018 in full compliance with this requirement.

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.

**ANDREW P STOKES**
**Executive Director (Transformation) & Chief Finance Officer**

| **Background Papers** | **Location** | **Contacts** |
|---|---|---|
| 2017/18 Closure of Accounts files (various) | Joint Finance Team, Moorlands House, Leek | Claire Hazeldene<br>Finance & Procurement Manager<br>Tel. 01538 395400 Ext. 4191<br>Stephen Robinson<br>Principal Finance Officer (Financial Reporting)<br>Tel. 01538 395400 Ext. 4194<br>Sharon Hall<br>Finance Business Partner<br>Tel. 01538 395400 Ext. 4246 |

**APPENDIX B**

# High Peak Borough Council Statement of Accounts 2017/18 Chief Finance Officer Review

1. Please provide the most significant reasons for the 2017/18 operating surplus of £1,571,619

As reported within the Quarter Four (Provisional Outturn) Financial Report: there were nine significant **underspends** on the General Fund Revenue Account:

- **ICT (£65,557 underspend);** savings have accrued from lower than expected spend across a range of service activities (telephony, system upgrades, consultancy, ad-hoc projects).
- **Planning Applications (£122,761 underspend)**: Robust income levels outstripped some smaller areas of budgetary pressure. The positive position was driven by a relatively small number of applications received for significantly large development sites.
- **Customer Services (£58,424 underspend)**; Spend against budgets across the service were below expectations. Highlights were savings of £24,000 and £14,000 respectively against the outgoing post and photocopier budgets.
- **Electoral Services (£60,636 underspend):** The service budgets to make an annual contribution in to an earmarked reserve in order to smooth the costs of the council's elections over the term of the administration. The budgeted underspend to fund this contribution for 2017/18 is £40,000. A further £20,000 underspend resulted from the costs relating to individual elector registration being below the level of funding received from central government..
- **Housing Strategy (£98,859 underspend):** Some £94,000 in Government grants were received in year to support actions to be taken by the Authority in response to the Homelessness Reduction Act. As the majority of initiatives identified under the Authority's Homeless Strategy could not progress in 2017/18 it was necessary to carry forward a significant proportion of this funding.
- **Corporate Finance (£147,720 underspend):** Revenue from the Borough's spring water franchise was some £27,000 below expectations owing to a reported fall in demand for bottled water. The Authority however benefited from a £15,000 reduction in external audit fees. Corporate Finance records the Authority's performance against its efficiency savings target and the consolidation of savings against corporate budgets such as for employee costs. This cashing-up exercise has been completed and the saving target for the year was achieved. In addition significant savings have accrued against corporate staff and inflation contingency budgets. The net impact of staff turnover and vacancies has contributed £102,000 while a saving of £55,000 has accrued from lower than anticipated inflationary pressures.
- **Waste Collection (£56,090 underspend);** the main drivers behind a £129,000 underspend were better than expected revenues against income streams from bin sales and trade waste, combined with reduced costs in areas such as disposal charges. This was offset by a net £59,000 overspend against the budgeted costs relating to Alliance Environmental Services (AES). Spend pressures of some £98,000 in regard to additional vehicle costs and contingency items arising during the initiation phase of AES are offset by a £39,000 credit accruing to the Council from this joint operation's trading performance in year.

- **Leisure Services (£49,404 underspend);** Leisure Centres have achieved a £16,000 underspend on their repairs budget as well as benefiting from £8,000 additional income. A further £16,000 saving was contributed as a result of the finalisation of the Authority's Leisure Development Delivery Strategy in July being too late for many of the initiatives therein to be progressed in 2017/18.
- **Horticulture (£60,149 underspend);** Robust levels of income from internments, and grave space sales gave rise to a net £40,000 surplus for Cemeteries after additional repair costs had been taken into account. A further £15,000 contribution to Horticulture's overall underspend arose out of the tree works budget. Spend has been postponed because of the relevant contractors building up s backlog of work.

**The actual level of Funding achieved in the year was £1,000,872 above the original estimate owing to variances across the following income streams;**

**Grants (£36,372):**
- The Council benefited from a receipt of £36,372 in Transition Grant that had not been anticipated for the year. This Government grant was towards meeting shortfalls in income arising as Councils moved from a regime of central funding to raising the majority of their income locally.

**Business Rates Retention (£984,970):**
- An increase of £130,520 in the level of retained business rates owing to increases in business rates income. This was not assumed in the budget because of uncertainties surrounding the 2017 revaluation and appeals provision.
- Following new information provided by the Valuation Office Agency, the DCLG has adjusted the tariff payable on business rates for the year for all Councils. This has had a negative effect for this Council and decreases the level of retained business rates by £19,190.
- An increase of £527,030 resulting from S31 grants to fund the new reliefs not known at the budget setting stage for Local Discretionary Relief, Supporting Small Businesses, Pub Relief and the change in thresholds on Small Business Rate Relief. These grants are credited to the General Fund in the year but the associated reliefs have the opposite effect of increasing the Collection Fund deficit to be distributed in the following year.
- The levy payable, on business rates retention, to the pool is reduced by £193,480. In addition to the effect of awarding additional reliefs as described above, the level of business rates income collectable has fallen following the resolution of appeals relating to purpose built doctors surgeries; and an increase in the level of provision required overall for both the existing appeals and the assumed reduction in RV on current year liabilities which will result from appeals in future years.
- The gain as a member of the Derbyshire Business Rates Pool has been increased from £200,000 to £353,130. This amount is dependent each year upon the performance of every pool member. Therefore this is still a draft figure until each member has certified their NNDR3 returns at the end of July 2018.

2. Why has there been a £0.75 million movement in reserves from General Fund Contingency to the Capital Support reserve?

A report was approved by Council on 3rd May which provided details of an options appraisal that had been undertaken on the procurement of refuse freighters. The most cost effective option being for the Council to direct purchase – which was therefore recommended and subsequently the estimated purchase costs added to the capital programme. Therefore, £0.75 million has been allocated to the earmarked reserve set aside to fund capital expenditure and reduce the overall cost of borrowing associated with acquiring the vehicles required by Alliance Environment Services Limited.

3. Please provide a year on year comparison of the Comprehensive Income & Expenditure Statement, Balance Sheet and Collection Fund identifying significant variances. For items highlighted in yellow, please provide an explanation of the movement.

## Comprehensive Income & Expenditure Statement:

| | Variance (2017-18 compared to 2016-17) | | | |
|---|---|---|---|---|
| **CIES Variance Analysis** | **Gross Expenditure** | **Gross Income** | **Net Expenditure** | |
| | **£000** | **£000** | **£000** | |
| Alliance Management | 78 | 0 | 78 | |
| Audit | 10 | 0 | 10 | |
| ICT | (60) | (16) | (76) | |
| Human Resources | (8) | 0 | (8) | |
| Member Services | (9) | 0 | (9) | |
| Property Services | 665 | 1 | 666 | |
| Benefits | (616) | 886 | 270 | |
| Planning Applications | (16) | (45) | (61) | |
| Building Control | (9) | 16 | 7 | |
| Customer Services | (75) | (1) | (76) | |
| Legal Services | (15) | (11) | (26) | |
| Electoral Services | 35 | (2) | 33 | |
| Licensing & Land Charges | (29) | 40 | 11 | |
| Regeneration | 128 | 8 | 136 | |
| Communities & Cultural | (21) | 89 | 68 | |
| Housing Strategy | 1 | 68 | 69 | |
| Transformation | 6 | 0 | 6 | |
| Community Safety & Enforcement | (19) | 6 | (13) | |
| Finance & Procurement | 155 | 53 | 208 | |
| Coporate Finance | 8 | 30 | 38 | |
| Waste Collection | 717 | (459) | 258 | |
| Street Scene | (36) | (12) | (48) | |
| Leisure Services | 129 | (9) | 120 | |
| Horticulture | 4 | (25) | (21) | |
| Visitor Services | (177) | 228 | 51 | |
| Environmental Health | (42) | (91) | (133) | |
| Local Authority Housing (HRA) | 35,955 | 216 | 36,171 | |
| **Cost Of Services** | **580** | **(807)** | **(227)** | |
| Other Operating Exepnditure | (435) | (29) | (464) | |
| Financing & Investment Income & Exp | (407) | 356 | (51) | |
| Taxation & non-specific Grant | 0 | 383 | 383 | |
| **(Surplus) or Deficit on Provision of Services** | | | **(359)** | |
| (Surplus) or Deficit on Revaluation of Property, Plant and Equipment Assets | | | | (4,061) |
| Remeasurement of the net defined peniosn benefit liability | | | | (10,495) |
| | | | **(14,556)** | |
| | | | **(14,915)** | |

- **Property Services: net cost of service increased by £666k between 2016/17 and 2017/18 -** 2017/18 has seen a £615k increase in Nominal charges (Pensions up £70k Capital up £545k)
- **Benefits: Expenditure and Income down £616k and £886k respectively between 2016/17 and 2017/18 -** 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 it too has reduced by a similar amount, leaving net consistent between years.
- **Waste Collection: net cost of service increased by £258k between 2016/17 and 2017/18 -** (£717k increase in expenditure offset by a £459k increase in income). 2017/18 has seen a £130k increase in Nominal charges (majority Capital).
- **Housing Revenue Account: net cost of service increased by £36.171m between 2016/17 and 2017/18 -** significantly different nominal charges have been credited to each year. 2016/17 included a £39m reversal of valuation gain adjustment following a change to the discount factor applied to social housing stock valuations in that year.
- **Other Operating Expenditure: gross expenditure decreased by £435k between 2016/17 and 2017/18 -** The major contributor was the profit and loss on sale of assets which has decreased from £2.691m to £2.386m between years reflecting the disposals made. The other contribution being a reduction of £178k in the Housing Pool contribution made to Central Government.
- **Financing & Investment Income & Expenditure: gross expenditure decreased by £407k between 2016/17 and 2017/18 -** the major contributor was a reduction in Interest payable of £236k & Pension cost of £171k.
- **Surplus or Deficit on Revaluation of Property, Plant and Equipment: a £4,061k increase in surplus is reported between years -** upward revaluation of assets in year is £4.775m greater than at last year's revaluations.
- **Remeasurement of the net defined pension benefit liability: a £10.495m reduction in liability is shown -** changes in pension liability and asset values give rise to this change in the nominal accounting entries between years. These changes were in line with the Actuary's assumptions for the year.

## Balance Sheet:

| Balance Sheet | Variance 2017/18 compared to 2016/17 |
|---|---|
| Property, Plant & Equipment | 10,288 |
| Heritage Assets | 0 |
| Investment Properties | (30) |
| Intangible Assets | (13) |
| Long-term Debtors | (6) |
| **TOTAL LONG TERM ASSETS** | **10,239** |
| Short-term Investments | 3,018 |
| Inventories | 31 |
| Short Term Debtors | 2,311 |
| Cash & Cash Equivilents | (2,301) |
| **TOTAL CURRENT ASSETS** | **3,059** |
| Cash & Cash Equivalents | 46 |
| Short-term Borrowings | (5,050) |
| Short-term Creditors | (626) |
| Provisions | (107) |
| **TOTAL CURRENT LIABILITIES** | **(5,737)** |
| Long-term Borrowing | 5,050 |
| Pensions Liability | 2,143 |
| Deferred Liabilities | 106 |
| Grant Receipts in Advance - Capital | (185) |
| **TOTAL LONG TERM LIABILITIES** | **7,114** |
| **TOTAL NET ASSETS** | **14,675** |
| Useable Reserves | 3,700 |
| Unusable Reserves | 11,005 |
| **TOTAL RESERVES** | **14,705** |

- **Property, Plant and Equipment: there has been a £10.288m increase in carrying value –** The main increases are around £6m in spend adding value to the council's asset base plus a further £6m addition from revised valuations. These upward moves are offset by the effect of asset derecognitions and depreciation.
- **Short Term Investments: there has been a £3.018m increase between years / Cash and Cash Equivalent: there has been a decrease of £2.3m between years.** – where investments are shown on the Balance Sheet is dictated by there classification as short or long term, the latter being any that will mature beyond 12 months of the year end. The overall increase between years in the level of Cash and Investments was only £717k.
- **Short Term Debtors: there has been a £2.311m increase between years –** mainly the impact on the year end collection fund deficit of Government changes to the in-year reliefs applied to Business Rates (see query 12 below).
- **Short and Long Term Borrowing has a net movement of 0:** where borrowings are shown on the Balance Sheet is dictated by there classification as short or long term, the latter being any that will mature beyond 12 months of the year end. This has required a reclassification of £5.050m from Long to Short at the year end.
- **Pension Liability: there has been a £2.143m decrease between years.** – see the response to query 4 below.
- **Usable Reserves: there has been a £3.7m increase between years.** – Note 11 in the Statements shows the movement, on the individual accounts, resulting from the in year operating surpluses generated on General Fund and Housing Revenue activities.
- **Unusable Reserves: there has been a £11.005m increase between years.** – Note 12 in the Statements shows the movement, on the individual accounts making up the council's unusable reserves. The Revaluation Reserve is responsible for the majority of the increase as it includes a net £9.891m revaluation of non-current assets.

## Collection Fund:

| **Collection Fund** | **Variance 2017-18 compared to 2016/17**<br>**Council Tax £000** | **Business Rates £000** | **Total £000** |
|---|---|---|---|
| **Income** | | | |
| Income due form Business Rates Payers | | 1,218 | |
| Transitional Protection Payments for Business Rates | | (1,571) | |
| Income due from Council Tax Payers | (2,071) | | |
| **Total Income** | **(2,071)** | **(353)** | **(2,424)** |
| **Expenditure** | | | |
| **Preceptors** | | | |
| Central Government | | 1,271 | |
| Derbyshire County Council | 1,786 | 229 | |
| Derbyshire Police Authority | 165 | - | |
| Derbyshire Fire & Rescue Authority | 66 | 25 | |
| High Peak B.C. | 179 | 1,017 | |
| | | | **4,738** |
| **Distribution of Previous Year Surplus / (Deficit)** | | | |
| Central Government | | 765 | |
| Derbyshire County Council | 52 | 138 | |
| Derbyshire Police Authority | 6 | 0 | |
| Derbyshire Fire & Rescue Authority | 2 | 15 | |
| High Peak B.C. | 8 | 612 | |
| | | | **1598** |
| **Charges to the Collection Fund** | | | |
| Transitional Protection Payments for Business Rates | | (2) | |
| Write offs of Uncollectable Amounts | (66) | 100 | |
| Increase/Decrease in Impairment Allowance | 126 | 1 | |
| Refunds charged to provision for appeals | | (1,149) | |
| Increase/decrease in provision for appeals | | 1,526 | |
| Cost of collection allowance | | 0 | |
| | | | **536** |

- **Transitional Protection Payment for Business Rates Payers: this is a new entry in 2017/18 of £1.571m.** These Transitional protection payments are paid to the authority by Central Government to compensate the billing authority for the net income foregone through the transitional relief scheme which is designed to phase the increases/ decreases in ratepayers' bills following the 2017 revaluation. The scheme for the 2010 list had finished by the 2016/17 year so the only payments to/from the authority related to backdated ratepayer account adjustments, whereas 2017/18 was the first year of the 2017 list following the revaluation so the scheme has started again.
- **Central Government Business Rates Precept: this has increased by £1,.71m between years.** The Government's % share of the Business Rates has not changed but overall NNDR income has increased following the 2017 revaluation.
- **Derbyshire County Council Tax Precept: this has increased by £1.786m between years.** Growth in the Council tax precept between years reflects both expansion of the taxbase plus a 3.99% increase in the individual charges levied by the County.
- **High Peak BC Business Rates: this has increased by £1.018m between years.** The Council's % share of the Business Rates has not changed but overall NNDR income has increased following the 2017 revaluation.
- **Central Government & High Peak BC Business Rates Surplus: this has reduced by £765k and £612K respectively -** an overall deficit of £1.5million was distributed in 2016/17 whereas the 2017/18 distribution was a surplus of £64k which was set in January 2017 based on the forecast outturn for 2016/17. At that time it was anticipated that the deficit had been fully distributed and the outturn would only produce a small surplus. Central Government's share of this is 50% and High Peak BC's share is 40%.
- **Business Rates Refunds charges to provision for appeals: this has increased by £1.149m -** the rate at which appeals on the 2010 list were heard increased in 2017/18 leading to a greater number and value of refunds on those hereditaments which were included in the provision.
- **Increase in provision for appeals: this has increased by £1.526m -** it incorporates an expectation that there will be RV reductions relating to 2017/18 demands over the life of the 2017 list following revaluation on 1st April 2017.

4. The overall net worth of the Authority has increased from £110.39m to £125.1m – a difference of £14.71m (see balance sheet) Three of the significant reasons for this appears to be an increase long-term assets (increase of £10.3m), increase in Investments (increase of £10.3m) offset by a reduction in net current assets (reduction of £7.9m). Could you just provide some explanation around this?

   The revised table below is now in the Statements which actually shows that there has been minimal change in Cash and Investments between years. Instead the major reasons for the overall change in net worth are changes in carrying value of non-current assets and pension liability (see below)

| | 31 March 2017 £000 | 31 March 2018 £000 |
|---|---|---|
| Long Term Assets | 217,037 | 227,308 |
| Net Current Assets (debtors, stock less creditors, other liabilities) | (2,227) | (574) |
| Cash and Investments | 13,727 | 14,444 |
| Borrowing | (72,181) | (72,181) |
| Pensions Liability | (45,592) | (43,449) |
| Other Long Term Liabilities and Provisions | (374) | (454) |
| Net Assets | 110,390 | 125,094 |
| Represented by: Usable Reserves | 20,135 | 23,837 |
| : Unusable Reserves | 90,255 | 101,257 |

- Non-current Assets – all the property plant and equipment owned by the Authority are professionally valued on a five year rolling cycle to ensure that their carrying value on the Balance Sheet reflects an up-to-date position. At the end of 2017/18 the valuation process has resulted in a cumulative increase in the carrying value of the Authority's properties of some £10million.

- Pension Liability – under financial accounting regulations the Authority's Balance Sheet must show the cumulative net value of its pension scheme if all the assets and liabilities became realisable or payable on the 31st March. While in reality pension schemes continue over generations this snap shot measurement draws attention to any underlying long term strengths or weaknesses. The measurements applied to the Council's scheme at the end of 2017/18 reduced the liability reported on the Balance Sheet by £2.14million to £43.45million. The value of the pension as reported on the Balance Sheet is a significant liability for the Council. However because this liability only falls due over the long term, measures have been put in place that ensure the Authority's continuing financial viability. At a national level Government has altered future scheme benefits and entitlements while locally both Council and employee contributions have increased.

5. As per Note 1c (Expenditure and Income Analysed by Nature):-

   **EXPENDITURE:-** Employee expenses has increased by £1.5m from 2016/17 to 2017/18 – which goes against recent trends of employee costs reducing as a result of efficiency/ service review savings – why the increase?

   2017/18 saw Alliance Environmental Services (AES) replace Veolia as provider of the Authority's Waste Collection services. As an external contractor Veolia's cost to the Council was recorded as a net management fee within Other Service Expenses in the analysis. AES however is a joint operation and as such its activities have to be recorded gross across all relevant categories, including in 2017/18 £760k as staff. Unfortunately there was a classification error in the 2016/17 analysis that wrongly included £828k in Other Service Expenses that should have been Employees.

   **INCOME:-** Overall income receipts have decreased by £1.7million – with a £1.4million reduction in Government grant funding – what does this relate to?

Around £1.1m of this reduction relates to a fall in grant income credited to individual services. Of this some £800k is a reduction in Housing Benefit Subsidy that mirrors a corresponding fall in the level of benefits that were paid out. There were also £100,000 reductions in grant income accruing to the Communities and Finance services.

The remaining £600,000 relates to a reduction in the level of direct government funding of local authorities, through Revenue Support Grant and New Homes Bonus, with the move to retained business rates.

Within Fees and Charges income, there has been a £0.46million increase in income generated by the Waste service (see note 1d) – why is this?

While there has been some growth in price and volume of the services provided, the majority of the increase is down to inclusion of £400,000 of income generated within AES whose activities, as a joint operation, must be recorded gross within the council's accounts.

6. The Officer Remuneration note (note 2c) shows the split of senior staff salary costs between HPBC and SMDC – not all of them are split on a 50:50 basis, with some having a higher charge to HPBC, some a higher charge to SMDC. What is the basis for this?

   After the service review process had been completed, a review of the staff percentage split of time was undertaken to ensure this was as accurate as possible. Therefore, roles are split according to where, in reality, time is focused – which is different for each role dependent on the make up of the service area. The splits also take into account time spent on Housing Revenue Accounts (HRA) related tasks associated with HPBC.

7. As per the balance sheet, short-term Investments and cash and cash equivalents totalled £14.4million as at 31st March 2018. However, useable reserves totalled £23.8million - could you explain the difference of £9.4million as useable reserves are funds available for investment.

   Maturities of long-term external debt to the total of £9.7m during 2016/17 have not since been refinanced, instead using internal borrowing to fund this balance reducing the amount available for external investments. Internal borrowing is temporary by nature, it does not reduce the reserve balances. Capital expenditure during 2017/18 has created a borrowing requirement of £2.6m meaning that the overall borrowing requirement of the Council is £7.2m under-borrowed at the balance sheet date. The remaining variance of £2.2m is due to the working capital at the balance sheet date.

8. Overall borrowing (short-term and long-term) on the Balance Sheet has remained consistent at just over £72.2million. However, the capital financing requirement (note 7e) is £79.3million – this relates to capital expenditure which has not been funded (so the Council's underlying need to borrow). If external borrowing is £72.2m, how is the remaining £7.1m funded currently?

This balance is internally borrowed – the effect of this is further explained as part of the response to question 7 and the origin of the figures quoted is set out here:

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

| | | |
|---|---|---|
| - Capital Finance / Borrowing Requirement | | 79,018 |
| - External Borrowing | | (71,880) |
| - therefore Under borrowing | | 7,138 |
| - Amounts available to invest | (23,496) | |
| - invested externally | 14,442 | |
| - therefore invested internally | | (9,074) |
| - balance being the Council's Working Capital | | (1,936) |

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

| | | |
|---|---|---|
| **Capital Financing Requirement** | | |
| Property Plant & Equipment | 226,152 | |
| Investment properties | 1,043 | |
| Intangible Assets | 44 | |
| Revaluation Reserve | (34,413) | |
| Capital Adjustment Account | (113,521) | |
| **CFR (as per Prudential Code)** | 79,305 | |
| Finance Lease Liability | (287) | |
| **Underlying Borrowing Requirement** | **79,018** | |
| **External Borrowing** | | |
| Short Term | (5,000) | |
| Long Term | (66,880) | |
| **TOTAL External Borrowing (Principal)** | **(71,880)** | |
| **Under (Over) Borrowing?** | **7,138** | **7,138** |
| **Reserves / Balances** | | |
| General Fund Balance | (3,273) | |
| Collection Fund Adjustment Account | 849 | |
| Housing Revenue Account | (13,175) | |
| Earmarked reserves / other balances | (3,835) | |
| Capital Receipts Reserve | (3,136) | |
| Provisions (Exc any accumulated absences) | (508) | |
| Capital Grants Unapplied | (418) | |
| **Amount Available for Investment** | **(23,496)** | |
| **Investments** | | |
| Short Term | 7,150 | |
| Cash & Cash Equivalents - in hand | 7,272 | |
| Cash & Cash Equivalents - overdrawn | 0 | |
| **TOTAL Investments** | **14,422** | |
| **(internal investments)** | (9,074) | **(9,074)** |
| | | **(1,936)** |
| **Working Capital** | | |
| Debtors | 6,186 | |
| Creditors | (6,422) | |
| Capital Grants Receipts in Advance | (273) | |
| Inventories / WIP | 99 | |
| **NET Working Capital Deficit (Surplus)** | **(410)** | **(410)** |
| **Other** | | |
| Financial Instruments Adjustment Account | 2,278 | |
| Deferred Capital receipts | (1) | |
| Balance Long Term debtors | 69 | |
| **Other Long Term Working Capital** | 2,346 | **2,346** |
| **TOTAL Working Capital Deficit** | 1,936 | **1,936** |

9. Note 7a details total ‘additions’ in year as £5.8 million – however, note 7e states that capital expenditure incurred in the year was £6.47m - the £584,000 difference relating to ‘Revenue Expenditure Funded from Capital under Statute’ – why is this not classed as an ‘addition’?

   Under statute Councils can incur capital expenditure against assets which they do not own and are not on Balance Sheet. The main element of spend in this category is on Disabled Facilities Grants (DFGs) (grants given to third parties for major adaptions to their homes). Some £307k of DFG was awarded in 2017-18. The balance of grants falling in this category were made in support of affordable housing projects.

10. Note 7a details £1.26million in disposals during the year – what do these relate to?

    This represents the writing out of the carrying value of the 25 council houses sold in the year.

11. Has the Council let new operating leases during 2017/18 (where the Council is the lessor) as the future minimum lease payments receivable has increased from £3.7million as at 31st March 2017 to £4.2 million as at 31st March 2018?

    No new operating leases but a number of leases have been renewed in 2017/18 with the renegotiated rental levels rising in line with market pressures.

12. 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.

13. There has been a significant increase in the year end 'debtors' figure – an increase from £3.85million as at 31st March 2017, to £6.16million as at 31st March 2018. Can you please detail the main differences please?

Three main areas showing an increase in their year end debtor balance are, Government £1,050,000 ; Derbyshire County Council £600,000 ; Local Taxation £300,000. The first two are as a result of the impact of Government's in year changes to the Business Rates regulations which created a year end deficit that is collectable from the preceptors in proportion to their level of precept. The latter reflects the effect of the Easter bank holidays this year which delayed into 18/19 the credit into the council's bank of the last direct debit run in March.

14. Can you explain why there has been a reduction in total income generated by the Housing Revenue Account (HRA) – as per the HRA income & Expenditure Statement?

2017/18 was year 3 of the 4 year annual 1% reduction to be applied to dwelling rents – as directed by Government, which accounts for the reduction in overall income.

15. Can you explain the overall deficit 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 all precepting authorities, Central Government, County, Fire, Police, Borough and Parishes, 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 2017. During 2017/18 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 deficit of £2.0m (£0.2m council tax surplus and £2.2m business rates deficit) of which the Council's share is £849k (£23k council tax surplus and £872k business rates deficit).

While substantial in-year surpluses or deficits can arise from variations in the factors listed above, the level of deficit generated for Business Rates reflects a particular Government initiative.

Central Government introduced and extended a number of reliefs (e.g. Small Business Rates Relief) reducing the amount collectable. This reduction in the amount collectable effectively reduced the amount of cash the Council as the Billing Authority could collect to pay the various preceptors. Government has therefore issued a Section 31 grant to compensate for this reduced income. This grant has been paid direct to each of the preceptors including the Borough. So while the Borough is faced with making good a deficit on the BR collection fund, it has already received the money to compensate for this through S31 grant. The grant is accounted for in the General Fund and does not feature in the Collection Fund.

16. 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 £20.14m to £23.84m, including at £3.3m a contingency reserve that is more than double the value considered prudent.

**Balance Sheet and Capital Notes (page 32 and page 58):** 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 50):** highlights the pension liability of £43.4m, 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 73):** 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 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 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.