# Public Document Pack

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| **COMMITTEE:** | **JOINT AUDIT AND STANDARDS COMMITTEE** |
| **DATE:** | **MONDAY, 27 JANUARY 2020 9.30 AM** |
| **VENUE:** | **FRINK ROOM (ELISABETH) - ENDEAVOUR HOUSE, 8 RUSSELL ROAD, IPSWICH** |

| **Members** | | |
|---|---|---|
| Conservative<br>Melanie Barrett<br>James Caston<br>Mary McLaren<br>Dave Muller (Co-Chair) | Green Party<br>Oliver Amorowson<br>Robert Lindsay<br>John Matthissen<br><br>Independent<br>Alastair McCraw<br><br>Liberal Democrat<br>Bryn Hurren (Co-Chair)<br>Mike Norris | Labour |

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## A G E N D A

## PART 1
## MATTERS TO BE CONSIDERED WITH THE PRESS AND PUBLIC PRESENT

Page(s)

1 **SUBSTITUTES AND APOLOGIES**

Any Member attending as an approved substitute to report giving his/her name and the name of the Member being substituted.

2 **DECLARATION OF INTERESTS**

Members to declare any interests as appropriate in respect of items to be considered at this meeting.

3 **JAC/19/8 TO CONFIRM THE MINUTES OF THE MEETING HELD ON 29 JULY 2019** 5 - 14

4 **TO RECEIVE NOTIFICATION OF PETITIONS IN ACCORDANCE WITH THE COUNCIL'S PETITION SCHEME**

| | | |
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| 5 | **QUESTIONS BY THE PUBLIC** | |
| | To consider questions from, and provide answers to, the public in relation to matters which are relevant to the business of the meeting and of which due notice has been given in accordance with the Committee and Sub-Committee Procedure Rules. | |
| 6 | **QUESTIONS BY COUNCILLORS** | |
| | To consider questions from, and provide answer to, Councillors on any matter in relation to which the Committee has powers or duties and of which due notice has been given in accordance with the Committee and Sub-Committee Procedure Rules. | |
| 7 | **JAC/19/9 STATEMENT OF ACCOUNTS AND AUDITORS REPORT 2018/19** | 15 - 312 |
| | To Approve the final audited Statement of Accounts and the joint external auditor's report for 2018/19 | |
| 8 | **JAC/19/10 TREASURY MANAGEMENT HALF YEAR REPORT 2019/20** | 313 - 338 |
| | To note Treasury Management activity for the first six months of 2019-2020 in accordance with the approve Treasury Management Strategy | |
| 9 | **JAC/19/11 INTERIM INTERNAL AUDIT REPORT 2019/2020** | 339 - 354 |
| | To note the progress of the Audit Plan | |
| 10 | **JAC/19/12 COMPLAINTS MONITORING OFFICERS REPORT** | 355 - 358 |
| | Monitoring Officer Complaints Report for noting | |
| 11 | **JAC/19/13 JOINT CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGIES (2020/21)** | 359 - 418 |
| 12 | **JAC/19/14 FORWARD PLAN** | 419 - 420 |
| | Report by the Corporate Manager – Democratic Services attached. | |

**Date and Time of next meeting**

Please note that the next meeting is scheduled for Monday, 30 March 2020 at 9.30 am.

For more information about this meeting, including access arrangements and facilities for people with disabilities, please contact the Committee Officer, Committee Services on: 01449 724684 or Email: Committees@baberghmidsuffolk.gov.uk

## Introduction to Public Meetings

Babergh/Mid Suffolk District Councils are committed to Open Government. The proceedings of this meeting are open to the public, apart from any confidential or exempt items which may have to be considered in the absence of the press and public.

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**JOINT AUDIT AND STANDARDS COMMITTEE**

**MONDAY, 29TH JULY, 2019**

**Present:** **David Muller BA (Open) MCMI RAFA in the Chair**

**Councillors Honor Grainger-Howard, Bryn Hurren (Co-Chair), Robert Lindsay, Alastair McCraw, Mary McLaren, Mike Norris and Rowland Warboys (Substitute for John Matthissen)**

**Also in Attendance:**

**Councillors John Ward and John Whitehead**

| | | | |
|---|---|---|---|
| **Officers:** | Claire Crascall | – | Internal Audit and Risk Management Officer |
| | Sue Palmer | – | Senior Financial Services Officer |
| | John Snell | – | Corporate Manager - Internal Audit |
| | Katherine Steel | – | Assistant Director – Corporate Resources and Section 151 Officer |

**Apologies:** **Councillors Oliver Amorowson**

**Absent:** **Councillors James Caston**

**2 DECLARATION OF INTERESTS**

2.1 There were no declarations of interests.

**3 JAC/19/1 TO CONFIRM THE MINUTES OF THE MEETING HELD ON 11 MARCH 2019**

**It was RESOLVED:-**

**That the Minutes of the meeting held on 11 March 2019 be confirmed as a true record.**

**4 TO RECEIVE NOTIFICATION OF PETITIONS IN ACCORDANCE WITH THE COUNCIL'S PETITION SCHEME**

4.1 There were no petitions received.

**5 QUESTIONS BY THE PUBLIC**

5.1 None received.

**6 QUESTIONS BY COUNCILLORS**

6.1 None received.

## 7 JAC/19/2 JOINT ANNUAL GOVERNANCE STATEMENT 2018/19

7.1 John Snell, Corporate Manager – Internal Audit, introduced paper JAC/19/2 detailing the review of the Council's Corporate Governance arrangements during 2018/19 and was presented as a joint statement of the governance arrangements across both councils providing an insight looking ahead for this year and the key challenges going forward.

7.2 The statement was prepared in consultation with key Senior Officers to reflect the operations across both Councils.

7.3 There had been no governance issues identified during 2018/19 in relation to each Council's overall governance framework which is continued to be regarded as fit for purpose.

7.4 The key governance challenges set out in the statement are being addressed to further strengthen the governance arrangements.

7.5 Transformation of how services are being delivered are being explored by reviewing, remodelling and reinventing the ways the council operates to provide better services to customers, to increase our social value, find ways that costs can be reduced without compromising services and increase and general income streams as set out on page 23 of the report.

7.6 Councillor Muller asked if there was an interim update available regarding the Customer Access Strategy. The Officer reported that an action plan was in progress and a further update would be sought from the Assistant Director – Customer Services which would be provided to members at a later date.

7.7 Councillor McCraw suggested that the annual governance statement be taken to full Council. The officer stated that it would accompany the annual statement of accounts when they were presented to full council. It was the view of the committee that there was a chance of the information getting lost within the reporting of the statement of accounts and that the governance statement be taken to Council as a separate report.

7.8 Councillor Hurren enquired if any further update could be provided regarding the sickness figures within the report. The officer stated that a spike in levels of sickness had been seen when the councils relocated to Endeavour House but reassured members that the health and wellbeing of staff was important and toolkits for staff had been provided to help and support staff who were feeling vulnerable or anxious in any way. It was also stated that a report relating to sickness had been presented at the last Overview and Scrutiny Committee and that the contents of that report had been mis-reported in the media.

The recommendations within the paper along with an additional recommendation that the Joint Annual Governance Statement report by taken to Full Council were Proposed by Councillor Hurren and Seconded by Councillor Norris. By unanimous vote.

**It was RESOLVED:-**

**(1) That Councillors satisfied themselves that the Joint Annual Statement (AGS) 2018/19 as set out in appendix A to paper JAC/19/2 properly reflected the governance environment and any actions to improve it.**

**(2) That the AGS be endorsed subject to the Assistant Director – Corporate Resources (in the absence of the Assistant Director – Law & Governance and Monitoring Officer) be authorised to make minor amendments and corrections prior to the Statement being finalised for publication**

**(3) That the Assistant Director – Corporate Resources (in the absence of the Assistant Director – Law & Governance and Monitoring Officer), in conjunction with the Chairman of Joint Audit and Standards and the Leaders of the Council, be authorised to approve any significant amendments identified.**

**(4) That it be noted that the finalised AGS will be signed by the Leader of each Council on behalf of their respective Council together with the Chief Executive on behalf of both Councils.**

**8 JAC/19/3 ANNUAL INTERNAL AUDIT REPORT 2018/19**

8.1 John Snell, Corporate Manager – Internal Audit introduced paper JAC/19/3 explaining to members that the purpose of the report was to inform Councillors of the works undertaken within the Internal Audit Service during 2018/19 and to detail the key messages within the report which included the following: -

- That the Internal Audit Service continued to provide assurance, support and guidance on a diverse range of activities during a period of re-shaping and transformation within the Councils' Delivery Programme.
- That the Internal Audit Service had enhanced staffing which had been assisted by removing the business continuity responsibility out of the team which took place in October 2018.
- That the works conducted covered the following activities: -
  - Governance processes
  - Monitoring
  - Ethics
  - Information and information technology governance
  - Risk Management
  - Fraud Management
- During 2017/18 four audits received an internal audit opinion of 'ineffective', however when followed up in 2018/19 improvements had been made and the internal audit opinion had been changed to 'sufficient'.
- During 2018/19 five audits received an internal audit opinion of 'limited assurance'.

8.2 The Corporate Manager – Internal Audit also reported that his annual audit opinion on the overall accuracy of the effectiveness of the organisation's framework was that the governance arrangements, risk management and internal control was sufficient and provided reasonable assurance. Where control weaknesses had been identified proactive work was being carried out with management to agree appropriate corrective action and a timescale for improvement.

8.3 Councillor McCraw asked why and how the changes to the Audit Assurance terminology in annexe 1 of the report were necessary. The Corporate Manager – Internal Audit stated that the previous terminology used was not always easy to understand for members and that he had consulted with his peers within Suffolk to get a consensus of terminology to be used across the County and that it was hoped that the changes would provide clarity and be easier to understand. Councillor McCraw stated that he approved of the changes and the traffic light system.

8.4 Councillor Muller asked if there was any interim advice regarding the summary of key findings within section 6.14 Housing Delivery Audit on page 46 of the report which he found concerning. The Corporate Manager – Internal Audit stated that works had not yet started however discussions were ongoing with the Assistant Director for Housing and that the Internal Audit team would be working closely with the Assistant Director for Housing and his team to ensure that any recommendations were actioned.

8.5 Councillor Muller stated that he was concerned about the statement 'BMSDC does not currently have a consistent approach in managing Gifts and Hospitality' which was in the Summary of key findings of item 13 Governance of Gifts and Hospitality and Declaration of Interests on page 48 of the report. The Corporate Manager – Internal Audit stated that ethical behaviour is high in importance and that works regarding the values adopted by the council would be taking place later this year which would incorporate ethical behaviours. Councillor McCraw enquired if it was the case that there was not a problem just an inability to demonstrate that there are the necessary policies in place. The officer stated that there was not a consistent procedure across the organisation, there were good examples and not so good examples and there was a need to redress the balance to ensure a consistent approach.

8.6 Councillor Norris asked for clarification regarding the statistics next to the questions' Will the audit improve internal controls?', 'Will the audit enable you to improve your service?' within section 6.6.1 on page 52 of the report. The Corporate Manager – Internal Audit stated that it was accepted that on occasions that when an audit review is carried out the findings are accepted and in some instances the auditees are already aware of the issues raised and therefore the audit has not added any value to them and a slightly negative slant is then received in the responses received. The Internal audit team were looking to work closely with the auditees to add value and not tell them what they already know, there were also occasions that auditees did not agree with the findings and that this can skew results.

8.7 Councillor Warboys questioned why the Audit Opinion for section 2.1.2 on page 37 of the report had been changed from ineffective to reasonable assurance and was closed however within the management response statement of that section it stated that progress had stalled. The Corporate Manager – Internal Audit stated that he was please to report that the necessary resource had been put in place to correct the issues found and that he was satisfied that these issues had been addressed. Melissa Evans Corporate Manager for Finance stated that the present status in this report date highlighted that the work and procedures had been put in place to address the concerns raised.

The recommendation was Proposed by Councillor McCraw and Seconded by Councillor Norris. By unanimous vote.

**It was RESOLVED:-**

**(1) That the contents of the Internal Audit Report, supported by Appendix A be agreed.**

**9 JAC/19/4 ANNUAL TREASURY MANAGEMENT REPORT - 2018/19**

9.1 Sue Palmer, Senior Financial Services Officer introduced the report and stated that the report detailed the performance and effects of decisions made during the financial year 2018/19. The officer also stated that the council continued to operate in times of uncertainty.

9.2 The officer reported to the members that during 2018/19 Babergh had exceeded its daily banking limit on one occasion however, this was due to the timing of a refund being received when it was not expected and was not an ongoing concern as shown in the Investment Limit table on page 83 of the report.

9.3 The officer stated that it should be noted that the information within the report were still subject the external auditors review and that it was hoped that this would be completed by the end of September.

9.4 The officer informed members that on page 82, paragraph 4.3 of the report the 2018/19 Authorised Limit should state £148.000 for Babergh and £171.000 for Mid Suffolk.

9.5 Councillor Lindsey asked that as the Councils had approved motions to declare a climate emergency at full Council what proportion of investments were in fossil fuels. Katherine Steel, Assistant Director – Corporate Resources stated that that information was not available at the meeting but would be provided at a later date.

9.6 Councillor Hurren enquired why monies invested in the Funding Circle were being withdrawn. The Senior Financial Services Officer stated that the Funding Circle was a pool that national and local companies could apply to for funding and that the returns had not been as expected due to not as many applications being received as expected, therefore the decision had been made to withdraw investment to invest in other ways that provided more reward. The Assistant Director – Corporate Resources stated that the Funding Circle had also changed the way investments were made including the associated risks and the

view was taken that the risk was now too high which had also informed the decision to withdraw investments.

9.7 Councillor Warboys raised that there seemed to be a difference in the degree of uncertainty between this report and the CIFCO report to full council and asked if there was a reason for this. The Assistant Director – Corporate Resources stated that the differing views were due to this report being written by accountants who would be more prudent and possibly more pessimistic in their views but as Section 151 officer she was comfortable with CIFCO activities.

9.8 Councillor McCraw asked if his view that the rates of return from investments were a higher rate of return than the rates of interest that are being paid on borrowing was correct. It was confirmed that this was correct. Councillor McCraw also sought assurance that the council borrowing position was within safe fiscal limits. Melissa Evans – Corporate Manager – Finance stated that the difference between the actual borrowing and the authorised borrowing limits was due to reserves being available to reduce the amount of borrowing needed.

9.9 Councillor McCraw stated that by his calculation the annual interest of £2.69 million for Babergh and £4.02 million for Mid Suffolk and asked if a higher amount of interest which will come out of the budget for the forthcoming year than last year and what will be the impact on subsequent budgets? The Corporate Manager – Finance stated that the interest had already been included in the budget.

9.10 Councillor McCraw enquired if there were plans to flatten the peak within 10 and 20 years of borrowing maturity in Table 13 on page 85 of the report. The Assistant Director – Corporate Resources stated that the peak was due to HRA borrowing and that the difference between Babergh and Mid Suffolk was due to the Section 151 officer for Babergh taking a different view to the Section 151 officer for Mid Suffolk at the time of the borrowing. There may be penalties to repay early and the spike will be reduced if possible. Councillor McCraw asked if plans were in place to mitigate any problems in the future. The Assistant Director – Corporate Resources reported that reserves were being built up on an annual basis.

Recommendation 3.1 was proposed by Councillor Norris and Seconded by Councillor McCraw. By unanimous vote.

**It was RESOLVED:-**

**That the treasury management activity for the year 2018/19 be noted and that it also be noted that performance was in line with the Prudential Indicators set for 2018/19.**

Recommendation 3.2 was proposed by Councillor Hurren and Seconded by Councillor Granger-Howard. By unanimous vote.

**It was RESOLVED:-**

**That it be noted that Babergh District Council treasury management activity for 2018/19 was in accordance with the approved Treasury Management Strategy, and that, except for one occasion when the Council exceeded its daily bank account limit with Lloyds by £391k, as mentioned in Appendix C, paragraph 4.6, the Council has complied with all the Treasury Management Indicators for that period.**

Recommendation 3.3 was proposed by Councillor Warboys and Seconded by Councillor Norris. By unanimous vote.

**It was RESOLVED:-**

**That it be noted the Mid Suffolk District Council treasury management activity for 2018/19 was in accordance with the approved Treasury Management Strategy, and that the Council has complied with all the Treasury Management Indicators for that period.**

**10 JAC/19/5 END OF YEAR RISK POSITION STATEMENT AND PROGRESS REPORT AND REVISIONS TO RISK MANAGEMENT STRATEGY**

10.1 Claire Crascall, Internal Audit and Risk Management Officer presented the report detailing movements of significant risks up to 31st March 2019. It was stated that there were 27 risks of which 16 were classed as Meduim, 9 High and 2 Very High.

10.2 Councillor Hurren asked if risk 1a could be improved as it appeared that it was market driven. The officer stated that she would seek further detail and provide it to members at a later date.

10.3 Councillor Lindsey raised a concern that the housing mix not being secured increased the risk of not meeting housing demand. The officer stated that she would pass the comments and concerns on to the relevant officers.

10.4 Councillor Warboys stated that the fact that risk 4c on page 97 of the report was red was quite serious as it was a large investment and enquired if anything had changed or put in place to mitigate this risk. The Assistant Director – Corporate resources stated that a delivery model was being actively worked on and would be brought forward shortly. Councillor Warboys asked if this was linked to CIFCO. The Assistant Director - Corporate Resources stated that it was totally separate.

10.5 Councillor Muller asked if the action in risk 2d on page 107 of the report complete Stowmarket Technology Hub feasibility study – June 2019 had been completed. The Internal Audit and Risk Management Officer stated that she would seek further details from the Assistant Director and report back at a later date. Councillor Muller noted that several risk actions stated that they would be completed in June 2019 and asked that an update be provided at the next meeting for these.

The recommendation was Proposed by Councillor McCraw and Seconded by Councillor McLaren. By unanimous vote.

**It was RESOLVED:-**

**(1) That the contents of this report, supported by Appendix A, B and C, be noted.**

**11 JAC/19/6 REPORT FROM THE MONITORING OFFICER**

11.1 Janice Robinson, Corporate Manager – Democratic Services presented the report which detailed the code of conduct complaints received from 31 October 2018 to July 2019 and provided an update on Local Government Ethical Standards best practice for review. Regarding code of conduct complaints it was stated that queries had been received regarding referrals to the police, it was stressed that these were necessary for complains about disclosable pecuniary interests as these were a criminal matter and should be investigated by the police not the Monitoring Officer and that most of the complaints are mostly against Parish Councillors and that very few have been received against District Councillors.

11.2 The Corporate Manager – Democratic Services also reported that she and two Councillors recently sat on a Joint Standards Committee hearing regarding a complaint against Councillors from other Councils, some of which had been reported in the press and also sought opinion from the committee regarding best practice 15 on page 151 of the report.

11.3 Councillor Warboys enquired how much time is spent dealing with code of conduct complaints. The Corporate Manager – Democratic Services stated that it was dependant on the type of complaint received and that an initial assessment was undertaken when a complaint was received which may result in the complaint being rejected due to it not being covered by the code of conduct. More complex complaints could take up to a year.

11.4 Councillor McCraw asked what the timescale was for a complaint received that was not a breach of the code of conduct. The officers stated that a response would be made within 20 days.

11.5 Councillor McCraw stated that the numbers of complaint received seemed higher than usual. The officer stated that a number of complaints were received just before and just after the election and that this was to be expected.

11.6 Councillor Norris suggested that the formatting of the table on page 142 be looked at to make the information clearer. The Corporate Manager – Democratic Services stated that a more workable format would be used in future.

11.7 Councillor Lindsey stated that he did not think it necessary to adopt best practice 15 on page 151 and asked why the recommendation was made. The Corporate Manager – Democratic Services stated that it was her opinion that it was to try to get discipline within groups but because of the culture that exists within the council it was hoped that if there was an issue within a group officers were approachable enough to have a conversation about it without the need for regular scheduled meetings. Councillor McCraw stated that he felt that it was not officers role to sort political group problems.

11.8 Councillor Warboys asked is Parish Councils were made aware of training available. The Corporate Manager – Democratic Services said that although we are always happy to offer help to Parish Councils but SALC should be a Parish Councils first contact.

The recommendations were Proposed by Councillors Hurren and Seconded by Councillor Grainger-Howard. By unanimous vote.

**It was RESOLVED:-**

**(1) That the Code of Conduct Complaints monitoring information contained in Paper JAC/19/6 be noted.**

**(2) That JASC consider the recommendations from the CPSL report and decide if any further action is required.**

**12 JAC/19/7 FORWARD PLAN**

12.1 Councillor Muller stated that the next meeting is due to be 30th September.

12.2 Councillor Lindsey asked if the committee was able to scrutinise the Public Sector Leaders Board and if this could be included in a future agenda. Councillor Muller stated that he was not aware of this being happening before. Councillor McCraw stated that he was not sure if it was possible for either Overview or Scrutiny or Joint Audit to look at because they are separately elected by each council. The Corporate Manager – Democratic Services stated that the governance arrangement for the Public Sector Leaders Board would come under Suffolk County Council but that she would investigate further and feedback to the committee at a late date.

12.3 Councillor Warboys enquired as the Councils had declared a climate emergency whether this would be incorporated in the risk management in the future. The Corporate Manager – Internal Audit said that this would be raised with SLT.

**Duration of the meeting:** 9.30 - 11.00 am

Chairman at the meeting on
Monday, 29 July 2019

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**BABERGH and MID SUFFOLK DISTRICT COUNCILS**

| | |
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| **COMMITTEE:** **Joint Audit and Standards Committee** | **REPORT NUMBER:** **JAC/19/9** |
| **FROM:** **Katherine Steel, Assistant Director, Corporate Resources** | **DATE OF MEETING: 27 January 2020** |
| **OFFICER:** **Melissa Evans, Corporate Manager, Finance, Commissioning & Procurement.** **Sue Palmer, Senior Financial Services Officer** | **KEY DECISION REF NO.** |

## STATEMENT OF ACCOUNTS 2018/19 AND AUDITOR'S REPORT

### 1. PURPOSE OF REPORT

1.1 This report provides an update on the audit of the Statement of Accounts for 2018/19.

1.2 The audit has not yet been completed and an initial joint auditor's results report for the year for Babergh District Council and Mid Suffolk District Council, is attached in Appendix A. This provides members with information about the work done to date and the plan for the completion of the audit.

1.3 As a result of this, the Committee will not be able to sign off the auditor's report or the Statement of Accounts for 2018/19 at this meeting, but instead can agree delegation to the Councils' S151 Officer and the Chairs to sign the accounts (including the auditors unqualified opinion) once completed.

### 2. OPTIONS CONSIDERED

2.1 This is a statutory report and there are no options to consider.

### 3. RECOMMENDATIONS

3.1 Delegation be given to the Councils' S151 Officer and the Chairs to sign the accounts (including the auditors unqualified opinion) once completed. This will include:

3.2 That the joint external auditor's report for 2018/19, once complete, be approved.

3.3 That the Statement of Accounts for 2018/19 for Babergh District Council, produced following the completion of the audit be approved.

3.4 That the Statement of Accounts for 2018/19 for Mid Suffolk District Council produced following the completion of the audit be approved.

**REASON FOR DECISION**

For the Committee to approve the external auditors report and the statement of accounts for 2018/19.

## 4. KEY INFORMATION

4.1 The audit has not yet been completed at the time of preparing this report, and the Auditor, Ernst and Young, will give a verbal update at the meeting of the latest position on the work that has been completed, in progress and not yet started.

4.2 The Statement of Accounts included at Appendices B and C show highlighted amendments made as a result of the audit work completed so far. The Statements cannot be properly finalised until the audit has been fully completed.

4.3 When the audit is completed the Councils expect that there will be no significant findings to report and the Auditor to issue:

- An unqualified true and fair opinion in the financial statements; and
- An unqualified value for money conclusion

## 5. LINKS TO THE JOINT CORPORATE PLAN

5.1 There are no direct links to the Joint Corporate Plan from this report but producing the Statement of Accounts helps to demonstrate sound financial management practices. In turn, these sound financial management practices will help support the Councils through their aims and objectives set out in the Joint Corporate Plan, including ensuring the long-term financial sustainability of the Councils.

Ernst and Young LLP audit both Councils' accounts and an initial joint audit report has been prepared and will be presented by the external auditors.

## 6. FINANCIAL IMPLICATIONS

6.1 A review by the Councils' Finance Team and the audit work completed to date, identified a change to the reported financial position, for each Council's General Fund, as identified below. The audit of the Councils' Housing Revenue Account has not started, so there are no changes to report. Any further changes identified after the publication of this report will be reported to the Committee.

6.2 The Finance Team's review identified a Housing Benefit subsidy debtors' accrual of £158k for Babergh and £204k for Mid Suffolk, which should not have been recognised in 2018/19 because it had been received before the year end. This adjustment has reduced the surplus on the General Fund and subsequent transfer to the Business Rates Equalisation Reserve for Babergh and the Welfare Reform Reserve for Mid Suffolk.

## 7. LEGAL IMPLICATIONS

7.1 There are no legal implications arising from this report.

## 8. RISK MANAGEMENT

8.1 This report is most closely linked to significant risk no. 13 “If we do not respond to our projected financial position we may be unable to react in a timely and effective way to financial demands, then we will be unable to deliver the entirety of the Councils’ Corporate Plan”. Key risks are set out in the following table:

| Risk Description | Likelihood | Impact | Mitigation Measures |
|---|---|---|---|
| If there are material misstatements in the accounts or non-compliance with accounting requirements, then this could result in a possible ‘qualified’ audit opinion or unfavourable audit report. | 2-Unlikely | 2-Noticeable | Aim to obtain an unqualified ‘true and fair’ opinion from the external auditors as a result of:<br>• Clear arrangements for ensuring compliance with accounting requirements.<br>• Analytical review of the outturn against previous year and the Budget.<br>• Early discussion on key issues with the auditors. |
| If issues or concerns are raised by the public from the right to inspect the accounts, then this could have an impact on the Council’s reputation | 2-Unlikely | 1-Minimal | Open and transparent arrangements and publication of the public’s right to inspect the accounts. |

## 9. CONSULTATIONS

9.1 None.

## 10. EQUALITY ANALYSIS

10.1 An equality analysis has not been completed because the report content does not have any impact on the protected characteristics.

## 11. ENVIRONMENTAL IMPLICATIONS

11.1 All Council activities will need to be reviewed as part of the work of the Climate Change Task Group and the Councils' ambition to be carbon neutral by 2030.

## 12. APPENDICES

| Title | Location |
|---|---|
| (a) External Auditor's joint Initial Audit Results Report for 2018/19 | Appendix A |
| (b) Babergh District Council Statement of Accounts 2018/19 unaudited | Appendix B |
| (c) Mid Suffolk District Council Statement of Accounts 2018/19 unaudited | Appendix C |

# Babergh and Mid Suffolk District Councils
## Audit results report

Year ended 31 March 2019

16 January 2020



Building a better working world

16 January 2020

Dear Joint Audit and Standards Committee Members

We are pleased to attach our initial Audit Results Report in advance of the forthcoming meeting of the Joint Audit and Standards Committee (the Committee). This report outlines the status of the audit of Babergh and Mid Suffolk District Councils for 2018/19.

The Committee will be aware that owing to our own resourcing challenges we rescheduled the audit of the accounts until October 2019. As at the date of this report our audit is in progress and we have identified some adjustments to the statement of accounts.

Subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 after the Committee meeting. We will have no matters to include in the auditor's report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Joint Audit and Standards Committee, other members of each Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Joint Audit and Standards Committee meeting on 27 January 2020.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

# 01 Executive Summary

# Executive Summary

## Scope update

In the Audit Plan that we presented at the January 2019 Joint Audit and Standards Committee (the Committee) meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We are carrying out our audit in accordance with this plan but have made small changes to materiality using the draft financial statements.

| | Babergh (£m) | | Mid Suffolk (£m) | |
|---|---|---|---|---|
| | Planning | Final | Planning | Final |
| Materiality | 1.115 | 1.117 | 1.221 | 1.232 |
| Performance materiality | 0.836 | 0.838 | 0.916 | 0.924 |
| Reporting threshold | 0.056 | 0,056 | 0,061 | 0,062 |



## Status of the audit

In April 2019 we informed the Assistant Director – Corporate Resources that due to our resourcing issues we needed to reschedule the audit of the Council's accounts until after the end of July. We subsequently agreed to an October start date with the aim of reporting a completed position before the end of December. As at 16 January our audit is in progress and we anticipate completion of the procedures outlined in the Audit Plan by early February. We acknowledge that there has been an adverse impact on the pace of audit progress from carrying out the audit when officers are busy with other duties. We also recognise that our resourcing has been effected by overrunning audits elsewhere. In addition, we have identified some audit differences, which we summarise overleaf, which has required additional audit time. The Council has agreed to make the necessary changes and prepare a revised set of statements once we have completed the majority of our audit procedures.

Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise. We are currently completing:

| | | | |
|---|---|---|---|
| Debtors | Property, plant & equipment | Creditors | Collection Fund |
| Payroll | Other expenditure | Reserves | Other income |
| Financial instruments (revised figures and working papers) | Group consolidation | Value for money documentation | General provisions |

We still need to commence:

| | | |
|---|---|---|
| Disclosures | Housing Revenue Account | NDR Appeals provision |

# Executive Summary

## Status of the audit (continued)

We will provide the Committee with an update of the above procedures. Once we have completed the above procedures we will be:

- Requesting and then reviewing the final version of the financial statements;
- Completing a subsequent events review;
- Requesting and then reviewing the management representation letter; and
- Completing our final review procedures.

We will update the Committee on progress of these items at the meeting on the 27 January 2020 and will prepare a final Audit Results Report on completion.

## Audit differences

There are currently no unadjusted audit differences arising from our audit.

In respect of adjustments, in common with other local authorities the Council has had to respond to a national issue which has required a late and pervasive change to the accounts and related IAS19 Pensions liability disclosures. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. Since the 31 March year-end there has been additional evidence, including a legal ruling by the Supreme Court which rejected the Government's appeal, and suggested that the associated liabilities to the ruling should in fact be able to be fully calculated and so included within the financial statements of admitted bodies. In addition, there has been some movement on the Guaranteed Minimum Pension (GMP) ruling. In summary, the changes have increased the past service costs and in turn the pensions liability figure by approximately £296,000 for Babergh and £401,000 for Mid Suffolk. In addition, the actual value of pension assets included in the revised IAS19 report increases the pensions liability for Babergh by £218,000 and for Mid Suffolk £225,000.

In addition we have identified that the Councils need to amend note 34 to the accounts in respect of Financial instruments.

Until our work is complete, further amendments may arise. We will update the Joint Audit and Standards Committee should any further adjustments arise from our remaining work.

# Executive Summary

## Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Authority's financial statements. We summarise below our latest findings.

| Significant risk | Findings & conclusions |
|---|---|
| Misstatements due to fraud or error – management override of controls | Our testing remains in progress. |
| Misstatements due to fraud or error – the incorrect capitalisation of revenue expenditure | Our testing remains in progress. |

| Other area of audit focus | Findings & conclusions |
|---|---|
| Property, Plant and Equipment valuations | Our work on this area is in progress. |
| Pension Valuation and Disclosures | We have completed our testing and agreed audit adjustments of £514,000 for Babergh and £626,000 for Mid Suffolk increasing the pension liability due to the changes for McCloud, GMP and investment valuations. |
| Group accounts | We have yet to review the group consolidation working papers. |
| New accounting standards | We have considered management's impact assessment. We identified a need to amend note 34 in relation to Financial Instruments and IFRS9 which management have agreed to correct. |

This report sets out our latest observations and conclusions on the above matters, and any others identified, in the "Areas of Audit Focus" section of this report. We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues; and
- You agree with the resolution of the issues; and there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention. We will issue a final report on completion of our audit procedures.

# Executive Summary

## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

## Value for money

In the Audit Plan we did not identify any significant risks in respect of the value for money conclusion. We have reassessed this consideration at the year end and have not identified any new risks. As a result we have no matters to report in respect of value for money.

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. The Council is below the testing threshold set by the NAO for detailed procedures on the consolidation return, we therefore did not have any issues to report.

## Independence

Please refer to Section 8 for our update on Independence. There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## Correspondence

We have received no correspondence from the public or other interested parties and therefore have not had to consider exercising our other audit powers.

# 02 Areas of Audit Focus

# Significant risk

## Misstatements due to fraud or error – management override of controls

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.
As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.
We have not identified a heightened risk of management override overall, but we have identified a specific area where management override might occur: incorrect capitalisation of revenue spending. Our specific response to this risk is set out in the next slide.

### What judgements are we focused on?

We have considered the risk of management override and the areas of the financial statements that may be most susceptible to this risk.

### What did we do?

- Identified fraud risks during the planning stages.
- Asked management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Determined an appropriate strategy to address those identified risks of fraud.
- Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements
- Reviewing critical judgements made by management in applying accounting policies. f uncertainty.

### What are our conclusions?

Our journals testing is complete:

- We have not identified any material weaknesses in controls or evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied.
- We have not identified any other transactions during our audit which appear unusual or outside the Council's normal course of business.

# Significant risk

## Misstatements due to fraud or error – the incorrect capitalisation of revenue expenditure

### What is the risk?

The Council is under financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets.

We consider the risk applies to capitalisation of revenue expenditure. Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charged to the comprehensive income and expenditure account.

### What judgements are we focused on?

We have identified a risk of expenditure misstatement due to fraud or error that could affect the income and expenditure accounts.

We have focused on the Council's judgement that an item is capital expenditure in nature.

### What did we do?

Our approach focused on:

- Sample testing additions to property, plant and equipment to ensure that they had been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised; and
- Using our data analytics tool to identify and test journal entries that moved expenditure into capital codes.

### What are our conclusions?

- Our sample testing of additions to property, plant and equipment is in progress and we will report our findings on completion
- Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.

# Significant risk

## Valuation of land and buildings

### What is the risk?

The fair value of land and buildings represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

There is a risk that the value of land and buildings in the Council's accounts is materially misstated for 2018/19.

### What did we do?

- Considered the work performed by the Council's external valuer, including the adequacy of the scope of the work performed, their professional capabilities, the results of their work covering the judgements and assumptions made in assessing the impact the capital works have on the property's value;
- Reviewed and sample tested the key asset information provided by the Council to the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Reviewed and sample tested the key assumptions used by the valuer in performing their valuation, by cross referencing to available market data for similar properties within the region (e.g.: value of developed and undeveloped land);
- Considered the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the Code. We have also considered whether any specific changes to assets (which would impact its value) have been communicated to the valuer;
- Considered changes to useful economic lives as a result of the most recent valuation;
- Performed a reasonableness review on the valuation of assets not included in the 2018/19 valuation cycle, via reference to the NAO commissioned Local Government Gerald Eve report. This is performed to confirm that the remaining asset base is not materially misstated;
- Considered whether asset categories held at cost have been assessed for impairment and are materially correct; and
- Tested that the accounting entries have been correctly processed in the financial statements, including the treatment of impairments.

### What are our conclusions?

This work is in progress

# Significant risk

## Pension liability valuation

### What is the issue?

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council.

The Councils pension fund deficits are material estimated balances and the Code requires that this liability be disclosed on the balance sheet. At 31 March 2019 this totalled £22.9m for Babergh and £32.4m for Mid Suffolk. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.



### What did we do?

- Liaised with the auditors of the Suffolk County Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council.
- Assessed the work of the pension fund actuary (Hymans Robertson LLP) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We also considered outturn information available at the time of the audit after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required. Finally, we liaised with officers to understand the implications of the GMP and McCloud ruling and reviewed the changes made to the statements.

### What are our conclusions?

We concluded that we could rely on the work of the actuary and that the values and entries from the actuarial report were correctly reflected in the draft financial statements.

The Councils re-engaged the actuary to estimate the impact of the McCloud ruling and GMP on the pensions liability. We reviewed the Council's assessment of the impact and confirmed that the planned changes to the accounts were reasonable.

We also reviewed and agreed with the planned changes to reflect the difference between the year-end actual value of pension fund assets and the estimate used to inform the actuary's assessment of the IAS 19 liability.

The pension liability has increased by £514,000 for Babergh and £626,000 for Mid Suffolk.

# Areas of Audit Focus

## Other Areas of Audit Focus – Group accounts

Each Council prepares group accounts to consolidates its wholly owned companies and respective 50% share in CIFCO Capital Ltd into its group accounts. There is an inherent risk in ensuring that the group accounts reflect fairly the financial position and performance of the component.

We will review the arrangements and controls the Councils have used to consolidate these companies as well as checking the consolidation adjustments. We have carried out procedures to gain assurance over the work of the auditor of these companies.

Whilst we were satisfied with the work of the component auditor we have yet to complete our review of the arrangements that the Councils have in place to consolidate each of the companies into their group accounts.

## Other Areas of Audit Focus – New accounting standards



The Code requires the Authority to comply with the requirements of two new accounting standards for 2018/19 and make preparations for another new standard for 2020/21. These standards are:

- IFRS 9 – Financial instruments
- IFRS 15 – Revenue from contracts
- IFRS 16 – Leases

There is an inherent risk in relation to implementing new accounting standards and carrying out a sufficient assessment and evaluation.

| Standard | Audit Findings |
|---|---|
| IFRS 9 – Financial Instruments | We identified that the Councils need to amend note 34 relating to financial instruments. |
| IFRS 15 – Revenue from Contracts | Our audit procedures for revenue from contracts have not identified any audit issues. We are currently still concluding our work in this area. |
| IFRS 16 – Leases | IFRS 16 replaces IAS 17 Leases and its related interpretations, it will apply to the 2020/21 financial statements.<br>The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the authority.<br>We are currently considering the Councils implementation plans and preparedness for IFRS 16. |

# 03 Audit Report

## Our draft opinion on the financial statements

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS BABERGH DISTRICT COUNCIL [ILLUSTRATIVE OF BOTH COUNCILS]**

**Opinion**

We have audited the financial statements of Babergh District Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Comprehensive Income and Expenditure Statement
- Authority and Group Movement in Reserves Statement
- Authority and Group Balance Sheet
- Authority and Group Cash Flow Statement
- Authority related notes 1 to 31 and notes to the Group accounts
- Housing Revenue Account and related notes 1 to 19
- Collection Fund and the related notes 1 to 7.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Babergh District Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Assistant Director – Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Assistant Director – Corporate Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Our draft opinion on the financial statements

**Other information**

The other information comprises the information included in the Statement of Accounts 2018/19, other than the financial statements and our auditor's report thereon. The Assistant Director – Corporate Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinion on other matters prescribed by the Local Audit and Accountability Act 2014**

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Babergh District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

**Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

## Our draft opinion on the financial statements

**Responsibility of the Assistant Director – Corporate Resources**

As explained more fully in the Statement of Responsibilities set out on page 16, the Assistant Director – Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Assistant Director – Corporate Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether Babergh District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Babergh District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

## Our draft opinion on the financial statements

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Babergh District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Certificate**

We certify that we have completed the audit of the accounts of Babergh District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

**Use of our report**

This report is made solely to the members of Babergh District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Suresh Patel (Key Audit Partner)*
*Ernst & Young LLP (Local Auditor)*
*Cambridge*
*XX XXXXXXX 2019*


# 04 Audit Differences

# Audit Differences

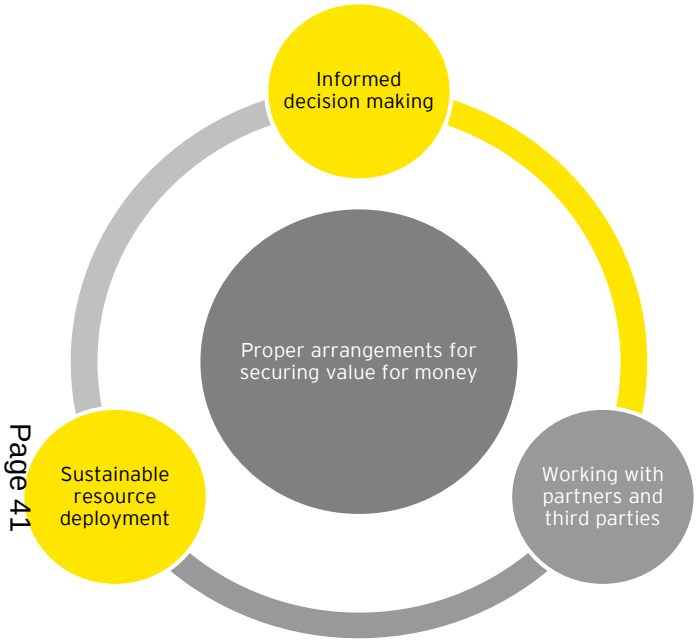
In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of adjusted differences

We have included the differences identified to date above the reporting threshold in the Executive Summary. We will include any further differences we identify in the final report.

# 05 Value for Money Risks

# Value for Money






## Background

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

## Overall conclusion

We did not identify any significant risks around these arrangements. We have reconsidered our initial assessment and have not identified any new risks.

We have no matters to include in the auditor's report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

# 06 Other reporting issues

# Other reporting issues

## Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

## Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

As the Authority falls below the £500 million threshold for review as per the NAO's group instructions, we are not required to undertake detailed procedures on your consolidation schedule.

## Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

# 07 Assessment of Control Environment

# Assessment of Control Environment

**Financial controls**

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

# 08 Independence

# Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Plan presented in January 2019.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. **In** our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Finance and Assets Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Joint Audit and Standards Committee on 27 January 2020.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.



# Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.
There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

**Services provided by Ernst & Young**

The table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

# Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019. In our Audit Plan we indicated a range for the additional audit work we were aware of at that time. We have indicated the final additional fee where that work is complete.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements, though we are engaged to act as reporting accountant in respect of the Housing Benefit Subsidy claim, as set out below. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

| Babergh District Council | Final fee 2018/19 | Planned fee 2018/19 | Final Fee 2017/18 |
|---|---|---|---|
| | | £ | £ |
| Scale fee | 37,585 | 37,585 | 48,812 |
| Audit of group accounts (note 1) | 3,000-5,000 | 3,000 - 5,000 | 3,995 |
| Analytics additional time required | - | - | 3,500 |
| Total audit | **TBC** | **40,585 - 42,585** | **58,507** |
| Other non-audit services not covered above Housing Benefits Subsidy Claim | TBC | 18,700 | 23,051 |
| Total other non-audit services | TBC | 14,960 | 14,038 |
| Total fees | **TBC** | **56,915 - 60,915** | **66,688** |

*All fees exclude VAT. We will agree the additional fees with the Assistant Director – Corporate Resources before seeking approval from PSAA.*

**Note 1: We will confirm the final fee regards group accounts on completion of the audit.**

# Fee analysis

| Mid Suffolk District Council | Final fee 2018/19 | Planned fee 2018/19 | Final Fee 2017/18 |
|---|---|---|---|
| | | £ | £ |
| Scale fee | 33,437 | 33,437 | 43,425 |
| Audit of group accounts (note 1) | 3,000-5,000 | 3,000 - 5,000 | 3,995 |
| Analytics additional time required | - | - | 3,500 |
| Total audit | **TBC** | **36,437 - 38,437** | **53,120** |
| Other non-audit services not covered above<br>Housing Benefits Subsidy Claim | TBC | 18,700 | 18,665 |
| Total other non-audit services | TBC | 18,700 | 18,665 |
| Total fees | **TBC** | **55,137 - 57,137** | **71,785** |

*All fees exclude VAT. We will agree the additional fees with the Assistant Director – Corporate Resources before seeking approval from PSAA.*

Note 1: We will confirm the final fee regards group accounts on completion of the audit.

# 09 Appendices

# Appendix A

## Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework



| Balance sheet category | Audit Approach in current year | Audit Approach in prior year | Explanation for change |
|---|---|---|---|
| Property, plant and equipment | Substantively test all relevant assertions | Substantively tested all relevant assertions | No change |
| Investment properties | | | |
| Short term debtors | | | |
| Short & long term borrowing | | | |
| Short & long term creditors | | | |
| Provisions | | | |
| Other long term liabilities | | | |
| Capital grants received in advance | | | |
| Reserves | | | |

# Appendix B

## Required communications with the Joint Audit & Standards Committee

There are certain communications that we must provide to the audit committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Terms of engagement | Confirmation by the Joint Audit & Standards Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter. | Audit Plan – Jan 2019 |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit Plan – Jan 2019 |
| Significant findings from the audit | ▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures<br>▸ Significant difficulties, if any, encountered during the audit<br>▸ Significant matters, if any, arising from the audit that were discussed with management<br>▸ Written representations that we are seeking<br>▸ Expected modifications to the audit report<br>▸ Other matters if any, significant to the oversight of the financial reporting process | Audit Results Report – January 2020 |

# Appendix B

| Required communications | What is reported? | Our Reporting to you<br>When and where |
|---|---|---|
| Going concern | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:<br>▸ Whether the events or conditions constitute a material uncertainty<br>▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>▸ The adequacy of related disclosures in the financial statements | No conditions or events were identified, either individually or together to raise any doubt about Babergh and Mid Suffolk District Councils ability to continue for the 12 months from the date of our report |
| Misstatements | ▸ Uncorrected misstatements and their effect on our audit opinion<br>▸ The effect of uncorrected misstatements related to prior periods<br>▸ A request that any uncorrected misstatement be corrected<br>▸ Material misstatements corrected by management | Audit Results Report – January 2020 |
| Subsequent events | ▸ Enquiry of the Joint Audit & Standards Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. | Audit Results Report – January 2020 |
| Fraud | ▸ Enquiries of the Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority<br>▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>▸ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:<br>a. Management;<br>b. Employees who have significant roles in internal control; or<br>c. Others where the fraud results in a material misstatement in the financial statements.<br>▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected<br>▸ Any other matters related to fraud, relevant to the Committee's responsibility. | Audit Results Report – January 2020 |

# Appendix B

| Required communications | What is reported? | Our Reporting to you<br>When and where |
|---|---|---|
| Related parties | Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:<br>▸ Non-disclosure by management<br>▸ Inappropriate authorisation and approval of transactions<br>▸ Disagreement over disclosures, Non-compliance with laws and regulations<br>▸ Difficulty in identifying the party that ultimately controls the Authority | Audit Results Report – January 2020 |
| Independence | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:<br>▸ The principal threats<br>▸ Safeguards adopted and their effectiveness<br>▸ An overall assessment of threats and safeguards<br>▸ Information about the general policies and process within the firm to maintain objectivity and independence<br>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.<br>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:<br>▸ Relationships between EY, the company and senior management, its affiliates and its connected parties<br>▸ Services provided by EY that may reasonably bear on the auditors' objectivity and independence<br>▸ Related safeguards<br>▸ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees<br>▸ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit | Audit Plan – Jan 2019 and<br>Audit Results Report – Jan 2020 |

# Appendix B

| Required communications | What is reported? | Our Reporting to you<br>When and where |
|---|---|---|
| | ▸ Details of any inconsistencies between the Ethical Standard and Authority's policy for the provision of non-audit services, and any apparent breach of that policy<br>▸ Details of any contingent fee arrangements for non-audit services<br>▸ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard<br>▸ The Committee should also be provided an opportunity to discuss matters affecting auditor independence | |
| External confirmations | ▸ Management's refusal for us to request confirmations<br>▸ Inability to obtain relevant and reliable audit evidence from other procedures. | We have received all requested confirmations |
| Consideration of laws and regulations | ▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur<br>▸ Enquiry of the Performance, Audit and Governance Oversight Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of | We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations |
| Significant deficiencies in internal controls identified during the audit | ▸ Significant deficiencies in internal controls identified during the audit. | Audit Results Report – January 2020 |

# Appendix B

| Required communications | What is reported? | Our Reporting to you<br>When and where |
|---|---|---|
| Written representations | ▸ Written representations we are requesting from management and/or those charged with governance | Audit Results Report – January 2020 |
| Material inconsistencies or misstatements | ▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit Results Report – January 2020 |
| Auditors report | ▸ Any circumstances identified that affect the form and content of our auditor's report | Audit Results Report – January 2020 |
| Fee Reporting | ▸ Breakdown of fee information when the audit plan is agreed<br>▸ Breakdown of fee information at the completion of the audit<br>▸ Any non-audit work | Audit Plan – Jan 2019 and<br>Audit Results Report – January 2020 |

EY | Assurance | Tax | Transactions | Advisory

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ED None



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Babergh District Council

# Statement of Accounts

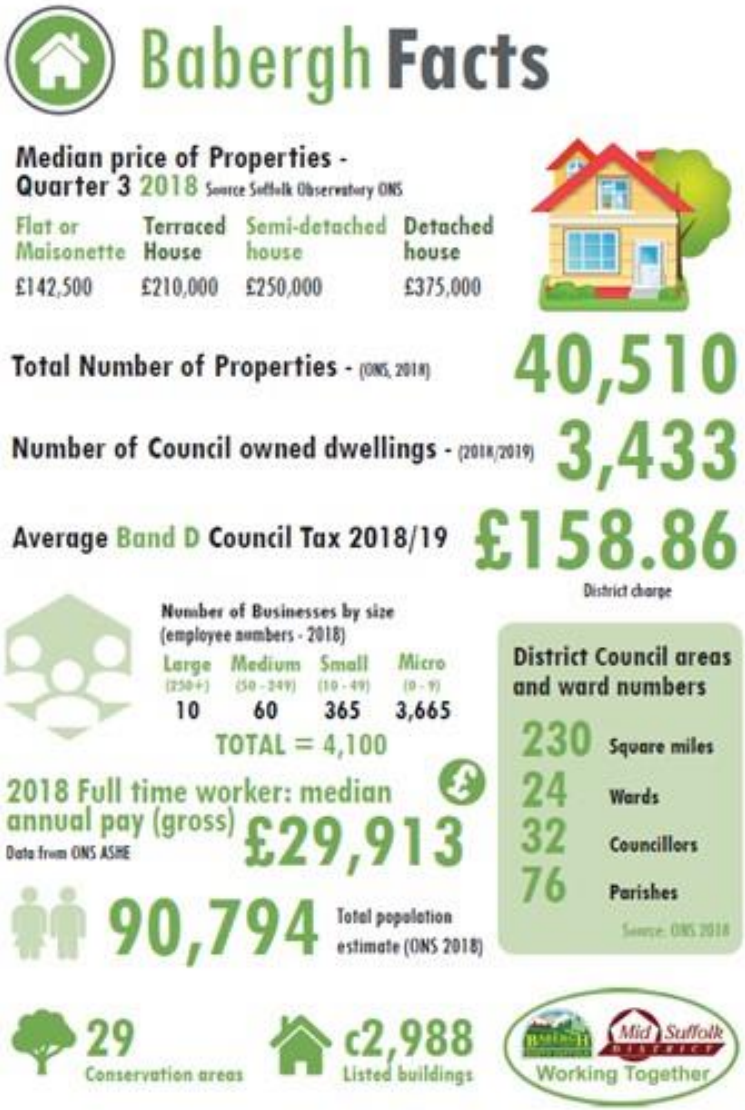
## 2018/19 Unaudited v3

# Contents

# Section 1

## Narrative Report and Statement of Responsibilities

## 1. About the Council



## 2. The Council's Performance

# Babergh Facts
## Performance

**87.17%** of major applications were determined 'in time' during 2018/19.

The Joint Waste Service emptied over **5.2 million** refuse, recycling and garden waste bins and collected over **61,000 tonnes** of waste & recycling, that is equivalent to 12,200 elephants!

The time to process new Housing Benefit/ Council Tax Reduction claims decreased by **22%** in 2018/19.

Babergh purchased **37** 'Market sale homes' within the district to add to the Council Stock.

Disabled Facilities Grants - Awarded **23 DFG's** in Babergh to the value of £186,285.36, to support people to continue living independently.

Working Together

# Narrative Report

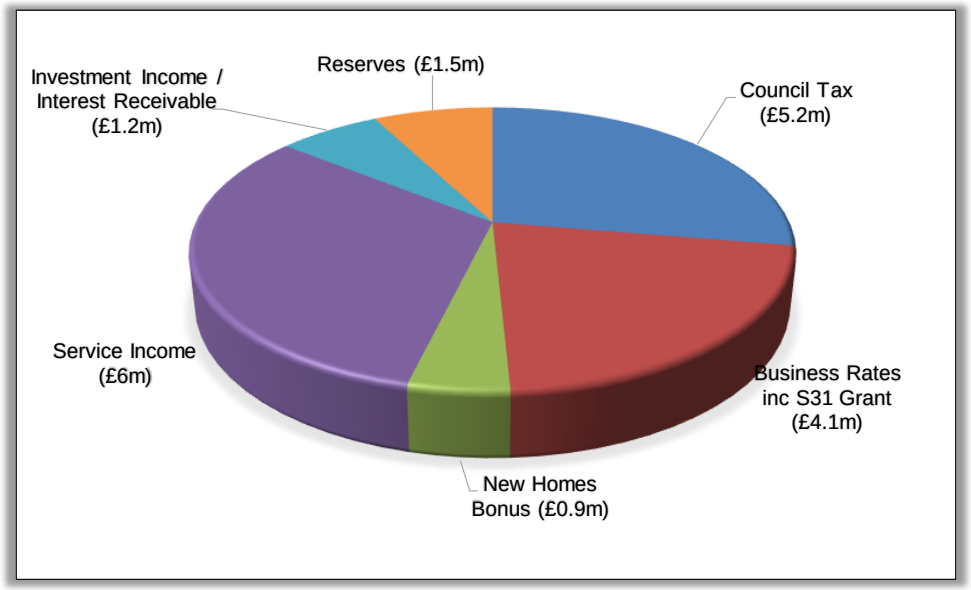
## 3. Financial Performance

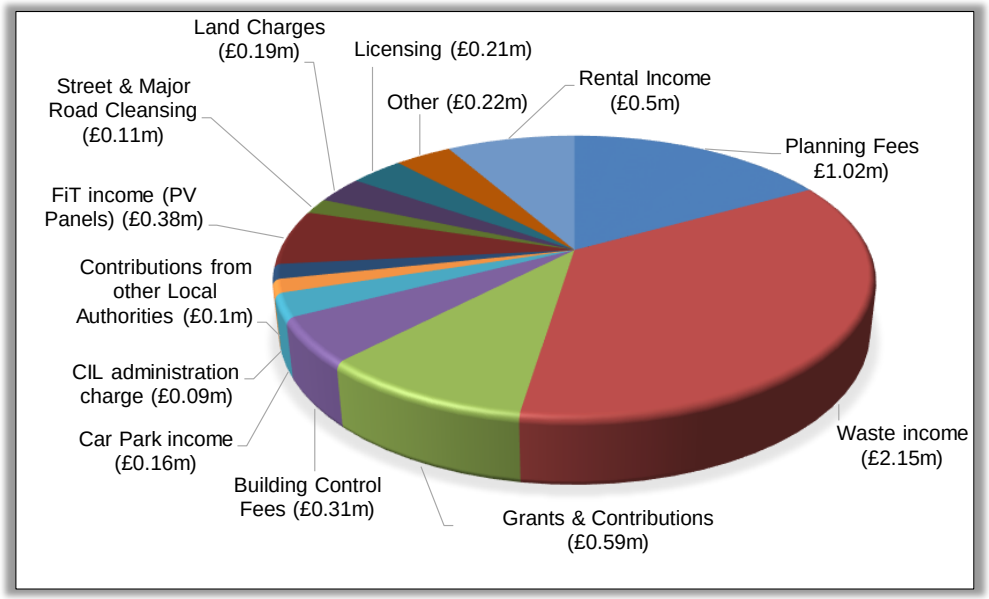
### The General Fund

**Income**

In 2018/19 the Council's income was **£18.9m**, of this 25% was from Council Tax, 20% from Business Rates, 29% from Service Income, 4% from New Homes Bonus, 16% coming from Reserves and 6% from Investment Income and Interest Receivable.

36% of the **£6m** Service Income was generated by the waste service, 17% was from planning fees and 10% from grants and contributions.

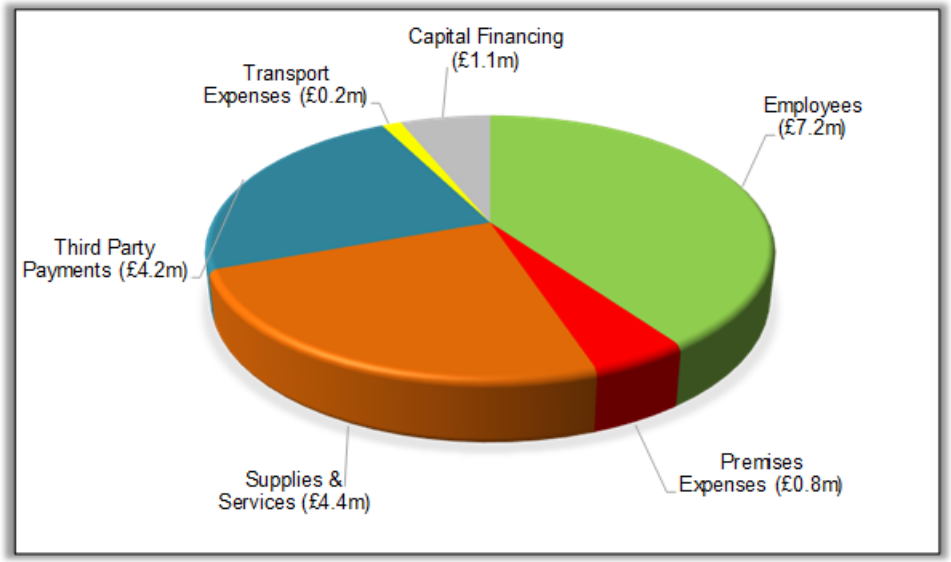


## 3. Financial Performance

### Expenditure

In 2018/19 the Council spent **£17.9m**, of which 40% was on employee costs, 24% on supplies and services, 23% on third party payments and 13% on other costs.






### Actual compared to budget

During 2018/19, it was necessary to fund expenditure of £1.5m from earmarked reserves. These costs were identified as part of the budget setting process for 2018/19 and include expenditure relating to the Business Rates prior year deficit, the Community Housing Fund and Carry Forwards from 2017/18.
The outturn position compared to the budget has resulted in a net favourable variance (reduced expenditure and/or increased income) of £2,123k and so despite the use of reserves (£1.5m), it has been possible to make the following additional transfers to and from eamarked reserves;

Transfers to reserves;
- Business Rates Equalisation Reserve (£1,688k)
- Joint Local Plan (£159k)
- Planning Enforcement (£68k)
- Waste (£41k)
- Elections Equipment (£35k)
- Strategic Planning (£34k)
- Government Grants net (£34k)

Transfers from reserves;
- Commuted Maintenance Payments (£199k)
- Homelessness / Temporary Accommodation net (£18k)
- Planning – Legal (£11k)

The overall favourable variance can mainly be attributed to:

- Business Rates £1,846k
- Strategic Planning £342k

The overall favourable position also means that the Council has been able to supplement the Transformation Fund reserve (£293k).

It is worth noting that expenditure on services is in line with the budget, however, more income has been generated than planned.
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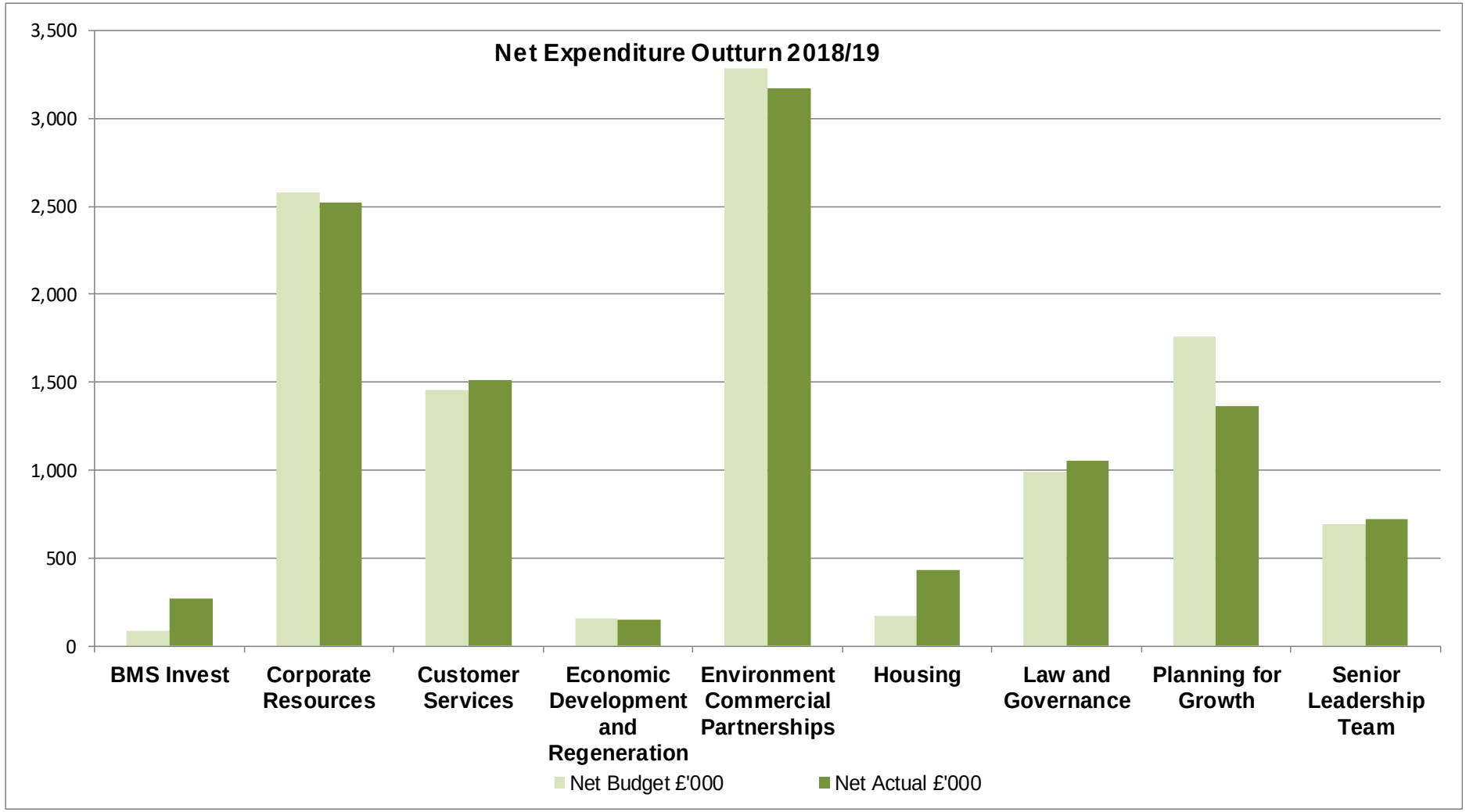
# Narrative Report

## 3. Financial Performance

A breakdown of net expenditure by Service Area compared to budget is given in the following chart



# Narrative Report

## 3. Financial Performance

A summary of the key variations compared to budget are provided in Table 1. The detailed outturn report for 2018/19 will be presented to Cabinet in June 2019.

| Table 1 Major variances | Variation (Favourable) / Adverse £'000 |
|---|---|
| **Favourable variances i.e. savings and / or additional income:** | |
| Strategic Planning (Joint Local Plan) - professional and legal costs | (196) |
| CIFCO | (185) |
| Recharge to HRA / Capital | (171) |
| Revenues and Benefits | (129) |
| Waste | (109) |
| Other items (net) | (107) |
| CIL 5% administration charge | (94) |
| Elections | (82) |
| Sustainable Environment | (79) |
| Building Control Income | (76) |
| Community Grants and Contributions | (70) |
| Community Housing Fund | (52) |
| Shared Legal Services | (37) |
| Policy Strategy Health and Well-being | (19) |
| Investment Income | (9) |
| Minimum Revenue Provision (MRP) | (4) |
| | **(1,419)** |

| Adverse variances i.e. additional costs and / or lower income: | Variation (Favourable) / Adverse £'000 |
|---|---|
| PV Panels - Feed in Tariff (FiT) Income | 185 |
| ICT expenditure | 185 |
| Street and Major Road Cleansing | 178 |
| Car Parks | 141 |
| Borehamgate Rental Income | 127 |
| Reserve Movements (net) | 110 |
| Corporate Subscriptions | 45 |
| HR and Organisational Development | 35 |
| Finance inc payment cards and bank charges | 30 |
| Land Charges Income | 24 |
| Democratic Services | 23 |
| Health and Safety | 18 |
| Homelessness - inc temporary accommodation | 18 |
| Economic Development | 12 |
| Planning Fee Income | 11 |
| | **1,142** |
| **Net Favourable Variance** | **(277)** |
| **Funding:** | |
| Business Rates - Baseline and Tariff / levy | (119) |
| Business Rates - Pooling Benefit | (71) |
| Business Rates - S31 grant | (1,656) |
| **TOTAL Net Favourable Variance** | **(2,123)** |

# Narrative Report

## 3. Financial Performance

### Reserves

The Council holds a General Fund balance, at an agreed minimum level of **£1.2m**. In addition, there is a further **£9.6m** in earmarked reserves to provide financing for future expenditure plans. Details of these are shown in Note 8 of the Core Statements.

### Capital Programme

Capital expenditure for 2018/19 totals **£15.6m** against a revised programme of £23.1m. A breakdown of the expenditure and how this is financed is shown in the table below.

| Table 2 Capital Programme | Revised Budget £'000 | Actual £'000 | Variance (Favourable) / Adverse £'000 |
|---|---|---|---|
| **Expenditure - General Fund** | | | |
| Housing | 821 | 374 | (447) |
| Environment and Projects | 339 | 346 | 7 |
| Communities and Public Access | 478 | 287 | (191) |
| Leisure Contracts | 1,412 | 576 | (836) |
| Property Services | 48 | 10 | (38) |
| Investment and Commercial Delivery | 6,568 | 203 | (6,365) |
| Planning for Growth | 400 | - | (400) |
| Corporate Services | 350 | 91 | (259) |
| CIFCO | 12,667 | 13,779 | 1,112 |
| **Total Capital Programme expenditure** | **23,083** | **15,666** | **(7,417)** |
| **Financed from:** | | | |
| Non-supported borrowing | 22,091 | 15,211 | (6,880) |
| Capital receipts | 700 | 26 | (674) |
| Grants/external contributions | 292 | 369 | 77 |
| Revenue | - | 60 | 60 |
| **Total** | **23,083** | **15,666** | **(7,417)** |

## 3. Financial Performance

## The Housing Revenue Account (HRA-Housing Services)

### Financial Context

The financial position of the HRA for 2018/19 should be viewed in the context of the updated 30-year business plan which was presented to Cabinet in July 2017. This sets out the aspiration of the Council to increase the social housing stock by either buying existing dwellings or building new ones.

The Welfare Reform and Work Act 2016 stipulates that Council rents would need to be reduced by 1% per annum from 2016/17 and the following three years. The previously agreed rent strategy was based on applying the maximum level of rent increase to support the business plan, whilst keeping our average rent level within the limit rent. The overall impact of the change is substantial; however, this will be reduced following the announcement by the Government allowing an increase in rents by a maximum of CPI + 1% for five years from 2020/21.



### Actual compared to budget

The original budget set for the HRA for 2018/19 showed a surplus of £244k. The final figure for 2018/19 is a surplus of **£491k**, a net favourable variance of £267k for the year resulting in additional resources available for investment.

The detailed outturn report for 2018/19 will be presented to Cabinet in June 2019.

A Summary of the key HRA variations is provided in the following table:

| Table 3 HRA Variations | Budget £'000 | Actual £'000 | Variance (Favourable) / Adverse £'000 |
|---|---|---|---|
| **Income:** | | | |
| Rent, income & other charges | (16,656) | (16,557) | 99 |
| **Expenditure:** | | | |
| Net transfers (to)/from reserves inc revenue contributions to Capital | 4,124 | 2,196 | (1,928) |
| Bad Debt Provision | 155 | - | (155) |
| Repairs and Maintenance | 1,736 | 2,404 | 668 |
| Property Services | 968 | 1,215 | 247 |
| Housing Management | 2,414 | 2,420 | 6 |
| Sheltered Housing | 947 | 970 | 23 |
| Depreciation and Impairment | 2,721 | 3,530 | 809 |
| Capital Financing Costs | 2,847 | 2,831 | (16) |
| Debt repayment | 500 | 500 | - |
| | **16,412** | **16,066** | **(346)** |
| **Surplus for Year** | **(244)** | **(491)** | **(247)** |
| **Reserves** | | | |
| Balance at 1 April 2018 | (12,655) | (12,655) | - |
| (Surplus) for year (as above) | (244) | (491) | 247 |
| Transfers to earmarked reserves | - | (20) | 20 |
| **Balance at 31 March 2019** | **(12,899)** | **(13,166)** | **267** |
| Working Balance 31 March 2019 | (1,000) | (1,000) | - |
| Building Council Homes Programme Reserve | - | (20) | 20 |
| Big 20 Reserve | (100) | (100) | - |
| Strategic Priorities Reserve | (11,799) | (12,046) | 247 |
| **Total Reserves 31 March 2019** | **(12,899)** | **(13,166)** | **267** |

## 3. Financial Performance

### Reserves

The Council holds a HRA working balance at an agreed minimum level of **£1m**. In addition, there is a further **£12m** in the strategic priorities reserves and £120k in other earmarked reserves to provide financing for future expenditure plans. Details are shown in Note 8 of the Core Statements on page 38.

### Capital Programme

Capital expenditure for 2018/19 totals **£5.6m** against a revised programme of £14m.

The favourable variance of £4.944m for New Build and Acquisitions and £2.951m for Planned Maintenance can be attributed to contractual commitments. This is where funds have been contractually committed in 2018/19 but will be spent in 2019/20.

The remaining favourable variance of £498k can be broken down as follows:

- ICT projects (£343k) - salaries and asbestos survey costs were transferred to revenue, there were also savings on consultancy fees relating to the Open Housing system.
- Other items (net) – a favourable variance of £155k.

| Table 4 Capital Programme | Revised Budget £'000 | Actual £'000 | Variance (Favourable) / Adverse £'000 |
|---|---|---|---|
| **Expenditure - HRA** | | | |
| Planned maintenance | 6,466 | 3,515 | (2,951) |
| ICT Projects | 359 | 16 | (343) |
| Environmental Improvements | 50 | 2 | (48) |
| Disabled Facilities work | 259 | 175 | (84) |
| Horticulture and play equipment | 23 | - | (23) |
| New build programme inc acquisitions | 6,837 | 1,893 | (4,944) |
| **Total Capital Programme expenditure** | **13,994** | **5,601** | **(8,393)** |
| **Financed from:** | | | |
| Non-supported borrowing | 6,427 | - | (6,427) |
| Capital receipts | 722 | - | (722) |
| Grants/external contributions | - | 26 | 26 |
| Major Repairs Reserve | 2,721 | 3,530 | 809 |
| Revenue | 4,124 | 2,045 | (2,079) |
| **Total** | **13,994** | **5,601** | **(8,393)** |

## 4. Treasury Management

The CIPFA prudential code sets out the governance arrangements for borrowing and lending. It states what the authorised limit and operational boundary are for its total external debt, excluding investments, separately identifying borrowing from other long-term liabilities.

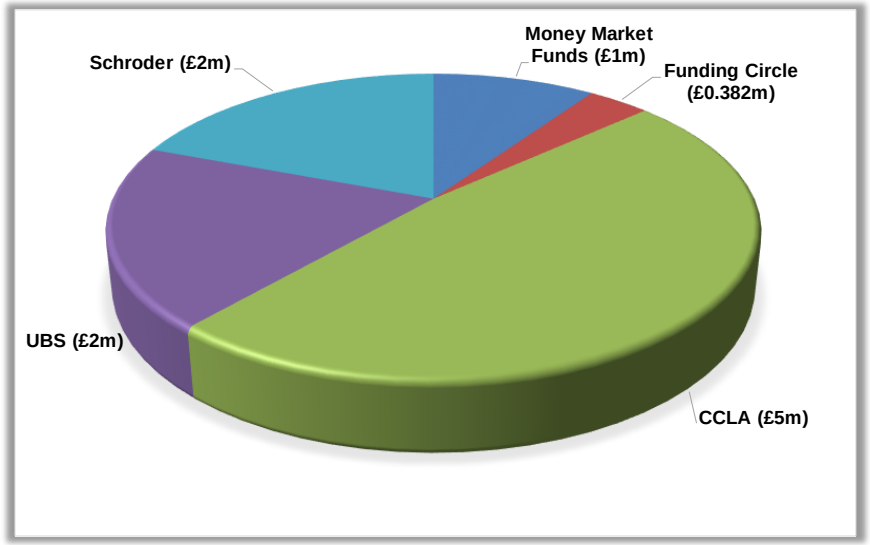
The level of long-term borrowing relates to the HRA and financing of CIFCO and is within the approved limits established for overall borrowing and the operational boundary, which were set at £148m and £138m respectively.

The current strategy is to use internal surplus funds to temporarily finance General Fund capital expenditure rather than borrow externally. Advice is sought regarding the timing or replacing of any internal borrowing with external borrowing.

In terms of the investment of surplus funds during the year, these were made with counterparties with high credit ratings as determined in the Council's Treasury Management Strategy.



At 31 March 2019, the amount of surplus funds invested was £10.4m (2017/18 £10.6m), as follows:




The Capital Financing Requirement, which represents the Council's underlying need to borrow for capital purposes, is summarised in Table 5.

Further details on treasury management activity are shown in Notes 14 and 34 to the Core Statements.

| Table 5 | Variation £'000 |
|---|---|
| **Underlying need to borrow at 31 March 2019 (Capital Financing Requirement)** | **131,799** |
| **Borrowing at 31 March 2019** | |
| Long Term | (96,023) |
| Short Term | (8,132) |
| **Net Borrowing Facility at 31 March 2019** | **27,644** |

# Narrative Report

## 5. Pensions

International Accounting Standard 19 ‘Employee Benefits’ (IAS 19) requires the Council to disclose certain information within its Statement of Accounts and this appears in Note 32 to the Core Statements.

Included within that information is the net deficit on the proportion of the Suffolk County Council Pension Fund attributable to Babergh District Council. This is the difference between future liabilities and assets as valued at 31 March 2019 and amounts to £22.987m. This will be addressed by future contributions to the Pension Fund.

The last formal three-yearly actuarial valuation was carried out at 31 March 2016. The valuation report sets out the rates of employers’ contributions for the three years starting 1 April 2017. This was 23% for 2018/19.

The next formal valuation is at 31 March 2019.

## 6. Future Challenges

In recent years the Government policy frameworks have been reducing core funding for Local Government as part of its deficit reduction strategy and increasingly incentivising funding to councils to deliver local economic and housing growth and to facilitate the development of strong, safe, healthy and self-sufficient communities. This is continuing, so encouraging and supporting both business and housing growth is essential to the financial future of the Council.

The Fair Funding Review continues and aims to set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources. The Government is exploring options for developing an updated funding formula by looking at the factors that drive costs for local authorities. The outcome of these deliberations is still awaited and will be implemented from 2020/21.

The outcome of the 2019 Comprehensive Spending Review is still to be announced, this will set detailed allocations for the 2020/21 financial year and beyond, along with the details of the Business Rates retention scheme that the Government have been consulting on.

Babergh and Mid Suffolk along with the other five district and borough councils in Suffolk and Suffolk County Council, were one of 10 new areas selected for the 100% business rates retention pilots in 2018/19. The financial benefits were shared between the councils in Suffolk and a proportion used to achieve sustainable economic growth. Babergh benefited from an additional £1.370m in retained business rates to spend on various growth initiatives.

In order to achieve the vision and ambition for the districts with significantly reduced government resources the Council needs to take a medium-term view of the budget through a financial strategy that is focused on meeting the corporate priorities.

The main strategic financial aim is to become self-financing i.e. not reliant on Government funding. There is a secondary aim to be in a position to generate more funds than are required for core services, to enable additional investment in the district.

The approach over the medium term is to transform the Council into an organisation that is thriving and not just surviving, by reviewing, remodelling and reinventing the way the Council operates.

The cumulative funding pressure over the three years 2020/21 to 2022/23, is £1m, using all of the forecast NHB allocation. Excluding the NHB allocation, the cumulative funding pressure increases to £3m over the three years.

The uncertainty and complexity of our financial landscape is magnified by the unquantifiable impact of Brexit on both local government funding and future legislation. These impacts could turn out to be either positive or negative overall but are likely to affect key budget factors such as interest and inflation rates, labour costs and property and rental values.

## 7. Explanation of Accounting Statements

| Core Statements | Supplementary Financial Statements |
|---|---|
| **Movement in Reserves Statement** shows the movement in the year on the different reserves held by the Council, analysed between usable and unusable reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the CIES. These are different from the statutory amounts required to be charged to the General Fund Balance and the HRA for council tax setting and council house rent setting purposes.<br><br>The net increase/decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and HRA Balance before any discretionary transfers to or from earmarked reserves. | **Expenditure and Funding Analysis (EFA)** and additional notes to the Core Statements (Notes 5a, 5b and 6) shows how annual expenditure is used and funded from resources (government grants, rents, council tax and non-domestic rates) by Councils in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. |
| **Comprehensive Income and Expenditure Statement (CIES)** shows the cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. It includes the cost of council housing services (HRA). It should be noted that Councils raise taxation to cover expenditure in accordance with various regulations, which may differ from the way it has to be shown in accounting terms in the CIES. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement. | **Housing Revenue Account (HRA)** shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Council charges rents to cover expenditure in accordance with regulations, which may be different from the accounting cost. The surplus or deficit for the year is shown in the Movement on the HRA Balance. |
| **Balance Sheet** shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by reserves held by the Council.<br><br>There are two types of reserves. There are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve – these can largely only be used to fund capital expenditure or repay debt). In addition, there are significant unusable reserves, which cannot be used to provide services. This includes reserves relating to capital financing adjustments and unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold. | **Collection Fund** reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic (business) rates. |

| Core Statements | Supplementary Financial Statements |
|---|---|
| **Cash flow Statement** shows the changes in cash and cash equivalents of the Council during the year. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows as either operating, investing or financing activities.<br><br>The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future capital cash flows (i.e. borrowing) by the Council. | **Group Accounts** – The Council acquired 100% shareholding in its subsidiary BDC (Suffolk Holdings) Limited on 9 June 2017 and is required to reflect this in Group Accounts, which are produced in the same format as the statements explained above. |

The 2018/19 statement of accounts has been prepared on a going concern basis.

## 8. Further Information

The Council publishes a number of important documents to inform the public about the work of the Council. These (including the annual Statement of Accounts and the annual Budget) can be viewed and downloaded via the Council and Finance page of the Council's website: www.babergh.gov.uk

Further information about the accounts is available from the Council's Assistant Director, Corporate Resources:

Katherine Steel CPFA
Babergh District Council
Endeavour House
8 Russell Road
Ipswich IP1 2BX
Tel: 01449 724806
Email: Katherine.Steel@baberghmidsuffolk.gov.uk

# Statement of Responsibilities for the Statement of Accounts

## The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. The designated officer at 31 March 2019 was the Assistant Director, Corporate Resources;
- manage its affairs to secure the economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

## The Assistant Director, Corporate Resources Responsibilities

The Assistant Director, Corporate Resources is responsible for the preparation of the Council's Statement of Accounts, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Assistant Director, Corporate Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Local Authority Code.

The Assistant Director, Corporate Resources has also:

- kept proper accounting records, which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Council at the 31 March 2019 and its income and expenditure for the year then ended.

**Katherine Steel CPFA**

Assistant Director, Corporate Resources
Babergh District Council

Dated 31 May 2019

# Section 2



## Core Financial Statements

# Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and non-domestic rates) in comparison with those resources consumed or earned by Councils in accordance with generally accepted accounting practices. It is not a Core Statement to the Accounts.

It also shows how this expenditure is allocated for decision making purposes between the Council's directorates and services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement (shown on page 20).

The split of the closing General Fund and HRA balances is shown in the Movement in Reserves Statement, in the next table.

| 2017/18 | | | | 2018/19 | | |
|---|---|---|---|---|---|---|
| Net Expenditure Chargeable to General Fund and HRA Balances | Adjustments between the Funding and Accounting Basis | Net Expenditure in Comprehensive Income and Expenditure Statement | | Net Expenditure Chargeable to General Fund and HRA Balances | Adjustments between the Funding and Accounting Basis | Net Expenditure in Comprehensive Income and Expenditure Statement |
| £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 |
| | | | **General Fund** | | | |
| 15 | 10 | 25 | **BMS Invest** | 317 | 409 | 726 |
| 183 | 72 | 255 | **Economic Development & Regeneration** | 241 | 67 | 308 |
| 2,198 | 855 | 3,053 | **Corporate Resources** | 1,552 | 1,183 | 2,735 |
| 1,540 | 436 | 1,976 | **Customer Services** | 1,511 | 475 | 1,986 |
| 3,051 | 1,069 | 4,120 | **Environment & Commercial Partnerships** | 2,622 | 1,083 | 3,705 |
| 496 | 778 | 1,274 | **Housing** | 448 | 2,145 | 2,593 |
| 932 | 33 | 965 | **Law & Governance** | 1,020 | 33 | 1,053 |
| (1,586) | 199 | (1,387) | **Planning for Growth** | (263) | 198 | (65) |
| 749 | 31 | 780 | **Senior Leadership Team** | 723 | 20 | 743 |
| (1,516) | - | (1,516) | **Charge to HRA & Capital** | (1,504) | - | (1,504) |
| 626 | (9,523) | (8,897) | **HRA** | (512) | (5,532) | (6,044) |
| 6,688 | (6,040) | 648 | **Net Cost of Services** | 6,155 | 81 | 6,236 |
| (9,443) | 1,795 | (7,648) | **Other Income and Expenditure** | (10,511) | 1,143 | (9,368) |
| **(2,755)** | **(4,245)** | **(7,000)** | **(Surplus) on Provision of Services** | **(4,356)** | **1,224** | **(3,132)** |
| (16,498) | | | **Opening General Fund And HRA Balances at 1 April** | (19,255) | | |
| (2,757) | | | **Plus (Surplus) on General Fund And HRA Balances in Year** | (4,356) | | |
| **(19,255)** | | | **Closing General Fund And HRA Balances at 31 March** | **(23,611)** | | |

# Movement in Reserves Statement

The Movement in Reserves Statement shows the movement during the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'.

The Statement shows how the movements in the year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax or rents for the year.

The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

| | General Fund Balance £'000 | Earmarked General Fund Reserves £'000 | HRA Balance £'000 | Earmarked HRA Reserves £'000 | Major Repairs Reserve £'000 | Capital Receipts Reserve £'000 | Capital Grants Unapplied Reserve £'000 | Total Usable Reserves £'000 | Unusable Reserves £'000 | Total Authority Reserves £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Opening Balance at 31 March 2017** | (1,200) | (2,245) | (1,000) | (12,053) | - | (5,721) | (72) | (22,291) | (111,495) | (133,786) |
| **Movement in reserves during 2017/18** | | | | | | | | | | |
| Total Comprehensive Income and Expenditure | (17) | - | (6,983) | - | - | - | - | (7,000) | (12,626) | (19,626) |
| Adjustments between accounting basis and funding basis under regulations (Note 7) | (3,366) | - | 7,609 | - | - | (2,033) | - | 2,210 | (2,210) | - |
| **Net (Increase) / Decrease before Transfers to Earmarked Reserves** | (3,383) | - | 626 | - | - | (2,033) | - | (4,790) | (14,836) | (19,626) |
| Transfer to/(from) Earmarked Reserves (Note 8) | 3,383 | (3,383) | (626) | 626 | - | - | - | - | - | - |
| **(Increase)/Decrease in 2017/18** | - | (3,383) | - | 626 | - | (2,033) | - | (4,790) | (14,836) | (19,626) |
| **Balance at 31 March 2018 carried forward** | (1,200) | (5,628) | (1,000) | (11,427) | - | (7,754) | (72) | (27,081) | (126,331) | (153,412) |
| **Movement in reserves during 2018/19** | | | | | | | | | | |
| Total Comprehensive Income and Expenditure | 1,117 | - | (4,249) | - | - | - | - | (3,132) | (3,438) | (6,570) |
| Adjustments between accounting basis and funding basis under regulations (Note 7) | (4,958) | - | 3,735 | - | - | (1,116) | - | (2,339) | 2,339 | - |
| **Net (Increase) / Decrease before Transfers to Earmarked Reserves** | (3,841) | - | (514) | - | - | (1,116) | - | (5,471) | (1,099) | (6,570) |
| Transfers to / (from) reserves (Note 8) | 3,842 | (3,842) | 513 | (513) | - | - | - | - | - | - |
| **(Increase)/Decrease in 2018/19** | 1 | (3,842) | (1) | (513) | - | (1,116) | - | (5,471) | (1,099) | (6,570) |
| **Balance at 31 March 2019** | (1,199) | (9,470) | (1,001) | (11,940) | - | (8,870) | (72) | (32,552) | (127,430) | (159,982) |

# Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation and rents. Councils raise taxation and rents to cover expenditure in accordance with regulations; this may be different from the accounting cost.

The taxation position is shown in both the Expenditure and Funding Analysis (shown on page 18) and the Movement in Reserves Statement (shown on page 19).

| 2017/18 | | | | | 2018/19 | | |
|---|---|---|---|---|---|---|---|
| Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 | | Note | Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 |
| | | | **General Fund** | | | | |
| 356 | (331) | 25 | BMS Invest | | 1,030 | (304) | 726 |
| 476 | (221) | 255 | Economic Development & Regeneration | | 555 | (246) | 309 |
| 21,692 | (18,639) | 3,053 | Corporate Resources | | 19,266 | (16,531) | 2,735 |
| 1,986 | (10) | 1,976 | Customer Services | | 1,986 | - | 1,986 |
| 6,819 | (2,699) | 4,120 | Environment & Commercial Partnerships | | 7,297 | (3,592) | 3,705 |
| 2,007 | (734) | 1,273 | Housing | | 3,434 | (842) | 2,592 |
| 1,445 | (479) | 966 | Law & Governance | | 1,424 | (370) | 1,054 |
| 2,369 | (3,756) | (1,387) | Planning for Growth | | 2,977 | (3,042) | (65) |
| 855 | (74) | 781 | Senior Leadership Team | | 781 | (39) | 742 |
| (1,516) | - | (1,516) | Charge to HRA & Capital | | (1,504) | - | (1,504) |
| 7,964 | (16,862) | (8,898) | **HRA** | | 10,630 | (16,674) | (6,044) |
| 44,453 | (43,805) | 648 | **Cost of Services** | | 47,876 | (41,640) | 6,236 |
| 1,613 | - | 1,613 | Other Operating Expenditure | **9** | 2,571 | - | 2,571 |
| 3,924 | (895) | 3,029 | Financing and Investment Income and Expenditure | **10** | 4,127 | (1,455) | 2,672 |
| 6,719 | (19,009) | (12,290) | Taxation and Non-Specific Grant Income and Expenditure | **11** | 15,469 | (30,080) | (14,611) |
| 56,709 | (63,709) | (7,000) | **(Surplus) on Provision of Services - A** | | 70,043 | (73,175) | (3,132) |
| | | (10,168) | (Surplus) on revaluation of property, plant and equipment assets | **19a** | | | (8,265) |
| | | - | Deficit from investments in equity instruments designated at fair value through other comprehensive income | **19g** | | | 2,267 |
| | | - | (Surplus) on financial assets measured at fair value through other comprehensive income | **19g** | | | (1) |
| | | (2,442) | Remeasurement of the net defined benefit liability/(asset) | **19c** | | | 2,561 |
| | | (16) | (Surplus) on revaluation of available for sale financial assets | **19f** | | | - |
| | | (12,626) | **Other Comprehensive Income and Expenditure - B** | | | | (3,438) |
| | | **(19,626)** | **Total Comprehensive Income and Expenditure (A+B)** | | | | **(6,570)** |

# Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities held by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

Reserves are reported in two categories, usable reserves, (i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use), and unusable reserves that the Council is not able to use to provide services.

The category of unusable reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

The unaudited accounts were issued on 31 May 2019.

| 2017/18 £'000 | | Note | 2018/19 £'000 |
|---|---|---|---|
| 246,735 | Property, Plant and Equipment | 12 | 254,235 |
| 3,500 | Investment Property | 37 | 2,905 |
| 1,312 | Intangible Assets | 13 | 908 |
| 1,232 | Long Term Investments | | 343 |
| 11,575 | Long Term Debtors | | 25,757 |
| 264,354 | **Long Term Assets** | | 284,148 |
| 9,636 | Short Term Investments | | 9,543 |
| 79 | Inventories | | 74 |
| 5,225 | Short Term Debtors | 15 | 4,514 |
| 2,704 | Cash and Cash Equivalents | 16 | 2,529 |
| 17,644 | **Current Assets** | | 16,660 |
| (12,543) | Short Term Borrowing | 14 | (8,133) |
| (6,566) | Short Term Creditors | 17 | (7,588) |
| (1,118) | Provisions | 18 | (3,024) |
| (20,227) | **Current Liabilities** | | (18,745) |
| (85,797) | Long Term Borrowing | 14 | (96,019) |
| (1,795) | Capital Grants & Contributions Received in Advance | 26 | (2,562) |
| (675) | Other Grants & Contributions Received in Advance | 26 | - |
| (20,090) | Defined Benefit Pension Scheme Liability | 32 | (23,501) |
| **(108,357)** | **Long Term Liabilities** | | (122,082) |
| **153,414** | **Net Assets** | | **159,981** |
| (27,084) | Usable reserves | | (32,552) |
| (126,330) | Unusable reserves | 19 | (127,429) |
| **(153,414)** | **Total Reserves** | | **(159,981)** |

**Katherine Steel CPFA**
Assistant Director, Corporate Resources
Babergh District Council

Dated 31 May 2019

# Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period.

The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council.

Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery.

Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

| 2017/18 £'000 | | Note | 2018/19 £'000 |
|---|---|---|---|
| (7,002) | Net (Surplus) or deficit on the provision of services | | (3,132) |
| (2,998) | Adjustments to net surplus or deficit on the provision of services for non-cash movements | 20 | (14,659) |
| 3,903 | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 20 | 3,428 |
| (6,097) | Net cash flows from Operating Activities | | (14,363) |
| 13,087 | Investing Activities | 21 | 20,284 |
| (5,500) | Financing Activities | 22 | (5,746) |
| 1,490 | Net increase or decrease in cash and cash equivalents | | 175 |
| (4,194) | Cash and cash equivalents at the beginning of the reporting period | | (2,704) |
| (2,704) | **Cash and cash equivalents at the end of the reporting period** | 16 | (2,529) |

# Section 3

## Notes to the Core Financial Statements

## Note 1 - Accounting Standards that Have Been Issued but Have Not Yet Been Adopted

The Council is required to disclose information relating to the impact of accounting changes that will be required by a new standard that has been issued but not yet adopted by the Code.

The standards or changes to be introduced in the 2019/20 Code will be implemented from 1 April 2019, therefore there is no impact on the Council's 2018/19 accounts. They are:

- **Amendments to IAS 40 - Investment Property – Transfers of Investment Property**

  Transfers of Investment Property has been amended to state that an entity shall transfer a property to, or from, Investment Property when, and only when, there is evidence of a change in use. This may have a material impact on the Council's accounts in the future.

The following changes will not materially affect the Council's accounts.

- **Annual Improvements to IFRS Standards 2014-2016 Cycle**
- **IFRIC 22 - Foreign Currency Transactions and Advance Consideration**
- **IFRIC23 - Uncertainty over Income Tax Treatments**
- **IFRS 16 - Leases**

The Code does not anticipate that the above amendments will have an impact on the information provided in the Council's financial statements i.e. there is unlikely to be a change to the reported information in the net cost of services or the Surplus or Deficit on the Provision of Services.

## Note 2a - Changes to Accounting Policies

The Code of Practice on Local Authority Accounting for 2018/19 has been examined and accounting policies have been amended / adjusted as necessary. Changes to International Financial Reporting Standards (IFRS) have been incorporated, specifically IFRS 9 (Impairment of financial instruments) and IFRS 15 (Revenue recognition standard). The full list of Accounting Policies can be found in Note 35.

The main change contained in IFRS 9 is the introduction of a forward-looking expected credit loss (ECL) model replacing an incurred loss model. In summary, the standard requires all financial instruments (e.g. loan, investments etc.) to be examined for potential non-payment or credit risk worsening at least on an annual basis.

The new revenue recognition standard in IFRS 15 introduces a single model for income with prescribed steps to identify when control of goods or services passes to the customer together with associated revenue in the contract between the parties. The Council does not have any material revenue streams within the scope of the standard.

## Note 2b - Critical Judgements in Applying Accounting Policies



In applying the accounting policies set out in Note 35, the Council has had to make certain judgments about complex transactions or those involving uncertainty about future events.

**Local Government Funding:**

There is a high degree of uncertainty about future levels of funding for Local Government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

**Group Accounts:**

The Council has an interest in other entities which fall within the group boundary of the Council on the grounds of control and significant influence, in line with The Code. The Council's interest in BDC (Suffolk Holdings) Limited is material to the Council's overall financial position. Therefore, Group Accounts have been prepared to consolidate the Council's interest in the subsidiary.

**Non-Domestic Rates Retention (Business Rates) Pilot:**

The Council entered a Suffolk-wide Non-Domestic rates retention pilot from 1 April 2018. All the Suffolk Districts, Boroughs and County Council were members. This meant that the Council retained 80% of its growth in non-domestic rates income. The governance arrangements set in place for this pilot guaranteed a no detriment position compared with the position that the Council would have been in if it had not entered into this pilot. This pilot was approved by MHCLG and ended on 31 March 2019.

All financial impacts of events relating to years before 2018/19 are specifically excluded from the potential share of the deficit distributed to Suffolk County Council (20%).

From 1 April 2019 Suffolk will return to the previous Non-Domestic rates retention pool where the Council retains 40% of its growth.

The Council's accounts as at 31 March 2019 are therefore unaffected by this change to the pooling arrangement as either a result of future changes in our assumptions in closing the 2018/19 Collection Fund, or future decisions of other Councils.

## Note 3 - Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Uncertainties | Effect if Actual Results different from Assumptions |
|---|---|
| **Property, Plant and Equipment** | |
| Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. The Depreciation policy is shown in Note 35 at Section P. | If the useful life of assets change, depreciation reduces or increases, and the value of the assets shown in the Balance Sheet will increase or decrease accordingly. |
| **Business Rate Appeals** | |
| Since the introduction of the Business Rates Scheme on 1 April 2013, local authorities are liable for successful appeals against Business Rates charged to businesses in 2017/18 and previous financial years. A provision has therefore been made for this based on the valuation office ratings list of appeals and an analysis of successful appeals to date.<br><br>Appeals which arose before 31 March 2015 can be backdated to the 2010 rating list, and the provision reflects the estimated outcome of those. Any further appeals, made since 1 April 2015, will only be effective from that date.<br><br>Following the 2017 revaluation a Check, Challenge and Appeal process was introduced. In 2018/19 there have been 85 checks and 12 challenges lodged, so the impact of this is highly uncertain. A provision has been made for the estimated success of future appeals losses for the period ending 31 March 2019. | This provision is difficult to estimate as the number of successful appeals is unknown, as is the number of businesses likely to appeal against their change in business rates. If underestimated there will be higher write off costs than provided for and this will therefore reduce the income within the Collection Fund. |
| **Fair Value Measurements** | |

## Note 3 - Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

| Uncertainties | Effect if Actual Results different from Assumptions |
|---|---|
| When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities.<br><br>Where Level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (e.g. interest rates or yields for similar instruments).<br><br>Information about the valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in Note 14 and Note 37. | Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties and financial assets. The risks associated with financial instruments are documented in Note 34. |
| **Fair Value measurement of Investment Property** | |
| The Council's external Valuer, the District Valuer, uses valuation techniques to determine the fair value of investment property. This involves developing estimates and assumptions consistent with how market participants would price the property. Valuers base their assumptions on observable data as far as possible, but this is not always available. In that case, they use the best information available. | Estimated fair values may vary from the actual process that could be achieved in an arm's length transaction at the reporting date. |
| **Pensions Liability** | |
| Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages and mortality rates and expected returns on pension fund assets. Hymans Robertson LLP is engaged to provide the Council with expert advice about the assumptions to be applied. | During 2018/19 the Council's actuaries advised that the net pensions liability had increased by £3.411m.<br><br>Further sensitivity analysis on pension liabilities are in Note 32. |

## Note 4 – Events after the Reporting Period

The unaudited Statement of Accounts was authorised for issue by the Assistant Director, Corporate Resources (the Council's Section 151 officer) on 31 May 2019.

Events taking place after this date are not reflected in the Statement of Accounts or notes. Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

**Local Government Pension Scheme**

In 2015 the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes in 2015. In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the judicial scheme, as part of the reforms, amounted to unlawful discrimination with regards to age discrimination. This ruling has implications for the Local Government Pension Scheme (LGPS), in relation to the judgement in the McCloud case.

The final position in terms of employer pension liabilities and a financial impact was not clear at 31 March 2019. Since then, a legal ruling was issued by the Supreme Court on 27 June 2019 which rejected the Governments appeal.

Further details can be seen in Notes 32 and Note 33 of the Core Statements.

## Note 5a – Note to the Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to the Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

| 2018/19 | Adjustments Between Accounting Basis and Funding Basis | | | |
|---|---|---|---|---|
| **Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts** | **Adjustments for Capital Purposes (Note A)** £'000 | **Net Change for the Pensions Adjustments (Note B)** £'000 | **Other Statutory and Non Statutory Differences (Note C)** £'000 | **Total Adjustments** £'000 |
| **General Fund** | | | | |
| BMS Invest | 399 | 10 | - | 409 |
| Economic Development & Regeneration | 37 | 30 | - | 67 |
| Corporate Resources | (747) | (313) | 2,326 | 1,266 |
| Customer Services | 475 | - | - | 475 |
| Env & Comm P'ships | 875 | 208 | - | 1,083 |
| Housing | 2,097 | 48 | - | 2,145 |
| Law & Governance | - | 33 | - | 33 |
| Planning for Growth | - | 198 | - | 198 |
| Senior Leadership Team | - | 20 | - | 20 |
| **HRA** | 3,306 | 90 | (9,011) | (5,615) |
| **Net Cost of Services** | 6,442 | 324 | (6,685) | 81 |
| Other Income and Expenditure from the Expenditure and Funding Analysis | 556 | 527 | 60 | 1,143 |
| Difference between General Fund and HRA (Surpluses) / Deficits and Comprehensive Income and Expenditure Statement (Surplus) or Deficit on the Provision of Services | 6,998 | 851 | (6,625) | 1,224 |

## Note 5a – Note to the Expenditure and Funding Analysis

| 2017/18 | Adjustments Between Accounting Basis and Funding Basis | | | |
|---|---|---|---|---|
| **Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts** | **Adjustments for Capital Purposes (Note A)** £'000 | **Net Change for the Pensions Adjustments (Note B)** £'000 | **Other Statutory and Non Statutory Differences (Note C)** £'000 | **Total Adjustments** £'000 |
| **General Fund** | | | | |
| BMS Invest | 10 | - | - | 10 |
| Economic Development & Regeneration | 37 | 35 | - | 72 |
| Corporate Resources | (589) | (537) | 1,981 | 855 |
| Customer Services | 436 | - | - | 436 |
| Env & Comm P'ships | 843 | 226 | - | 1,069 |
| Housing | 738 | 40 | - | 778 |
| Law & Governance | - | 33 | - | 33 |
| Planning for Growth | - | 199 | - | 199 |
| Senior Leadership Team | - | 31 | - | 31 |
| **HRA** | 1,219 | 92 | (10,834) | (9,523) |
| **Net Cost of Services** | 2,694 | 119 | (8,853) | (6,040) |
| Other Income and Expenditure from the Expenditure and Funding Analysis | (435) | 549 | 1,681 | 1,795 |
| Difference between General Fund and HRA (Surpluses) / Deficits and Comprehensive Income and Expenditure Statement (Surplus) or Deficit on the Provision of Services | 2,259 | 668 | (7,172) | (4,245) |

## Explanation of the major adjusting items

### A - Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- **Other Operating Expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

- **Financing and Investment Income and Expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

- **Taxation and Non-specific Grant Income and Expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non-Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

### B - Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services** this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service costs.

- **For Financing and Investment Income and Expenditure** –- the net interest on the defined benefit liability is charged to the CIES.

### C - Other Statutory and Non-Statutory Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- **For Financing and Investment Income and Expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

- The charge under **Taxation and Non-specific Grant Income and Expenditure** represents the difference between what is chargeable under statutory regulations for council tax and non-domestic rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

## Note 5b – Segmental Income

Income received on a segmental basis, as included in the Expenditure & Funding Analysis, is analysed in this table.

The segments are based on the Council's management structure.

| Services | 2018/19 Income from Services £'000 | 2017/18 Income from Services £'000 |
|---|---|---|
| **General Fund** | | |
| BMS Invest | (304) | (331) |
| Economic Development & Regeneration | (247) | (221) |
| Corporate Resources | (19,073) | (19,448) |
| Customer Services | - | (10) |
| Env & Comm P'ships | (3,592) | (2,699) |
| Housing | (842) | (734) |
| Law & Governance | (370) | (479) |
| Planning for Growth | (3,051) | (3,758) |
| Senior Leadership Team | (39) | (74) |
| **HRA** | (16,672) | (16,659) |
| **Total income analysed on a segmental basis** | (44,190) | (44,413) |

## Note 6 – Expenditure and Income Analysed by Nature

This note shows how the Council's expenditure and income is analysed by nature:

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Expenditure** | | |
| Employee benefits expenses | 10,591 | 10,434 |
| Other services expenses | 46,193 | 37,884 |
| Support service recharges | (202) | (33) |
| Depreciation, amortisation, impairment | 7,346 | 3,458 |
| Interest payments | 2,949 | 2,855 |
| Precepts and levies | 2,610 | 2,547 |
| Payments to Housing Capital Receipts Pool | 317 | 326 |
| (Gain)/Loss on the disposal of assets | 239 | (762) |
| **Total Expenditure** | 70,043 | 56,709 |
| **Income** | | |
| Fees, charges and other service income | (25,146) | (25,250) |
| Interest and investment income | (1,223) | (615) |
| Income from Council Tax & Non Domestic Rates | (26,679) | (15,909) |
| Government grants and contributions | (20,127) | (21,935) |
| **Total Income** | (73,175) | (63,709) |
| **(Surplus) on Provision of Services** | (3,132) | (7,000) |

## Note 7 - Adjustments between Accounting Basis and Funding Basis under Regulations

The following analysis sets out the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

The following sets out a description of the reserves that the adjustments are made against.

### General Fund Balance

The General Fund is the statutory fund into which all the receipts of a Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. This balance is not available to be applied to funding HRA services.



### Housing Revenue Account Balance

The Housing Revenue Account (HRA) Balance reflects the statutory obligation to maintain a revenue account for Council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

### Major Repairs Reserve

The Council is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

### Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

## Note 7 - Adjustments between Accounting Basis and Funding Basis under Regulations

| 2017/18 | | | | | | 2018/19 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| General Fund Balance | HRA Balance | Major Repairs Reserve | Capital Receipts Reserve | Movement in Unusable Reserves | | General Fund Balance | HRA Balance | Major Repairs Reserve | Capital Receipts Reserve | Movement in Unusable Reserves |
| £'000 | £'000 | £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 | £'000 | £'000 |
| | | | | | **Adjustments Involving the Capital Adjustment Account: Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | | |
| (1,680) | (1,313) | - | - | 2,993 | Charges for depreciation and impairment of non current assets | (3,462) | (3,242) | - | - | 6,704 |
| - | 3,235 | (3,235) | - | - | Transfer HRA/MRR | - | 3,530 | (3,530) | | - |
| (500) | - | - | - | 500 | Movements in the market value of Investment Properties | (595) | - | - | - | 595 |
| - | - | - | - | | Impairment allowance on Loans | (130) | - | - | - | 130 |
| (385) | (79) | - | - | 464 | Amortisation of intangible assets | (422) | (90) | - | - | 512 |
| 343 | 220 | - | - | (563) | Capital grants and contributions that have been applied to capital financing (Note 19b) | 369 | 26 | - | - | (395) |
| - | 500 | - | - | (500) | Repayment of Debt | - | 500 | - | - | (500) |
| (580) | (48) | - | - | 628 | Revenue expenditure funded from capital under statute (Note 19b) | (421) | | - | - | 421 |
| (461) | (1,505) | - | - | 1,966 | Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (775) | (1,806) | - | - | 2,581 |
| | | | | | **Items not debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | | |
| 827 | - | - | - | (827) | Statutory provision for the financing of capital investment | 929 | - | - | 53 | (982) |
| - | - | 3,235 | - | (3,235) | Use of Major Repairs Reserve to finance new capital expenditure | - | - | 3,530 | - | (3,530) |
| 43 | 4,296 | - | - | (4,339) | Capital expenditure charged against the General Fund and HRA balances | 60 | 2,176 | - | - | (2,236) |
| | | | | | **Adjustments involving the Capital Receipts Reserve:** | | | | | |
| 698 | 2,529 | - | (3,227) | - | Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 15 | 2,922 | - | (2,937) | - |
| - | - | - | 895 | (895) | Use of the Capital Receipts Reserve to finance new capital expenditure (Note 19b) | - | - | - | 1,519 | (1,519) |
| (326) | - | - | 326 | - | Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | (316) | - | - | 316 | - |
| | | | (27) | 27 | Loans repaid | - | - | - | (67) | 67 |

## Note 7 - Adjustments between Accounting Basis and Funding Basis under Regulations

| 2017/18 General Fund Balance £'000 | 2017/18 HRA Balance £'000 | 2017/18 Major Repairs Reserve £'000 | 2017/18 Capital Receipts Reserve £'000 | 2017/18 Movement in Unusable Reserves £'000 | | 2018/19 General Fund Balance £'000 | 2018/19 HRA Balance £'000 | 2018/19 Major Repairs Reserve £'000 | 2018/19 Capital Receipts Reserve £'000 | 2018/19 Movement in Unusable Reserves £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | **Adjustments involving the Pensions Reserve:** | | | | | |
| (2,080) | (780) | - | - | 2,860 | Reversal of items relating to post employment benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement (Note 19c) | (2,290) | (795) | - | - | 3,085 |
| 1,613 | 578 | - | - | (2,191) | Employer's pensions contributions and direct payments to pensioners payable in the year (Note 19c) | 1,635 | 600 | - | - | (2,235) |
| | | | | | **Adjustments involving the Collection Fund Adjustment Account:** | | | | | |
| (879) | - | - | - | 879 | Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements | 376 | - | - | - | (376) |
| | | | | | **Adjustment involving the Accumulating Compensated Absences Adjustment Account** | | | | | |
| 1 | (24) | - | - | 23 | Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (15) | (2) | - | - | 17 |
| **(3,366)** | **7,609** | **-** | **(2,033)** | **(2,210)** | **Total Adjustments** | **(5,042)** | **3,819** | **-** | **(1,116)** | **2,339** |

## Note 8 – Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and Housing Revenue Account (HRA) balances in earmarked reserves to provide financing for future expenditure plans and the amounts transferred from earmarked reserves to meet General Fund and HRA expenditure in 2018/19.

| | Balance 31 March 2017 £'000 | Transfers 2017/18 Out £'000 | Transfers 2017/18 In £'000 | Balance 31 March 2018 £'000 | Transfers 2018/19 Out £'000 | Transfers 2018/19 In £'000 | Balance 31 March 2019 £'000 |
|---|---|---|---|---|---|---|---|
| **General Fund** | | | | | | | |
| Carry Forwards | (219) | 219 | (225) | (225) | 225 | (75) | (75) |
| Transformation Fund | (1,043) | 2,249 | (1,863) | (657) | 2,156 | (1,958) | (459) |
| Business Rates Equalisation | - | - | (788) | (788) | 943 | (1,688) | (1,533) |
| Business Rates Retention Pilot | - | - | - | - | 96 | (1,370) | (1,274) |
| Government Grants | (149) | 19 | (118) | (248) | 12 | (46) | (282) |
| Homelessness | (115) | - | (144) | (259) | 62 | - | (197) |
| Temporary Accommodation | - | - | - | - | - | (44) | (44) |
| Commuted Maintenance Payments | (232) | - | - | (232) | 199 | (595) | (628) |
| Community Infrastructure Levy (CIL) | (67) | - | (2,429) | (2,496) | 228 | (1,692) | (3,960) |
| Growth and Sustainable Planning | (20) | - | - | (20) | - | - | (20) |
| Planning (Legal) | - | - | (123) | (123) | 11 | - | (112) |
| Strategic Planning | (295) | 3 | (47) | (339) | 53 | (34) | (320) |
| Joint Local Plan | - | - | - | - | - | (159) | (159) |
| Elections Fund | (30) | - | (20) | (50) | - | (20) | (70) |
| Elections Equipment | - | - | - | - | - | (35) | (35) |
| Planning Enforcement | (20) | - | - | (20) | - | (68) | (88) |
| Waste | - | - | (119) | (119) | - | (41) | (160) |
| Revocation of personal search fees | (54) | - | - | (54) | - | - | (54) |
| **Total General Fund** | **(2,244)** | **2,490** | **(5,876)** | **(5,630)** | **3,985** | **(7,825)** | **(9,470)** |
| **Housing** | | | | | | | |
| Strategic Priorities | (12,054) | 626 | - | (11,428) | - | (492) | (11,920) |
| IDEA grant | - | - | - | - | - | (20) | (20) |
| **Total Housing** | **(12,054)** | **626** | **-** | **(11,428)** | **-** | **(512)** | **(11,940)** |
| **Other** | | | | | | | |
| Capital Receipts - Other | (72) | - | - | (72) | - | - | (72) |
| Major Repairs | - | 3,235 | (3,235) | - | 3,530 | (3,530) | - |
| GF Capital Receipts | - | 118 | (800) | (682) | 93 | (97) | (686) |
| HRA Capital Receipts | (5,721) | 2,593 | (3,944) | (7,072) | 2,754 | (3,866) | (8,184) |
| **Total Other** | **(5,793)** | **5,946** | **(7,979)** | **(7,826)** | **6,377** | **(7,493)** | **(8,942)** |
| **Total Earmarked Reserves** | **(20,091)** | **9,062** | **(13,855)** | **(24,884)** | **10,362** | **(15,830)** | **(30,352)** |

## Note 8 - Transfers to / from Earmarked Reserves

The earmarked reserves detailed in the table above have been created for the following purposes:

**General Fund**

### Carry Forwards
Agreed budget under spends in the current year to be spent in the following financial year.

### Transformation Fund
This fund was created during 2013/14 to meet part of the costs of the resources that are attributable to transformation and provide ongoing investment. This is to meet costs for developing programmes and projects and detailed business cases for investment. It will be allocated to projects and programmes of activity that demonstrate viable business cases and returns on investment in terms of savings, generating income or improved outcomes in line with the strategic priorities.

### Business Rates Equalisation
Established in 2013/14, as a result of the huge change in the basis of funding for the new rates retention scheme as well as the impact of the Suffolk pooling arrangements. Will be used to neutralise the impact of any year on year fluctuations in growth or reduction of business rate income.

### Business Rates Retention Pilot
Following the 100% retention business rates pilot in 2018/19, a new reserve has been established to support a number of growth initiative projects, both Capital and Revenue.

### Government Grants
A reserve established for grants committed to future budgeted expenditure.

### Homelessness
Previously part of Government Grants, this reserve has been established to help facilitate the many implications arising from the new homeless legislation, the most significant being new prevention duties.

### Temporary Accommodation
Established to fund the renewals of furnishing and kitchen fittings at all temporary accommodation establishments.

### Commuted Maintenance Payments
A fund to help meet revenue expenditure requirements for the maintenance of bridges, open spaces and other amenities that comply with the provisions of a S106 agreement with a developer. It should be noted that additional S106 monies are held within capital receipts in advance for use on capital schemes such as play areas and affordable housing.

### Community Infrastructure Levy (CIL)
A reserve established in April 2016 following the introduction of CIL. Its aim is to fund infrastructure to support development within the area.

### Growth and Sustainable Planning
This reserve has been established to support the anticipated increase in planning applications where additional resources may be required e.g. staffing.

### Planning (Legal)
Due to its unpredictable nature, Planning (Legal) was established to ensure that the core budget remains stable utilising the reserve to smooth year on year changes.

### Strategic Planning
A reserve established for Strategic Planning related grants that are committed to future budgeted expenditure. For example, the Community Housing Fund and Custom Build grants.

## Note 8 - Transfers to / from Earmarked Reserve

### General Fund

**Joint Local Plan**
This reserve has been established to ensure that the core budget for the Joint Local Plan remains stable utilising the reserve to smooth year on year changes.

**Elections Fund**
To balance out expenditure on district elections held every four years. Annual contributions spread the expenditure equally year on year.

**Elections Equipment**
Established to enable the purchase of specific equipment on an ad hoc basis to support elections e.g. polling booths

**Planning Enforcement**
A reserve established to fund any future legal costs.

**Waste**
Established to smooth year on year changes such as the cost of materials recycling within the Waste Service, so that the core budget can remain stable.

**Revocation of Personal Search Fees**
This reserve was established in 2010/11 to cover both restitutionary claims and loss of fees foregone, payable in future years.

### HRA

**Strategic Priorities**
A reserve established to help meet future HRA spending priorities.

**IDEA Grant**
A reserve established to support the Council's new build development project utilising the grant received in 2018/19 from the "Improvement and Development Agency for Local Government".

### Other Reserves

**Capital Receipts – Other**
The Capital Receipts - Other reserve holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies, but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

**Major Repairs**
Is credited with the notional major repairs allowance pending its use to finance capital expenditure on Council dwellings.

**GF Capital Receipts**
This reserve was established in 2017/18 for the proceeds of sale from General Fund assets and will be utilised in future years to fund Capital expenditure.

**HRA Capital Receipts**
This reserve was established in 2012/13 for HRA Right to Buy Capital Receipts which can only be spent on providing new housing provision (known as 1-4-1 replacement).

## Note 9 - Other Operating Expenditure

Other operating expenditure reported includes all levies payable, total payments made to the Government Housing Receipts Pool in line with statutory arrangements for certain property sales within the Housing Revenue Account and gains/losses generated from in year disposals of non-current assets.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Parish council precepts | 2,610 | 2,547 |
| Payments to the Government Housing Capital Receipts Pool | 317 | 327 |
| (Gains) on the disposal of non current assets | (356) | (1,261) |
| **Total** | **2,571** | **1,613** |

## Note 10 - Financing and Investment Income and Expenditure

Financing and investment income and expenditure includes interest receivable and payable on the Council's investment portfolio.

The Council's net rental income on the properties it holds purely for investment purposes is also included. It also includes the interest element of the pension fund liability.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Interest payable and similar charges | 2,949 | 2,855 |
| Net interest on the net defined benefit liability | 527 | 549 |
| Interest receivable and similar income | (1,275) | (615) |
| Changes in the fair value of investment properties | 595 | 500 |
| Net Other investment income (See Note 37) | (176) | (260) |
| Impairment of financial instruments | 52 | - |
| **Total** | **2,672** | **3,029** |

## Note 11 - Taxation and Non-Specific Grant Income and Expenditure

This note consolidates all non-specific grants and contributions receivable that cannot be directly attributable to service expenditure and therefore not included in the gross income amount relevant to the service area.

All capital grants and contributions are credited to non-specific grant income even if service specific.

The note also identifies the Council's proportion of council tax and non-domestic rates used to fund in year service activities. The large increases for non-domestic rates is due to membership of the Suffolk 100% rates retention pilot in 2018/19.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Council Tax Income | (7,858) | (7,555) |
| Non-domestic rates income | (21,273) | (9,484) |
| Non-domestic rates Tariff payment to Central government | 15,469 | 6,719 |
| Non-ring-fenced government grants | (888) | (1,945) |
| Capital grants and contributions | (61) | (25) |
| **Total Grants** | **(14,611)** | **(12,290)** |

## Note 12 - Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment

| Cost or Valuation<br>2018/19<br>Movements on Balances | Council Dwellings £'000 | Other Land and Buildings £'000 | Vehicles, Plant & Equipment £'000 | Infrastructure Assets £'000 | Community Assets £'000 | Surplus Assets £'000 | Assets Under Construction £'000 | Total Property, Plant and Equipment £'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 April 2018 | 207,532 | 27,919 | 10,920 | 1,395 | 842 | 560 | 3,443 | **252,611** |
| Additions | 5,893 | 163 | 466 | 26 | - | - | 1,973 | **8,521** |
| Revaluation increases recognised in the Revaluation Reserve | 4,544 | 1,423 | - | - | - | 82 | - | **6,049** |
| Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services | (1,616) | (2,225) | - | - | - | 135 | - | **(3,706)** |
| Derecognition - Disposals | (1,811) | (523) | (19) | (869) | - | - | - | **(3,222)** |
| Assets reclassified | 3,215 | (2,966) | - | - | - | 2,831 | (3,080) | **-** |
| At 31 March 2019 | 217,757 | 23,791 | 11,367 | 552 | 842 | 3,608 | 2,336 | **260,253** |

| Accumulated Depreciation and Impairment<br>2018/19<br>Movements on Balances | Council Dwellings £'000 | Other Land and Buildings £'000 | Vehicles, Plant & Equipment £'000 | Infrastructure Assets £'000 | Community Assets £'000 | Surplus Assets £'000 | Assets Under Construction £'000 | Total Property, Plant and Equipment £'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 April 2018 | 1 | (1) | (4,864) | (1,012) | - | - | - | **(5,876)** |
| Depreciation charge | (3,332) | (720) | (731) | (30) | - | (6) | - | **(4,819)** |
| Depreciation written out to the Revalution Reserve | 1,631 | 579 | - | - | - | 6 | - | **2,216** |
| Depreciation written out to the Surplus / Defecit on the Provision of Services | 1,688 | 133 | - | - | - | - | - | **1,821** |
| Derecognition - disposals | 9 | 8 | 2 | 621 | - | - | - | **640** |
| At 31 March 2019 | (3) | (1) | (5,593) | (421) | - | - | - | **(6,018)** |
| **Net Book Value At 31 March 2019** | **217,754** | **23,790** | **5,774** | **131** | **842** | **3,608** | **2,336** | **254,235** |

## Note 12 - Property, Plant and Equipment

| Cost or Valuation<br>2017/18<br>Movements on Balances | Council Dwellings £'000 | Other Land and Buildings £'000 | Vehicles, Plant & Equipment £'000 | Infrastructure Assets £'000 | Community Assets £'000 | Surplus Assets £'000 | Assets Under Construction £'000 | Total Property, Plant and Equipment £'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 April 2017 | 195,175 | 27,094 | 10,884 | 1,395 | 842 | 516 | 1,440 | **237,346** |
| Additions | 3,363 | 261 | 151 | - | - | - | 5,171 | **8,946** |
| Revaluation increases recognised in the Revaluation Reserve | 7,342 | 1,223 | - | - | - | 12 | - | **8,577** |
| Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services | (269) | (387) | - | - | - | 32 | - | **(624)** |
| Derecognition - Disposals | (1,504) | (13) | (115) | - | - | - | - | **(1,632)** |
| Derecognition - Other | - | - | - | - | - | - | (2) | **(2)** |
| Assets reclassified | 3,425 | (259) | - | - | - | - | (3,166) | **-** |
| At 31 March 2018 | 207,532 | 27,919 | 10,920 | 1,395 | 842 | 560 | 3,443 | **252,611** |

| Accumulated Depreciation and Impairment<br>2017/18<br>Movements on Balances | Council Dwellings £'000 | Other Land and Buildings £'000 | Vehicles, Plant & Equipment £'000 | Infrastructure Assets £'000 | Community Assets £'000 | Surplus Assets £'000 | Assets Under Construction £'000 | Total Property, Plant and Equipment £'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 April 2017 | - | (1) | (4,222) | (979) | - | - | - | **(5,202)** |
| Depreciation charge | (3,053) | (767) | (735) | (33) | - | (5) | - | **(4,593)** |
| Depreciation written out to the Revalution Reserve | 951 | 635 | - | - | - | 5 | - | **1,591** |
| Depreciation written out to the Surplus / Defecit on the Provision of Services | 2,092 | 132 | - | - | - | - | - | **2,224** |
| Derecognition - disposals | 11 | - | 93 | - | - | - | - | **104** |
| At 31 March 2018 | 1 | (1) | (4,864) | (1,012) | - | - | - | **(5,876)** |
| Net Book Value | | | | | | | | |
| **At 31 March 2018** | **207,533** | **27,918** | **6,056** | **383** | **842** | **560** | **3,443** | **246,735** |

## Note 12 - Property, Plant and Equipment

### Capital Commitments

At 31 March 2019, the Council has entered into a number of contracts for the purchase, construction or enhancement of Property, Plant and Equipment in 2018/19 and future years budgeted to cost £1.9m. Similar commitments at 31 March 2018 were £5.24m. The major commitments are:

| 2018/19 amounts | £'000 |
|---|---|
| New Build of Council Dwellings / Social Housing | 1,457 |
| HRA Planned Maintenance and other works | 166 |
| Community Fund Projects Grants | 130 |
| Disabled Facilities Grant | 166 |
| Disabled Adaptations for Council Dwellings | 2 |
| **Total** | **1,921** |

### Revaluations

Valuations are carried out by the Valuation Office and, for land and buildings, are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

Under IAS 16, the Council is required to revalue its assets at 5 yearly intervals, or sooner where there is a material change in any year. An annual impairment review is also carried out. The Valuation Office carried out a desktop valuation for the Housing Revenue Account and a full valuation of the General Fund properties at 31 March 2018.

The next full valuation for Housing Revenue Account properties is due on 31 March 2020 and for General Fund Properties on 1 April 2024.



| Carried at Historical Cost | Council Dwellings £'000 | Other Land and Buildings £'000 | Vehicles, Plant & Equipment £'000 | Infrastructure Assets £'000 | Community Assets £'000 | Surplus Assets £'000 | Assets Under Construction £'000 | Total Property, Plant and Equipment £'000 |
|---|---|---|---|---|---|---|---|---|
| Carried at Historical Cost | 1,763 | 17 | 11,367 | 552 | - | - | 2,336 | **16,035** |
| Fair Value as at: | | | | | | | | |
| 31 March 2019 | 215,994 | 23,761 | - | - | - | 3,608 | - | **243,363** |
| 31 March 2017 | - | 13 | - | - | - | - | - | **13** |
| Prior 2015 | - | - | - | - | 842 | - | - | **842** |
| Total Cost or Valuation | 217,757 | 23,791 | 11,367 | 552 | 842 | 3,608 | 2,336 | **260,253** |

## Note 13 - Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include purchased licenses and specialist stock condition data for Housing Revenue Account properties.

All software is assigned a finite useful life of five years, based on an assessment of the period that the software is expected to be of use to the Council. The carrying amount of intangible assets is amortised on a straight-line basis.

The amortisation charged to revenue in the year was charged to the ICT Administration cost centre.

| **The movement on Intangible Asset balances during the year :** | **2018/19 £'000** | **2017/18 £'000** |
|---|---|---|
| **Balance at start of year:** | | |
| Gross carrying amount | 2,780 | 2,294 |
| Accumulated amortisation | (1,468) | (1,011) |
| Net carrying amount at start of year | 1,312 | 1,283 |
| Additions: | | |
| Purchases | 107 | 494 |
| Other disposals | - | (8) |
| Amortisation for the period | (511) | (464) |
| Other changes | - | 7 |
| **Net carrying amount at end of year** | **908** | **1,312** |
| Comprising | | |
| Gross carrying amount | 2,887 | 2,780 |
| Accumulated amortisation | (1,979) | (1,468) |
| **Balance at end of year:** | **908** | **1,312** |

## Note 14 - Financial Instruments

### A - Financial Instruments - Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

### Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

The majority of the Council's financial liabilities held during the year are measured at amortised cost and comprised:

- long-term loans from the Public Works Loan Board
- short-term loans from other local authorities
- trade payables for goods and services received



### Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. The financial assets held by the Council during the year are held under the following classifications.

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising:

- cash in hand
- bank current and deposit accounts with Lloyds bank
- loans to small companies and housing associations
- trade receivables for goods and services delivered

Fair value through other comprehensive income (where cash flows are solely payments of principal and interest and the Council's business model is to both collect those cash flows and sell the instrument; and equity investments that the Council has elected into this category) comprising:

- pooled equity, property and mutli asset funds managed by Schroders, CCLA and UBS fund managers held as strategic investments.
- equity investments in BDC (Suffolk Holdings) Ltd held for service purposes

Fair value through profit and loss (all other financial assets) comprising:

- money market funds managed by Federated fund managers

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council.

## Note 14 - Financial Instruments

### B – Financial Instruments - Balances

The financial liabilities included in the Balance Sheet are analysed across the following categories:

The total short-term borrowing includes £1,024k (2018 was £500k) representing accrued interest and principal repayments due within 12 months on long-term borrowing.

| Financial Liabilities | Long Term | | Short Term | |
|---|---|---|---|---|
| | 2018/19 £000s | 2017/18 £000s | 2018/19 £000s | 2017/18 £000s |
| **Loans at amortised cost:** | | | | |
| Principal sum borrowed | 96,023 | 85,797 | 8,024 | 12,500 |
| Accrued interest | 106 | 37 | 2 | 7 |
| **Total Borrowing** | **96,129** | **85,834** | **8,026** | **12,507** |
| **Liabilities at amortised cost** | | | | |
| Trade payables | - | - | 2,354 | 3,739 |
| **Included in Creditors** | **-** | **-** | **2,354** | **3,739** |
| **Total Financial Liabilities** | **96,129** | **85,834** | **10,380** | **16,246** |

The financial assets included in the Balance Sheet are analysed across the following categories.

The categories include:

FVOCI – Fair Value through Other Income and Expenditure

| Financial Assets | Long Term | | Short Term | |
|---|---|---|---|---|
| | 2018/19 £000s | 2017/18 £000s | 2018/19 £000s | 2017/18 £000s |
| **Loans and receivables:** | | | | |
| Principal at amortised cost | 23,430 | 11,528 | 403 | 638 |
| Accrued interest | 254 | 86 | 17 | 19 |
| Loss allowance | (130) | - | (21) | - |
| **At fair value through other comprehensive income** | | | | |
| Principal at amortised cost | - | - | 9,000 | 9,000 |
| Accrued interest | - | - | 105 | 110 |
| Equity Investments elected FVOCI | 301 | - | - | - |
| **At fair value through profit & loss:** | - | - | - | - |
| Unquoted equity investments at cost | - | 1,232 | - | - |
| **Total Investments** | **23,855** | **12,845** | **9,504** | **9,767** |
| **Loans and receivables:** | | | | |
| Cash (including bank accounts) | - | - | 2,529 | 2,704 |
| Accrued interest | - | - | 5 | 5 |
| **Total Cash and Cash Equivalents** | **-** | **-** | **2,534** | **2,709** |
| **Loans and receivables:** | | | | |
| Trade receivables | 2,456 | 47 | 1,367 | 3,056 |
| **Included in Debtors** | **2,456** | **47** | **1,367** | **3,056** |
| **Total Financial Assets** | **26,311** | **12,892** | **13,405** | **15,532** |

## Note 14 - Financial Instruments

### C - Equity instruments elected to fair value through other comprehensive income

The Council has elected to account for the following investments in equity instruments at fair value through other comprehensive income because they are long-term strategic holdings and changes in their fair value are not considered to be part of the Council's annual financial performance.

The reduction in fair value is due to the impairment of the investment properties held by BDC (Suffolk Holdings) Ltd.

| | Fair Value | | Dividends | |
|---|---|---|---|---|
| | 2018/19 £000s | 2017/18 £000's | 2018/19 £000s | 2017/18 £000's |
| CCLA | 5,004 | 4,927 | 216 | 227 |
| UBS | 1,899 | 1,923 | 82 | 75 |
| Schroder | 1,876 | 1,927 | 144 | 137 |
| BDC (Suffolk Holdings) Ltd | 301 | 1,232 | - | - |
| **Total** | **9,080** | **10,010** | **442** | **439** |

### D - Offsetting Financial Assets and Liabilities

Financial assets and liabilities are set off against each other where the Council has a legally enforceable right to set off and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The table below shows those instruments that have been offset on the balance sheet.

| | 2018/19 | | | 2017/18 | | |
|---|---|---|---|---|---|---|
| | Gross assets (liabilities) £000's | (Liabilities) assets set off £000's | Net position on Balance sheet £000's | Gross assets (liabilities) £000's | (Liabilities) assets set off £000's | Net position on Balance sheet £000's |
| Bank accounts in credit | 1,421 | - | 1,421 | 1,445 | - | 1,445 |
| **Total Financial assets** | **1,421** | **-** | **1,421** | **1,445** | **-** | **1,445** |

### E - Financial Instruments - Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following:

| | Financial Liabilities | Financial Assets | | | | | |
|---|---|---|---|---|---|---|---|
| | Amortised Cost £000s | Amortised Cost £000s | Fair Value Through OCI £000s | Elected to Fair Value Through OCI £000s | Fair Value through Profit & Loss £000s | 2018/19 Total £000s | 2017/18 Total £000s |
| Interest expense | 2,949 | - | - | - | - | 2,949 | 2,855 |
| Impairment losses | - | 182 | - | - | - | 182 | - |
| Fees paid | 7 | - | - | - | - | 7 | 3 |
| **Interest payable and similar charges** | 2,956 | 182 | - | - | - | 3,138 | 2,858 |
| Interest income | - | (21) | (460) | (782) | (29) | (1,292) | (615) |
| **Interest and investment income** | - | (21) | (460) | (782) | (29) | (1,292) | (615) |
| **Net impact or surplus/deficit on provision of services** | **2,956** | **161** | **(460)** | **(782)** | **(29)** | **1,846** | **2,243** |
| Gains on revaluation | - | - | (77) | - | - | (77) | - |
| Losses on revaluation | - | - | 75 | 2,309 | - | 2,384 | 133 |
| **Impact on other comprehensive income** | **-** | **-** | **(2)** | **2,309** | **-** | **2,307** | **133** |
| **Net Gain/(Loss) for the year** | **2,956** | **161** | **(462)** | **1,527** | **(29)** | **4,153** | **2,376** |

## Note 14 - Financial Instruments

**F - Financial Instruments - Fair Values**

Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated calculating the net present value of the remaining contractual cash flows at 31 March 2019, using the following method and assumptions:

- Shares in BDC (Suffolk Holdings) Ltd have been valued from the company's balance sheet net assets

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2019, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.

- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.

- No early repayment or impairment is recognised for any financial instrument.

- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices

- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments

- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

## Note 14 - Financial Instruments

The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to approximate to the carrying amount.

### Financial Liabilities

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

| | Fair Value Level | Balance Sheet 2018/19 £000s | Fair Value 2018/19 £000s | Balance Sheet 2017/18 £000s | Fair Value 2017/18 £000s |
|---|---|---|---|---|---|
| Financial Liabilities held at Amortised cost: | | | | | |
| Long term loans from PWLB | 2 | 97,153 | 111,353 | 86,334 | 98,570 |
| **Sub - Total** | | **97,153** | **111,353** | **86,334** | **98,570** |
| Liabilities for which fair value is not disclosed | | 9,356 | 0 | 15,746 | - |
| **Total Financial Liabilities** | | **106,509** | **111,353** | **102,080** | **98,570** |
| Recorded on balance sheet as: | | | | | |
| Short term creditors | | 2,354 | | 3,740 | |
| Short term borrowing | | 8,132 | | 12,543 | |
| Long term borrowing | | 96,023 | | 85,797 | |
| **Total Financial Liabilities** | | **106,509** | | **102,080** | |



### Financial Assets

The fair value of short-term financial assets held at amortised cost, including trade receivables, is assumed to approximate to the carrying amount.

| | Fair Value Level | Balance Sheet 2018/19 £000s | Fair Value 2018/19 £000s | Balance Sheet 2017/18 £000s | Fair Value 2017/18 £000s |
|---|---|---|---|---|---|
| Financial assets held at fair value: | | | | | |
| Money market funds | 1 | 1,000 | 1,000 | 1,000 | 1,000 |
| Bond, Equity and property funds | 1 | 8,779 | 8,779 | 8,778 | 8,778 |
| Shares in unlisted companies | 2 | 301 | 301 | 1,232 | 1,232 |
| Financial assets held at amortised cost: | | | | | |
| Loans to companies | 2 | 23,683 | 23,683 | 11,725 | 11,730 |
| **Sub Total** | | **33,763** | **33,763** | **22,734** | **22,739** |
| Assets for which fair value is not disclosed | | 5,735 | - | 5,468 | - |
| **Total Financial Assets** | | **39,498** | **33,763** | **28,202** | **22,739** |
| Recorded on balance sheet as: | | | | | |
| Long term debtors | | 25,757 | | 11,575 | |
| Long term investments | | 301 | | 1,232 | |
| Short term debtors | | 1,368 | | 3,056 | |
| Short term investments | | 9,543 | | 9,636 | |
| Cash and Cash Equivalents | | 2,529 | | 2,704 | |
| **Total Financial Assets** | | **39,498** | | **28,202** | |

## Note 15 - Debtors

This note shows the recoverable amount owed to the Council by short-term debtors (i.e. due to be received within one year) in each class net of impairment allowances.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Trade Receivables | 695 | 2,410 |
| Prepayments | 238 | 73 |
| Other Receivables | 3,581 | 2,742 |
| **Total Debtors** | **4,514** | **5,225** |

## Note 16 - Cash and Cash Equivalents

This note shows how the balance of Cash and Cash Equivalents is made up of its various elements. These consist of cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Bank current accounts | 1,421 | 1,446 |
| Short-term deposits with Money Market Funds | 1,000 | 1,000 |
| Cash in Transit | 108 | 258 |
| **Total Cash and Cash Equivalents** | **2,529** | **2,704** |



## Note 17 - Creditors

This note shows the amount owed by the Council to short-term creditors (i.e. due to be paid within one year) in each class.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Trade Payables | (3,588) | (3,924) |
| Other Payables | (4,000) | (2,642) |
| **Total Creditors** | **(7,588)** | **(6,566)** |

## Note 18 – Provisions

### Non-Domestic Rate Appeals

The Local Government Finance Act 2012 introduced a non-domestic rates retention scheme that enables local authorities to retain a portion of the rates generated in their area. These arrangements came into effect on 1 April 2013. As part of this process each Council has assumed the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list.

The provision relates to Babergh's share, 80% of billing authorities' estimates (40% in 2017/18) of the provision required for potential refunds relating to retrospective alterations to the rating list for those appeals that are already lodged with the Valuation Office as at 31 March 2019. Babergh has not opted to spread the cost of these appeals (prior to 2013/14) over 5 years. This work has been supported by Wilks Head and Eve LLP, Sixth Floor, Fairgate House, 78 New Oxford Street, London WC1A 1HB. This includes amounts that were paid over in respect of 2012/13 and prior years to Central Government.

| | Balance at 31 March 2018 £'000 | Additional Provisions made in year £'000 | Amounts used in year £'000 | Balance at 31 March 2019 £'000 |
|---|---|---|---|---|
| Outstanding Legal Cases/MMI Levy | (201) | - | - | (201) |
| Non Domestic Rate Appeals | (789) | (2,110) | 221 | (2,678) |
| Accumulated Absence | (128) | (145) | 128 | (145) |
| **Total** | **(1,118)** | **(2,255)** | **349** | **(3,024)** |

### Outstanding Legal Cases / MMI

In 1992 Municipal Mutual Insurance (MMI), one of the Council's insurers at the time stopped accepting new business. MMI and its policy holders, including local authorities, organised a scheme of arrangement which provided for the company to be wound up in an orderly manner in the event that there was a shortfall in the amount of assets held by MMI. Under the scheme of arrangement MMI could claim back from its major policy holder's part of any claims which it had paid them from 1 October 1993 onwards by way of a levy.

Following a meeting of the Board of Directors of MMI on 13 November 2012, MMI wrote to its policy holders to advise that the Board had decided to trigger the scheme of arrangement and control of the company then passed to the administrators, Ernst and Young. Ernst and Young advised that they intended to make an initial levy of 15% of claims paid since October 1993. In addition, any future claims that it settles on behalf of MMI will also be subject to a 15% reduction, with the shortfall being met by the respective policyholders.

In April 2016 Ernst and Young notified the Council of an increase in the levy to 25%. The initial levy of 15%, totalling £50k, was paid by the Council in February 2014. In April 2016 Ernst and Young indicated that the amount of the levy will be increased by a further 10% to 25%. The level within the provision will be maintained at £50k to allow for any future changes above the 25%.

## Note 19 - Unusable Reserves

All the Council's unusable reserves are described below and the movements in the year are disclosed.

Following the adoption of IFRS 9 a new reserve has been created - The Financial Instruments Revaluation Reserve – to reflect the impact of upward and downward revaluations of financial investments.

The 2017/18 closing balance on the Available for Sale Financial Instruments Reserve has been transferred to this new unusable reserve.

| Summary | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Revaluation Reserve | (34,659) | (27,058) |
| Capital Adjustment Account | (119,164) | (120,348) |
| Pensions Reserve | 23,501 | 20,090 |
| Collection Fund Adjustment Account | 259 | 635 |
| Accumulated Absences Account | 145 | 128 |
| Available for Sale Financial Instruments Reserve | - | 222 |
| Financial Instruments Revaluation Reserve | 2,488 | - |
| **Total Unusable Reserves** | **(127,430)** | **(126,331)** |

## Note 19a - Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account (CAA).

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Balance at 1 April** | (27,058) | (17,351) |
| Upward revaluation of assets | (9,172) | (10,695) |
| Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services | 907 | 527 |
| **Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services** | **(8,265)** | **(10,168)** |
| Difference between fair value depreciation and historical cost depreciation | 382 | 333 |
| Accumulated gains on assets sold or scrapped | 282 | 128 |
| **Amount written off to the Capital Adjustment Account** | **664** | **461** |
| **Balance at 31 March** | **(34,659)** | **(27,058)** |

## Note 19b - Capital Adjustment Account

The Capital Adjustment Account (CAA) absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions. The CAA is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current and fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and additional costs.

The Account contains accumulated gains and losses on Investment Properties.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 7 to the Core Statements provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Balance at 1 April** | (120,348) | (116,106) |
| Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | | |
| Charges for depreciation and impairment of non-current assets | 6,704 | 2,993 |
| Revaluation (gains)/losses on Investment Property | 595 | 500 |
| Amortisation of intangible assets | 512 | 464 |
| Revenue expenditure funded from capital under statute | 421 | 628 |
| Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 2,582 | 1,966 |
| | 10,814 | 6,551 |
| Adjusting amounts written out of the Revaluation Reserve | (664) | (460) |
| **Net written out amount of the cost of non-current assets consumed in the year** | **10,150** | **6,091** |
| Capital financing applied in the year: | | |
| Use of Capital Receipts Reserve to finance new capital expenditure | (1,519) | (896) |
| Use of the Major Repairs Reserve to finance new capital expenditure | (3,530) | (3,235) |
| Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | (396) | (563) |
| HRA Debt Repayment | (500) | (500) |
| Third Party Loans | 67 | 27 |
| Impairment of Financial Instruments | 130 | - |
| Statutory provision for the financing of capital investment charged against the General Fund and HRA balances | (982) | (827) |
| Capital expenditure charged against the General Fund and HRA balances | (2,176) | (4,296) |
| Capital expenditure charged against Earmarked Reserves | (60) | (43) |
| | (8,966) | (10,333) |
| **Balance at 31 March** | **(119,164)** | **(120,348)** |

## Note 19c - Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Balance at 1 April** | 20,090 | 21,863 |
| Remeasurement of net defined liability/(asset) | 2,561 | (2,442) |
| Reversal of items relating to retirement benefits debited or credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | 3,085 | 2,860 |
| Employer's pensions contributions and direct payments to pensioners payable in the year | (2,235) | (2,191) |
| **Balance at 31 March** | **23,501** | **20,090** |

Details on the charge for the year are shown in Note 32 of the Core Financial Statements.



## Note 19d - Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council taxpayers and non-domestic ratepayers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Balance at 1 April** | 635 | (244) |
| The amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements | (376) | 879 |
| **Balance at 31 March** | **259** | **635** |

## Note 19e - Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from this Account.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Balance at 1 April** | 128 | 105 |
| Settlement or cancellation of accrual made at the end of the preceding year | (128) | (105) |
| Amount accrued at the end of the current year | 145 | 128 |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 17 | 23 |
| **Balance at 31 March** | **145** | **128** |



## Note 19f - Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gain/loss made by the Council arising from increases/decreases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost,
- disposed of and the gains are realised.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Balance at 1 April** | 222 | 238 |
| Transfer to Financial Instruments Revaluation Reserve | (222) | - |
| **Balance at 31 March** | **-** | **222** |

## Note 19g - Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the Council arising from increases in the value of its investments that are measured at fair value through other comprehensive income.

The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost,
- disposed of and the gains are realised.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Balance at 1 April** | - | - |
| Transfer from Available for Sale Financial Instruments Reserve | 222 | - |
| Upward revaluation of investments | (76) | - |
| Downward revaluation of investments | 75 | - |
| Downward revaluation of Equity Instruments | 2,267 | |
| **Balance at 31 March** | **2,488** | **-** |

## Note 20- Cash Flow Statement: Operating Activities

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| The cash flows for operating activities include the following items: | | |
| Interest received | (1,112) | (511) |
| Interest paid | 2,883 | 2,851 |
| | **1,771** | **2,340** |
| The surplus or deficit on the provision of services has been adjusted for the following non-cash movements: | | |
| Depreciation and amortisation | (5,330) | (5,057) |
| Impairment and (downward valuations)/reversals | (2,532) | 1,600 |
| (Increase)/decrease in creditors | (2,601) | 1,498 |
| Increase/(decrease) in debtors | 1,141 | 2,483 |
| Increase/(decrease) in inventories | (5) | 19 |
| Movement on pension liability | (850) | (669) |
| Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | (2,582) | (1,968) |
| Other non-cash items | (1,900) | (904) |
| | **(14,659)** | **(2,998)** |
| The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities: | | |
| Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 2,937 | 3,228 |
| Other items for which the cash effects are investing or financing activities | (1,280) | (1,665) |
| **Net cash flows from operating activities** | **1,657** | **1,563** |

## Note 21 - Cash Flow Statement: Investing Activities

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Purchase of property, plant and equipment, investment property and intangible assets | 10,206 | 6,800 |
| Purchase of short-term and long-term investments | 22,722 | 19,831 |
| Other payments for investing activities | 67 | 41 |
| Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (2,938) | (3,228) |
| Proceeds from short-term and long-term investments | (9,204) | (9,500) |
| Other receipts from investing activities | (569) | (857) |
| **Net cash flows from investing activities** | **20,284** | **13,087** |

## Note 22 - Cash Flow Statement: Financing Activities

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Cash receipts from short and long term borrowing | (11,246) | (6,000) |
| Repayments of short-term and long-term borrowing | 5,500 | 500 |
| **Net cash flows from financing activities** | **(5,746)** | **(5,500)** |

## Note 23 - Members' Allowances

The Council paid the following amounts to Members of the Council during the year.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Basic Allowances | 212 | 171 |
| Special Responsilbility Allowance | 89 | 47 |
| Expenses | 17 | 16 |
| **Total** | **318** | **234** |

The Independent Remuneration Panel (IRP) was appointed to review and make recommendations to the Council regarding members allowances following the introduction of a Leader/Cabinet Governance Model in May 2017 and in accordance with legal requirements under the Local Authorities (Members' Allowances) (England) Regulations 2003.

Further details of the Council's Scheme and schedules for Member's Allowances can be found in the Transparency pages on the Council's website at:

http://www.babergh.gov.uk/assets/Finance/Babergh/Scheme-of-Allowances.pdf

http://www.babergh.gov.uk/the-council/finance/senior-officers-remuneration/babergh-member-allowances/

## Note 24 - Officers' Remuneration

Following the integration with Mid Suffolk District Council in June 2013, the two Councils share both staff and services. The Senior Leadership Team comprises a Chief Executive, two Strategic Directors and eight Assistant Directors.

Post holders continue to be employed by the Council which employed them prior to the introduction of the Senior Leadership Team.

The following two tables apply to Babergh District Council employees only. Remuneration for the other officers is published in Mid Suffolk's District Council's Statement of Accounts.

The remuneration paid to the Council's senior employees is shown in this table.

| | Year | Salary, Fees and Allowances £ | Expenses / Benefits in Kind £ | Pension Contribution £ | Exit Packages £ | Total £ |
|---|---|---|---|---|---|---|
| Joint Chief Executive | 2018/19 | 118,237 | 963 | 27,130 | - | **146,330** |
| Joint Chief Executive (from 01.01.2017) | 2017/18 | 112,504 | 963 | 25,553 | - | **139,020** |
| Interim Strategic Director | 2018/19 | 92,366 | 963 | 21,244 | - | **114,573** |
| Interim Strategic Director (from 01.01.2018) | 2017/18 | 22,639 | 241 | 5,207 | - | **28,087** |
| Assistant Director - Investment and Commercial Delivery (from 16.08.2018) | 2018/19 | 50,606 | 606 | 11,590 | - | **62,802** |
| Assistant Director - Customer Services | 2018/19 | 64,623 | 963 | 14,725 | - | **80,311** |
| Assistant Director - Customer Services (from 30.10.2017) | 2017/18 | 24,997 | 406 | 5,749 | - | **31,152** |
| Assistant Director - Housing | 2018/19 | 60,891 | 963 | 13,948 | - | **75,802** |
| Assistant Director - Housing (from 21.08.2017) | 2017/18 | 52,636 | 963 | 11,903 | - | **65,502** |

A senior employee, for the additional disclosure, is the head of paid service. A statutory chief officer is anybody who has power to direct or control the major activities of the body. This has been interpreted as the Senior Leadership Team. The table above shows the full costs of Babergh employees who met this definition. These costs are shared with Mid Suffolk District Council under the integration arrangements, as explained in the following table.

## Note 24 - Officers' Remuneration

The Assistant Director Corporate Resources whose senior officer's remuneration is shown in the Mid Suffolk Statement of Accounts is also the S151 Officer for Babergh District Council.

These numbers relate solely to those staff directly employed by the Council and exclude any officers who received more than £50,000 from Mid Suffolk District Council and whose costs may have been shared between the two Councils.

Details of the total costs of the Senior Leadership Team (inclusive of salary and expense payments made, as well as pension fund contributions) are set out in the following table. Eleven of the Senior Leadership Team were employed by Mid Suffolk District Council and their remuneration, in the format of the previous table, is disclosed in that Council's Statement of Accounts. The next table sets out how Babergh reimburses Mid Suffolk for its 50% share of these costs for the relevant period in 2017/18. There is one exception where costs are not shared equally. This relates to the role of the Assistant Director for Investment and Commercial Delivery. These costs are shared 35% Babergh and 65% Mid Suffolk. In addition, other transactions are disclosed in Note 27, Related Parties

The amounts shown in this table (relating to Babergh employees) are different to those included in the senior officers' remuneration (see previous page) as they include employers National Insurance contributions.

| | 2018/19 Expenditure by Babergh £ | 2018/19 Expenditure by Mid Suffolk £ | 2017/18 Expenditure by Babergh £ | 2017/18 Expenditure by Mid Suffolk £ |
|---|---|---|---|---|
| **Senior Management** | | | | |
| Joint Chief Executive | 162,173 | | 154,196 | - |
| Deputy Chief Executive | - | 5,874 | - | 143,750 |
| Strategic Director (People) | - | - | - | 190,252 |
| Strategic Director | - | 122,889 | - | 54,415 |
| Strategic Director (Place) | - | - | - | 85,438 |
| Interim Strategic Director | 126,882 | - | 31,039 | - |
| Assistant Director Corporate Resources | - | 113,897 | - | 111,327 |
| Assistant Director Communites and Public Access | - | 50,714 | - | 96,870 |
| Assistant Director Customer Services | 88,363 | - | 34,212 | - |
| Assistant Director Investment and Commercial Delivery | 70,004 | - | - | 102,293 |
| Assistant Director Planning for Growth | | 97,538 | - | 95,863 |
| Assistant Director Environment and Projects | | 98,974 | - | 97,547 |
| Assistant Director Supported Living | | | - | 44,321 |
| Assistant Director Housing | 83,448 | | 71,902 | - |
| Assistant Director Law and Governance | | 93,297 | - | 87,111 |
| Total Expenditure | 530,870 | 583,183 | 291,349 | 1,109,187 |
| Net Adjustment between Councils | 23,167 | (23,167) | 404,127 | (404,127) |
| **Total** | **554,037** | **560,016** | **695,476** | **705,060** |

## Note 24 - Officers' Remuneration

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) are shown in this table.

| | 2018/19 Number of employees | 2017/18 Number of employees |
|---|---|---|
| £50,000 - £54,999 | 5 | 7 |
| £55,000 - £59,999 | 2 | - |
| £60,000 - £64,999 | - | 2 |
| £65,000 - £69,999 | 1 | 1 |
| £70,000 - £74,999 | - | 1 |
| **TOTAL** | **8** | **11** |



## Note 25 - External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts and certification of grant claims by the Council's External Auditors (Ernst & Young LLP).

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Fees payable to the external auditor with regard to external audit services carried out by the appointed auditor for the year | 47 | 55 |
| Fees payable to the external auditor for the certification of grant claims and returns for the year | 19 | 25 |
| **Total** | **66** | **80** |

## Note 26 – Grant Income

The Council debited payments and credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement.

This note consolidates all non-specific grants and contributions receivable that cannot be directly attributable to service expenditure and therefore not included in the gross income amount relevant to the service area.

The note also identifies the Council's proportion of council tax and business rates used to fund in year service activities.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Credited to Taxation and Non-Specific Grant Income and Expenditure: | | |
| Revenue Grants and Contributions: | | |
| Council Tax Income | (7,858) | (7,555) |
| Non-Domestic Rates Levy Payable | 413 | 460 |
| Non-Domestic Rates Income | (19,233) | (8,814) |
| LCTS Support & S31 Grants | (2,453) | (1,130) |
| Non-Domestic Rates Payable to Central Government (Tariff) | 15,469 | 6,719 |
| Revenue Support Grant | - | (526) |
| Rural Services Support Grant | - | (182) |
| New Homes Bonus | (866) | (1,217) |
| Other Revenue Grants | (22) | (20) |
| Total Revenue Grants | (14,550) | (12,265) |
| Capital Grants and Contributions: | | |
| One Public Estate | - | (25) |
| Disabled Facilities Grant | (11) | - |
| Section 106 | (50) | - |
| Total Capital Grants | (61) | (25) |
| **Total Credited to Taxation and Non-Specific Grant Income and Expenditure** | **(14,611)** | **(12,290)** |
| Grants and Contributions Credited to Services: | | |
| HB Subsidy & Admin Grant | (16,017) | (18,180) |
| Disabled Facilities Grant | (245) | (469) |
| S106 Contributions | (41) | (15) |
| Homelessness | (183) | (156) |
| Misc Other Grants | (335) | (295) |
| **Total Grants and Contributions Credited to Services** | (16,821) | (19,115) |

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are shown in this table.

| **Grants Receipts in Advance:** | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Capital Grants Receipts in Advance** | | |
| S106 Contributions | 2,115 | 1,610 |
| Disabled Facilities Grant | 447 | 185 |
| | 2,562 | 1,795 |
| **Other Grants Receipts in Advance** | | |
| S106 Contributions | - | 675 |
| **Total Grants** | **2,562** | **2,470** |

## Note 27 - Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

**Central Government**

Central Government has significant influence over the general operations of the Council. It is responsible for providing the statutory framework, within which the Council operates, provides a significant proportion of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the Core Financial Statements Note 6 Expenditure and Income Analysed by Nature and Note 26 Grant Income.



**Members**

Members of the Council have direct control over the Council's financial and operating policies and strategy. The total of members' allowances and expenses paid in 2018/19 is shown in Note 23 to the Core Financial Statements.

**Babergh / Mid Suffolk Integration**

Integration between Babergh and Mid Suffolk District Council commenced with the appointment of a Joint Chief Executive in May 2011. Full integration in terms of staff and services has been in place since June 2013.

During 2013/14, it was agreed that all costs would generally be shared 50:50 between the two Councils. Evidence of this can be seen within the Officers Remuneration note, (Note 24) and the Termination Benefits note (Note 31).

There continues to be two separate groups of Members as the Councils are two separate legal entities. There is currently a Joint Overview and Scrutiny Committee, a Joint Audit and Standards Committee and a Joint HR Panel.

A total of £5,085k of employee related expenditure was recharged to the Council by Mid Suffolk, and the Council recharged £4,126k of employee related expenditure to Mid Suffolk.

A total of £3,557k of non-employee related expenditure was recharged to the Council by Mid Suffolk, and the Council recharged £924k of non-employee related expenditure to Mid Suffolk.

**Suffolk County Council and the Police and Crime Commissioner**

The Council pays precepts for council tax to Suffolk County Council, the Police and Crime Commissioner and various parish councils. The Council also pays a share of non-domestic rates to the County Council. Details of these transactions are given in the Income and Expenditure Statement for the Collection Fund.

**Suffolk County Council Subsidiaries**

Suffolk County Council has a number of wholly-owned subsidiaries including Vertas Group Ltd, Concertus Design and Property Consultants Ltd and Opus People Solutions Ltd. During 2018/19, the Council incurred expenditure of £620k (£750k in 2017/18).

**Shared Revenues Partnership**

From 1 April 2011 the Shared Revenues Partnership (SRP) was set up to deliver a Shared Revenues and Benefits Service for Babergh and Mid Suffolk District Councils and Ipswich Borough Council. Each Council has delegated its authority for this function to a Joint Committee, comprising of Members from each Council, and oversees the running of the SRP.

## Note 27 - Related Parties

The cost of delivering the partnership is reviewed annually and is based on cost drivers such as number of businesses, number of billing items (council tax) and number of housing benefit documents. Babergh's share represents net expenditure of £1,136k in 2018/19 (£1,120k in 2017/18).

**Shared Legal Services**

From 1 November 2016 the Shared Legal Services team was created to deliver a strong, skilled legal service that proactively seeks out new knowledge and different ways of working for Babergh, Mid Suffolk and Forest Heath District Councils and St Edmundsbury Borough Council. Expenditure is shared on the following basis; Babergh and Mid Suffolk District Councils 57%, Forest Heath District Council and St Edmundsbury Borough Councils 43%.

**South Suffolk Leisure Trust**

The South Suffolk Leisure Trust (SSLT) is a charitable trust and provides leisure services, through a normal service provision agreement that is set out in the Annual Delivery Plan, for a management fee. From 1st October 2018, SSLT merged with Abbeycroft Leisure, also a charitable trust, to become known as Abbeycroft Leisure. The Council has management board nomination rights which are less than 20% of the total management board. These nominees are not Council representatives speaking on behalf of the Council, nor can they prematurely be dismissed by the Council.

**Sudbury Citizens Advice Bureau**

The Council provided a grant of £54k (2017/18 was £54k) to Sudbury Citizens Advice Bureau (CAB) during the year. It also contracted them to provide housing debt advice for the sum of £7.6k (2017/18 was £6.3k). The Council has no significant interest in the organisation and has no entitlement to any surpluses of this Not for Profit organisation.

During the year transactions with the various related parties were as follows:

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| South Suffolk Leisure Trust / Abbeycroft Leisure | 261 | 263 |
| Grants & Contributions to Parish Councils, Community Councils, Village Halls and Theatres | 163 | 186 |
| Suffolk County Council | 921 | 1,002 |
| Suffolk County Council - subsidiaries | 620 | 750 |
| Police & Crime Commissioner | 6 | 1 |
| Sudbury Citizens Advice Bureau | 61 | 64 |
| **Total** | **2,032** | **2,266** |

## Note 27 – Related Parties

**Entities Controlled or significantly influenced by the Council**

The Council has a wholly owned subsidiary company, BDC (Suffolk Holdings) Limited, incorporated on 9 June 2017 over which it exerts control. This holding company owns 50% shares of CIFCO Capital Limited over which the Council exerts significant influence.

Their principal activities are the purchase of commercial property for investment purposes.

The following officers and members hold positions on the boards of the companies controlled or significantly influenced by the Council:

**BDC (Suffolk Holdings): -**
Arthur Charvonia– Company Secretary
Councillor David Busby - Director
Councillor Jennifer Jenkins – Director (to 14 Jan 2019)
Councillor Nicholas Ridley – Director
Councillor Michael Holt – Director (from 27 March 2019)
Councillor Alan Ferguson – Director (from 27 March 2019)

**CIFCO Capital Ltd (50% Shareholding): -**
Emily Atack – Director (from 31 Jan 2019)
Henry Cooke - Director
Councillor Derrick Haley - Director
Christopher Haworth - Director
Councillor Nicholas Ridley – Director
Mark Sargeantson – Director

**Babergh Growth Ltd (100% Shareholding):-**

This was incorporated on 19 March 2019 and there were no transactions in 2018/19.

The Group Accounts are shown on page 110 to page 115.

## Note 28 - Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in this, together with the resources that have been used to finance it.

Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

The CFR is analysed in the second part of this table.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Opening Capital Financing Requirement** | 118,018 | 105,956 |
| **Capital investment** | | |
| Property, Plant and Equipment | 8,521 | 8,946 |
| Intangible Assets | 107 | 494 |
| Revenue Expenditure Funded from Capital under Statute | 421 | 628 |
| Mortgages/Loans | 63 | 35 |
| Acquisition of Share Capital | 1,378 | 1,231 |
| Loans to Joint Venture | 12,401 | 11,087 |
| **Sources of finance** | | |
| Capital receipts | (1,519) | (895) |
| Government grants and other contributions | (396) | (563) |
| Sums set aside from revenue: | | |
| Direct Revenue Contributions | (2,236) | (4,339) |
| Major Repairs Reserve | (3,530) | (3,235) |
| Minimum Revenue Provision for the repayment of debt | (929) | (827) |
| Repayment of Borrowing | (500) | (500) |
| **Closing Capital Financing Requirement** | **131,799** | **118,018** |
| **Explanation of movements in year** | | |
| Increase in underlying need to borrowing (unsupported by government financial assistance) | 14,710 | 12,889 |
| Minimum Revenue provision for the repayment of debt | (929) | (827) |
| **Increase/(decrease) in Capital Financing Requirement** | **13,781** | **12,062** |

## Note 29 - Leases

### The Council as Lessee

#### Operating Leases

The Council leases in property under an operating lease. This is with Suffolk County Council and relates to the shared use, with Mid Suffolk District Council, of part of Endeavour House in Ipswich since November 2017.

The future minimum lease payments payable under non-cancellable leases in future years are:

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| The future minimum lease payments payable under non-cancellable lease in future years are: | | |
| Expires not later than one year | 159 | 161 |
| Expires later than one year and not later than five years | 292 | 427 |
| Expires later than five years | 21 | 34 |
| | **472** | **622** |

### The Council as Lessor

#### Operating Leases

The Council leases out land and buildings under operating leases for the following purposes:

- for the provision of community services
- for economic development purposes to provide suitable affordable accommodation for local businesses

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| The future minimum lease payments receivable under non-cancellable leases in future years are: | | |
| Not later than one year | 303 | 346 |
| Later than one year and not later than five years | 380 | 438 |
| Later than five years | 1,988 | 2,047 |
| **Total** | **2,671** | **2,831** |

## Note 30 - Impairment Losses and Reversals

The District Valuer's valuation at 1 April 2018 and 31 March 2019 resulted in a net impairment of £1,885k in the year (see Note 12 to the Core Financial Statements). This is explained by an increase in the value of council dwellings of £72k and a decrease in other non-current assets (mainly sites being held for housing development) of £1,957k in the 2018/19 financial year. This is reflected in both the General Fund and Housing Revenue Account and in the Comprehensive Income and Expenditure Statement.

## Note 31 - Termination Benefits

As part of the integration with Mid Suffolk District Council it has been agreed that the costs generally will be shared in the ratio 50:50. There may be exceptions to this, where staff costs are fully incurred by one Council only or the basis of apportionment is something other than 50:50. The 2018/19 accounts reflects eight occasions where a member of staff left the organisation. There were five members of staff whose costs were 100% to Babergh and three members of staff whose costs were shared 50:50 with Mid Suffolk.

| | 2018/19 | | | | 2017/18 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of Employees | Redundancy Costs £ | Pension Contribution £ | Total £ | Number of Employees | Redundancy Costs £ | Pension Contribution £ | Total £ |
| **Voluntary Redundancies** | | | | | | | | |
| £0 - £19,999 | 5 | 10,309 | 22,958 | 33,267 | 8 | 44,841 | 3,639 | 48,480 |
| £20,000 - £39,999 | 2 | 48,781 | - | 48,781 | 3 | 73,732 | 17,892 | 91,624 |
| £60,000 - £79,999 | 1 | - | 62,154 | 62,154 | 1 | 43,660 | 24,364 | 68,024 |
| £80,000 - £99,999 | - | - | - | - | 1 | 36,762 | 45,706 | 82,468 |
| **Total** | **8** | **59,090** | **85,112** | **144,202** | **13** | **198,995** | **91,601** | **290,596** |

This table sets out how the Council reimburses Mid Suffolk for its share of their costs.

| **Shared Exit Package Costs**<br><br>**2018/19** | **Number of Employees Babergh** | **Number of Employees Mid Suffolk** | **Total Expenditure Babergh £** | **Total Expenditure Mid Suffolk £** |
|---|---|---|---|---|
| £0 - £19,999 | 5 | 6 | 33,267 | 40,756 |
| £20,000 - £39,999 | 2 | | 48,781 | - |
| £40,000 - £59,999 | | 1 | - | 47,202 |
| £60,000 - £79,999 | 1 | | 62,154 | - |
| **Total Cost** | **8** | **7** | **144,202** | **87,958** |
| Net Adjustment between Councils | | | (25,760) | 25,760 |
| **Total Cost to each Council** | | | **118,442** | **113,718** |

## Note 32 - Pension Schemes Accounted for as Defined Benefit Schemes

### Participation in the pension scheme

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (for those benefits) that need to be disclosed at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme (LGPS), administered locally by Suffolk County Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

The following table shows the current bandings of employees' pensionable pay and percentage contributions required.

| Salary Bandings for Employee Contributions | 2018/19 |
|---|---|
| Up to £14,100 | 5.50% |
| £14,101 - £22,000 | 5.80% |
| £22,001 - £35,700 | 6.50% |
| £35,701 - £45,200 | 6.80% |
| £45,201 - £63,100 | 8.50% |
| £63,101 - £89,400 | 9.90% |
| £89,401 - £105,200 | 10.50% |
| £105,201 - £157,800 | 11.40% |
| Over £157,800 | 12.50% |

### Transactions relating to post-employment benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance and Housing Revenue Account via the Movement in Reserves Statement during the year:

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Comprehensive Income and Expenditure Statement** | | |
| Cost of Services: | | |
| Current service cost | 2,257 | 2,236 |
| Past Service cost/(gain) including curtailments | 301 | 75 |
| Financing and Investment Income and Expenditure: | | |
| Net interest expense | 527 | 549 |
| **Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services** | **3,085** | **2,860** |
| Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | | |
| Return on plan assets (excluding amounts included in net interest expense) | 2,328 | 918 |
| Actuarial gains and losses arising on changes in financial assumptions | (4,889) | 1,524 |
| Other experience | | |
| **Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement** | **(2,561)** | **2,442** |
| Movement in Reserves Statement | | |
| Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code | (3,085) | (2,860) |
| Actual amount charged against the General Fund Balance for pensions in the year: | | |
| Employers' contributions payable to scheme | (2,235) | (2,191) |

## Note 32 - Pension Schemes Accounted for as Defined Benefit Schemes

### Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined plan is as follows:

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Present value of the defined benefit obligation | (99,570) | (92,362) |
| Fair value of plan assets | 76,069 | 72,272 |
| **Net liability arising from defined benefit obligation** | **(23,501)** | **(20,090)** |

### Reconciliation of the Movements in Fair Value of the Scheme (Plan) Assets

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Opening fair value of scheme assets 1 April** | 72,272 | 69,994 |
| Interest income | 1,872 | 1,743 |
| Remeasurement gains and (losses): | | |
| Return on plan assets (excluding net interest) | 2,328 | 918 |
| Employer contributions | 2,235 | 2,191 |
| Contributions from employees into the scheme | 386 | 365 |
| Benefits paid | (3,024) | (2,939) |
| **Closing fair value of scheme assets 31 March** | **76,069** | **72,272** |

### Reconciliation of Present Value of the Scheme Liabilities Defined Benefit Obligation)

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Opening balance 1 April** | (92,362) | (91,857) |
| Current service cost | (2,257) | (2,236) |
| Interest cost | (2,399) | (2,292) |
| Contributions by scheme participants | (386) | (365) |
| Remeasurement gains and (losses): - | | |
| Actuarial gains/losses arising from changes in financial assumptions | (4,889) | 1,524 |
| Loss/(Gains) on Curtailments | (301) | (75) |
| Benefits paid | 3,024 | 2,939 |
| **Closing balance at 31 March** | **(99,570)** | **(92,362)** |

### Local Government Pension Scheme assets comprised of:

| | 2018/19 Fair Value of Scheme Assets £'000 | 2017/18 Fair Value of Scheme Assets £'000 |
|---|---|---|
| **Cash and Cash Equivalents** | **1,072** | **751** |
| **Equity Instruments (by industry)** | | |
| Consumer | 4,963 | 5,236 |
| Manufacturing | 2,311 | 1,856 |
| Energy & Utilities | 1,207 | 1,094 |
| Financial Institutions | 2,270 | 2,411 |
| Health & Care | 1,306 | 1,120 |
| Information Technology | 2,372 | 2,113 |
| Other | 657 | 755 |
| **Sub-total Equity Instruments** | **15,086** | **14,585** |
| **Bonds (by sector)** | | |
| Corporate Bonds (investment grade) | 17,130 | 17,520 |
| UK Government | - | 2,748 |
| **Sub-total Bonds** | **17,130** | **20,268** |
| **Private Equity** | | |
| All | 772 | - |
| **Sub-total Private Equity** | **772** | **-** |
| **Property** | | |
| UK Property | 7,763 | 7,006 |
| **Sub-total Property** | **7,763** | **7,006** |
| **Other Investment Funds** | | |
| Equities | 16,697 | 16,757 |
| Bonds | 2,960 | - |
| Hedge Funds | 7,298 | 2,947 |
| Other | - | 4,024 |
| **Sub-total Other Investment Funds** | **26,955** | **23,728** |
| **Derivatives** | | |
| Foreign Exchange | 37 | (3) |
| **Sub-total Derivatives** | **37** | **(3)** |
| **Other Quoted Assets:** | **Assets in Non Active Markets £'000** | **Assets in Non Active Markets £'000** |
| **Quoted Prices for:** | | |
| Private Equity | 2,360 | 2,604 |
| Infrastructure | 3,384 | 1,885 |
| Other | 1,510 | 1,448 |
| **Sub-total Other Quoted Assets:** | **7,254** | **5,937** |
| **Total Assets** | **76,069** | **72,272** |

## Note 32 - Pension Schemes Accounted for as Defined Benefit Schemes

### Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

The Scheme liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Suffolk County Council Fund being based on the latest full triennial valuation of the scheme as at 31 March 2016.

The significant assumptions used by the actuary have been:

| | 2018/19 | 2017/18 |
|---|---|---|
| Mortality assumptions: | | |
| Longevity at 65 for current pensioners: | | |
| Men | 22 years | 22 years |
| Women | 24 years | 24 years |
| Longevity at 65 for future pensioners: | | |
| Men | 24 years | 24 years |
| Women | 26 years | 26 years |
| Rate of inflation | 2.5% | 2.4% |
| Rate of increase in salaries | 2.8% | 2.7% |
| Rate of increase in pensions | 2.5% | 2.4% |
| Rate for discounting scheme liabilities | 2.4% | 2.6% |

### Sensitivity Analysis

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

The following table shows the sensitivity of the results to changes in assumptions used to measure the scheme liabilities:

| Impact on the Defined Benefit Obligation in the Scheme<br>Change in assumptions at year ended 31 March 2019 : | Increase in Assumptions to Employer Liability<br>% | Increase in Assumptions to Employer Liability<br>£'000 |
|---|---|---|
| 0.5% decrease in Real Discount Rate | 9% | 8,821 |
| 0.5% increase in the Salary Increase Rate | 1% | 800 |
| 0.5% increase in the Pension Increase Rate | 8% | 7,910 |

A one year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3-5%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages).

## Note 32 - Pension Schemes Accounted for as Defined Benefit Schemes

**Impact on the Council's Cash Flow**

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2019.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2019. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The weighted average duration of the defined benefit obligation for scheme members is 16.1 years in 2018/19 (16.1 years 2017/18).

The total employer contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2020 are £2.005m. This includes a contribution of £0.615m towards the Council's pension fund deficit.

## Note 33 - Contingent Liabilities and Assets

**Contingent Liabilities:**

The Council has the following contingent liability:

**Local Government Pension Scheme**

In 2015 the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes in 2015. In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the judicial scheme, as part of the reforms, amounted to unlawful discrimination with regards to age discrimination. This ruling has implications for the Local Government Pension Scheme (LGPS), in relation to the judgement in the McCloud case.

The final position in terms of employer pension liabilities and a financial impact was not clear at 31 March 2019. This is because the Government have appealed the ruling and any remediation process, including cost cap considerations, may affect the resolution and financial impact for local authorities in relation to employer contributions and compensation to employees.

The timescale for the resolution is unknown and the outcomes are challenging for local authorities to assess and quantify, therefore it is currently unknown whether the impact on the Council could be material for 2018/19.

The Government Actuary's Department (GAD) anticipate an assessment of the impact, which is not finalised, to show the potential impact of McCloud in the region of 0.5% to 1% of total liabilities (equivalent to about 2% to 3% of active liabilities). However, depending on the profile of the membership of individuals in the LGPS, the impact could vary widely.

The 31 March 2019 pension liability for the Council can be seen in detail in Note 32 of the Core Statements.

Since the year end, additional evidence, including the legal ruling by the Supreme Court on 27 June 2019 which rejected the Governments appeal to the ruling, provided evidence that a value could be determined for the liabilities. The value of the Council's liability, as assessed by the Pension Fund actuary Hymans Robertson LLP, was £292,000 in the Local Government Pension Scheme (LGPS).

**Contingent Assets:**

The Council has no contingent assets.

## Note 34 - Nature and Extent of Risks Arising from Financial Instruments

**Financial Instruments - Risks**

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2017.

In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Investment Strategy in compliance with the Ministry for Housing, Communities and Local Government Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.



The main risks covered are:

- **Credit Risk:** The possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing a loss to the Council.
- **Liquidity Risk:** The possibility that the Council might not have the cash available to make contracted payments on time.
- **Market Risk:** The possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

**Credit Risk: Treasury Investments**

The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings upon which the Council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

A limit of £2m /10% of the total portfolio is placed on the amount of money that can be invested with a single counterparty (other than the UK government). The Council also sets limits on investments in certain sectors. No more than £2m /10% in total can be invested for a period longer than one year. The table below summarises the credit risk exposures of the Council's investment portfolio by credit rating and remaining time to maturity.

| | 2018/19 | | 2017/18 | |
|---|---|---|---|---|
| **Credit Rating** | **Long term £000s** | **Short term £000s** | **Long term £000s** | **Short term £000s** |
| AAA | - | 1,000 | - | 1,000 |
| A+ | - | 1,421 | - | 1,356 |
| B | - | - | - | 89 |
| Unrated pooled funds | - | 8,779 | - | 8,778 |
| Unrated companies | 23,608 | 382 | 12,404 | 764 |
| Central Government | - | - | - | - |
| **Total investments** | **23,608** | **11,582** | **12,404** | **11,987** |

## Note 34 - Nature and Extent of Risks Arising from Financial Instruments

**Credit Risk: Trade and Lease Receivables**

The Council's credit risk on lease receivables is mitigated by its legal ownership of the assets leased, which can be repossessed if the debtor defaults on the lease contract.

Loss allowances on trade and contract assets have been calculated by reference to the Council's historic experience of default. Receivables are determined to have suffered a significant increase in credit risk where they are 30 or more days past due and they are determined to be credit-impaired where they are 90 or more days past due.

Receivables are written off to the Surplus or Deficit on the Provision of Services when they are six years past due, but steps are still taken to collect sums owing when.

The following analysis summarises the Council's trade and lease receivables, by due date. Only those receivables meeting the definition of a financial asset are included

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Neither past due nor impaired | 234 | 85 |
| Past due < 3 months | 9 | 35 |
| past due 3 - 6 months | 5 | - |
| Past due 6 - 12 months | 122 | 84 |
| Past due 12+ months | 38 | 46 |
| **Total receivables** | **408** | **384** |



**Liquidity Risk**

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies.

There is no perceived risk that the Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans and ensuring that no more than 50% of the Council's borrowing matures in any one financial year.

The maturity analysis of financial instruments is as follows:

| | 2018/19 | | | 2017/18 | | |
|---|---|---|---|---|---|---|
| **Time to maturity (Years)** | **Liabilities £000s** | **Assets £000s** | **Net £000s** | **Liabilities £000s** | **Assets £000s** | **Net £000s** |
| Not over 1 | (10,488) | 13,433 | 2,945 | (16,283) | 15,396 | (887) |
| Over 1 but not over 2 | (934) | - | (934) | (500) | - | (500) |
| Over 2 but not over 5 | (1,810) | - | (1,810) | (550) | - | (550) |
| Over 5 but not over 10 | (14,975) | - | (14,975) | (12,000) | - | (12,000) |
| Over 10 but not over 20 | (72,547) | - | (72,547) | (71,647) | - | (71,647) |
| Over 20 but not over 40 | (3,786) | - | (3,786) | (1,100) | - | (1,100) |
| Over 40 | (1,971) | 23,300 | 21,329 | - | - | - |
| Uncertain date | - | 2,765 | 2,765 | - | 12,806 | 12,806 |
| **Total** | **(106,511)** | **39,498** | **(67,013)** | **(102,080)** | **28,202** | **(73,878)** |

## Note 34 - Nature and Extent of Risks Arising from Financial Instruments

**Credit Risk: Loans, Financial Guarantees and Loan Commitments**

The Council has lent money to CIFCO Ltd to invest in commercial property at market rates of interest.

If CIFCO Ltd default on loan repayments the Council has the right to repossess assets and recover funds.

The Council manages the credit risk inherent in its loans for service purposes, financial guarantees and loan commitments in line with its published Investment Strategy.

Loss allowances on loan commitments have been calculated by reference to predicted future repayments of interest and principal discounted to adjust for current and forecast economic conditions. They are determined to have suffered a significant increase in credit risk when there is changes in circumstances of CIFCO Ltd being able to make repayments and they are determined to be credit-impaired when loan repayments are not made.

| Borrower | Exposure Type | Balance sheet 2018/19 £000s | Risk exposure 2018/19 £000s | Balance sheet 2017/18 £000s | Risk exposure 2017/18 £000s |
|---|---|---|---|---|---|
| Local Companies | Loans at market rates | 404 | 404 | 638 | 638 |
| Subsidiary | Loan commitment at market rates | 23,431 | 23,431 | 11,527 | 11,527 |
| **Total** | | **23,835** | **23,835** | **12,165** | **12,165** |

## Note 34 - Nature and Extent of Risks Arising from Financial Instruments

**Market Risks: Interest Rate Risk**

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited will rise
- investments at fixed rates – the fair value of the assets will fall.

Investments classed as "loans and receivables" and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure.

However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services.

Movements in the fair value of fixed rate investments measured at fair value will be reflected in Other Comprehensive Income and Expenditure or Surplus or Deficit on the Provision of Services as appropriate.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2019, £97.047m (2018: £86.297m) of principal borrowed was exposed to fixed rates and £7m (2018: £12m) to variable rates.

If all interest rates had been 1% higher (with all other variables held constant) the financial effects are shown in the table below.

The approximate impact of a 1% fall in interest rates would be as in the table below but with the movements being reversed.

| | 2018/19 £000s | 2017/18 £000s |
|---|---|---|
| Increase in interest payable on variable rate borrowings | 60 | 105 |
| Increase in interest receivable on variable rate investments | (102) | (174) |
| **Impact on Surplus or Deficit on the Provision of Services** | **(42)** | **(69)** |
| Decrease in fair value of available for sale financial assets | (47) | (31) |
| **Impact on Comprehensive Income and Expenditure** | **(47)** | **(31)** |
| Decrease in fair value of loans and receivables | (10) | (15) |
| Decrease in fair value of fixed rate borrowings/liabilities | (11,937) | (10,913) |

**Market Risks: Price Risk**

The market prices of the Council's fixed rate bond investments and its units in pooled bond funds are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk.

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investments of £5m. A 5% fall in commercial property prices would result in a £0.252m charge to Other Comprehensive Income & Expenditure – this would have no impact on the Surplus or Deficit on the Provision of Services until the investment was sold.

The Council's investment in a pooled equity fund is subject to the risk of falling share prices. This risk is limited by the Council's maximum exposure to equity investments of £2m. A 5% fall in share prices would result in a £0.124m charge to Other Comprehensive Income & Expenditure – this would have no impact on the Surplus or Deficit on the Provision of Services until the investments were sold.

**Transition to IFRS 9 Financial Instruments**

The Council adopted the IFRS 9 Financial Instruments accounting standard with effect from 1 April 2018. The main changes include the reclassification and remeasurement of financial assets and the earlier recognition of the impairment of financial assets.

The Council has made use of the transitional provisions in IFRS 9 not to restate the prior year's financial statements and there has been no impact on balances.

The changes made on transition to the balance sheet are summarised in these tables.

The categories are:

L & R – Loans and Receivables
FVPL – Fair Value through Profit and Loss
FVOCI – Fair Value through Other Income and Expenditure

| Financial Assets | IAS 39 31 March 2019 | Reclassification | IFRS 9 01 April 2018 |
|---|---|---|---|
| **Investments** | | | |
| L & R / Amortised cost | 657 | - | 657 |
| Available for sale / FVOCI | 8,778 | 1,232 | 10,010 |
| FVPL | 1,232 | (1,232) | - |
| **Total investments** | **10,667** | **-** | **10,667** |
| **Debtors** | | | |
| L & R / Amortised cost | 11,775 | - | 11,775 |
| FVPL | 3,056 | - | 3,056 |
| **Total debtors** | **14,831** | **-** | **14,831** |
| **Cash & Cash equivalents** | | | |
| FVPL | 2,704 | - | 2,704 |
| **Total Financial Assets** | **28,202** | **-** | **28,202** |
| **Financial Liabilities** | | | |
| **Borrowing** | | | |
| Amortised cost | 98,340 | - | 98,340 |
| **Creditors** | | | - |
| Amortised cost | 3,739 | - | 3,739 |
| **Total Financial Liabilities** | **102,079** | **-** | **102,079** |
| **Net Financial Assets** | **(73,877)** | **-** | **(73,877)** |

| Reserves | IAS 39 31.3.18 | Reclassification | IFRS 9 1.4.18 |
|---|---|---|---|
| **Usable Reserves** | | | |
| General Fund | (6,828) | - | (6,828) |
| Housing Revenue Account | (12,427) | - | (12,427) |
| Other usable reserves | (7,826) | - | (7,826) |
| **Total usable reserves** | **(27,081)** | **-** | **(27,081)** |
| Unusable Reserves | | | |
| Available for sale reserve | 222 | (222) | - |
| Capital adjustment account | (120,349) | - | (120,349) |
| FI revaluation reserve (new) | - | 222 | 222 |
| **Other unusable reserves** | (6,207) | - | (6,207) |
| **Total unusable reserves** | **(126,334)** | **-** | **(126,334)** |
| **Total Reserves** | **(153,415)** | **-** | **(153,415)** |

## Note 35 - Accounting Policies

### A General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year end of 31 March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 and these regulations require it to be prepared in accordance with proper accounting practices. These practices primarily comprise the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government Act 2003.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### B Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract
- Where revenue and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written off and a charge made to revenue for income that might not be collected.

The Council applies a £1,000 de-minimis policy on accruals at year-end. This means the Council does not record accruals for transactions under £1,000 except for the following:

- transactions relating to grant funding
- transactions going through our automated ordering system
- other minor exceptions

The application of the £1,000 de-minimis policy does not materially affect the accounts of the Council.

### C Cash and Cash Equivalents

Cash and cash equivalents are represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management. They include short term investments in Money Market Funds. See Note 16 (Cash and Cash Equivalents) to the Core Statements.

**D Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made it is applied retrospectively, unless alternative transitional arrangements are specified in the Code, by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.



**E Charges to Revenue for Non-Current Assets**

Service revenue accounts and support services are charged with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision (MRP)), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Contracts related to assets under construction are accounted for using the percentage of completion method. Contract revenue is matched with contract costs incurred in reaching the state of completion at the Balance Sheet date.

**F Council Tax and Non-Domestic Rates (NDR)**

The Council is a Billing Authority. It acts as an agent collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement (CIES) is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments, prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable) the asset is written off and a charge made to the Collection Fund.

## G Employee Benefits – International Accounting Standard 19 (IAS 19)

### Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for leave etc earned by employees but not taken before the year-end which employees can carry forward into the next financial year.

The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out by a credit to the Accumulated Absences Adjustment Account through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs. Further details can be found at Note 19e.

### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date, or through voluntary redundancy. Costs incurred as a result are charged on an accruals basis to the appropriate service segments within the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to either terminating the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standard. Within Unusable Reserves in the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

### Post-Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme (if they take up the option to be part of the scheme), which is administered by Suffolk County Council. The scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees working for the Council.

## Note 35 - Accounting Policies

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The defined benefit liabilities of the Suffolk County Council Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc, and expectations of projected earnings for current employees.

- Scheme liabilities are discounted to their value at current prices. The discount rate employed for the 2018/19 accounts is 2.4% which is based on the yield available on long-dated, high quality corporate bonds, as measured by a Corporate Bond yield curve constructed as follows:

  - Use the "Hymans Robertson" corporate bond yield curve (based on the constituents of the iBoxx AA Corporate bond index)

- The assets of the Suffolk County Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

  - quoted securities - current bid price
  - unquoted securities - professional estimate
  - unitised securities - current bid price
  - property - market value.

- The change in the net pensions liability is analysed into three main components:

Service Cost comprising:

- Current service cost: the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

- Past service cost: the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

- Net Interest on the net defined benefit liability (asset), i.e. net interest expense for the Council: the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Re-measurements comprising:

- The return on plan assets excluding amounts included in net interest on the net defined benefit liability (asset): charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

- Actuarial gains and losses: changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These are charged to the Pensions Reserve and shown as Other Comprehensive Income and Expenditure.

Contributions:

- Contributions paid to the Suffolk County Council Pension Fund: cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.



#### Discretionary Benefits

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

For more information on Retirement Benefits and IAS19 see Note 32 of the Core Statements.

### H Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### I Financial Instruments

#### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest), and interest charged to the CIES is the amount payable for the year according to the loan agreement.

#### Financial Assets

Dividends are credited to the CIES when they become receivable by the Council.

To meet new Code requirements, financial assets are now classified into one of three categories:

- Financial assets held at amortised cost. These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specified amounts. The amount presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the CIES is the amount receivable as per the loan agreement.

- Fair Value Through Other Comprehensive Income (FVOCI) – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of.

- Fair Value through Profit and Loss (FVPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.



Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances (including balances outstanding at the date of de-recognition of an asset) are debited/credited to the Financing and Investment Income and Expenditure line in the CIES.

Changes in the value of assets carried at fair value are debited/credited to the Financing and Investment Income and Expenditure line in the CIES as they arise.

**J Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement (CIES) until conditions attached to the grant or contribution have been satisfied. A condition exists if the grant stipulates a return of the funds if it is not used as directed.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income and Expenditure (non-ring-fenced revenue grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it is applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund several infrastructure projects as well as leisure centre refurbishment, adaptations to local village halls and community facilities and to support the development of the local area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue expenditure.

**K Intangible Assets**

Intangible Assets represent expenditure that has been properly capitalised but which does not create a tangible asset for the Council. Intangible Assets include assets such as acquired or internally developed software that qualifies for recognition as an intangible asset.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement (CIES).

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the CIES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the CIES.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Depreciation is calculated on the basis of a useful life of 5 to 7 years (except Stock Condition Survey, which is 10 years).

**L Interests in Companies and Other Entities**

The Council has a 100% shareholding in its subsidiary BDC (Suffolk Holdings) Limited. This holding company has a 50% shareholding in CIFCO Capital Limited and 100% shareholding in Babergh Growth Ltd. This relationship has created a requirement for the Council to prepare Group Accounts.

In the Council's single entity accounts, it's interest in these companies are classified as financial assets and measured at cost less provision for any losses.

**M Inventories**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value, except where inventories are acquired through a non-exchange transaction in which case their cost is deemed to be fair value as at the date of acquisition.

## N Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfillment of the arrangement is dependent on the use of specific assets.

### The Council as Lessee

#### Finance Leases

The Council has no finance leases where it is the lessee.

#### Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### The Council as Lessor

#### Finance Leases

The Council has no finance leases where it is the lessor.

#### Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the Balance Sheet value of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

## O Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

## P Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

The Council has set a minimum level of expenditure of £10,000.

Expenditure that maintains but does not add to an asset's potential

to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

**Measurement**

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition will not increase the cash flows of the Council. In the latter case, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then shown in the Balance Sheet using the following measurement bases:

- Infrastructure – depreciated historical cost
- Council Dwellings – current value, determined using the basis of existing use value for social housing (EUV–SH)
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- Vehicles, plant and equipment – depreciated historical cost. These assets have short useful lives and any difference from current replacement cost would be insignificant
- Assets under construction and community assets, which are mainly parks and open spaces, are included in the Balance Sheet at historical cost
- All other assets, including Heritage Assets – current value, using a valuation method appropriate for the asset in its existing use.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly (by desktop valuations) to ensure that their Balance Sheet value is not materially different from their current value at the year end, but as a minimum a full valuation is undertaken every five years. Valuations of land and buildings are carried out in accordance with the specific bases and methods of valuation set out in the professional standards of the Royal Institute of Chartered Surveyors.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement (CIES) where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the Balance Sheet value of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or insufficient balance, the Balance Sheet value of the asset is written down against the available balance and then charged to the relevant service line(s) in the CIES.
- The Revaluation Reserve contains revaluation gains recognised since 1 April 2007, the date of its formal

implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

**Impairment**

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the Balance Sheet value of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified they are accounted for:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the Balance Sheet value of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the balance sheet value of the asset is written down against the relevant service line(s) in the CIES.
- Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

**Depreciation**

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is charged from the quarter following addition and is calculated on the following bases:

- Council dwellings, other buildings and surplus assets – straight-line allocation over the useful life of the property as estimated by the Valuer
- Infrastructure - straight line allocation over 30 years
- Vehicles, plant and equipment - straight line over its useful life, as advised by a suitably qualified officer
- IT and Communications - 5 years

Where an asset of significant value, for example the leisure centres, includes a number of components with significantly different asset lives, e.g. plant and equipment (services) then these components are treated as separate assets and depreciated over their own useful economic lives

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Where an item of Property, Plant and Equipment has major components with different useful lives and a cost that is significant in relation to the total cost of the item, the components are depreciated separately. The Council has established a threshold of £500,000 for individual General Fund assets to determine whether an asset needs to be componentised. For these assets a component is required to have a value of more than 20% of the total asset value to be depreciated separately.

Council dwellings are not componentised beyond land, buildings and PV Panels as the value of components is not considered to be significant in relation to the total cost of the asset and the difference

in depreciation, which would result if componentisation was applied, is not considered to be material.

The componentisation policy applies retrospectively. Componentisation for HRA assets will remain under review.

Hadleigh Leisure Centre, Kingfisher Leisure Centre and the car parks at Station Road, Sudbury and North Street, Sudbury are depreciated on a component basis as per the agreed £500,000 de-minimis policy. The properties have been split into components taking into account the nature of the individual property. The car parks are split into land and surface.

**Disposals and Non-current Assets Held for Sale**

When it becomes probable that the Balance Sheet value of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then stated in the Balance Sheet at the lower of this amount and fair value less costs to sell.

Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on the Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CIES also as part of the gain or loss on disposal (i.e. netted off against the Balance Sheet value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to Council dwelling disposals is payable to the Government. The balance of receipts remains within the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## Q Provisions, Contingent Liabilities and Contingent Assets

**Provisions**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits, and a reliable estimate can be made of the amount, but where the timing of the transfer is uncertain.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the

year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Provisions for housing rent bad debts, housing benefit overpayments and sundry debtor arrears have been made. A provision has also been made in the Collection Fund for uncollectable Council Taxes and Non-Domestic Rates.



**Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

**Contingent Assets**

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

**R Reserves**

The Council sets aside specific amounts as earmarked reserves for future policy purposes or to cover contingencies (but not contingent liabilities). Reserves are created by transferring amounts out of the General Fund Balance or Housing Revenue Account in the Movement in Reserves Statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

The reserve is then transferred back into the General Fund Balance or Housing Revenue Account in the Movement in Reserves Statement so that there is no net charge against council tax or rents for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement and employee benefits that do not represent usable resources for the Council. These reserves are explained in more detail in Note 19 to the Core Statements.

**S Revenue Expenditure Funded from Capital under Statute (REFCUS)**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of

council tax.

**T VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

**U Joint working with Mid Suffolk District Council (MSDC)**

Costs or savings that arose through integration with Mid Suffolk District Council during 2018/19 were shared between the two Councils using an agreed basis determined as part of the budget setting process. All service areas were consulted and a basis was identified for cost sharing for each individual employee.

The basis for cost sharing will be reviewed on an ongoing basis to ensure accuracy.



**W Fair Value Measurement**

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at the Balance Sheet date.

Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transition to sell the asset or transfer the liability talks place either:

- In the principal, market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements and categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability

**X Investment Properties**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market

## Note 35 - Accounting Policies

participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use.

Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.



**Y Basis of consolidation for Group Accounts**

The Group Accounts have been prepared using the Group Accounts requirements of the CIPFA Code of Practice. Companies that are within the Council's group boundary have been included in the Council's Group Accounts to the extent that they are either quantitatively or qualitatively material to users of the financial statements.

This will give the reader the ability to see the complete economic activities of the Council and its exposure to risk through interests and participation in their activities.

The Council's subsidiary, BDC (Suffolk Holdings) Limited and its joint venture, CIFCO Capital Limited, have been consolidated on a line by line basis, subject to elimination of intra-group transactions from the statements, in accordance with The Code.

No amendments have been necessary to the accounts of the group since the accounting policies are the same.

## Note 36 – Interest in Companies

The Council holds an interest in BDC (Suffolk Holdings) Limited which was incorporated on 9 June 2017, and the company registration number is 10812722. It issued 100 of £1 ordinary shares to the Council.

This company has a 50% shareholding in CIFCO Capital Ltd and a 50% shareholding in Babergh Growth Ltd. (incorporated on 19 March 2019).

The Council has prepared Group Accounts which can be found on pages 110 to 115. The statements are intended to present financial information about the parent company (the Council) and to reflect the Council's share of the holding company's net assets.

## Note 37 – Investment Properties

During 2016/17 the Council purchased Borehamgate shopping centre in Sudbury. This has been classified as an investment property.

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Rental Income from Investment Property | (232) | (280) |
| Direct operating expenses arising from Investment Property | 55 | 20 |
| **Net (Gain) / Loss** | **(177)** | **(260)** |

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

This table summarises the movement in the fair value of the investment property over the year:

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Balance at start of the year** | 3,500 | 4,000 |
| Impairment | (595) | (500) |
| **Balance at year end** | **2,905** | **3,500** |

**Fair Value Hierarchy**

Details of the Council's investment properties and information about the fair value hierarchy as at 31 March 2019 and 2018 are shown in this table:

There were no transfers between Levels 1,2 or 3 during the year.

| 2018/19 | Quoted proces in active markets for identical assets (Level 1) £'000 | Other significant observable inputs (Level 2) £'000 | Other significant observable inputs (Level 3) £'000 | Fair Value 31 March £'000 |
|---|---|---|---|---|
| Commercial Units | - | 2,905 | - | **2,905** |
| **2017/18** | | | | |
| Commercial Units | - | 3,500 | - | **3,500** |

## Note 37 – Investment Properties

### Valuation Techniques used to Determine Level 2 Fair Values for Investment Properties

**Significant Observable Inputs – Level 2**

The fair value for the commercial units has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local Council's area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

**Highest and Best Use of Investment Properties**

In estimating the fair value of the Council's investment properties, the highest and best use of the properties is their current use.

**Valuation Techniques**

There has been no change in the valuation techniques used during the year for investment properties.

Gains or losses arising from changes in the fair value of the investment property are recognised in the Surplus or Deficit on the Provision of Services – Financing and Investment Income and Expenditure line.

**Valuation Process for Investment Properties**

The fair value of the Council's investment properties will be measured annually at each reporting date. The property was purchased during 2016/17. All valuations are carried out by the District Valuer, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The District Valuer works closely with finance officers reporting directly to the Council's Assistant Director, Corporate Resources regarding all valuation matters.



## Note 38 – Assets Held for Sale

The Council held one asset for sale. This was East House, Hadleigh which was sold in May 2017 for £715k.

This table shows the Net Book Value when it was sold.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Balance at start of the year** | - | 439 |
| Assets newly classified as held for sale: | | |
| Property, Plant and Equipment | | |
| Assets sold | - | (439) |
| **Balance at year end** | **-** | **-** |

# Section 4

## Supplementary Statements

# Housing Revenue Account Income & Expenditure Statement

The Housing Revenue Account (HRA) Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants.

Councils charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

| 2017/18 £'000 | | HRA Note | 2018/19 £'000 |
|---|---|---|---|
| | **Expenditure** | | |
| | Repairs, Maintenance and Management: | | |
| 3,030 | - Repairs and Maintenance | 1 | 3,688 |
| 3,217 | - Supervision and Management | 2 | 3,249 |
| 118 | Rents, rates and other charges | | 85 |
| 1,392 | Depreciation, Impairment and Revaluation losses of Non-current Assets: | 3 | 3,332 |
| 11 | Debt Management Costs | | 11 |
| 50 | Increase in Bad Debt allowance | 4 | - |
| **7,818** | | | **10,365** |
| | **Income** | | |
| | Gross Rental Income: | | |
| (15,748) | - Dwelling Rents | 5 | (15,766) |
| (249) | - Non-Dwelling Rents | 5 | (227) |
| (548) | Charges for Services and Facilities | 6 | (583) |
| (87) | Contributions towards expenditure | 7 | (58) |
| | Other Income | | |
| **(16,632)** | | | **(16,634)** |
| (8,814) | **Net Income of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement:** | | (6,269) |
| 138 | HRA share of Corporate and Democratic Core | 8 | 167 |
| (220) | HRA share of other amounts included in Net Cost of Services but not allocated to specific services | 9 | (26) |
| **(8,896)** | **Net Income for HRA Services** | | **(6,128)** |
| | **HRA share of the operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement:** | | |
| (1,024) | (Gain) / Loss on the disposal of non current assets | 10 | (1,116) |
| 2,844 | Interest payable and similar charges | 11 | 2,831 |
| (17) | Interest receivable and similar income | 11 | (24) |
| 110 | Net interest on the net defined benefit liability / (asset) | 12 | 105 |
| **(6,983)** | **Surplus for the year on HRA services** | | **(4,332)** |

# Housing Revenue Account Movement on the HRA Statement

The overall objectives for the Movement on the HRA Statement and the general principles for its construction are the same as those generally for the Movement in Reserves Statement, into which it is consolidated.

The statement takes the outturn on the HRA Income and Expenditure Statement and reconciles it to the surplus or deficit for the year on the HRA Balance, calculated in accordance with the requirements of the Local Government and Housing Act 1989.

| 2017/18 £'000 | | HRA Note | 2018/19 £'000 |
|---|---|---|---|
| **(1,000)** | Balance on the HRA at the end of the previous reporting period | | **(1,000)** |
| | | | |
| (6,983) | Surplus for the year on the HRA Income and Expenditure Statement | | (4,332) |
| 7,609 | Adjustments between accounting basis and funding basis under statute (Note 7 to the Core Statements) | | 3,819 |
| **626** | Net increase before transfers to reserves | | **(513)** |
| | | | |
| (626) | Transfers to / (from) earmarked reserves | 19 | 512 |
| | | | |
| - | Increase in year on the HRA | | (1) |
| | | | |
| **(1,000)** | Balance on the HRA at the end of the current reporting period | | **(1,001)** |

# Notes to the Housing Revenue Account

## HRA Note 1 – Repairs and Maintenance

This line covers the expenditure of the Council for the year in respect of the repair and maintenance of dwellings and other property within the HRA account. This includes works to property such as painting or the replacement of broken windows. It does not include work such as re-roofing or the installation of double glazing as this is capital expenditure.

## HRA Note 2 – Supervision and Management

This line represents the expenditure of the Council for the year in respect of the supervision and management of dwellings (the stock of Council dwellings), including tenancy management, rent collection, and grounds maintenance, etc.

## HRA Note 3 – Depreciation, Impairments and Revaluation Losses

The HRA includes a depreciation charge for dwellings based on their estimated useful economic lives.



The depreciation charge in respect of 'Other HRA Property' is included in the Surplus / Deficit on the Provision of services but is reversed out of net operating expenditure as a transfer from the Major Repairs Reserve (MRR) so as not to impact on housing rents.

Impairment is charged to the line for HRA in the Comprehensive Income and Expenditure Statement. Impairment of dwellings is reversed out in the Movement in Reserves Statement and therefore does not affect the overall working balance of the HRA.

| HRA accounting authorities are required to show depreciation charges for all of the HRA's non current assets, as follows: | 2018/19 | 2017/18 |
|---|---|---|
| | £'000 | £'000 |
| Dwellings | 3,332 | 3,053 |
| Other Land and Buildings | 85 | 76 |
| Other HRA property | 113 | 106 |
| Reversal of Impairments charged to Income and Expenditure in prior years | (198) | (1,843) |
| **Total** | **3,332** | **1,392** |

# Notes to the Housing Revenue Account

## HRA Note 4 – Movement in the Allowance for Bad Debts

This table shows the change in rent arrears during the year, and the overall decrease in the allowance for bad debts:

| | 2018/19 £'000 | 2017/18 £'000 | Movement £'000 |
|---|---|---|---|
| **Total Arrears** | | | |
| Rent arrears - current tenants | 315 | 269 | 46 |
| Rent arrears - former tenants | 27 | 43 | (16) |
| **Total Arrears at end of year** | **342** | **312** | **30** |
| **Bad Debt Provision at start of year** | 125 | 137 | (12) |
| Write offs in the year | (66) | (62) | (4) |
| Increase / (Decrease) in Provision in the year | - | 50 | (50) |
| **Bad Debt Provision at end of year** | **59** | **125** | **(66)** |



## HRA Note 5 - Dwelling and Non – Dwelling Rents

### Dwelling Rents

This line comprises the income of the Council receivable for the year from rents in respect of dwellings within the HRA. The Code's requirement for this item to be disclosed 'gross' means that the total includes rent remitted by way of rebate, which is financed by a compensating credit from the General Fund.

The requirement for a 'gross' disclosure means that the figure excludes any amounts in respect of rent foregone on void properties and discretionary rent-free periods.

The average rent per week in 2018/19 was £88.91(in 2017/18 £89.80).

### Non - Dwelling Rents

This line includes the income of the Council receivable for the year from rents and charges in respect of other property within the account, such as land, garages and shops etc.

## HRA Note 6 - Charges for Services and Facilities

This represents the income of the Council for the year in respect of services or facilities provided by the Council in connection with the provision of dwellings and other properties within the account.

These charges relate to heating, warden and other communal services provided to residents in sheltered accommodation. They also include charges to tenants for community alarm systems and central heating servicing but exclude payments for welfare services that are outside the scope of the HRA.

## HRA Note 7 – Contribution towards expenditure

This item covers contributions received, mainly from the General Fund and outside bodies or persons, towards expenditure which has been properly debited to the HRA, such as those in respect of benefits or amenities provided under housing powers but shared by the wider community. Where service charges are received from leaseholders, they can be applied to net down the relevant expenditure, rather than credited as part of this item, provided that the expenditure was incurred directly on the leasehold property and can be identified separately from that incurred on HRA property.

# Notes to the Housing Revenue Account

## HRA Note 8 – HRA Share of Corporate and Democratic Core

The Net Cost of Services in the HRA Income and Expenditure Statement is generally prepared in accordance with the total cost requirements of the Service Reporting Code of Practice (SeRCOP). However, the statutory requirement for the HRA to be debited with the expenditure actually incurred by the Council during the year means that an additional debit is required to charge the HRA with elements of Corporate and Democratic Core costs that can either:

- be identified directly to HRA services, or
- be fairly apportioned to HRA services in line with SeRCOP's seven general principles of overhead apportionment.

The debit is made to the HRA Income and Expenditure Statement after a sub-heading for the Net Cost of HRA Services included in the whole Council Comprehensive Income and Expenditure Statement, so that the entry for the HRA in the latter can be read across straightforwardly to the HRA Statement. However, the aggregate HRA Net Cost of Services is then presented to include this debit.



## HRA Note 9 – HRA share of other amounts included in Net Cost of Services but not allocated to specific services

In addition to a share of Corporate and Democratic Core costs that can be allocated to the HRA, there may be other items of expenditure excluded from total cost that should reasonably be debited against the HRA Net Cost of Services in order to satisfy statutory requirements. These include non-distributed costs, e.g. past service costs and settlements relating to post-employment benefits that can fairly be related to HRA activity.

## HRA Note 10 – Gain or Loss on Disposal of Non-Current Assets

Non-Current Assets identified as surplus are required to be valued at Fair Value, and for Housing "Right to Buy" disposals the applicable discounts are applied after revaluation. Both the capital receipt arising from the asset sale and the carrying value of the asset at the point of disposal are then taken to the Comprehensive Income and Expenditure Statement, and any difference between the two amounts is recognised as a gain or loss on disposal.

It is important to highlight that gains and losses are not a charge on HRA tenants, and the impact is reversed out in the Movement in Reserves Statement to ensure there is no real impact on fund balances for the year.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Cost of selling Council Dwellings | 15 | 16 |
| Carrying value of disposed assets | 1,807 | 1,505 |
| Receipts | (2,938) | (2,545) |
| **(Gain) on disposal of Housing Non Current Assets** | **(1,116)** | **(1,024)** |

## HRA Note 11 - Interest Payable and Receivable

### Interest Payable and Similar Charges

This represents the real interest charges to the HRA in respect of financing capital expenditure. Throughout the year interest is charged directly to the HRA for long term borrowing and charged to the General Fund for short term borrowing. The Item 8 adjustment then distributes the relevant interest charge for short term borrowing to the HRA.

### Interest and Investment Income

This represents interest receivable on balances and mortgage interest. As with short term borrowing, all investment income is credited to the General Fund in the year and then distributed to the HRA as part of the Item 8 adjustment.

## HRA Note 12 - Net Interest on the Net Defined Benefit Liability / Asset

Allocations to the HRA of a share of the Council's overall IAS 19 pensions interest cost is based on an apportionment of costs between the General Fund and HRA. For a fuller explanation of the Pension scheme, see Note 32 Pension Schemes Accounted for as Defined Benefit Schemes, within the Notes to the Core Statements.



## HRA Note 13 - Housing Stock

This table analyses the total of the Council's housing stock by type of dwelling.

| | 2018/19 | 2017/18 |
|---|---|---|
| **The stock of dwellings has changed as follows:** | | |
| Opening stock of dwellings | 3,411 | 3,403 |
| Add: additions/conversions | 25 | 33 |
| Less: sales - Right to Buy (RTB) | (16) | (25) |
| - Non-RTB | - | - |
| Less: properties lost to conversion, disposal and deletion | - | - |
| **Closing stock of dwellings** | 3,420 | 3,411 |
| | | |
| **Analysis of closing stock numbers:** | | |
| Houses and Bungalows | 2,772 | 2,767 |
| Flats | 648 | 644 |
| **Total** | **3,420** | **3,411** |

In addition the Council owns a share of 13 shared ownership properties

# Notes to the Housing Revenue Account

## HRA Note 14 – Non-Current Assets at Balance Sheet Value

This table shows the Balance Sheet values of all the HRA Non-Current assets at 31 March 2019.

The District Valuer carried out a desktop valuation of HRA properties as at 31 March 2019.

The net increases in value resulted in a reversal of previous years' impairment losses of £198k. Revaluation losses that were less than previous revaluation gains have been absorbed within the Revaluation Reserve.

A full valuation of Council dwellings is required every five years; the next full valuation is due on 31 March 2020.

| | 31 March 2019 £'000 | 31 March 2018 £'000 |
|---|---|---|
| Operational Assets | | |
| Dwellings - Balance Sheet Value | 217,754 | 207,532 |
| Other Land and Buildings | 3,622 | 3,265 |
| Community Assets | 180 | 180 |
| Intangible Assets | 229 | 303 |
| Vehicles, Plant and Equipment | 210 | 234 |
| Non-Operational Assets | | |
| Other Land and Buildings | 1,269 | 1,177 |
| Surplus Assets not Held for Sale | 926 | 394 |
| Assets under construction | 1,457 | 3,231 |
| Assets Held for Sale | | |
| **Total Balance Sheet Value of HRA Non Current Assets** | **225,647** | **216,316** |

## HRA Note 15 – Council Dwellings at Vacant Possession Value

The vacant possession value of Council dwellings at 31 March 2019 is based on valuations at 1 April 2018. It is £555m for 2018/19 (2017/18 £511m).

The only assets valued at vacant possession now are Council dwellings (including special units) and Sheltered Accommodation. The vacant possession value is the Council's estimate, based on information from the District Valuer, of the total sum that it would receive if all the assets were sold on the open market.

The Balance Sheet Value for the dwellings is the 'Existing Use Social Housing Value' (EUSHV) and reflects the fact that the dwellings are occupied by secure tenants.

The Vacant Possession Value for the dwellings is equivalent to the open market value. The difference between the two values is a discount of 62%, based on guidance issued by the CLG, and reflects the economic cost of providing Council housing at less than the open market value.

# Notes to the Housing Revenue Account

## HRA Note 16 - Capital Expenditure

This table summarises the HRA capital programme and how it was financed.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Capital Expenditure: | | |
| Dwellings | 5,893 | 3,363 |
| Assets under Construction | 1,307 | 4,959 |
| Other (including IT Infrastructure) | 26 | 206 |
| **Total** | **7,226** | **8,528** |
| Financed by: | | |
| Useable Capital Receipts | (1,494) | (777) |
| Revenue Contributions | (2,176) | (4,296) |
| Major Repairs Reserve | (3,530) | (3,235) |
| Contributions | (26) | (220) |
| **Total** | **(7,226)** | **(8,528)** |



## HRA Note 17 - Capital Receipts

This table summarises the number and types of assets sold and the total capital receipts generated during 2018/19.

| | 2018/19 No's | 2017/18 No's |
|---|---|---|
| **Number of disposals:** | | |
| Right to Buy | 15 | 25 |
| Open Market Sale | 1 | - |
| Shared Ownership | 10 | - |
| | **26** | **25** |
| | **£'000** | **£'000** |
| Value of disposals | **2,938** | 2,545 |

## HRA Note 18 - Major Repairs Reserve

The Council is required under statute to maintain a Major Repairs Reserve (MRR) to help finance major capital projects.

### Credits to the Major Repairs Reserve

(a) an amount equal to HRA dwellings depreciation for the year

(b) transfers from the HRA required by statutory provision

Item (a) has to be debited to the Capital Adjustment Account and item (b) to the HRA Balance and included as a reconciling item in the Statement of Movement on the HRA Balance and in the Reserves Adjustments, which can be seen in Note 7 to the Core Statements.

### Debits to the Major Repairs Reserve

(a) capital expenditure on land, dwellings and other property within the HRA, where this is to be funded from the MRR

(b) any repayment, made in the year, of the principal of any amount borrowed where the repayment was met by payment out of the MRR

(c) transfers to the HRA required by statutory provision.



Items (a) and (b) have to be credited to the Capital Adjustment Account and item (c) to the HRA Balance and included as a reconciling item in the Statement of Movement on the HRA Balance and in the Reserves Adjustments, which can be seen in Note 7 to the Core Statements.

This table summarises the movement on the Major Repairs Reserve:

| | 2018/19<br>£'000 | 2017/18<br>£'000 |
|---|---|---|
| **Balance at 1 April** | | - |
| Charged in the Comprehensive Income and Expenditure Statement | (3,530) | (3,235) |
| Transfer to Capital Adjustment Account | 3,530 | 3,235 |
| **Balance at 31 March** | - | - |

## HRA Note 19 - HRA Reserves

The surplus on this year's HRA activity of £512k has been transferred to the Strategic Priorities Reserve.

# The Collection Fund Statement

The Collection Fund is an agent's statement that reflects the statutory obligation for the Council (as billing authority) to maintain a separate Collection Fund.

The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

The County Council and all the Suffolk billing authorities have entered into a countywide non-domestic rates pilot arrangement, which includes provision for the risks and benefits to be shared on an agreed basis.

| Council Tax 2017/18 £'000 | Non Domestic Rates 2017/18 £'000 | | Note | Council Tax 2018/19 £'000 | Non Domestic Rates 2018/19 £'000 |
|---|---|---|---|---|---|
| | | **Income:** | | | |
| (51,937) | - | Income from Council Tax | 3 | (55,166) | - |
| - | (22,963) | Income from Non Domestic Ratepayers | 2 | - | (23,519) |
| - | - | Contributions towards previous year's estimated Collection Fund Deficit | | - | (3,141) |
| **(51,937)** | **(22,963)** | | | **(55,166)** | **(26,660)** |
| | | **Expenditure:** | | | |
| | | **Precepts and Demands** | | | |
| 38,450 | 2,267 | Suffolk County Council | 4 | 40,783 | 4,622 |
| 5,746 | - | Suffolk Police & Crime Commissioner | 4 | 6,197 | - |
| 7,546 | 9,068 | Babergh District Council | 4 | 7,824 | 18,489 |
| - | 11,336 | Central Government | 4 | - | - |
| **51,742** | **51,742** | | | **54,804** | **23,111** |
| | | **Charges to the Collection Fund** | | | |
| - | 324 | Transitional Protection Payments | | - | 13 |
| | | Impairment of Debts and Appeals: | | | |
| 132 | 130 | Increase/(Decrease) in Bad Debt Allowance | | 124 | 46 |
| - | 957 | Increase/(Decrease) in Provisions for Appeals | | - | 1,375 |
| - | 130 | Cost of Collection | | - | 130 |
| - | - | Disregards- Enterprise Zones | | - | 95 |
| - | 26 | Energy Scheme credited to General Fund | | - | 13 |
| 274 | 844 | Contributions towards previous year's estimated Collection Fund Surplus | | 82 | - |
| **52,148** | **25,082** | | | **55,010** | **24,783** |
| 211 | 2,119 | **Movement on Fund Balance - (Surplus) / Deficit** | 1 | (156) | (1,877) |
| (137) | (574) | **(Surplus) / Deficit Brought Forward 1 April** | 1 | 74 | 1,545 |
| **74** | **1,545** | **(Surplus) / Deficit Carried Forward 31 March** | | **(82)** | **(332)** |

# Notes to the Collection Fund

## CF Note 1 – Movement on the Collection Fund Balance

The collection of council tax and non-domestic rates is in substance an agency arrangement and the cash collected belongs proportionately to the Council, the Government and major preceptors. The Council's share of the fund balance is taken to the Collection Fund Adjustment Account. Balances belonging to major preceptors and the Government are shown in the accounts within debtors or creditors as appropriate. The balance on the Council Tax fund will be taken into account in setting future council tax levels.

### Council Tax

| Preceptors | Balance 31 March 2017 £'000 | Movement 2017/18 £'000 | Balance 31 March 2018 £'000 | Movement 2018/19 £'000 | Balance 31 March 2019 £'000 |
|---|---|---|---|---|---|
| Babergh District Council | (20) | 31 | 11 | **(23)** | **(12)** |
| Suffolk County Council | (102) | 157 | 55 | **(116)** | **(61)** |
| Police and Crime Commissioner | (15) | 23 | 8 | **(17)** | **(9)** |
| **(Surplus) / Deficit** | **(137)** | **211** | **74** | **(156)** | **(82)** |

### Non-Domestic Rates

| Preceptors | Balance 31 March 2017 £'000 | Movement 2017/18 £'000 | Balance 31 March 2018 £'000 | Movement 2018/19 £'000 | Balance 31 March 2019 £'000 |
|---|---|---|---|---|---|
| Central Government | (287) | 1,059 | 772 | **(1,570)** | **(798)** |
| Suffolk County Council | (57) | 212 | 155 | **(62)** | **93** |
| Babergh District Council | (230) | 848 | 618 | **(245)** | **373** |
| (Surplus) / Deficit | (574) | 2,119 | 1,545 | **(1,877)** | **(332)** |

# Notes to the Collection Fund

## CF Note 2 – Non-Domestic Rates

The Council collects non-domestic rates in the district. From 1 April 2013 the non-domestic rates retention scheme was introduced which means that the total amounts collected from non-domestic ratepayers are no longer paid into a national pool administered by the Government. Instead, they are shared between non-domestic rates preceptors and the Government with the surplus or deficit adjusted in the following year. The Council's share of this redistribution is shown in the Comprehensive Income and Expenditure Statement.

The valuation list was revised in April 2017. The next revaluation of all non-domestic properties is due in April 2021.

The actual income of £23.519m, shown in the accounts, differs to the estimate of £31.557m due to changes in rateable values, reliefs granted, and allowances made during the year.

| The total non-domestic rateable value at the year-end and the national non-domestic rate multiplier for the year | 2018/19 | 2017/18 |
|---|---|---|
| Total Rateable Value of Business Properties in March | £64.010m | £63.433m |
| National Rate in the £ | 49.3p | 47.9p |
| Small Business Rate Multiplier | 48.0p | 46.6p |

## CF Note 3 - Income from Council Tax



The Council estimated its tax base for 2018/19 as 32,822.09 (2017/18 was 32,488.91) as shown in this table.

To meet the demands of Suffolk County Council, Suffolk Police and Crime Commissioner, Babergh District Council and Parish/Town Councils, a council tax of £54.804m (£51.742m for 2017/18) was levied on the tax base, providing an average Band D Council Tax of £1,669.74 (£1,592.60 for 2017/18).

The actual income of £55.166m, shown in the accounts, differs to the estimate of £54.804m due to changes in dwelling numbers, actual reliefs granted and discounts allowed during the year.

| Council Tax Band | Chargeable Dwellings | Factor | Band D Equivalents |
|---|---|---|---|
| Disabled A | 5.99 | 5/9ths | 3.33 |
| A | 4,108.83 | 6/9ths | 2,739.22 |
| B | 10,724.84 | 7/9ths | 8,341.54 |
| C | 7,636.49 | 8/9ths | 6,787.99 |
| D | 6,796.85 | 9/9ths | 6,796.85 |
| E | 4,006.37 | 11/9ths | 4,896.68 |
| F | 2,186.33 | 13/9ths | 3,158.03 |
| G | 1,569.34 | 15/9ths | 2,615.56 |
| H | 168.75 | 18/9ths | 337.50 |
| **Total** | **37,203.79** | | **35,676.70** |
| | | | |
| Less Council Tax Reduction Scheme | | | (2,689.67) |
| Adjustment for Collection Rate for Year which was estimated at 99.5% | | | (164.94) |
| Taxbase (Band D Equivalent) | | | 32,822.09 |
| | | | |
| | | | **2018/19** |
| Average Band D Council Tax | | | **£1,669.74** |
| Babergh's Share | | | **£158.86** |

# Notes to the Collection Fund

## CF Note 4 - Precepts and Demands

### Council Tax

The Suffolk County Council and the Suffolk Police and Crime Commissioner precepts are charged to the Collection Fund. Precepts by Parish and Town Councils are charged to the Council's General Fund and included in Babergh District Council's demand on the Collection Fund of £7.824m in 2018/19 and £7.546m in 2017/18. For 2018/19 the total of the Parish Precepts was £2.610m (£2.547m for 2017/18).

### Non-Domestic Rates

In 2017/18, demands on the non-domestic rates collection fund were from central government, Suffolk County Council and the District Council, at the rate of 50%, 10% and 40% respectively. The demand from the district is shown as income to the Council's General Fund.

From 1 April 2018, the Suffolk County Business Rates Retention Pool became a 100% Pilot, which meant that the demands on the collection fund, during 2018/19, were at the rate of 80% by the District Council and 20% by Suffolk County Council (the government no longer demanding a share). This explains the significant variation between the two years.

From 1 April 2019, the Suffolk County Pool will resort back to the same rate of demands as in 2017/18.

Of Babergh's £18.489m, £15.469m was paid over to the Suffolk Pool (an element of this is then retained by Suffolk County Council and the rest paid over to Central Government) as a tariff payment, leaving a £3.020m payment to the Council's General Fund in 2018/19.

Actual income and expenditure for the year is then reflected in the Fund Balance (see Note 1 above). There is a surplus shown for the year and the Government provided extra rate relief for small businesses during 2018/19 and giving Councils Section 31 grants to cover the cost. For Babergh, this grant was £2.413m (for 2017/18 £1.125m). The extra amount of grant is based on the higher rate (80% in 2018/19 compared with 40% in 2017/18).

# Group Accounts and Explanatory Notes

## Introduction

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 sets out comprehensive requirements for Group Accounts requiring Councils to consider all their interests in subsidiaries, associates and joint ventures.

The purpose of Group Accounts is to provide a picture of Babergh District Council and the group of companies which are either controlled or are significantly influenced by the Council.

The Group Accounts show the Council's exposure to risk through interests in other entities and participation in their activities.

While the Group Accounts are not primary statements, they provide transparency and enable comparison with other entities that have different corporate entities.



The Group Accounts include the following:

- Group Movement in Reserves:
  This shows the movement in the year on the Council's single entity usable and unusable reserves together with the Council's share of the Group Reserves.
- Group Comprehensive Income and Expenditure Statement:
  This summarises the resources that have been generated and consumed in providing services and managing the group during the year. It includes all day to day expenses and related income on an accruals basis.
- Group Balance Sheet:
  This reports the Council Group financial position at the year end.
- Group Cash Flow Statement:
  This shows the changes in cash and cash equivalents of the Group during the year. The statement shows how the Group generates and uses cash and cash equivalents by classifying cashflows as operating, financing and investing activities.
- Notes to the Group Accounts:
  This shows where the balances are materially different to those in the single entity accounts.

## Results of Subsidiary

The following notes provide additional details about the Council's involvement in the entities consolidated to form the Group Accounts.

BDC (Suffolk Holdings) Limited was incorporated as a private limited company on 9 June 2017 as a commercial investment vehicle for the Council.

The Council owns 100% of the shareholding, has full voting rights and can appoint and remove directors. The Council's chief executive officer is the company secretary and three councillors are board members.

The holding company owns 50% of the shareholding of CIFCO Capital Limited, which has two councillors on its board of five directors.

The holding company also owns 50% of the shareholding of Babergh Growth Limited, which has two councillors on its board of five directors. It was incorporated on 19 March 2019 but had no transactions in 2018/19.

Both boards provide regular reports of the activities and results to the holding company board.

For 2018/19, the holding company's results showed a deficit of £2,279k.

The company appointed Ensors Chartered Accountants who have prepared the draft accounts for the period ending 31 March 2019.

The company's registered office is c/o Babergh and Mid Suffolk District Councils, Endeavour House, 8 Russell Road, Ipswich, Suffolk, IP1 2BX.

## Group Movement in Reserves Statement

This statement summarises the differences between the outturn on the Group Comprehensive Income and Expenditure Account and the movement on the General Fund Balance and Housing Revenue Account.

It also shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

The Surplus or (Deficit) On the Provision of Services Line shows the true economic cost of providing the Council's services, more details of which are shown in the Group Comprehensive Income and Expenditure Statement.

| | General Fund Balance | Earmarked General Fund Reserves | HRA Balance | Earmarked HRA Reserves | Capital Receipts Reserve | Capital Grants Unapplied Reserve | Total Usable Reserves | Unusable Reserves | Total Reserves (Including Group) |
|---|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Opening Balance at 1 April 2017** | (1,200) | (2,245) | (1,000) | (12,053) | (5,721) | (72) | (22,291) | (111,495) | (133,786) |
| **Movement in reserves during 2017/18** | | | | | | | | | |
| Total Comprehensive Income and Expenditure | (17) | - | (6,983) | - | - | - | (7,000) | (12,626) | (19,626) |
| Adjustments between Group Accounts and Council Accounts | 30 | - | - | - | - | - | 30 | - | 30 |
| Adjustments between accounting basis and funding basis under regulations | (3,366) | - | 7,609 | - | (2,033) | - | 2,210 | (2,210) | - |
| **Net (Increase) / Decrease before Transfers to Earmarked Reserves** | (3,353) | - | 626 | - | (2,033) | - | (4,760) | (14,836) | (19,596) |
| Transfers to / (from) reserves | 3,383 | (3,383) | (626) | 626 | - | - | - | - | - |
| **(Increase)/Decrease in 2017/18** | 30 | (3,383) | - | 626 | (2,033) | - | (4,760) | (14,836) | (19,596) |
| **Balance at 31 March 2018** | **(1,170)** | **(5,628)** | **(1,000)** | **(11,427)** | **(7,754)** | **(72)** | **(27,051)** | **(126,331)** | **(153,382)** |
| **Movement in reserves during 2018/19** | | | | | | | | | |
| Total Comprehensive Income and Expenditure | 1,087 | - | (4,249) | - | - | - | (3,162) | (3,438) | (6,600) |
| Adjustments between Group Accounts and Council Accounts | - | - | - | - | - | - | - | | - |
| Adjustments between accounting basis and funding basis under regulations | (4,959) | - | 3,736 | - | (1,116) | - | (2,339) | 2,339 | - |
| **Net (Increase) / Decrease before Transfers to Earmarked Reserves** | **(3,872)** | **-** | **(513)** | **-** | **(1,116)** | **-** | **(5,501)** | **(1,099)** | **(6,600)** |
| Transfers to / (from) reserves | 3,842 | (3,842) | 513 | (513) | - | - | - | - | - |
| **(Increase)/Decrease in 2018/19** | **(30)** | **(3,842)** | **-** | **(513)** | **(1,116)** | **-** | **(5,501)** | **(1,099)** | **(6,600)** |
| **Balance at 31 March 2019** | **(1,200)** | **(9,470)** | **(1,000)** | **(11,940)** | **(8,870)** | **(72)** | **(32,552)** | **(127,430)** | **(159,982)** |

# Group Accounts and Explanatory Notes

## Group Comprehensive Income and Expenditure Statement

This statement shows the accounting cost of providing service for the group in accordance with International Financial Reports Standards.

Councils raise taxation and other charges to cover expenditure in accordance with regulations which may differ from the accounting cost.

| 2017/18 | | | | 2018/19 | | |
|---|---|---|---|---|---|---|
| Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 | | Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 |
| | | | **General Fund** | | | |
| 356 | (331) | 25 | BMS Invest | 1,030 | (304) | 726 |
| 476 | (221) | 255 | Economic Development & Regeneration | 555 | (246) | 309 |
| 21,692 | (18,639) | 3,053 | Corporate Resources | 19,266 | (16,531) | 2,735 |
| 1,986 | (10) | 1,976 | Customer Services | 1,986 | - | 1,986 |
| 6,819 | (2,699) | 4,120 | Environment & Commercial Partnerships | 7,297 | (3,592) | 3,705 |
| 2,007 | (734) | 1,273 | Housing | 3,434 | (842) | 2,592 |
| 1,445 | (479) | 966 | Law & Governance | 1,424 | (370) | 1,054 |
| 2,369 | (3,756) | (1,387) | Planning for Growth | 2,977 | (3,042) | (65) |
| 855 | (74) | 781 | Senior Leadership Team | 781 | (39) | 742 |
| (1,516) | - | (1,516) | Charge to HRA & Capital | (1,504) | - | (1,504) |
| 7,964 | (16,862) | (8,898) | HRA | 10,630 | (16,674) | (6,044) |
| - | - | - | | | | |
| 44,453 | (43,805) | 648 | **Cost of Services** | 47,876 | (41,640) | 6,236 |
| 1,613 | - | 1,613 | Other Operating Expenditure | 2,571 | - | 2,571 |
| 3,924 | (895) | 3,029 | Financing and Investment Income and Expenditure | 4,127 | (1,455) | 2,672 |
| 6,719 | (19,009) | (12,290) | Taxation and Non-Specific Grant Income and Expenditure | 15,469 | (30,080) | (14,611) |
| 56,709 | (63,709) | (7,000) | **(Surplus) on Provision of Services** | **70,043** | **(73,175)** | **(3,132)** |
| | | (7,000) | **Group (Surplus) on Provision of Services - A** | **-** | **-** | **(3,132)** |
| - | - | (10,168) | (Surplus) on revaluation of property, plant and equipment assets | - | - | (8,265) |
| - | - | - | (Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income | - | - | 2,267 |
| - | - | - | (Surplus) or deficit on financial assets measured at fair value through other comprehensive income | - | - | (1) |
| - | - | (2,442) | Remeasurement of the net defined benefit liability/(asset) | - | - | 2,561 |
| - | - | (16) | (Surplus) on revaluation of available for sale financial assets | - | - | - |
| | | (12,626) | **Other Comprehensive Income and Expenditure - B** | | | (3,438) |
| | | **(19,626)** | **Total Comprehensive Income and Expenditure (A+B)** | | | **(6,570)** |

## Group Balance Sheet

The group balance sheet shows the value of assets and liabilities recognised by the group.

These are funded by the usable and unusable reserves of the Council.

| 2017/18 £'000 | | 2018/19 £'000 |
|---|---|---|
| 246,735 | Property, Plant and Equipment | 254,235 |
| 3,500 | Investment Property | 2,905 |
| 1,312 | Intangible Assets | 908 |
| 1,202 | Long Term Investments | 343 |
| 11,575 | Long Term Debtors | 25,757 |
| **264,324** | **Long Term Assets** | **284,148** |
| 9,636 | Short Term Investments | 9,543 |
| 79 | Inventories | 74 |
| 5,225 | Short Term Debtors | 4,514 |
| 2,704 | Cash and Cash Equivalents | 2,529 |
| **17,644** | **Current Assets** | **16,660** |
| (12,543) | Short Term Borrowing | (8,133) |
| (6,566) | Short Term Creditors | (7,588) |
| (1,118) | Provisions | (3,024) |
| **(20,227)** | **Current Liabilities** | **(18,745)** |
| (85,797) | Long Term Borrowing | (96,019) |
| (1,795) | Capital Grants & Contributions Received in Advance | (2,562) |
| (675) | Other Grants & Contributions Received in Advance | - |
| (20,090) | Defined Benefit Pension Scheme Liability | (23,501) |
| **(108,357)** | **Long Term Liabilities** | **(122,082)** |
| **153,384** | **Net Assets** | **159,981** |
| (27,084) | Usable reserves | (32,552) |
| (126,300) | Unusable reserves | (127,429) |
| **(153,384)** | **Total Reserves** | **(159,981)** |

## Group Cash Flow Statement

The group cash flow statement shows the changes in the cash and cash equivalents of the Group, classifying cash flows as operating, investing and financing activities for the Group.

Operating cash flow shows the funding and expenditure on services for the group.

Investing activities shows the extent to which cash outflows are made to contribute to future service delivery of the group.

Cash flows from financing activities show payments and receipts for investing and borrowing activities.

| 2017/18 £'000 | | Note | 2018/19 £'000 |
|---|---|---|---|
| (6,972) | Net (Surplus) or deficit on the provision of services | | (3,132) |
| (3,028) | Adjustments to net surplus or deficit on the provision of services for non-cash movements | G2 | (14,659) |
| 3,903 | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | | 3,428 |
| (6,097) | Net cash flows from Operating Activities | | (14,363) |
| 13,087 | Investing Activities | | 20,284 |
| (5,500) | Financing Activities | | (5,746) |
| 1,490 | Net increase or decrease in cash and cash equivalents | | 175 |
| (4,194) | Cash and cash equivalents at the beginning of the reporting period | | (2,704) |
| **(2,704)** | **Cash and cash equivalents at the end of the reporting period** | | **(2,529)** |

# Notes to the Group Accounts

Where added value is provided, additional disclosures are presented below in respect of the Group Accounts. These are referenced with a **G** and can be referred to against the main statements of the Group Accounts on pages 110 to 115.

Where there are no changes to values from the accounts of Babergh District Council then no additional notes have been prepared as these are referred to in the notes in the single entity accounts.

## Note G1 - Accounting Policies for the Group

The Group Accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

The Council has consolidated its interests in the entities over which it exercises control or significant influence because they are material to the Council's balance sheet.

The results of the Council's subsidiary have been consolidated on a line by line basis. Intra-group transactions have been eliminated before consolidation.

The Accounting Policies used in the preparation of the Group Accounts are the same as for the single entity accounts of Babergh District Council, as set out in Note 35 of the Notes to the Core Statement of Accounts.



## Note G2 – Cash Flow Statement: Operating Activities

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| The cash flows for operating activities include the following items: | | |
| Interest received | (1,112) | (511) |
| Interest paid | 2,883 | 2,851 |
| | 1,771 | 2,340 |
| The surplus or deficit on the provision of services has been adjusted for the following non-cash movements: | | |
| Depreciation and amortisation | (5,330) | (5,057) |
| Impairment and (downward valuations)/reversals | (2,532) | 1,600 |
| (Increase)/decrease in creditors | (2,601) | 1,498 |
| Increase/(decrease) in debtors | 1,141 | 2,483 |
| Increase/(decrease) in inventories | (5) | 19 |
| Movement on pension liability | (850) | (669) |
| Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | (2,582) | (1,968) |
| Other non-cash items | (1,900) | (934) |
| | (14,659) | (3,028) |
| The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities: | | |
| Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 2,937 | 3,228 |
| Other items for which the cash effects are investing or financing activities | (1,280) | (1,665) |
| **Net cash flows from operating activities** | **1,657** | **1,563** |

# Section 5

## Glossary of Terms

**Accruals**

The accruals principle is that income is recorded when it is earned rather than when it is received, and expenses are recorded when goods or services are received rather than when the payment is made.

**Actuarial Gains and Losses (Pensions)**

For a defined benefit scheme, the changes in deficits or surpluses that arise because events have not coincided with actuarial assumptions used in the last valuation (experience gains or losses) or because actuarial assumptions have changed.



**Agency Services**

These are services that are performed by or for another Council or public body, where the principal (the Council responsible for the service) reimburses the agent (the Council carrying out the work) for the costs of the work.

**Amortisation**

The process of decreasing or accounting for an amount over a period of time. Amortisation of capital expenditures of certain assets under accounting rules, particularly intangible assets, in a manner analogous to depreciation.

**Appropriations**

Amounts transferred to or from revenue or capital reserves.

**Asset**

An item owned by the Council which has an economic value e.g. land and buildings, debts or cash.

**Budget**

A financial statement of the Council's plans for any given year.

**Capital Expenditure**

Expenditure on the acquisition of new assets or expenditure, which adds to, and not merely maintains, the value of an existing fixed asset.

**Capital Financing Charges**

This is the annual charge to the revenue account in respect of interest and principal repayments and payments of borrowed money.

**Capital Grants**

Grants received towards capital spending on a particular service or project.

**Capital Receipts**

Proceeds from the sale of capital assets such as land or buildings. They are available to finance new capital outlay and to repay existing debt e.g. Right to Buy capital receipts which can only be spent on providing new housing provision (known as 1-4-1 replacement).

# Glossary of Terms

**Chartered Institute of Public Finance and Accountancy (CIPFA)**

CIPFA is the leading professional accountancy body for public services.

**Community Assets**

Assets the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples include parks and historic buildings.

**Community Infrastructure Levy (CIL)**

An income stream introduced in April 2016 following changes to planning legislation. Provides a charging schedule that maximises the funding for infrastructure within the District but does not prevent or stall development.



**Contingent Liabilities or Assets**

These are amounts potentially due to or from individuals or organisations which may arise in the future but which at this time cannot be determined accurately, and for which provision has not been made in the Council's accounts.

**Creditors**

Amounts owed by the Council for work done, goods received or services rendered, for which payment has not been made at the date of the balance sheet.

**Current Assets**

Assets where the value may change because the volume held can vary through day to day activity, e.g. cash, debtors and stock.

**Current Liabilities**

Amounts which will become payable in the next accounting period (e.g. creditors, cash overdrawn).

# Glossary of Terms

**Current Service Costs (Pensions)**

The increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, i.e. the ultimate pension benefits "earned" by employees in the current year's employment.

**Curtailment (Pensions)**

For a defined benefit scheme, an event that reduces the expected years of future service of current staff or reduces for a number of staff the accrual of defined benefits for some or all of their future service.

**Debtors**

Sums of money due to the Council, that have not been received at the balance sheet date.

**Defined Benefit Scheme (Pensions)**

A scheme to provide retirement benefits, the value of which are independent of the contributions payable, and that are not directly related to the underlying investments.

**Depreciation**

The measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset.

**De Minimis**

A threshold which anything falling below is too small to be of concern

**Direct Revenue Financing**

A charge to the revenue account to finance capital expenditure.

# Glossary of Terms

**Discretionary Benefits (Pensions)**

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the Council's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996.

**Earmarked Reserves**

The Council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

**Expected Rate of Return on Pension Assets**

For a funded, defined benefit scheme, the average rate of return, net of any charges, expected to be earned on assets held by the scheme over the remaining life of the related obligation to pay future retirement benefits.



**External Audit**

The independent examination of the activities and accounts of Local Authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Council has made proper arrangements to secure value for money in its use of resources.

**Fair Value**

Fair value is the price at which an asset could be exchanged in an arm's length transaction, less any grants receivable towards the purchase or use of the asset.

**Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another, for example, a market loan. The term "financial Instrument" covers both financial assets and financial liabilities and includes the most straightforward of financial assets and liabilities such as trade receivables (debtors) and trade payables (creditors) and the most complex ones such as derivatives and embedded derivatives.

**General Fund**

This is the main revenue fund of the Council and includes the net cost of all services financed by local taxpayers and Government grants.

**Government Grants**

Payments by Central Government towards Local Authority spending. They may be specific to a particular service e.g. Housing Benefits Grant; or general (see Revenue Support Grant).

**Group Accounts**

Report the full extent of the assets, liabilities, income and expenditure of the Council and the companies which the Council either control or significantly influence. The Council has consolidated the interests which are financially material to the Council, to provide a full picture of the Council's arrangements for good governance.

**Housing Revenue Account (HRA)**

The statutory account which sets out the revenue expenditure and income arising from providing, maintaining and managing of Council dwellings. These costs are financed by tenants' rents. Other services are charged to the General Fund.

# Glossary of Terms

**Impairment**

A reduction in the value of a fixed asset below its carrying amount on the balance sheet as a result of the consumption of economic benefits (such as physical damage due to fire or flood) or the fall in the price of a specific asset. A general reduction in asset values is accounted for as impairment through valuation loss.

**Income**

Amounts that the Council receives, or expects to receive, from any source. Income includes fees, charges, sales and grants that are specific and special. The term income implies that the figures concerned relate to amounts due in a financial year irrespective of whether they have been received in that period.

**Infrastructure Assets**

Fixed assets which generally cannot be sold and from which benefit can be obtained only by continued use of the asset created. Examples are highways and footpaths.

**Interest Cost (Pensions)**

For a defined benefit scheme, the expected increase during the period in the present value of the scheme's liabilities because the benefits payable are one year closer to settlement.

**International Financial Reporting Standards (IFRS)**

Defined Accounting Standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with financial statements of the other entities.

**Investment Property**

An asset that is used solely to earn rentals or for capital appreciation or both. For example, the Council-owned industrial estates.

**Investments (Pensions)**

The Council's share of pension scheme assets associated with its liability to pay future retirement benefits.

**Long Term Debtors**

Amounts due to the Council more than one year after the Balance Sheet date.

**Market Value**

This is generally applied to the valuation of non-current assets. It is the value that could be achieved if the asset was offered for sale with no restrictions that could affect its value.

**Material/Materiality**

Materiality relates to the significance of transactions, balances and errors. Financial information is material if its omission or misstatement could influence the users of the accounts.

**Minimum Revenue Provision (MRP)**

The minimum amount the Council is required by statute to set aside on an annual basis for the repayment of debt.

**Ministry for Housing, Communities and Local Government (MHCLG)**

A Department of Central Government with an overriding responsibility for determining the allocation of general resources to Local Authorities.

**Net Book Value (NBV)**

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

# Glossary of Terms

**New Homes Bonus (NHB)**

A grant paid by Central Government to the Council to reflect and incentivize housing growth in the District. It is based on the amount of additional Council Tax revenue raised for new build homes, conversions, and long term empty homes brought back into use.

**Non-Domestic Rates (NDR) (also known as Business Rates)**

NDR is the levy on non-domestic property, based on a national rate in the pound applied to the 'rateable value' of the property. The Government determines national rate poundage each year which is applicable to all Local Authorities. The income arising is collected and shared between central government, Suffolk County Council and the District Council on the basis of a predetermined formula.

**Non-Current Assets**

Intangible and tangible assets that yield benefits to the Council and the services it provides for a period of more than one year.

**Past Service Cost (Pensions)**

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to staff service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits payable.

**Post Balance Sheet Events**

Events, both favourable and unfavourable, which occur between the Balance Sheet date and the date on which the Statement of Accounts are authorised for issue by the Chief Financial Officer.

**Precept**

The amount levied by various authorities that is collected by the Council on their behalf. Suffolk County Council, the Suffolk Police and Crime Commissioner and various Local Councils within the District are precepting authorities and the District Council is the billing authority.

**Provisions**

Amounts set aside to meet liabilities or losses which it is anticipated will be incurred but where the amount and/or the timing of such costs are uncertain.

**Public Works Loan Board (PWLB)**

An arm of Central Government which is the major provider of loans to finance long term funding requirements for Local Authorities.

**Reserves**

Amounts set aside for general contingencies, to provide working balances or earmarked to specific future expenditure.

**Retirement Benefits (Pensions)**

All forms of consideration given by an employer in exchange for services rendered by staff that are payable after completion of the engagement.

**Revenue Expenditure Funded from Capital Under Statute (REFCUS)**

Expenditure incurred during the year that may be capitalised under statutory provision but that does not result in the creation of a non-current asset that has been charged as expenditure to the CIES. For the Council, the most significant type of REFCUS is the payment of home improvement grants to private householders.

**Revenue Expenditure**

# Glossary of Terms

The day-to-day spending and income of the Council on such items as staff, goods, services and equipment.

**Scheme Liabilities (Pensions)**

The liabilities to pay future retirement benefits, measured using the projected unit method, of a defined benefit scheme for outgoings failing due after the valuation date.

**Section 31 (S31) Grant**

Grants paid to the Council by Central Government for small business rate relief and new discretionary rate reliefs.

**Settlement (Pensions)**

An irrevocable action that relieves the employer of the primary responsibility for a pension obligation.

**Treasury Management Strategy (TMS)**

A strategy prepared with regard to legislative and CIPFA requirements setting out the framework for treasury management activity for the Council.

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Mid Suffolk District Council

# Statement of Accounts

## 2018/19 Unaudited v3

# Contents

# Section 1

## Narrative Report, Statement of Responsibilities, Expenditure and Funding Analysis

# Narrative Report

## 1. About the Council

### Mid Suffolk Facts

**Median price of Properties - Quarter 3 2018** Source Suffolk Observatory ONS

| Flat or Maisonette | Terraced House | Semi-detached house | Detached house |
|---|---|---|---|
| £130,000 | £199,995 | £240,000 | £350,000 |

**Total Number of Properties** - (ONS, 2018) **44,090**

**Number of Council owned dwellings** - (2018/2019) **3,272**

**Average Band D Council Tax 2018/19** **£162.78**
District charge

**Number of Businesses by size** (employee numbers - 2018)

| Large (250+) | Medium (50 - 249) | Small (10 - 49) | Micro (0 - 9) |
|---|---|---|---|
| 15 | 70 | 415 | 4,330 |

TOTAL = 4,840

**2018 Full time worker: median annual pay (gross)** **£27,462**
Data from ONS ASHE

**101,543** Total population estimate (ONS 2018)

**District Council areas and ward numbers**

- **336** Square miles
- **26** Wards
- **34** Councillors
- **123** Parishes

Source: ONS 2018

**31** Conservation areas

**c3,444** Listed buildings

## 2. The Council's Performance

### Mid Suffolk Facts *Performance*

**80.39%** of major applications were determined 'in time' during 2018/19.

The Joint Waste Service emptied over **5.2 million** refuse, recycling and garden waste bins and collected over **61,000 tonnes** of waste & recycling, that is equivalent to **12,200** elephants!

The time to process new Housing Benefit/ Council Tax Reduction claims decreased by **22.75%** in 2018/19.

Mid Suffolk purchased **17** 'Market sale homes' within the district to add to the Council Stock.

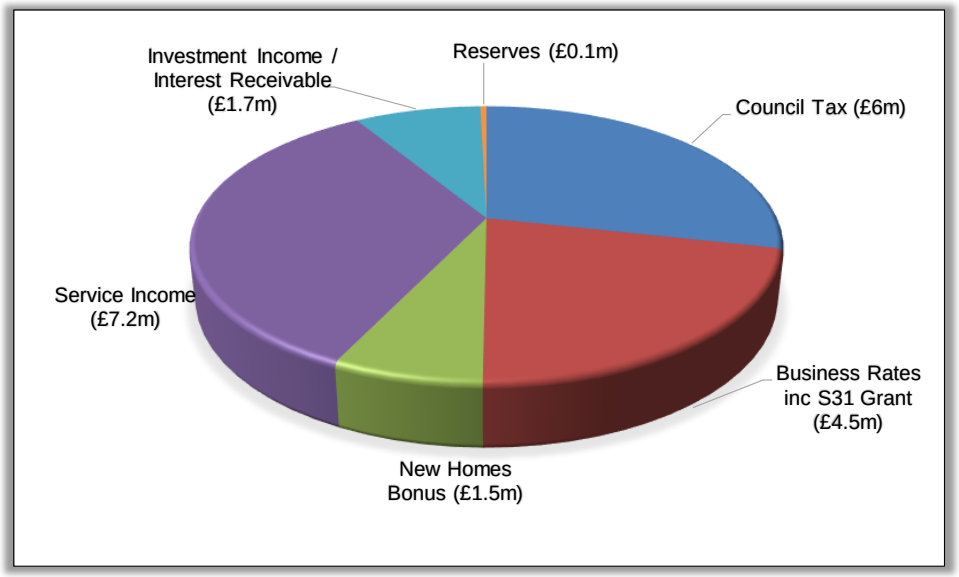
Disabled Facilities Grants - Awarded **39 DFG's** in Mid Suffolk to the value of £263,553.91, to support people to continue living independently.

## 3. Financial Performance

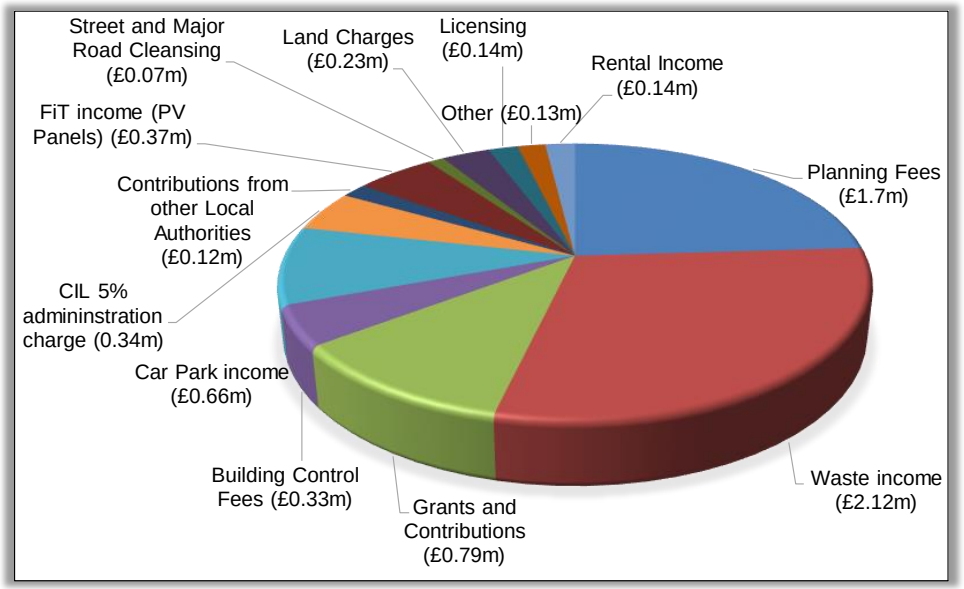
## The General Fund

### Income

In 2018/19 the Council's income was **£21m,** of this, 28% was from Council Tax, 22% from Business Rates, 34% from Service Income and 7% from New Homes Bonus, 8% from Investment Income and Interest Receivable and 1% coming from Reserves.




30% of the **£7.2m** Service Income was generated by the Waste Service, 24% from Planning fees and 11% from grants and contributions.

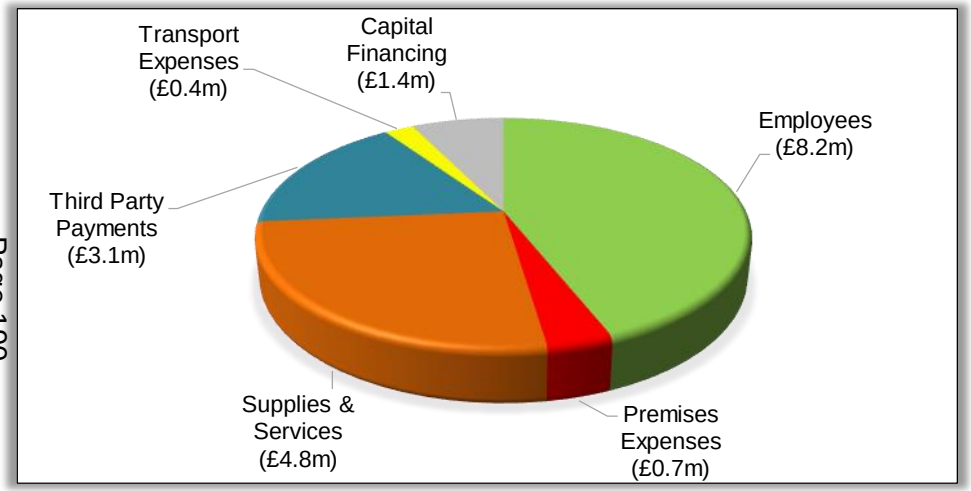


# Narrative Report

## 3. Financial Performance

### Expenditure

In 2018/19, the Council spent **£18.6m**, of which 44% was on employee costs, 26% on supplies and services, 17% on third party payments and 13% on other costs.






### Actual compared to budget

During 2018/19, it was necessary to fund expenditure of £0.1m from earmarked reserves. These costs were identified as part of the budget setting process for 2018/19 and include expenditure relating to the Community Housing Fund and Carry Forwards from 2017/18.

The outturn position compared to the budget has resulted in a net favourable variance (reduced expenditure and/or increased income) of **£3.462m** and so despite the use of reserves (£0.1m), it has been possible to make the following additional transfers to and from eamarked reserves;

Transfer to reserves

- Business Rates Equalisation Reserve (£1,934k)
- Joint Local Plan (£224k)
- Temporary Accommodation (£72k)
- Waste (£46k)
- Elections Equipment (£35k)
- Strategic Planning net (£5k)
- Government Grants net (£10k)
- Planning Enforcement (£25k)
- Homelessness (£3k)

Transfers from reserves

- Commuted Maintenance Payments £57k

The overall favourable variance can mainly be attributed to:

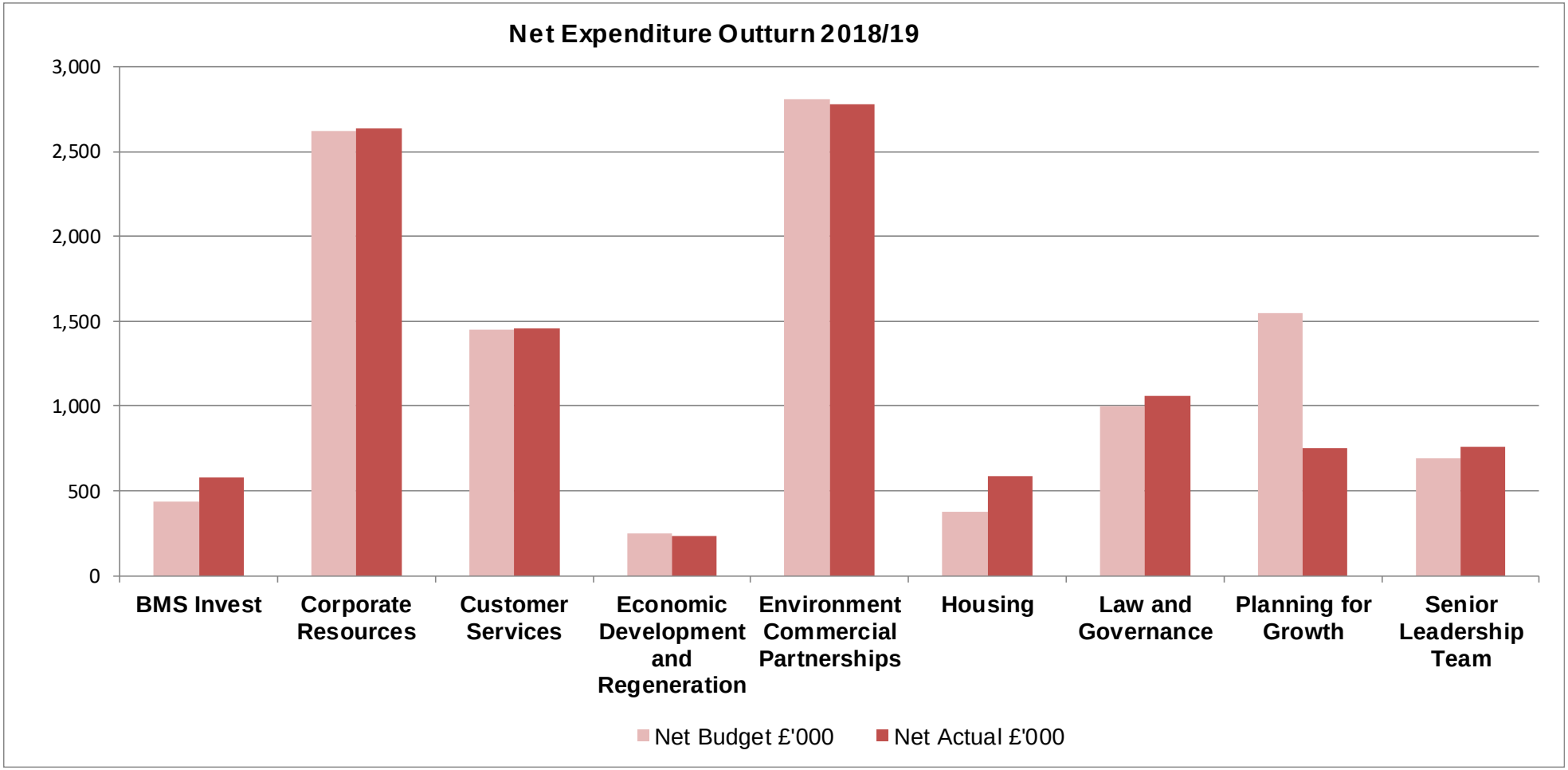
- Business Rates £1,934k
- Strategic Planning including 5% CIL administration charge £719k
- Minimum Revenue Provision (MRP) £367k
- Elections £142k

The Council has been able to supplement reserves other than those mentioned above including the Growth and Efficiency Fund (£665k) and the Commercial Development Risk Management reserve (£500k).

It is worth noting that expenditure on services is in line with the budget, however, more income has been generated than planned.

## 3. Financial Performance

A breakdown of net expenditure by Service Area compared to budget is given in the following chart:



## 3. Financial Performance

A summary of the key variations compared to budget are provided in Table 1. The detailed outturn report for 2018/19 will be presented at Cabinet in June 2019.

| Table 1 Major variances | Variation (Favourable) / Adverse £'000 |
|---|---|
| **Favourable variances i.e. savings and / or additional income:** | |
| Minimum Revenue Provision (MRP) | (367) |
| CIL 5% administration charge | (341) |
| Strategic Planning (Joint Local Plan) - professional and legal costs | (285) |
| Gateway 14 Ltd | (273) |
| Elections | (142) |
| Recharge to HRA / Capital | (106) |
| Community Housing Fund | (93) |
| Planning Fee Income | (82) |
| Grants and Contributions | (80) |
| Investment Income | (79) |
| Waste | (75) |
| Homelessness - inc temporary accommodation | (75) |
| CIFCO | (65) |
| Corporate and Democratic Core | (37) |
| Shared Legal Services | (31) |
| Sustainable Environment - legal expenses and contrac | (21) |
| Sustainable Environment - pre application planning ad | (15) |
| Housing Benefit Subsidy | (13) |
| Leisure Contracts / Review | (10) |
| | **(2,189)** |

| | Variation (Favourable) / Adverse £'000 |
|---|---|
| **Adverse variances i.e. additional costs and / or lower income:** | |
| ICT | 176 |
| Transfers to / from reserves | 144 |
| PV Panels - Feed in Tariff (FiT) Income | 104 |
| Democratic Services | 101 |
| Car Parks | 70 |
| Open Spaces | 50 |
| Corporate Subscriptions | 37 |
| Organisational Development | 35 |
| Policy Strategy Health and Well-being | 33 |
| Health & Safety | 30 |
| Land Charges | 28 |
| Wingfield Barns | 28 |
| Payment Cards | 21 |
| Building Control | 9 |
| | **866** |
| **Net Favourable Variance** | **(1,323)** |
| **Funding:** | |
| Business Rates - S31 Grant | (1,554) |
| Business Rates - Baseline and Tariff / Levy | (230) |
| Business Rates - Pooling Benefit | (150) |
| **TOTAL Net Favourable Variance** | **(3,257)** |

## 3. Financial Performance

### Reserves

The Council holds a General fund balance, at an agreed minimum level of **£1.052m**. In addition, there is a further **£25.6m** in earmarked reserves to provide financing for future expenditure plans. Details of these are shown in Note 8 of the Core Statements.

### Capital Programme

Capital expenditure for 2018/19 totals **£34.9m** against a revised programme of £38.5m, a breakdown of the expenditure and how this is financed is shown in this table.

| Table 2 Capital Programme | Revised Budget £'000 | Actual £'000 | Variance (Favourable) / Adverse £'000 |
|---|---|---|---|
| **Expenditure - General Fund** | | | |
| Housing | 826 | 337 | (489) |
| Environment and Projects | 583 | 327 | (256) |
| Communities and Public Access | 535 | 462 | (72) |
| Leisure Contract | 545 | 158 | (387) |
| Property Services | 80 | 20 | (60) |
| Investment and Commercial Delivery | 5,921 | 3,121 | (2,800) |
| Planning for Growth | 500 | 100 | (400) |
| Corporate Services | 350 | 182 | (168) |
| CIFCO | 12,667 | 13,779 | 1,112 |
| Gateway 14 Ltd | 16,507 | 16,475 | (32) |
| **Total Capital Programme expenditure** | **38,514** | **34,961** | **(3,553)** |
| | | | |
| **Financed from:** | | | |
| Non-supported borrowing | 35,646 | 32,161 | (3,485) |
| Capital receipts | 93 | 6 | (87) |
| Grants/external contributions | 2,775 | 854 | (1,921) |
| Revenue | - | 1,940 | 1,940 |
| **Total** | **38,514** | **34,961** | **(3,553)** |

## 3. Financial Performance

## The Housing Revenue Account (Housing Services)

### Financial Context

The financial position of the HRA for 2018/19 should be viewed in the context of the updated 30-year business plan which was presented to Cabinet in July 2017. This sets out the aspiration of the Council to increase the social housing stock by either buying existing dwellings or building new ones.

The Welfare Reform and Work Act 2016 stipulates that Council rents would need to be reduced by 1% per annum from 2016/17 and the following three years. The previously agreed rent strategy was based on applying the maximum level of rent increase to support the business plan, whilst keeping our average rent level within the limit rent. The overall impact of the change is substantial; however this will be reduced following the announcement by the Government that we can increase rent by a maximum of CPI + 1% for five years from 2020/21.

### Actual compared to budget

The original budget set for the HRA for 2018/19 showed a deficit of £662k. The final figure for 2018/19 is a deficit of **£495k**, a net favourable variance of £167k for the year. This is a welcome addition to reserves to support the revised 30-year business plan.

The detailed outturn report for 2018/19 will be presented to Cabinet in June 2019.

A summary of the key HRA variations is provided in the following table:

| Table 3 HRA Variations | Budget £'000 | Actual £'000 | Variance (Favourable) / Adverse £'000 |
|---|---|---|---|
| **Income:** | | | |
| Rent, income and other charges | (15,068) | (15,023) | 45 |
| **Expenditure** | | | |
| Maintenance | 1,716 | 2,388 | 672 |
| Property Services | 1,174 | 1,320 | 146 |
| Housing Management | 2,302 | 2,306 | 4 |
| Sheltered Housing | 845 | 956 | 111 |
| Depreciation and impairment | 3,401 | 3,761 | 360 |
| Capital Financing Costs | 2,754 | 2,693 | (61) |
| Net transfers (to)/from reserves inc revenue contributions to Capital | 3,393 | 1,944 | (1,449) |
| Bad Debt Provision | 145 | 150 | 5 |
| | **15,730** | **15,518** | **(212)** |
| **Deficit for year** | **662** | **495** | **(167)** |
| **Reserves** | | | |
| Balance at 1 April 2018 | (5,202) | (5,202) | - |
| Deficit for year (as above) | 662 | 495 | 167 |
| Transfers to earmarked reserves | - | (28) | 28 |
| **Balance at 31 March 2018** | **(4,540)** | **(4,735)** | **195** |
| **Working Balance 31 March 2018** | (1,209) | (1,209) | - |
| Building Council Homes Programme Reserve | - | (20) | 20 |
| Leaseholder Repairs | - | (8) | 8 |
| Strategic Priorities Reserve | (3,331) | (3,498) | 167 |
| **Total Reserves 31 March 2019** | **(4,540)** | **(4,735)** | **195** |

## 3. Financial Performance

### Reserves

The Council holds a HRA working fund balance at an agreed minimum level of **£1m**. In addition, there is a further **£4.2m** in the strategic priorities reserve and £28k in other earmarked reserves, to provide financing for future expenditure plans. Details are shown in Note 8 of the Core Statements.

### Capital Programme

Capital expenditure for 2018/19 totals **£7.7m** against a revised programme of £10.5m.

The favourable variance of £1.581m for New Build and Acquisitions and £796k for Planned Maintenance can be attributed to a contractual commitment. This is where funds have been contractually committed in 2018/19 but will be spent in 2019/20. The remaining favourable variance of £422k can be broken down as follows;

- ICT projects (£301k) - salaries and asbestos survey costs were transferred to revenue, there were also savings on consultancy fees relating to the Open Housing system.
- Other items (net) – a favourable variance of £121k.

| Table 4 Capital Programme | Revised Budget £'000 | Actual £'000 | Variance (Favourable) / Adverse £'000 |
|---|---|---|---|
| **Expenditure - HRA** | | | |
| Planned maintenance | 4,996 | 4,200 | (796) |
| ICT Projects | 317 | 16 | (301) |
| Environmental Improvements | 40 | - | (40) |
| Disabled Facilities work | 228 | 147 | (81) |
| New build programme inc acquisitions | 4,973 | 3,392 | (1,581) |
| **Total Capital Programme expenditure** | **10,554** | **7,755** | **(2,799)** |
| Financed from: | | | |
| Non-supported borrowing | 2,723 | - | (2,723) |
| Capital receipts | 1,038 | 1,814 | 776 |
| Grants/external contributions | - | 265 | 265 |
| Major Repairs Reserve | 3,400 | 3,761 | 361 |
| Revenue | 3,393 | 1,915 | (1,478) |
| **Total** | **10,554** | **7,755** | **(2,799)** |

## 4. Treasury Management

The CIPFA prudential code sets out the governance arrangements for borrowing and lending. It states what the authorised limit and operational boundary are for its total external debt, excluding investments, separately identifying borrowing from other long-term liabilities.

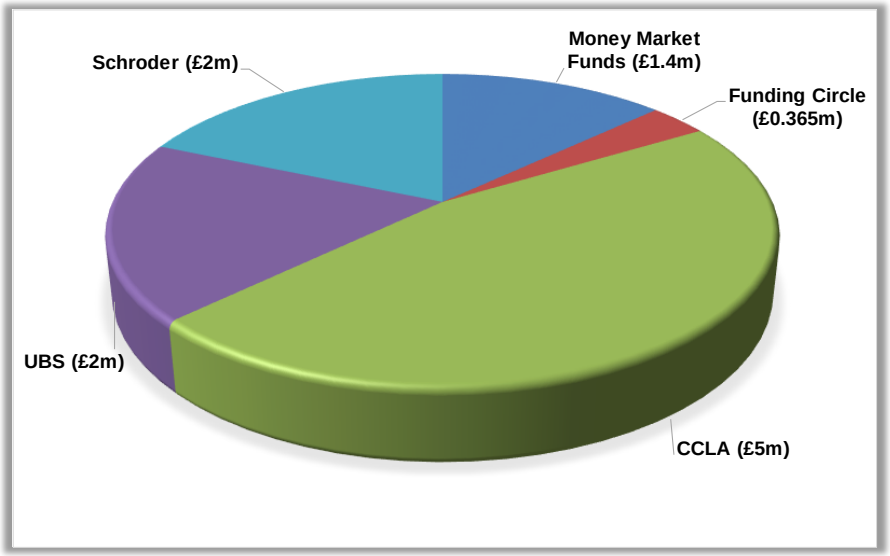
The level of long term borrowing wholly relates to the HRA and is within the approved limits established for overall borrowing and the operational boundary, which were set at £166m and £156m respectively.

The current strategy is to use internal surplus funds to temporarily finance General Fund capital expenditure rather than borrow externally. Advice is sought regarding the timing or replacing of any internal borrowing with external borrowing.

In terms of the investment of surplus funds during the year, these were made with counterparties with high credit ratings as determined in the Council's Treasury Management Strategy.

At 31 March 2019, the amount of surplus funds invested was £10.8m (2017/18 £11.1m), as follows:






The Capital Financing Requirement, which represents the Council's underlying need to borrow for capital purposes, is summarised in Table 5.

| Table 5 | £'000 |
|---|---|
| **Underlying need to borrow at 31 March 2019 (Capital Financing Requirement)** | 154,255 |
| **Borrowing at 31 March 2019** | |
| Long Term | (113,635) |
| Short Term | (17,076) |
| **Net Borrowing Facility at 31 March 2019** | **23,544** |

Further details on treasury management activity are shown in Notes 14 and 34 to the Core Statements.

## 5. Pensions

International Accounting Standard 19 ‘Employee Benefits’ (IAS 19) requires the Council to disclose certain information within its Statement of Accounts and this appears in Note 32 to the Core Statements.

Included within that information is the net deficit on the proportion of the Suffolk County Council Pension Fund attributable to Mid Suffolk District Council. This is the difference between future liabilities and assets as valued at 31 March 2019 amounts to £32.379m. This will be addressed by future contributions to the Pension Fund.

The last formal three-yearly actuarial valuation was carried out at 31 March 2016. The valuation report sets out the rates of employers’ contributions for the three years starting 1 April 2017. This was 23% for 2018/19.

The next formal valuation is at 31 March 2019.

## 6. Future Challenges

In recent years the Government policy frameworks have been reducing core funding for Local Government as part of its deficit reduction strategy and increasingly incentivising funding to councils to deliver local economic and housing growth and to facilitate the development of strong, safe, healthy and self-sufficient communities. This is continuing, so encouraging and supporting both business and housing growth is essential to the financial future of the Council.

The Fair Funding Review continues and aims to set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources. The Government is exploring options for developing an updated funding formula by looking at the factors that drive costs for local authorities. The outcome of these deliberations is still awaited and will be implemented from 2020/21.

The outcome of the 2019 Comprehensive Spending Review is still to be announced, this will set detailed allocations for the 2020/21 financial year and beyond, along with the details of the Business Rates retention scheme that the Government have been consulting on.

Babergh and Mid Suffolk along with the other five district and borough councils in Suffolk and Suffolk County Council, were one of 10 new areas selected for the 100% business rates retention pilots in 2018/19. The financial benefits were shared between the councils in Suffolk and a proportion used to achieve sustainable economic growth. Mid Suffolk benefited from an additional £1.256m in retained business rates to spend on various growth initiatives.

In order to achieve the vision and ambition for the districts with significantly reduced government resources the Council needs to take a medium-term view of the budget through a financial strategy that is focused on meeting the corporate priorities.

The main strategic financial aim is to become self-financing i.e. not reliant on Government funding. There is a secondary aim to be in a position to generate more funds than are required for core services, to enable additional investment in the district.

The approach over the medium term is to transform the Council into an organisation that is thriving and not just surviving, by reviewing, remodelling and reinventing the way the Council operates.

The cumulative funding pressure over the three years 2020/21 to 2022/23, of £1.1m, using all of the forecast NHB allocation over the three years.

The uncertainty and complexity of our financial landscape is magnified by the unquantifiable impact of Brexit on both local government funding and future legislation. These impacts could turn out to be either positive or negative overall but are likely to affect key budget factors such as interest and inflation rates, labour costs and property and rental values.

## 7. Explanation of Accounting Statements

| Core Statements | Supplementary Financial Statements |
|---|---|
| **Movement in Reserves Statement** shows the movement in the year on the different reserves held by the Council, analysed between usable and unusable reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement (CIES). These are different from the statutory amounts required to be charged to the General Fund Balance and the HRA for council tax setting and council house rent setting purposes.<br><br>The net increase/decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and HRA Balance before any discretionary transfers to or from earmarked reserves. | **Expenditure and Funding Analysis (EFA)** and additional notes to the Core Statements (Notes 5a, 5b and 6) shows how annual expenditure is used and funded from resources (government grants, rents, council tax and non-domestic rates) by Councils in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. |
| **Comprehensive Income and Expenditure Statement (CIES)** shows the cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. It includes the cost of council housing services (HRA). It should be noted that Councils raise taxation to cover expenditure in accordance with various regulations, which may differ from the way it has to be shown in accounting terms in the CIES. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement. | **Housing Revenue Account (HRA)** shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Council charges rents to cover expenditure in accordance with regulations, which may be different from the accounting cost. The surplus or deficit for the year is shown in the Movement on the HRA Balance. |
| **Balance Sheet** shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by reserves held by the Council.<br>There are two types of reserves. There are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve – these can largely only be used to fund capital expenditure or repay debt).<br>In addition, there are significant unusable reserves, which cannot be used to provide services. This includes reserves relating to capital financing adjustments and unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold. | **Collection Fund** reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic (business) rates. |

| Core Statements | Supplementary Financial Statements |
|---|---|
| **Cash flow Statement** shows the changes in cash and cash equivalents of the Council during the year. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows as either operating, investing or financing activities.<br><br>The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future capital cash flows (i.e. borrowing) by the Council. | **Group Accounts** – **T**he Council acquired 100% shareholding in its subsidiary MSDC (Suffolk Holdings) Limited on 9 June 2017 and is required to reflect this in Group Accounts, which are produced in the same format as the statements explained above. |

The 2018/19 Statement of accounts has been prepared on a going concern basis.

## 8. Further Information

The Council publishes a number of important documents to inform the public about the work of the Council. These (including the annual Statement of Accounts and the annual Budget) can be viewed and downloaded via the Council and Finance page of the Council's website: www.midsuffolk.gov.uk

Further information about the accounts is available from the Council's Assistant Director, Corporate Resources:

Katherine Steel CPFA
Mid Suffolk District Council
Endeavour House
8 Russell Road
Ipswich IP1 2BX
Tel: 01449 72480
Email: Katherine.Steel@baberghmidsuffolk.gov.uk

# Statement of Responsibilities for the Statement of Accounts

## The Council's Responsibilities

**The Council is required to:**

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. The designated officer at 31 March 2019 was the Assistant Director, Corporate Resources;

- manage its affairs to secure the economic, efficient and effective use of resources and safeguard its assets; and

- approve the Statement of Accounts.

### The Assistant Director, Corporate Resources Responsibilities

The Assistant Director, Corporate Resources is responsible for the preparation of the Council's Statement of Accounts, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

**In preparing this Statement of Accounts, the Assistant Director, Corporate Resources has:**

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Local Authority Code.

**The Assistant Director, Corporate Resources has also:**

- kept proper accounting records, which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Council at the 31 March 2019 and its income and expenditure for the year then ended.

**Katherine Steel CPFA**
Assistant Director, Corporate Resources
Mid Suffolk District Council

Dated 31 May 2019

# Section 2



## Core Financial Statements

# Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and non-domestic rates) by local authorities in comparison with those resources consumed or earned by Councils in accordance with generally accepted accounting practices. It is not a Core Statement to the Accounts.

It also shows how this expenditure is allocated for decision making purposes between the Council's directorates and services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement (shown on page 17).

The split of the closing General Fund and HRA balances is shown in the Movement in Reserves Statement, in the table below.

| 2017/18 | | | | 2018/19 | | |
|---|---|---|---|---|---|---|
| Net Expenditure Chargeable to General Fund and HRA Balances £'000 | Adjustments between the Funding and Accounting Basis £'000 | Net Expenditure in Comprehensive Income and Expenditure Statement £'000 | | Net Expenditure Chargeable to General Fund and HRA Balances £'000 | Adjustments between the Funding and Accounting Basis £'000 | Net Expenditure in Comprehensive Income and Expenditure Statement £'000 |
| | | | **General Fund** | | | |
| 399 | 244 | 643 | BMS Invest | 579 | 1,872 | 2,451 |
| 255 | 61 | 316 | Economic Development & Regeneration | 387 | 53 | 440 |
| 1,936 | 956 | 2,892 | Corporate Resources | 3,100 | (186) | 2,914 |
| 1,504 | 449 | 1,953 | Customer Services | 1,457 | 429 | 1,886 |
| 2,537 | 1,506 | 4,043 | Env & Comm P'ships | 2,315 | 1,549 | 3,864 |
| 783 | 534 | 1,317 | Housing | 503 | 1,188 | 1,691 |
| 1,033 | 56 | 1,089 | Law & Governance | 1,028 | 58 | 1,086 |
| (1,355) | 300 | (1,055) | Planning for Growth | (5,321) | 375 | (4,946) |
| 769 | 60 | 829 | Senior Leadership Team | 585 | 34 | 619 |
| (1,556) | | (1,556) | Charge to HRA & Capital | (1,393) | | (1,393) |
| (467) | (989) | (1,456) | **HRA** | 466 | (1,767) | (1,301) |
| 5,838 | 3,177 | 9,015 | **Net Cost of Services** | 3,706 | 3,605 | 7,311 |
| (11,245) | 2,232 | (9,013) | Other Income and Expenditure | (11,985) | 1,268 | (10,717) |
| (5,407) | 5,409 | 2 | **(Surplus) Deficit on Provision of Services** | (8,279) | 4,873 | (3,406) |
| (18,171) | | | **Opening General Fund And HRA Balance at 1 April** | (23,576) | | |
| (5,405) | | | **Plus (Surplus) on General Fund And HRA Balance in Year** | (8,279) | | |
| **(23,576)** | | | **Closing General Fund And HRA Balance at 31 March** | **(31,855)** | | |

# Movement in Reserves Statement

The Movement in Reserves Statement, shows the movement during the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'.

The Statement shows how the movements in the year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax or rents for the year.

The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

| | General Fund Balance | Earmarked General Fund Reserves | HRA Balance | Earmarked HRA Reserves | Usable Capital Receipts | Deferred Credits | Total Usable Reserves | Unusable Reserves | Total Authority Reserves |
|---|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Opening Balance at 31 March 2017** | (1,052) | (11,676) | (1,209) | (4,234) | (4,544) | (7) | (22,722) | (98,215) | (120,937) |
| **Movement in reserves during 2017/18** | | | | | | | | | |
| Total Comprehensive Income and Expenditure | (708) | | 710 | | | | 2 | (17,392) | (17,390) |
| Adjustments between accounting basis and funding basis under regulations (Note 7) | (4,231) | | (1,176) | | (2,608) | | (8,015) | 8,015 | - |
| **Net (Increase) / Decrease before Transfers to Earmarked Reserves** | (4,939) | - | (466) | - | (2,608) | - | (8,013) | (9,377) | (17,390) |
| Transfer to/(from) Earmarked Reserves (Note 8) | 4,939 | (4,939) | 466 | (466) | | | - | | - |
| **(Increase)/Decrease in 2017/18** | - | (4,939) | - | (466) | (2,608) | - | (8,013) | (9,377) | (17,390) |
| | | | | | | | | | - |
| **Balance at 31 March 2018 carried forward** | (1,052) | (16,615) | (1,209) | (4,700) | (7,152) | (7) | (30,735) | (107,592) | (138,327) |
| **Movement in reserves during 2018/19** | | | | | | | | | |
| Total Comprehensive Income and Expenditure | (5,111) | | 1,705 | | | | (3,406) | (4,972) | (8,378) |
| Adjustments between accounting basis and funding basis under regulations (Note 7) | (3,633) | | (1,239) | | 2,362 | | (2,510) | 2,510 | - |
| **Net (Increase) / Decrease before Transfers to Earmarked Reserves** | (8,744) | - | 466 | - | 2,362 | - | (5,916) | (2,462) | (8,378) |
| Transfers to / (from) reserves (Note 8) | 8,745 | (8,745) | (466) | 466 | | | - | - | - |
| **(Increase)/Decrease in 2018/19** | 1 | (8,745) | - | 466 | 2,362 | - | (5,916) | (2,462) | (8,378) |
| **Balance at 31 March 2019** | (1,051) | (25,360) | (1,209) | (4,234) | (4,790) | (7) | (36,651) | (110,054) | (146,705) |

# Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation and rents. Councils raise taxation and rents to cover expenditure in accordance with regulations; this may be different from the accounting cost.

The taxation position is shown in both the Expenditure and Funding Analysis (shown on page 15) and the Movement in Reserves Statement (shown on page 16).

| 2017/18 | | | | Note | 2018/19 | | |
|---|---|---|---|---|---|---|---|
| Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 | | | Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 |
| | | | **General Fund** | | | | |
| 684 | (40) | 644 | BMS Invest | | 2,618 | (167) | 2,451 |
| 491 | (175) | 316 | Economic Development & Regeneration | | 586 | (146) | 440 |
| 19,453 | (16,562) | 2,891 | Corporate Resources | | 18,625 | (15,711) | 2,914 |
| 1,963 | (10) | 1,953 | Customer Services | | 1,886 | - | 1,886 |
| 7,367 | (3,324) | 4,043 | Environment & Commercial Partnerships | | 7,766 | (3,902) | 3,864 |
| 1,890 | (572) | 1,318 | Housing | | 1,985 | (294) | 1,691 |
| 1,552 | (464) | 1,088 | Law & Governance | | 1,558 | (472) | 1,086 |
| 2,889 | (3,943) | (1,054) | Planning for Growth | | 3,624 | (8,570) | (4,946) |
| 913 | (84) | 829 | Senior Leadership Team | | 647 | (28) | 619 |
| (1,556) | - | (1,556) | Charge to HRA & Capital | | (1,393) | - | (1,393) |
| 13,903 | (15,359) | (1,456) | **HRA** | | 14,095 | (15,396) | (1,301) |
| 49,549 | (40,533) | 9,016 | **Cost of Services** | | 51,997 | (44,686) | 7,311 |
| 2,021 | - | 2,021 | Other Operating Expenditure | 9 | 3,293 | - | 3,293 |
| 3,500 | (590) | 2,910 | Financing and Investment Income and Expenditure | 10 | 3,862 | (1,712) | 2,150 |
| 6,352 | (20,297) | (13,945) | Taxation and Non-Specific Grant Income and Expenditure | 11 | 14,805 | (30,965) | (16,160) |
| 61,422 | (61,420) | 2 | **(Surplus) on Provision of Services - A** | | 73,957 | (77,363) | (3,406) |
| | | (14,208) | (Surplus) on revaluation of property, plant and equipment assets | 19a | | | (10,386) |
| | | - | Deficit from investments in equity instruments designated at fair value through other comprehensive income | 19g | | | 2,499 |
| | | (3,170) | Remeasurement of the net defined liability/(asset) | 19c | | | 2,916 |
| | | (14) | (Surplus) or Deficit on revaluation of available for sale financial assets | 19f | | | - |
| | | (17,392) | **Other Comprehensive Income and Expenditure - B** | | | | (4,971) |
| | | **(17,390)** | **Total Comprehensive Income and Expenditure (A+B)** | | | | **(8,377)** |

# Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities held by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

Reserves are reported in two categories, usable reserves, (i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use), and unusable reserves that the Council is not able to use to provide services.

The category of unusable reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations.'

The unaudited accounts were issued on 31 May 2019.

| 2017/18 £'000 | | Note | 2018/19 £'000 |
|---|---|---|---|
| 245,972 | Property, Plant and Equipment | 12 | 257,515 |
| 1,292 | Intangible Assets | 13 | 1,012 |
| 1,232 | Long Term Investments | | 1,733 |
| 11,322 | Long Term Debtors | | 43,254 |
| 259,818 | **Long Term Assets** | | 303,514 |
| 9,522 | Short Term Investments | | 10,153 |
| 73 | Inventories | | 45 |
| 6,833 | Short Term Debtors | 15 | 5,404 |
| 2,738 | Cash and Cash Equivalents | 16 | 2,970 |
| 19,166 | **Current Assets** | | 18,572 |
| (29,434) | Short Term Borrowing | 14 | (19,771) |
| (4,690) | Short Term Creditors | 17 | (5,626) |
| (764) | Provisions | 18 | (1,808) |
| (34,888) | **Current Liabilities** | | (27,205) |
| (73,787) | Long Term Borrowing | 14 | (110,939) |
| (3,735) | Capital Grants & Contributions Received in Advance | 26 | (4,232) |
| (28,285) | Defined Benefit Pension Scheme Liability | 32 | (33,005) |
| (105,807) | **Long Term Liabilities** | | (148,176) |
| **138,289** | **Net Assets** | | **146,705** |
| (30,736) | Usable reserves | | (36,651) |
| (107,592) | Unusable reserves | 19 | (110,054) |
| **(138,328)** | **Total Reserves** | | **(146,705)** |

**Katherine Steel CPFA**
Assistant Director, Corporate Resources
Mid Suffolk District Council

Dated 31 May 2019

# Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period.

The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council.

Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery.

Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

| 2017/18 £'000 | | Note | 2018/19 £'000 |
|---|---|---|---|
| 2 | Net (Surplus) or deficit on the provision of services | | (3,406) |
| (10,659) | Adjustments to net surplus or deficit on the provision of services for non-cash movements | 20 | (13,665) |
| 4,714 | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 20 | 2,511 |
| (5,943) | Net cash flows from Operating Activities | | (14,560) |
| 12,804 | Investing Activities | 21 | 41,528 |
| (5,693) | Financing Activities | 22 | (27,200) |
| 1,168 | Net increase or decrease in cash and cash equivalents | | (232) |
| (3,906) | Cash and cash equivalents at the beginning of the reporting period | | (2,738) |
| **(2,738)** | **Cash and cash equivalents at the end of the reporting period** | 16 | **(2,970)** |

# Section 3

## Notes to the Core Financial Statements

# Notes to the Core Financial Statements

## Note 1 - Accounting Standards that Have Been Issued but Have Not Yet Been Adopted

The Council is required to disclose information relating to the impact of accounting changes that will be required by a new standard that has been issued but not yet adopted by the Code.

The standards or changes to be introduced in the 2019/20 Code will be implemented from 1 April 2019, therefore there is no impact on the Council's 2018/19 accounts. They are:

- **Amendments to IAS 40 - Investment Property – Transfers of Investment Property**

  Transfers of Investment Property has been amended to state that an entity shall transfer a property to, or from, Investment Property when, and only when, there is evidence of a change in use. This may have a material impact on the Council's accounts in the future.

The following changes will not materially affect the Council's accounts.

- **Annual Improvements to IFRS Standards 2014-2016 Cycle**
- **IFRIC 22 - Foreign Currency Transactions and Advance Consideration**
- **IFRIC23 - Uncertainty over Income Tax Treatments**
- **IFRS 16 - Leases**

The Code does not anticipate that the above amendments will have an impact on the information provided in the Council's financial statements i.e. there is unlikely to be a change to the reported information in the net cost of services or the Surplus or Deficit on the Provision of Services.

## Note 2a - Changes to Accounting Policies

The Code of Practice on Local Authority Accounting for 2018/19 has been examined and accounting policies have been amended / adjusted as necessary. Changes to International Financial Reporting Standards (IFRS) have been incorporated, specifically IFRS 9 (Impairment of financial instruments) and IFRS 15 (Revenue recognition standard). The full list of Accounting Policies can be found in Note 35.

The main change contained in IFRS 9 is the introduction of a forward-looking expected credit loss (ECL) model replacing an incurred loss model. In summary the standard requires all financial instruments (e.g. loan, investments etc.) to be examined for potential non-payment or credit risk worsening at least on an annual basis.

The new revenue recognition standard in IFRS 15 introduces a single model for income with prescribed steps to identify when control of goods or services passes to the customer together with associated revenue in the contract between the parties. The Council does not have any material revenue streams within the scope of the standard.

## Note 2b - Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 35, the Council has had to make certain judgments about complex transactions or those involving uncertainty about future events.



**Local Government Funding:**

There is a high degree of uncertainty about future levels of funding for Local Government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

**Group Accounts:**

The Council has an interest in other entities which fall within the group boundary of the Council on the grounds of control and significant influence, in line with The Code. The Council's interest in MSDC (Suffolk Holdings) Limited is material to the Council's overall financial position. Therefore, Group Accounts have been prepared to consolidate the Council's interest in the subsidiary.

**Non-Domestic Rates Retention (Business Rates) Pilot:**

The Council entered a Suffolk-wide Non-Domestic rates retention pilot from 1 April 2018. All the Suffolk Districts, Boroughs and County Council were members. This meant that the Council retained 80% of its growth in non-domestic rates income. The governance arrangements set in place for this pilot guaranteed a no detriment position compared with the position that the Council would have been in if it had not entered into this arrangement. This pilot was approved by MHCLG and ended on 31 March 2019.

All financial impacts of events relating to years before 2018/19 are specifically excluded from the potential share of the deficit distributed to Suffolk County Council (20%).

From 1 April 2019 the Suffolk will return to the previous Non-Domestic rates retention pool where the Council retains 40% of its growth.

The Council's accounts as at 31 March 2019 are therefore unaffected by this change to the pooling arrangement as either a result of future changes in our assumptions in closing the 2018/19 Collection Fund, or future decisions of other Councils.

## Note 3 - Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains certain estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Uncertainties | Effect if Actual Results different from Assumptions |
|---|---|
| **Property, Plant and Equipment** | |
| Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. The Depreciation policy is shown in Note 35 at Section O. | If the useful life of assets change, depreciation reduces or increases and the value of the assets shown in the Balance Sheet will increase or decrease accordingly. |
| **Business Rate Appeals** | |
| Since the introduction of the Business Rates Scheme on 1 April 2013, local authorities are liable for successful appeals against Business Rates charged to businesses in 2017/18 and previous financial years. A provision has therefore been made for this based on the valuation office ratings list of appeals and an analysis of successful appeals to date.<br><br>Appeals which arose before 31 March 2015 can be backdated to the 2010 rating list, and the provision reflects the estimated outcome of those. Any further appeals, made since 1 April 2015, will only be effective from that date.<br><br>Following the 2017 revaluation a Check, Challenge and Appeal process was introduced. In 2018/19 there have been 88 checks and 9 challenges lodged, so the impact of this is highly uncertain. A provision has been made for the estimated success of future appeals losses for the period ending 31 March 2019. | This provision is difficult to estimate as the number of successful appeals is unknown, as is the number of businesses likely to appeal against their change in business rates. If underestimated there will be higher write off costs than provided for and this will therefore reduce the income within the Collection Fund. |

| Uncertainties | Effect if Actual Results different from Assumptions |
|---|---|
| **Fair Value Measurements** | |
| When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques.<br><br>Where possible the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities.<br><br>Where Level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (e.g. interest rates or yields for similar instruments).<br><br>Information about the valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in Note 14. | Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties and financial assets. The risks associated with financial instruments are documented in Note 34. |
| **Pensions Liability** | |
| Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages and mortality rates and expected returns on pension fund assets. Hymans Robertson LLP is engaged to provide the Council with expert advice about the assumptions to be applied.<br><br>Further information can be found in Note 32. | During 2018/19 the Council's actuaries advised that the net pensions liability had increased by £4.72m.<br><br>Further sensitivity analysis on pension liabilities are in Note 32. |

## Note 4 – Events after the Reporting Period

The unaudited Statement of Accounts was authorised for issue by the Assistant Director, Corporate Resources (the Council's Section 151 Officer) on 31 May 2019.

Events taking place after this date are not reflected in the Statement of Accounts or notes. Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

**Local Government Pension Scheme**

In 2015 the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes in 2015. In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the judicial scheme, as part of the reforms, amounted to unlawful discrimination with regards to age discrimination. This ruling has implications for the Local Government Pension Scheme (LGPS), in relation to the judgement in the McCloud case.

The final position in terms of employer pension liabilities and a financial impact was not clear at 31 March 2019. Since then, a legal ruling was issued by the Supreme Court on 27 June 2019 which rejected the Governments appeal.

Further details can be seen in Notes 32 and Note 33 of the Core Statements.

## Note 5a – Note to the Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to the Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

| 2018/19 | Adjustments Between Accounting Basis and Funding Basis | | | |
|---|---|---|---|---|
| **Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts** | **Adjustments for Capital Purposes (Note A)** | **Net Change for the Pensions Adjustments (Note B)** | **Other Statutory and Non Statutory Differences (Note C)** | **Total Adjustments** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **General Fund** | | | | |
| BMS Invest | 1,848 | 24 | - | 1,872 |
| Economic Development & Regeneration | - | 53 | - | 53 |
| Corporate Resources | (589) | (213) | 630 | (172) |
| Customer Services | 429 | - | - | 429 |
| Environment & Commercial Partnerships | 1,087 | 462 | - | 1,549 |
| Housing | 1,112 | 76 | - | 1,188 |
| Law & Governance | - | 58 | - | 58 |
| Planning for Growth | 45 | 330 | - | 375 |
| Senior Leadership Team | - | 34 | - | 34 |
| **HRA** | **6,261** | **235** | **(8,366)** | **(1,870)** |
| **Net Cost of Services** | **10,193** | **1,059** | **(7,736)** | **3,516** |
| Other Income and Expenditure from the Expenditure and Funding Analysis | 742 | 745 | (129) | 1,358 |
| **Difference between General Fund and HRA (Surpluses) / Deficits and Comprehensive Income and Expenditure Statement (Surplus) or Deficit on the Provision of Services** | **10,935** | **1,804** | **(7,865)** | **4,874** |

## Note 5a - Note to the Expenditure and Funding Analysis (Continued)

| 2017/18 | Adjustments Between Accounting Basis and Funding Basis | | | |
|---|---|---|---|---|
| **Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts** | **Adjustments for Capital Purposes (Note A)** | **Net Change for the Pensions Adjustments (Note B)** | **Other Statutory and Non Statutory Differences (Note C)** | **Total Adjustments** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **General Fund** | | | | |
| BMS Invest | 244 | - | - | 244 |
| Economic Development & Regeneration | - | 61 | - | 61 |
| Corporate Resources | (463) | (455) | 1,874 | 956 |
| Customer Services | 449 | - | - | 449 |
| Env & Comm P'ships | 1,018 | 488 | - | 1,506 |
| Housing | 470 | 64 | - | 534 |
| Law & Governance | - | 56 | - | 56 |
| Planning for Growth | (24) | 324 | - | 300 |
| Senior Leadership Team | - | 60 | - | 60 |
| **HRA** | **7,018** | **298** | **(8,305)** | **(989)** |
| **Net Cost of Services** | **8,712** | **896** | **(6,431)** | **3,177** |
| Other Income and Expenditure from the Expenditure and Funding Analysis | (377) | 753 | 1,856 | 2,232 |
| **Difference between General Fund and HRA (Surpluses) / Deficits and Comprehensive Income and Expenditure Statement (Surplus) or Deficit on the Provision of Services** | **8,335** | **1,649** | **(4,575)** | **5,409** |

## Explanation of the major adjusting items

### A - Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- **Other Operating Expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and Investment Income and Expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and Non-Specific Grant Income and Expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

### B - Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For Services** this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service costs.
- **For Financing and Investment Income and Expenditure** –- the net interest on the defined benefit liability is charged to the CIES.

### C - Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- **For Financing and Investment Income and Expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under **Taxation and Non-Specific Grant Income and Expenditure** represents the difference between what is chargeable under statutory regulations for council tax and non-domestic rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

## Note 5b – Segmental Income

Income received on a segmental basis, as included in the Expenditure & Funding Analysis, is analysed in this table.

The segments are based on the Council's management structure.

| Services | 2018/19 Income from Services £'000 | 2017/18 Income from Services £'000 |
|---|---|---|
| | | Restated |
| **General Fund** | | |
| BMS Invest | (167) | (40) |
| Economic Development & Regeneration | (146) | (175) |
| Corporate Resources | (18,164) | (16,878) |
| Customer Services | - | (10) |
| Environment & Commercial Partnerships | (3,902) | (3,323) |
| Housing | (294) | (572) |
| Law & Governance | (472) | (464) |
| Planning for Growth | (8,583) | (3,945) |
| Senior Leadership Team | (28) | (84) |
| Charge to HRA & Capital | | |
| **HRA** | **(15,145)** | **(15,145)** |
| **Total income analysed on a segmental basis** | **(46,901)** | **(40,636)** |

## Note 6 – Expenditure and Income Analysed by Nature

This note shows how the Council's expenditure and income is analysed by nature:

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Expenditure** | | |
| Employee benefits expenses | 12,735 | 12,284 |
| Other services expenses | 43,825 | 35,311 |
| Support service recharges | (271) | (336) |
| Depreciation, amortisation, impairment | 11,258 | 9,395 |
| Interest payments | 3,117 | 2,747 |
| Precepts and levies | 2,552 | 2,398 |
| Payments to Housing Capital Receipts Pool | 315 | 315 |
| (Gain)/Loss on the disposal of assets | 427 | (692) |
| **Total Expenditure** | 73,958 | **61,422** |
| **Income** | | |
| Fees, charges and other service income | (29,538) | (24,253) |
| Interest and investment income | (1,712) | (590) |
| Income from Council Tax & Non Domestic Rates | (27,057) | (16,398) |
| Government grants and contributions | (19,055) | (20,179) |
| **Total Income** | **(77,362)** | **(61,420)** |
| **(Surplus) / Deficit on Provision of Services** | **(3,404)** | **2** |

## Note 7 - Adjustments between Accounting Basis and Funding Basis under Regulations

The following analysis sets out the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

The following sets out a description of the reserves that the adjustments are made against.

### General Fund Balance

The General Fund is the statutory fund into which all the receipts of a Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. This balance is not available to be applied to funding HRA services.



### Housing Revenue Account Balance

The Housing Revenue Account (HRA) Balance reflects the statutory obligation to maintain a revenue account for Council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

### Major Repairs Reserve

The Council is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

### Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

# Note 7 - Adjustments between Accounting Basis and Funding Basis under Regulations

| 2017/18 General Fund Balance £'000 | 2017/18 HRA Balance £'000 | 2017/18 Major Repairs Reserve £'000 | 2017/18 Capital Receipts Reserve £'000 | 2017/18 Movement in Unusable Reserves £'000 | | 2018/19 General Fund Balance £'000 | 2018/19 HRA Balance £'000 | 2018/19 Major Repairs Reserve £'000 | 2018/19 Capital Receipts Reserve £'000 | 2018/19 Movement in Unusable Reserves £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | **Adjustments Involving the Capital Adjustment Account: Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | | |
| (1,720) | (7,185) | - | - | 8,905 | Charges for depreciation and impairment of non current assets | (4,115) | (6,455) | | - | 10,570 |
| - | 3,442 | (3,442) | - | - | Transfer HRA/MRR | | 3,761 | (3,761) | | - |
| | | | | | Impairment allowance on Loans | (211) | | | | 211 |
| (437) | (53) | - | - | 490 | Amortisation of intangible assets | (405) | (72) | - | - | 477 |
| 513 | 220 | - | - | (733) | Capital grants and contributions that have been applied to capital financing (Note 19b) | 854 | 47 | - | - | (901) |
| (707) | - | - | - | 707 | Revenue expenditure funded from capital under statute (Note 19b) | (898) | - | - | - | 898 |
| (45) | (3,312) | - | - | 3,357 | Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (254) | (1,529) | - | - | 1,783 |
| | | | | | **Items not debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | | |
| 657 | - | - | - | (657) | Statutory provision for the financing of capital investment | 844 | - | - | 53 | (897) |
| 19 | 2,193 | - | - | (2,212) | Capital expenditure charged against the General Fund and HRA balances | 1,940 | 1,915 | - | - | (3,855) |
| | | | | | **Adjustments involving the Capital Receipts Reserve:** | | | | | |
| - | 3,994 | - | (3,994) | - | Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | - | 1,350 | - | (1,350) | - |
| 55 | - | - | 1,071 | (1,126) | Use of the Capital Receipts Reserve to finance new capital expenditure (Note 19b) | 6 | - | - | 3,401 | (3,407) |
| (315) | - | - | 315 | - | Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | (315) | - | - | 315 | - |
| | | | | - | Loans repaid | | | | (57) | 57 |

## Note 7 - Adjustments between Accounting Basis and Funding Basis under Regulations

| 2017/18 General Fund Balance £'000 | 2017/18 HRA Balance £'000 | 2017/18 Major Repairs Reserve £'000 | 2017/18 Capital Receipts Reserve £'000 | 2017/18 Movement in Unusable Reserves £'000 | | 2018/19 General Fund Balance £'000 | 2018/19 HRA Balance £'000 | 2018/19 Major Repairs Reserve £'000 | 2018/19 Capital Receipts Reserve £'000 | 2018/19 Movement in Unusable Reserves £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | **Adjustments involving the Major Repairs Reserve:** | | | | | |
| - | - | 3,442 | - | (3,442) | Use of the Major Repairs Reserve to finance new capital expenditure | - | - | 3,761 | - | (3,761) |
| | | | | | **Adjustments involving the Capital Grants Unapplied Account:** | | | | | |
| | | | | | Reversal of unapplied capital grants and contributions credited to the Comprehensive Income and Expenditure Statement | - | 217 | - | - | (217) |
| | | | | - | **Adjustments involving the Pensions Reserve:** | | | | | - |
| (2,786) | (994) | - | - | 3,780 | Reversal of items relating to post employment benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement (Note 19c) | (3,290) | (1,010) | - | - | 4,300 |
| 1,585 | 546 | - | - | (2,131) | Employer's pensions contributions and direct payments to pensioners payable in the year (Note 19c) | 1,869 | 627 | - | - | (2,496) |
| | | | | | **Adjustments involving the Collection Fund Adjustment Account:** | | | | | - |
| (1,024) | - | - | - | 1,024 | Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements | 228 | - | - | - | (228) |
| | | | | | **Adjustment involving the Accumulating Compensated Absences Adjustment Account** | | | | | |
| (26) | (27) | - | - | 53 | Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 11 | 11 | - | - | (22) |
| **(4,231)** | **(1,176)** | **-** | **(2,608)** | **8,015** | **Total Adjustments** | **(3,736)** | **(1,138)** | **-** | **2,362** | **2,512** |

# Note 8 - Transfers to / from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and Housing Revenue Account (HRA) balances in earmarked reserves to provide financing for future expenditure plans and the amounts transferred from earmarked reserves to meet General Fund and HRA expenditure in 2018/19.

| | Balance 31 March 2017 £'000 | Transfers 2017/18 Intra £'000 | Transfers 2017/18 Out £'000 | Transfers 2017/18 In £'000 | Balance 31 March 2018 £'000 | Transfers 2018/19 Intra £'000 | Transfers 2018/19 Out £'000 | Transfers 2018/19 In £'000 | Balance 31 March 2019 £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **General Fund** | | | | | | | | | |
| Carry Forwards | (314) | - | 314 | (263) | (263) | - | 262 | (85) | (86) |
| Growth and Efficiency Fund | (8,238) | (16) | 1,564 | (2,628) | (9,318) | 17 | 3,365 | (3,069) | (9,005) |
| Commercial Development Risk Reserve | - | - | - | - | - | - | - | (500) | (500) |
| Business Rates Equalisation Reserve | (639) | - | - | (1,348) | (1,987) | (204) | 957 | (1,730) | (2,964) |
| Business Rates Retention Pilot | - | | | | - | - | 242 | (1,256) | (1,014) |
| Government Grants | (93) | - | 1 | (112) | (204) | - | 23 | (33) | (214) |
| Homelessness | (157) | - | - | (203) | (360) | - | - | (3) | (363) |
| Temporary Accommodation | (46) | - | - | - | (46) | - | - | (72) | (118) |
| Welfare Benefits Reform | (211) | - | - | - | (211) | 204 | - | - | (7) |
| Commuted Maintenance Payments | (328) | - | 36 | (19) | (311) | | 80 | (544) | (775) |
| Community Infrastructure Levy (CIL) | (412) | - | - | (2,062) | (2,474) | | 173 | (6,232) | (8,533) |
| Growth & Sustainable Planning | (351) | - | - | - | (351) | - | - | - | (351) |
| Planning (Legal) | - | - | - | (155) | (155) | - | - | - | (155) |
| Strategic Planning | (301) | - | 4 | (53) | (350) | (17) | 61 | (34) | (340) |
| Joint Local Plan | - | - | - | - | - | - | - | (224) | (224) |
| Elections Fund | (48) | - | - | (15) | (63) | - | - | (20) | (83) |
| Elections Equipment | - | - | - | - | - | - | - | (35) | (35) |
| Planning Enforcement | (20) | - | - | - | (20) | - | - | (25) | (45) |
| Revocation of Personal Search Fees | (50) | - | - | - | (50) | - | - | - | (50) |
| Repairs and Renewals | (292) | - | - | - | (292) | - | - | - | (292) |
| Waste | (176) | 16 | - | - | (160) | - | - | (46) | (206) |
| **Total General Fund** | **(11,676)** | **-** | **1,919** | **(6,858)** | **(16,615)** | **-** | **5,163** | **(13,908)** | **(25,360)** |
| **Housing** | | | | | | | | | |
| Strategic Priorities | (4,233) | - | - | (466) | (4,699) | - | 495 | - | (4,204) |
| IDEA Grant | - | - | - | - | - | - | - | (20) | (20) |
| Leaseholder Repairs | - | - | - | - | - | - | - | (8) | (8) |
| **Total Housing** | **(4,233)** | **-** | **-** | **(466)** | **(4,699)** | **-** | **495** | **(28)** | **(4,232)** |
| **Other** | | | | | | | | | |
| Deferred Credits | (7) | - | - | - | (7) | - | - | - | (7) |
| Major Repiars | - | - | 3,442 | (3,442) | - | - | 3,761 | (3,761) | - |
| GF Capital Receipts | - | - | 55 | (55) | - | - | 59 | (63) | (4) |
| HRA Capital Receipts | (4,544) | - | 3,533 | (6,151) | (7,162) | - | 4,544 | (2,168) | (4,786) |
| | | | | | - | | | | |
| **Total Other** | **(4,551)** | **-** | **7,030** | **(9,648)** | **(7,169)** | **-** | **8,364** | **(5,992)** | **(4,797)** |
| **Total Earmarked Reserves** | **(20,460)** | **-** | **8,949** | **(16,972)** | **(28,483)** | **-** | **14,022** | **(19,928)** | **(34,389)** |

## Note 8 - Transfers to / from Earmarked Reserves (Continued)

The earmarked reserves detailed in the table above have been created for the following purposes:

**General Fund**

### Carry Forwards
Agreed budget under spends in the current year to be spent in the following financial year.

### Transformation Fund
This fund was created during 2013/14 to meet part of the costs of the resources that are attributable to transformation and provide ongoing investment. This is to meet costs for developing programmes and projects and detailed business cases for investment. It will be allocated to projects and programmes of activity that demonstrate viable business cases and returns on investment in terms of savings, generating income or improved outcomes in line with the strategic priorities.

### Non-Domestic Rates Equalisation
Established in 2013/14, as a result of the huge change in the basis of funding for the new rates retention scheme as well as the impact of the Suffolk pooling arrangements. Will be used to neutralise the impact of any year on year fluctuations in growth or reduction of business rate income.

### Business Rates Retention Pilot
Following the 100% retention business rates pilot in 2018/19, a new reserve has been established to support a number of projects, both Capital and Revenue.

### Government Grants
A reserve established for grants committed to future budgeted expenditure.

### Homelessness
Previously part of Government Grants, this reserve has been established to help facilitate the many implications arising from the new homeless legislation, the most significant being new prevention duties.

### Welfare Benefit Reform
A fund established to help meet the costs of delivering the requirements of the Welfare Reform Act which started to come into effect in April 2013.

### Commuted Maintenance Payments
A fund to help meet revenue expenditure requirements for the maintenance of bridges, open spaces and other amenities that comply with the provisions of a S106 agreement with a developer. It should be noted that additional S106 monies are held within capital receipts in advance for use on capital schemes such as play areas and affordable housing.

### Community Infrastructure Levy (CIL)
A reserve established in April 2016 following the introduction of CIL. Its aim is to fund infrastructure to support development within the area.

### Growth and Sustainable Planning
This reserve has been established to support the anticipated increase in planning applications where additional resources may be required e.g. staffing.

### Planning (Legal)
Due to its unpredictable nature, Planning (Legal) was established to ensure that the core budget remains stable utilising the reserve to smooth year on year changes.

### Strategic Planning
A reserve established for Strategic Planning related grants that are committed to future budgeted expenditure. For example, the Community Housing Fund and Custom Build grants.

## General Fund

### Joint Local Plan
This reserve has been established to ensure that the core budget for the Joint Local Plan remains stable utilising the reserve to smooth year on year changes.

### Elections Fund
To balance out expenditure on district elections held every four years. Annual contributions spread the expenditure equally year on year.

### Elections Equipment
Established to enable the purchase of specific equipment on an ad hoc basis to support elections e.g. polling booths

### Planning Enforcement
A reserve established to fund any future legal costs.



### Revocation of Personal Search Fees
This reserve was established in 2010/11 to cover both restitutionary claims and loss of fees foregone, payable in future years.

### Repairs and Renewals
Funds built up through contributions from revenue for the purpose of renewing assets currently in use in various service areas.

### Temporary Accommodation (formerly Eric Jones House)
Established to fund the renewals of furnishing and kitchen fittings at all temporary accommodation establishments.

### Waste
Established to smooth year on year changes such as the cost of materials recycling within the Waste Service, so that the core budget can remain stable.

### Commercial Development Risk Reserve
Established to mitigate against future risks associated with the level of commercial investment and development that the Council has or will be investing in

## HRA

### Strategic Priorities
A reserve established to help meet future HRA spending priorities.

### IDEA Grant
A reserve established to support the Council's new build development project utilising the grant received in 2018/19 from the "Improvement and Development Agency for Local Government".

### Leaseholder Repairs
Established to provide capital repairs for leasehold tenants.

## Other Reserves

### Major Repairs
Is credited with the notional major repairs allowance pending its use to finance capital expenditure on Council dwellings.

### GF Capital Receipts
This reserve was established in 2017/18 for the proceeds of sale from General Fund assets and will be utilised in future years to fund Capital expenditure.

### HRA Capital Receipts
This reserve was established in 2012/13 for HRA Right to Buy Capital Receipts which can only be spent on providing new housing provision (known as 1-4-1 replacement).

## Note 9 - Other Operating Expenditure

Other operating expenditure reported includes all levies payable, total payments made to the Government Housing Receipts Pool in line with statutory arrangements for certain property sales within the Housing Revenue Account and gains/losses generated from in year disposals of non-current assets.

| Comprehensive Income and Expenditure Statement<br>Other Operating Expenditure | 2018/19<br>£'000 | 2017/18<br>£'000 |
|---|---|---|
| Parish council precepts | 2,552 | 2,398 |
| Payments to the Government Housing Capital Receipts Pool | 315 | 315 |
| (Gains) / Losses on the disposal of non current assets | 427 | (692) |
| **Total** | **3,294** | **2,021** |

## Note 10 - Financing and Investment Income and Expenditure

Financing and investment income and expenditure includes interest receivable and payable on the Council's investment portfolio.

The Council's net rental income on the properties it holds purely for investment purposes is also included. It also includes the interest element of the pension fund liability.

| | 2018/19<br>£'000 | 2017/18<br>£'000 |
|---|---|---|
| Interest payable and similar charges | 3,117 | 2,747 |
| Net interest on the net defined benefit liability | 745 | 753 |
| Interest receivable and similar income | (1,770) | (590) |
| Impairment of Financial Instruments | 58 | - |
| **Total** | **2,150** | **2,910** |



## Note 11 - Taxation and Non-Specific Grant Income and Expenditure

This note consolidates all non-specific grants and contributions receivable that cannot be directly attributable to service expenditure and therefore not included in the gross income amount relevant to the service area.

All capital grants and contributions are credited to non-specific grant income even if service specific.

The note also identifies the Council's proportion of council tax and non-domestic rates used to fund in year service activities. The large increases for non-domestic rates is due to membership of the Suffolk 100% rates retention pilot in 2018/19.

| | 2018/19<br>£'000 | 2017/18<br>£'000 |
|---|---|---|
| Council Tax Income | (8,504) | (8,258) |
| Non-domestic rates income | (20,871) | (9,173) |
| Non-domestic rates Tariff payment to Central government | 14,805 | 6,352 |
| Non-ring-fenced government grants | (1,501) | (2,814) |
| Capital grants and contributions | (89) | (52) |
| **Total Grants** | (16,160) | (13,945) |

## Note 12 - Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment

| Cost or Valuation<br>2018/19<br>Movements on Balances | Council Dwellings £'000 | Other Land and Buildings £'000 | Vehicles, Plant & Equipment £'000 | Community Assets £'000 | Surplus Assets £'000 | Assets Under Construction £'000 | Total Property, Plant and Equipment £'000 |
|---|---|---|---|---|---|---|---|
| **At 1 April 2018** | **215,845** | **22,737** | **9,532** | **1,286** | **-** | **711** | **250,111** |
| Additions | 7,692 | 2,992 | 201 | - | - | 2,630 | 13,515 |
| Revaluation increases / (decreases) recognised in the Revaluation Reserve | 5,000 | 1,473 | - | - | - | - | 6,473 |
| Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services | (3,197) | (2,756) | - | - | - | - | (5,953) |
| Derecognition - Disposals | (934) | (846) | (195) | - | - | (5) | (1,980) |
| Assets reclassified | - | (5,281) | - | (139) | 5,420 | - | - |
| Other movements in Cost or Valuation | 504 | - | - | - | - | (504) | - |
| **At 31 March 2019** | **224,910** | **18,319** | **9,538** | **1,147** | **5,420** | **2,832** | **262,166** |

| Accumulated Depreciation and Impairment<br>2018/19<br>Movements on Balances | Council Dwellings £'000 | Other Land and Buildings £'000 | Vehicles, Plant & Equipment £'000 | Community Assets £'000 | Surplus Assets £'000 | Assets Under Construction £'000 | Total Property, Plant and Equipment £'000 |
|---|---|---|---|---|---|---|---|
| **At 1 April 2018** | **(7)** | **(4)** | **(4,045)** | **(81)** | **-** | **-** | **(4,137)** |
| Depreciation charge | (3,630) | (854) | (696) | (6) | - | - | (5,186) |
| Depreciation written out to the Revalution Reserve | 3,279 | 635 | - | - | - | - | 3,914 |
| Depreciation written out to the Surplus / Defecit on the Provision of Services | 350 | 219 | - | - | - | - | 569 |
| Derecognition - disposals | 6 | - | 184 | - | - | - | 190 |
| Other movements in depreciation and impairment | - | 2 | - | - | - | - | 2 |
| **At 31 March 2019** | **(2)** | **(2)** | **(4,557)** | **(87)** | **-** | **-** | **(4,648)** |
| Net Book Value | | | | | | | |
| **At 31 March 2019** | **224,908** | **18,317** | **4,981** | **1,060** | **5,420** | **2,832** | **257,518** |

## Note 12 - Property, Plant and Equipment

| Cost or Valuation<br>2017/18<br>Movements on Balances | Council Dwellings £'000 | Other Land and Buildings £'000 | Vehicles, Plant & Equipment £'000 | Community Assets £'000 | Surplus Assets £'000 | Assets Under Construction £'000 | Total Property, Plant and Equipment £'000 |
|---|---|---|---|---|---|---|---|
| **At 1 April 2017** | **204,871** | **22,197** | **9,714** | **1,287** | **300** | **1,706** | **240,075** |
| Reclassifications | | | | | | | - |
| Additions | 5,005 | 564 | 549 | - | - | 1,979 | 8,097 |
| Revaluation increases / (decreases) recognised in the Revaluation Reserve | 9,974 | 834 | - | - | - | - | 10,808 |
| Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services | (4,178) | (581) | - | - | - | - | (4,759) |
| Derecognition - Disposals | (2,991) | (341) | (778) | - | - | - | (4,110) |
| Assets reclassified | 72 | 228 | 47 | (1) | (300) | | 46 |
| Other movements in Cost or Valuation | 3,092 | (164) | - | - | - | (2,974) | (46) |
| **At 31 March 2018** | **215,845** | **22,737** | **9,532** | **1,286** | **-** | **711** | **250,111** |

| Accumulated Depreciation and Impairment<br>2017/18<br>Movements on Balances | Council Dwellings £'000 | Other Land and Buildings £'000 | Vehicles, Plant & Equipment £'000 | Community Assets £'000 | Surplus Assets £'000 | Assets Under Construction £'000 | Total Property, Plant and Equipment £'000 |
|---|---|---|---|---|---|---|---|
| **At 31 March 2017** | **(2)** | **(40)** | **(4,028)** | **(76)** | **-** | **-** | **(4,146)** |
| Depreciation charge | (3,345) | (773) | (711) | (6) | - | - | **(4,835)** |
| Impairment Losses / (reversals) recognised in the Revaluation Reserve | 2,840 | 560 | - | - | - | - | **3,400** |
| Impairment Losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services | 480 | 210 | - | - | - | - | **690** |
| Derecognition - disposals | 20 | - | 733 | - | - | - | **753** |
| Other movements in depreciation and impairment | - | 39 | (39) | 1 | - | - | **1** |
| **At 31 March 2018** | (7) | (4) | (4,045) | (81) | - | - | **(4,137)** |
| | | | | | | | |
| Net Book Value | | | | | | | |
| **At 31 March 2018** | **215,838** | **22,733** | **5,487** | **1,205** | **-** | **711** | **245,974** |

### Capital Commitments

At 31 March 2019, the Council has entered into a number of contracts for the purchase, construction or enhancement of Property, Plant and Equipment in 2018/19 and future years budgeted to cost £5,370k. Similar commitments at 31 March 2018 were £2,396k. The major commitments are:

| 2018/19 amounts | £'000 |
|---|---|
| Regal Theatre Regeneration | 2,575 |
| New Build of Council Dwellings / Social Housing | 1,995 |
| Electric Vehicle Charging Points | 236 |
| Disabled Facilities Grant | 215 |
| HRA Planned Maintenance and other works | 199 |
| Community Fund Projects Grants | 150 |
| **Total Commitments** | **5,370** |

### Revaluations

Valuations are carried out by the Valuation Office and, for land and buildings, are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

Under IAS 16 the Council is required to revalue its assets at 5 yearly intervals, or sooner where there is a material change in any year. An annual impairment review is also carried out. The Valuation Office carried out a desk top valuation of both Housing Revenue Account and General Fund properties at 31 March 2019.

The next full valuation for Housing Revenue Account properties is due on 31 March 2021 and for General Fund Properties on 1 April 2020.

| Carried at Historical Cost | Council Dwellings £'000 | Other Land and Buildings £'000 | Vehicles, Plant & Equipment £'000 | Community Assets £'000 | Surplus Assets £'000 | Assets Under Construction £'000 | Total Property, Plant and Equipment £'000 |
|---|---|---|---|---|---|---|---|
| Carried at Historical Cost | - | 189 | 9,510 | 1,147 | - | 2,832 | 13,678 |
| Fair Value as at: | | | | | | | |
| 31 March 2019 | 224,910 | 18,130 | - | - | 5,420 | - | 248,460 |
| 31 March 2018 | | | | | | | - |
| Prior 2015 | - | - | 28 | - | - | - | 28 |
| **Total Cost or Valuation** | **224,910** | **18,319** | **9,538** | **1,147** | **5,420** | **2,832** | **262,166** |

## Note 13 - Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include purchased licenses and specialist stock condition data for Housing Revenue Account properties.

All software is assigned a finite useful life of five years, based on an assessment of the period that the software is expected to be of use to the Council. The carrying amount of intangible assets is amortised on a straight line basis.

The amortisation charged to revenue in the year was charged to the ICT Administration cost centre.

| **The movement on Intangible Asset balances during the year :** | **2018/19** | **2017/18** |
|---|---|---|
| | **£'000** | **£'000** |
| **Balance at start of year:** | | |
| Gross carrying amount | 3,791 | 3,241 |
| Accumulated amortisation | (2,499) | (2,008) |
| Net carrying amount at start of year | 1,292 | 1,233 |
| Additions: | | |
| Purchases | 197 | 550 |
| Amortisation for the period | (477) | (491) |
| **Net carrying amount at end of year** | **1,012** | **1,292** |
| **Comprising:** | | |
| Gross carrying amount | 3,988 | 3,791 |
| Accumulated amortisation | (2,976) | (2,499) |
| | **1,012** | **1,292** |

# Note 14 - Financial Instruments

## A - Financial Instruments - Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

### Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

The Council's non-derivative financial liabilities held during the year are measured at amortised cost and comprised:

- long-term loans from the Public Works Loan Board and commercial lenders
- short-term loans from other local authorities
- trade payables for goods and services received



### Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. The financial assets held by the Council during the year are held under the following classifications.

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising:

- cash in hand
- bank current and deposit accounts with Lloyds bank
- loans to small companies and housing associations
- trade receivables for goods and services delivered

Fair value through other comprehensive income (where cash flows are solely payments of principal and interest and the Council's business model is to both collect those cash flows and sell the instrument; and equity investments that the Council has elected into this category) comprising:

- pooled equity, property and mutli asset funds managed by Schroders, CCLA and UBS fund managers held as strategic investments.
- equity investments in BDC (Suffolk Holdings) Ltd held for service purposes

Fair value through profit and loss (all other financial assets) comprising:

- money market funds managed by Federated fund managers

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council.

## B - Financial Instruments - Balances

The financial liabilities included in the Balance Sheet are analysed across the following categories:

The total short-term borrowing includes £1348k (2018 was £300k) representing accrued interest and principal repayments due within 12 months on long-term borrowing.

| Financial Liabilities | Long Term | | Short Term | |
|---|---|---|---|---|
| | 2018/19 £000s | 2018/19 £000s | 2017/18 £000s | 2017/18 £000s |
| **Loans at amortised cost:** | | | | |
| Principal sum borrowed | 112,287 | 73,787 | 18,000 | 29,300 |
| Accrued interest | 414 | 130 | 11 | 6 |
| **Total Borrowing** | 112,701 | **73,917** | 18,011 | **29,306** |
| **Liabilities at amortised cost** | | | | |
| Trade payables | | - | 3,368 | 1,877 |
| **Included in Creditors** | - | - | 3,368 | **1,877** |
| **Total Financial Liabilities** | 112,701 | **73,917** | 21,379 | **31,183** |

The financial assets included in the Balance Sheet are analysed across the following categories.

The categories include:

FVOCI – Fair Value through Other Income and Expenditure

| Financial Assets | Long Term | | Short Term | |
|---|---|---|---|---|
| | 2018/19 £000s | 2018/19 £000s | 2017/18 £000s | 2017/18 £000s |
| **Loans and receivables:** | | | | |
| Principal at amortised cost | 38,033 | 11,324 | 383 | 660 |
| Accrued interest | 723 | 86 | 16 | 19 |
| Loss allowance | (211) | - | (18) | - |
| **At fair value through other comprehensive income:** | | | | |
| Principal at amortised cost | - | - | 9,000 | 9,000 |
| Accrued interest | - | - | 103 | 77 |
| Equity investments elected FVOCI | 398 | - | - | - |
| At fair value through profit & loss | - | 1,232 | - | - |
| **Total Investments** | **38,943** | **12,642** | **9,484** | **9,756** |
| **Loans and receivables:** | | | | |
| Cash (including bank accounts) | - | - | 2,970 | 2,738 |
| **Total Cash and Cash Equivalents** | - | - | 2,970 | **2,738** |
| **Loans and receivables:** | | | | |
| Trade receivables | 5,432 | 38 | 1,609 | 2,482 |
| **Included in Debtors** | **5,432** | **38** | **1,609** | **2,482** |
| **Total Financial Assets** | **44,375** | **12,680** | **14,063** | **14,976** |

## C - Financial Instruments - Gains and Losses

The Council has elected to account for the following investments in equity instruments at fair value through other comprehensive income because they are long-term strategic holdings and changes in their fair value are not considered to be part of the Council's annual financial performance.

The reduction in fair value is due to the impairment of the investment properties held by MSDC (Suffolk Holdings) Ltd.

| | Fair Value | | Dividends | |
|---|---|---|---|---|
| | 2018/19 £000s | 2017/18 £000's | 2018/19 £000s | 2017/18 £000's |
| CCLA | 4,927 | 4,851 | 208 | 224 |
| UBS | 1,896 | 1,920 | 82 | 375 |
| Schroder | 1,876 | 1,927 | 144 | 137 |
| MSDC (Suffolk Holdings) Ltd | 398 | 1,232 | - | - |
| **Total** | **9,097** | **9,930** | **434** | **736** |

## D - Financial Instruments - Fair Values

Financial assets and liabilities are set off against each other where the Council has a legally enforceable right to set off and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The table below shows those instruments that have been offset on the balance sheet

| | 2018/19 | | | 2017/18 | | |
|---|---|---|---|---|---|---|
| | Gross assets (liabilities) £000's | (Liabilities) assets set off £000's | Net position on Balance sheet £000's | Gross assets (liabilities) £000's | (Liabilities) assets set off £000's | Net position on Balance sheet £000's |
| Bank accounts in credit | 1,480 | - | 1,480 | 894 | - | 894 |
| **Total Financial assets** | **1,480** | **-** | **1,480** | **894** | **-** | **894** |

## E - Financial Instruments - Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following:

| | Financial Liabilities Amortised Cost £000s | Financial Assets | | | | 2018/19 Total £000s | 2017/18 Total £000s |
|---|---|---|---|---|---|---|---|
| | | Amortised Cost £000s | Fair Value through OCI £000s | Elected to Fair Value through OCI £000s | Fair Value through Profit & Loss £000s | | |
| Interest expense | 3,117 | - | - | - | - | 3,117 | 2,747 |
| Impairment losses | - | (211) | - | - | - | (211) | - |
| Fees paid | 45 | - | - | - | - | 45 | 26 |
| **Interest payable and similar charges** | 3,162 | (211) | - | - | - | 2,951 | 2,773 |
| Interest income | - | (24) | (469) | (1,250) | (33) | (1,776) | (537) |
| **Interest and investment income** | - | (24) | (469) | (1,250) | (33) | (1,776) | (537) |
| **Net impact or surplus/deficit on provision of services** | 3,162 | (235) | (469) | (1,250) | (33) | 1,175 | 2,236 |
| Gains on revluation | - | - | (75) | - | - | (75) | (147) |
| Losses on revaluation | - | - | 75 | 3,834 | - | 3,909 | 133 |
| Impact on comprehensive income | - | - | - | 3,834 | - | 3,834 | (14) |
| **Net Gain/(Loss) for the year** | 3,162 | (235) | (469) | 2,584 | (33) | 5,009 | 2,222 |

## F - Financial Instruments - Fair Values

Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated calculating the net present value of the remaining contractual cash flows at 31 March 2019, using the following method and assumptions:

- Shares in MSDC (Suffolk Holdings) Ltd have been valued from the company's balance sheet net assets

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2019, using the following methods and assumptions:



- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.

- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.

- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31st March.

- No early repayment or impairment is recognised for any financial instrument.

- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices

- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments

- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

# Note 14 - Financial Instruments

## Financial Liabilities

The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to approximate to the carrying amount.

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

| | Fair Value Level | Balance Sheet 2018/19 £000s | Fair Value 2018/19 £000s | Balance Sheet 2017/18 £000s | Fair Value 2017/18 £000s |
|---|---|---|---|---|---|
| Financial Liabilities held at Amortised cost | | | | | |
| Long term loans from PWLB | 2 | 92,287 | 106,580 | 70,200 | 85,455 |
| Long term LOBO loans | 2 | 4,000 | 7,451 | 4,017 | 7,768 |
| Other long term loans | 2 | 16,000 | 16,160 | | |
| **Sub Total** | | **112,287** | **130,191** | **74,217** | **93,223** |
| Liabilities for which fair value is not disclosed | | 21,792 | - | 30,883 | - |
| **Total Financial Liabilities** | | **134,079** | **130,191** | **105,100** | **93,223** |
| Recorded on balance sheet as: | | | | | |
| Short term creditors | | 3,368 | | 1,879 | |
| Short term borrowing | | 17,076 | | 29,434 | |
| Long term borrowing | | 113,635 | | 73,787 | |
| **Total Financial Liabilities** | | **134,079** | | **105,100** | |

## Financial Assets

The fair value of short-term financial assets held at amortised cost, including trade receivables, is assumed to approximate to the carrying amount.

| | Fair Value Level | Balance Sheet 2018/19 £000s | Fair Value 2018/19 £000s | Balance Sheet 2017/18 £000s | Fair Value 2017/18 £000s |
|---|---|---|---|---|---|
| Financial assets held at fair value: | | | | | |
| Money market funds | 1 | 1,400 | 1,400 | 1,500 | 1,500 |
| Bond, Equity and property funds | 1 | 8,698 | 8,698 | 8,698 | 8,698 |
| Shares in unlisted companies | 2 | 398 | 398 | 1,232 | 1,232 |
| Financial assets held at amortised cost: | | | | | |
| Long term loans to companies | 2 | 38,187 | 38,187 | 11,729 | 11,733 |
| **Sub Total** | | **48,683** | **48,683** | **23,158** | **23,162** |
| Assets for which fair value is not disclosed | | 9,453 | | 4,196 | - |
| **Total Financial Assets** | | **58,136** | **48,683** | **27,354** | **23,162** |
| Recorded on balance sheet as: | | | | | |
| Long term debtors | | 43,977 | | 11,323 | |
| Long term investments | | 398 | | 1,271 | |
| Short term debtors | | 1,609 | | 2,501 | |
| Short term investments | | 9,183 | | 9,522 | |
| Cash and Cash equivalents | | 2,969 | | 2,738 | |
| **Total Financial Assets** | | **58,136** | | **27,354** | |

## Note 15 – Debtors

This note shows the recoverable amount owed to the Council by short-term debtors (i.e. due to be received within one year) in each class net of impairment allowances.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Trade Receivables | 485 | 1,705 |
| Prepayments | 244 | 63 |
| Other receivable amounts | 4,674 | 5,065 |
| **Total Debtors** | **5,403** | **6,833** |

## Note 16 - Cash and Cash Equivalents

This note shows how the balance of Cash and Cash Equivalents is made up of its various elements. These consist of cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Bank current accounts | 1,480 | 894 |
| Short-term deposits and Money Market Funds | 1,400 | 1,500 |
| Cash in Transit | 90 | 344 |
| **Total Cash and Cash Equivalents** | **2,970** | **2,738** |



## Note 17 – Creditors

This note shows the amount owed by the Council to short-term creditors (i.e. due to be paid within one year) in each class.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Trade Payables | (3,535) | (2,291) |
| Other Payables | (2,091) | (2,399) |
| **Total Creditors** | **(5,626)** | **(4,690)** |

## Note 18 – Provisions

**Non-Domestic Rate Appeals**

The Local Government Finance Act 2012 introduced a non-domestic rates retention scheme that enables local authorities to retain a portion of the rates generated in their area. These arrangements came into effect on 1 April 2013. As part of this process each Council has assumed the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list.

| | Balance at 31 March 2018 £'000 | Additional Provisions made in year £'000 | Amounts used in year £'000 | Balance at 31 March 2019 £'000 |
|---|---|---|---|---|
| Non Domestic Rates Appeals | (579) | (1,610) | 544 | (1,645) |
| Accumulated Absence | (184) | (163) | 184 | (163) |
| **Total** | **(763)** | **(1,773)** | **728** | **(1,808)** |

The provision relates to Mid Suffolk's share, 80% of billing authorities' estimates (40% in 2017/18) of the provision required for potential refunds relating to retrospective alterations to the rating list for those appeals that are already lodged with the Valuation Office as at 31 March 2017. Mid Suffolk has not opted to spread the cost of these appeals (prior to 2013/14) over 5 years. This work has been supported by Wilks Head and Eve LLP, Sixth Floor, Fairgate House, 78 New Oxford Street, London WC1A 1HB. This includes amounts that were paid over in respect of 2012/13 and prior years to Central Government.

## Note 19 - Unusable Reserves

All the Council's unusable reserves are described below and the movements in the year are disclosed.

Following the adoption of IFRS 9 a new reserve has been created - The Financial Instruments Revaluation Reserve – to reflect the impact of upward and downward revaluations of financial investments.

The 2017/18 closing balance on the Available for Sale Financial Instruments Reserve has been transferred to this new unusable reserve.

| Summary | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Revaluation Reserve | (68,182) | (59,284) |
| Financial Instruments Revaluation Reserve | 2,801 | - |
| Capital Adjustment Account | (78,644) | (78,112) |
| Pensions Reserve | 33,005 | 28,285 |
| Deferred Capital Receipts Reserve | - | - |
| Collection Fund Adjustment Account | 804 | 1,032 |
| Accumulated Absences Account | 163 | 184 |
| Available for Sale Financial Instruments Reserve | - | 302 |
| **Total Unusable Reserves** | **(110,053)** | **(107,593)** |

## Note 19a - Revaluation Reserve



The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account (CAA).

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Balance at 1 April** | (59,284) | (46,402) |
| Upward revaluation of assets | (13,187) | (16,586) |
| Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services | 2,801 | 2,378 |
| **Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services** | (10,386) | (14,208) |
| Difference between fair value depreciation and historical cost depreciation | 886 | 575 |
| Accumulated gains on assets sold or scrapped | 602 | 751 |
| **Amount written off to the Capital Adjustment Account** | 1,488 | 1,326 |
| **Balance at 31 March** | **(68,182)** | **(59,284)** |

## Note 19b - Capital Adjustment Account

The Capital Adjustment Account (CAA) absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions. The CAA is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current and fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and additional costs.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 7 to the Core Statements provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Balance at 1 April** | (78,112) | (82,075) |
| Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | | |
| Charges for depreciation and impairment of non-current assets | 10,570 | 8,905 |
| Amortisation of intangible assets | 477 | 490 |
| Revenue expenditure funded from capital under statute | 898 | 707 |
| Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 1,783 | 3,357 |
| | 13,728 | 13,459 |
| Adjusting amounts written out of the Revaluation Reserve | (1,489) | (1,326) |
| **Net written out amount of the cost of non-current assets consumed in the year** | **12,239** | **12,133** |
| Capital financing applied in the year: | | |
| Use of Capital Receipts Reserve to finance new capital expenditure | (3,407) | (1,126) |
| Use of the Major Repairs Reserve to finance new capital expenditure | (3,761) | (3,442) |
| Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | (902) | (734) |
| Application of grants to capital financing from the Capital Grants Unapplied Account | (217) | - |
| Third Party Loans | 57 | |
| Impairment of Financial Instruments | 211 | |
| Statutory provision for the financing of capital investment charged against the General Fund and HRA balances | (897) | (657) |
| Capital expenditure charged against the General Fund and HRA balances | (1,915) | (2,193) |
| Capital expenditure charged against Earmarked Reserves | (1,940) | (18) |
| | (12,771) | (8,170) |
| **Balance at 31 March** | **(78,644)** | **(78,112)** |

## Note 19c - Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions.

The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

Details on the charge for the year are shown in Note 32

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Balance at 1 April** | 28,285 | 29,806 |
| Remeasurement of net defined liability/(asset) | 2,916 | (3,170) |
| Reversal of items relating to retirement benefits debited or credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | 4,300 | 3,780 |
| Employer's pensions contributions and direct payments to pensioners payable in the year | (2,496) | (2,131) |
| **Balance at 31 March** | **33,005** | **28,285** |

## Note 19d - Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council taxpayers and non-domestic ratepayers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

| **Collection Fund Adjustment Account** | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Balance at 1 April** | 1,032 | 9 |
| The amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements | (228) | 1,023 |
| **Balance at 31 March** | **804** | **1,032** |

## Note 19e - Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from this Account.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Balance at 1 April** | 184 | 131 |
| Settlement or cancellation of accrual made at the end of the preceding year | (184) | (131) |
| Amount accrued at the end of the current year | 163 | 184 |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (21) | 53 |
| **Balance at 31 March** | **163** | **184** |

## Note 19f – Available for sale financial instruments reserve



The Available for Sale Financial Instruments Reserve contains the gain/loss made by the Council arising from increases/decreases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments.

The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost,
- disposed of and the gains are realised.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Balance at 1 April** | **302** | 316 |
| Upward revaluation of investments | | (14) |
| Transfer to Financial Instruments Revaluation Reserve | **(302)** | |
| **Balance at 31 March** | **-** | **302** |

## Note 19g - Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the Council arising from increases in the value of its investments that are measured at fair value through other comprehensive income.

The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost,
- disposed of and the gains are realised

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Balance at 1 April** | - | - |
| Transfer from Available for Sale Reserve | 302 | - |
| Upward revaluation of investments | (75) | - |
| Downward revaluation of investments | 75 | - |
| Downward revaluation of Equity Instruments | 2,499 | |
| **Balance at 31 March** | **2,801** | **-** |

## Note 20 - Cash Flow Statement: Operating Activities

| Cash Flow Statement - Operating Activities | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| The cash flows for operating activities include the following items: | | |
| Interest received | (1,110) | (506) |
| Interest paid | 2,828 | 2,758 |
| | 1,718 | 2,252 |
| The surplus or deficit on the provision of services has been adjusted for the following non-cash movements: | | |
| Depreciation and amortisation | (5,094) | (5,325) |
| Impairment and (downward valuations)/reversals | (3,512) | (4,069) |
| (Increase)/decrease in creditors | (1,331) | 731 |
| Increase/(decrease) in debtors | 937 | 2,928 |
| Increase/(decrease) in inventories | (28) | 11 |
| Movement on pension liability | (1,804) | (1,649) |
| Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | (1,790) | (3,357) |
| Other non-cash items | (1,043) | 71 |
| | (13,665) | (10,659) |
| The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities: | | |
| Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 1,350 | 3,994 |
| Other items for which the cash effects are investing or financing activities | (557) | (1,532) |
| **Net cash flows from operating activities** | **793** | **2,462** |

## Note 21 - Cash Flow Statement: Investing Activities

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Purchase of property, plant and equipment, investment property and intangible assets | 14,109 | 8,069 |
| Purchase of short-term and long-term investments | 93,731 | 55,271 |
| Other payments for investing activities | 53 | 75 |
| Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (1,350) | (3,994) |
| Proceeds from short-term and long-term investments | (63,719) | (44,940) |
| Other receipts from investing activities | (1,296) | (1,677) |
| **Net cash flows from investing activities** | **41,528** | **12,804** |

## Note 22 - Cash Flow Statement: Financing Activities

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Cash receipts from short and long term borrowing | (131,152) | (73,250) |
| Repayments of short-term and long-term borrowing | 103,952 | 67,557 |
| **Net cash flows from financing activities** | **(27,200)** | **(5,693)** |

## Note 23 - Members' Allowances

The Council paid the following amounts to Members of the Council during the year.

The Independent Remuneration Panel (IRP) was appointed to review and make recommendations to the Council regarding members allowances following the introduction of a Leader/Cabinet Governance Model in May 2017 and in accordance with legal requirements under the Local Authorities (Members' Allowances) (England) Regulations 2003.

| | 2018/19<br>£'000 | 2017/18<br>£'000 |
|---|---|---|
| Basic Allowances | 235 | 159 |
| Special Responsilbility Allowance | 174 | 83 |
| Expenses | 32 | 27 |
| **Total** | **441** | **269** |

Further details of the Council's Scheme and schedules for Member's Allowances can be found in the Transparency pages on the Council's website at:

https://www.midsuffolk.gov.uk/the-council/finance/senior-officers-remuneration/mid-suffolk-member-allowances/

## Note 24 - Officers' Remuneration

Following the integration with Babergh District Council in June 2013, the two Councils share both staff and services. The Senior Leadership Team comprises a Chief Executive, two Strategic Directors and eight Assistant Directors.

Post holders continue to be employed by the Council which employed them prior to the introduction of the Senior Leadership Team.

The following two tables apply to Mid Suffolk District Council employees only. Remuneration for the other officers is published in Babergh District Council's Statement of Accounts.

The remuneration paid to the Council's senior employees is shown in this table.

| | Year | Salary, Fees and Allowances £ | Expenses / Benefits in Kind £ | Pension Contribution £ | Exit Packages £ | Total £ |
|---|---|---|---|---|---|---|
| Deputy Chief Executive (left 15.04.2018) | 2018/19 | 4,349 | - | 1,000 | - | **5,349** |
| Deputy Chief Executive | 2017/18 | 115,070 | 465 | 26,271 | 72,056 | **213,862** |
| Strategic Director (from 12.10.2017) | 2018/19 | 89,978 | 963 | 20,470 | - | **111,411** |
| Strategic Director (Place) | 2017/18 | 39,803 | 453 | 9,041 | - | **49,297** |
| Strategic Director (People) | 2017/18 | 91,713 | 963 | 20,828 | 63,644 | **177,147** |
| Assistant Director - Communities & Public Realm (left 08.10.2018) | 2018/19 | 36,909 | 500 | 8,485 | - | **45,894** |
| Assistant Director - Communities and Public Access | 2017/18 | 70,877 | 963 | 16,063 | - | **87,902** |
| Assistant Director - Corporate Resources (Section 151 Officer) | 2018/19 | 82,583 | 1,328 | 18,994 | | **102,905** |
| Assistant Director - Corporate Resources (Section 151 Officer) | 2017/18 | 81,578 | - | 18,648 | - | **100,226** |
| Assistant Director - Environment and Commercial Partnerships | 2018/19 | 71,364 | 2,354 | 15,913 | | **89,631** |
| Assistant Director - Environment and Projects | 2017/18 | 71,159 | 963 | 16,454 | - | **88,576** |
| Assistant Director - Investment and Commercial Delivery | 2017/18 | 74,600 | 963 | 16,969 | - | **92,531** |
| Assistant Director - Law & Governance | 2018/19 | 68,505 | - | 15,756 | - | **84,261** |
| Assistant Director - Law & Governance (from 01.03.2017) | 2017/18 | 64,240 | - | 14,660 | - | **78,901** |
| Assistant Director - Planning for Growth | 2018/19 | 71,278 | 963 | 16,357 | - | **88,598** |
| Assistant Director - Planning for Growth | 2017/18 | 70,189 | 963 | 15,984 | - | **87,137** |
| Assistant Director - Supported Living (left 02.06.17) | 2017/18 | 11,969 | 166 | 2,753 | 27,608 | **42,495** |

## Note 24 - Officers' Remuneration

A senior employee, for the additional disclosure, is the head of paid service. A statutory chief officer is anybody who has power to direct or control the major activities of the body. This has been interpreted as the Senior Leadership Team. The previous table shows the full costs of Mid Suffolk's employees who met this definition.

These numbers relate solely to those staff directly employed by the Council and exclude any officers who received more than £50,000 from Babergh District Council and whose costs may have been shared between the two Councils.

Details of the total costs of the Senior Leadership Team (inclusive of salary and expense payments made, as well as pension fund contributions) are set out in the following table. Four members of Senior Leadership Team were employed by District Council and their remuneration, in the format of the previous table, is disclosed in that Council's Statement of Accounts. The next table sets out how Babergh reimburses Mid Suffolk for its 50% share of these costs for the relevant period in 2018/19. There is one exception where costs are not shared equally. This relates to the role of the Assistant Director for Investment and Commercial Delivery. These costs are shared 35% Babergh and 65% Mid Suffolk. In addition, other transactions are disclosed in Note 27, Related Parties.

| | 2018/19 Expenditure by Babergh £ | 2018/19 Expenditure by Mid Suffolk £ | 2017/18 Expenditure by Babergh £ | 2017/18 Expenditure by Mid Suffolk £ |
|---|---|---|---|---|
| **Senior Management** | | | | |
| Joint Chief Executive | 162,173 | - | 154,196 | - |
| Deputy Chief Executive | - | 5,874 | - | 229,188 |
| Strategic Director (People) | - | - | - | 190,252 |
| Strategic Director | - | 122,889 | - | 54,415 |
| Interim Strategic Director | 126,882 | - | 31,039 | - |
| Assistant Director Corporate Resources | - | 113,897 | - | 111,327 |
| Assistant Director Communites and Public Access | - | 50,714 | - | 96,870 |
| Assistant Director Customer Services | 88,363 | - | 34,212 | - |
| Assistant Director Investment and Commercial Delivery | 70,004 | - | - | 102,293 |
| Assistant Director Planning for Growth | - | 97,538 | - | 95,863 |
| Assistant Director Environment and Projects | - | 98,974 | - | 97,547 |
| Assistant Director Supported Living | - | - | - | 44,321 |
| Assistant Director Housing | 83,448 | - | 71,902 | - |
| Assistant Director Law and Governance | - | 93,297 | - | 87,111 |
| Total Expenditure | 530,870 | 583,185 | 291,349 | 1,109,187 |
| Net Adjustment between Councils | 23,167 | (23,167) | 404,127 | (404,127) |
| **Total** | **554,037** | **560,018** | **695,476** | **705,060** |

The amounts shown in the following table (relating to Mid Suffolk employees) are different to those included in the Senior Officers' remuneration (see previous page) as they include employers National Insurance contributions. These costs are shared with Babergh District Council under the integration arrangements, as explained in the following paragraphs

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## Note 24 - Officers' Remuneration

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the amounts shown in the following table

| | 2018/19 Number of employees | 2017/18 Number of employees |
|---|---|---|
| £50,000 - £54,999 | 2 | 1 |
| £55,000 - £59,999 | - | 1 |
| £60,000 - £64,999 | 2 | - |
| £70,000 - £74,999 | - | 1 |
| **TOTAL** | **4** | **3** |

## Note 25 - External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts and certification of grant claims.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Fees payable to the external auditor with regard to external audit services carried out by the appointed auditor for the year | 43 | 50 |
| Fees payable to the external auditor for the certification of grant claims and returns for the year | 19 | 20 |
| **Total** | **62** | **70** |

## Note 26 – Grant Income

The Council debited payments and credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement.

This note consolidates all non-specific grants and contributions receivable that cannot be directly attributable to service expenditure and therefore not included in the gross income amount relevant to the service area.

The note also identifies the Council's proportion of council tax and business rates used to fund in year service activities.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Credited to Taxation and Non-Specific Grant Income and Expenditure: | | |
| Revenue Grants and Contributions: | | |
| Council Tax Income | (8,504) | (8,258) |
| Non-Domestic Rates Levy Payable | 470 | 273 |
| Non-Domestic Rates Income | (19,022) | (8,413) |
| LCTS Support & S31 Grants | (2,318) | (1,033) |
| Non-Domestic Rates Payable to Central Government (Tariff) | 14,805 | 6,352 |
| Revenue Support Grant | (9) | (410) |
| Rural Services Support Grant | - | (347) |
| New Homes Bonus | (1,463) | (2,033) |
| Other Revenue Grants | (30) | (24) |
| Total Revenue Grants | (16,071) | (13,893) |
| Capital Grants and Contributions: | | |
| One Public Estate | - | (25) |
| Section 106 | (61) | (23) |
| Highways England | (18) | - |
| Other | (10) | (4) |
| Total Capital Grants | (89) | (52) |
| **Total Credited to Taxation and Non-Specific Grant Income and Expenditure** | **(16,160)** | **(13,945)** |
| Grants and Contributions Credited to Services: | | |
| HB Subsidy & Admin Grant | (14,535) | (15,683) |
| Disabled Facilities Grant | (221) | (675) |
| Highways England | (219) | |
| Homelessness | (134) | (96) |
| S106 Contributions | (316) | - |
| Misc Other Grants | (388) | (347) |
| **Total Grants and Contributions Credited to Services** | **(15,813)** | **(16,801)** |

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are shown in this table:

| **Capital Grants Receipts in Advance:** | 2018/19 £'000 | 2017/18 Restated £'000 |
|---|---|---|
| S106 Contributions | 3,873 | 3,406 |
| Disabled Facilities Grant | 354 | 111 |
| Other Grants | 5 | 218 |
| **Total Grants** | **4,232** | **3,735** |

## Note 27 - Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

**Central Government**

Central Government has significant influence over the general operations of the Council. It is responsible for providing the statutory framework, within which the Council operates, provides a significant proportion of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the Core Financial Statements Note 6 Expenditure and Income Analysed by Nature and Note 26 Grant Income.



**Members**

Members of the Council have direct control over the Council's financial and operating policies and strategy. The total of members' allowances and expenses paid in 2018/19 is shown in Note 23.

**Babergh / Mid Suffolk Integration (BMI)**

Integration between Mid Suffolk and Babergh District Council commenced with the appointment of a Joint Chief Executive in May 2011. Full integration in terms of staff and services has been in place since June 2013.

During 2013/14, it was agreed that all costs would generally be shared 50:50 between the two Councils. Evidence of this can be seen within the Officers Remuneration note, (Note 24) and the Termination Benefits note, (Note 31).

There continues to be two separate groups of Members as the Councils are two separate legal entities. There is currently a Joint Overview and Scrutiny Committee, a Joint Audit and Standards Committee and Joint HR Panel.

A total of £4,126k of employee related expenditure was recharged to the Council by Babergh and the Council recharged £5,085k of payroll expenditure to Babergh.

A total of £924k of non-employee related expenditure was recharged to the Council by Babergh and the Council recharged £3,557k of non-employee related expenditure to Babergh.

**Suffolk County Council and the Police and Crime Commissioner**

The Council pays precepts for council tax to Suffolk County Council, the Police and Crime Commissioner and various parish councils. The Council also pays a share of non-domestic rates to the County Council. Details of these transactions are given in Note 1 to the Collection Fund.

**Suffolk County Council Subsidiaries**

Suffolk County Council has a number of wholly-owned subsidiaries including Vertas Group Ltd, Concertus Design and Property Consultants Ltd and Opus People Solutions Ltd. During 2018/19, the Council incurred expenditure of £806k (£537k in 2017/18).

**Shared Revenues Partnership**

From 1 April 2011 the Shared Revenues Partnership (SRP) was set up to deliver a Shared Revenues and Benefits Service for Babergh and Mid Suffolk District Councils and Ipswich Borough Council. Each Council has delegated its authority for this function to a Joint Committee, comprising of Members from each Council, and oversees the running of the SRP.

The cost of delivering the partnership is reviewed annually and is based on cost drivers such as number of businesses, number of billing items (council tax) and number of housing benefit documents. Mid Suffolk's share represents net expenditure of £1,090k in 2018/19 (£1,050k in 2017/18).

**Shared Legal Services**

From 1 November 2016 the Shared Legal Services team was created to deliver a strong, skilled legal service that proactively seeks out new knowledge and different ways of working for Babergh, Mid Suffolk and Forest Heath District Councils and St Edmundsbury Borough Council. Expenditure is shared on the following basis: Babergh and Mid Suffolk District Councils 57%, Forest Heath District Council and St Edmundsbury Borough Councils 43%.

**Citizens Advice Bureau (CAB)**

The Mid Suffolk CAB was provided with a grant during the year of £87k (£87k in 2017/18) Councilor David Muller has an interest in the organisation but has not been appointed as a council representative. The Council has no significant interest in the CAB nor any entitlement to any surpluses or deficits of this Not for Profit organisation.

During the year transactions with the various related parties were as follows:

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Suffolk County Council | 1,641 | 1,852 |
| Suffolk County Council - subsidiaries | 806 | 537 |
| Grants & Contributions to Parish Councils, Community Councils, Village Halls and Theatres | 399 | 263 |
| Police & Crime Commissioner | 7 | 1 |
| Mid Suffolk Citizens Advice Bureau | 100 | 91 |
| Museum of East Anglian Life | 70 | 78 |
| Wingfield Barns CIC | 50 | 27 |
| Stowmarket Museum | 8 | 8 |
| **Total** | **3,081** | **2,857** |

## Note 27 - Related Parties

**Entities Controlled or significantly influenced by the Council**

The Council has a wholly owned subsidiary company, MSDC (Suffolk Holdings) Limited, incorporated on 9 June 2017, over which it exerts control. This holding company owns 50% shares of CIFCO Capital Limited and 100% of Gateway 14 Limited, over which the Council exerts significant influence.

Their principal activities are the purchase of commercial property for investment purposes.

The following officers and members hold or have held positions on the boards of the companies controlled or significantly influenced by the Council:



**MSDC (Suffolk Holdings): -**
Arthur Charvonia – Company Secretary
Councillor Gerard Brewster - Director
Councillor Glen Horn – Director
Councillor David Whybrow – Director (to 30 Jan 2019)
Councillor Jane Storey – Director (from 27 March 2019)
Councillor Matthew Hicks – Director (from 27 March 2019)

**Gateway 14 Ltd (100% Shareholding):** -
Emily Atack – Director (from 25 Jan 2019)
Henry Cooke – Director
Stephen Davies – Director (from 26 April 2018)
Christopher Haworth – Director
William Mason-Jones – Director (to 24 Jan 2019)
Councillor John Whitehead – Director
Councillor Nicholas Gowrley – Director (to 22 Jan 2018)
Councillor Jill Wilshaw - Director (from 21 Feb 2019)

**CIFCO Capital Ltd (50% Shareholding): -**
Emily Atack – Director (from 31 Jan 2019)
Henry Cooke - Director
Councillor Derrick Haley - Director
Christopher Haworth - Director
Councillor Nicholas Ridley – Director
Mark Sargeantson – Director

**Mid Suffolk Growth Ltd (100% Shareholding)**
This was incorporated on 19 March 2019 and there were no transactions in 2018/19.

The Group Accounts are shown on page 103 to page 108.

## Note 28 - Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the following table, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Opening Capital Financing Requirement** | 122,576 | 109,000 |
| **Capital investment** | | |
| Property, Plant and Equipment | 13,514 | 8,097 |
| Intangible Assets | 197 | 550 |
| Revenue Expenditure Funded from Capital under Statute | 898 | 715 |
| Mortgages/Loans | 53 | 66 |
| Acquisition of Share Capital | 3,000 | 1,231 |
| Loans to Joint Venture | 27,003 | 11,087 |
| **Sources of finance** | | |
| Capital receipts | (3,407) | (1,126) |
| Government grants and other contributions | (1,119) | (733) |
| Sums set aside from revenue: | | |
| Direct Revenue Contributions | (3,855) | (2,211) |
| Major Repairs Reserve | (3,761) | (3,442) |
| Minimum Revenue provision for the repayment of debt | (844) | (657) |
| **Closing Capital Financing Requirement** | **154,255** | **122,577** |
| **Explanation of movements in year** | | |
| Increase / (decrease) in underlying need to borrowing (unsupported by government financial assistance) | 32,522 | 14,234 |
| Minimum Revenue provision for the repayment of debt | (844) | (657) |
| **Increase/(decrease) in Capital Financing Requirement** | **31,678** | **13,577** |

# Note 29 - Leases

## The Council as Lessee

### Operating Leases

The Council leases in property and equipment under operating leases. Some examples of property and equipment leased in are as follows:

- vehicle trackers and vehicle radios
- photocopiers
- Endeavour House, Ipswich – relates to its shared use with Babergh District Council since November 2017.
- land for car park use (Union Street West, Stowmarket)

The future minimum lease payments payable under non-cancellable lease in future years are:

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| The future minimum lease payments payable under non-cancellable lease in future years are: | | |
| Expires not later than one year | 207 | 216 |
| Expires later than one year and not later than five years | 415 | 602 |
| Expires later than five years | 22 | 61 |
| **Total** | **644** | **879** |



## The Council as Lessor

### Operating Leases

The Council leases out land and buildings under operating leases for the following purposes:

- for the provision of community services
- for economic development purposes to provide suitable affordable accommodation for local businesses

The minimum lease payments receivable does not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| The future minimum lease payments receivable under non-cancellable leases in future years are: | | |
| Not later than one year | 64 | 58 |
| Later than one year and not later than five years | 55 | 8 |
| Later than five years | 819 | 26 |
| **Total** | **938** | **92** |

## Note 30 - Impairment Losses and Reversals

The District Valuer's valuation at 31 March 2019 resulted in a downward revaluation of £5,384k recognised in the surplus/deficit on the Provision of Services (see Note 12 to the Core Financial Statements). This was due to a decrease in the value of council dwellings of £2,847k and an decrease in the value of other land and buildings of £2,537k in the 2018/19 financial year.

The decrease in the value of council dwellings is reflected in the Housing Revenue Account and in the Comprehensive Income and Expenditure Statement. The decrease in the value of other land and buildings is in both the General Fund and Housing Revenue Account and is included in the Comprehensive Income and Expenditure Statement.

The fall in the value of the council dwellings is because the dwellings purchased / constructed and valued for the first time in the year have been revalued to EUV (existing use value), a fall in value of 62%. As they were new, there was no previous revaluation reserve balance for these properties. The fall in the value of other land and buildings relates mainly to sites being held for housing development.

## Note 31 - Termination Benefits

As part of the integration with Babergh District Council it has been agreed that the costs for 2018/19 will generally be shared in the ratio 50:50. There may be exceptions to this, where staff costs are fully incurred by one Council only or the basis of apportionment is something other than 50:50. The 2018/19 accounts reflects seven occasions where a member of staff left the organisation and costs were shared 50:50, five members of staff whose costs were 100% to Mid Suffolk, one member of staff whose costs were 20% to Babergh and one member of staff whose costs were 50% to Babergh.

| Termination Benefits - Exit Packages | 2018/19 | | | | 2017/18 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of Employees | Redundancy Costs | Pension Contribution | Total | Number of Employees | Redundancy Costs | Pension Contribution | Total |
| | | £ | £ | £ | | £ | £ | £ |
| **Voluntary Redundancies** | | | | | | | | |
| £0 - £19,999 | 6 | 40,756 | - | 40,756 | 9 | 68,594 | 7,168 | **75,762** |
| £20,000 - £39,999 | - | - | - | - | 3 | 66,266 | 6,956 | **73,222** |
| £40,000 - £59,999 | 1 | 11,730 | 35,472 | 47,202 | 1 | 3,713 | 53,367 | **57,080** |
| £60,000 - £79,999 | - | - | - | - | 2 | 135,699 | - | **135,700** |
| £80,000 - £99,999 | - | - | - | - | 1 | 28,559 | 63,539 | **92,099** |
| **Total** | **7** | **52,486** | **35,472** | **87,958** | **16** | **302,831** | **131,030** | **433,863** |

This table sets out how the Council reimburses Babergh for its share of their costs.

| Shared Exit Package Costs 2018/19 | Number of Employees Mid Suffolk | Number of Employees Babergh | Total Expenditure Mid Suffolk | Total Expenditure Babergh |
|---|---|---|---|---|
| | | | £ | £ |
| £0 - £19,999 | 6 | 5 | 40,756 | 33,267 |
| £20,000 - £39,999 | - | 2 | - | 48,781 |
| £40,000 - £59,999 | 1 | - | 47,202 | - |
| £60,000 - £79,999 | - | 1 | - | 62,154 |
| **Total** | **7** | **8** | **87,958** | **144,202** |
| Net Adjustment between Councils | | | 25,760 | (25,760) |
| **Total Cost to each Council** | | | **113,718** | **118,442** |

# Note 32 - Pension Schemes Accounted for as Defined Benefit Schemes

## Participation in the pension scheme

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (for those benefits) that need to be disclosed at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme (LGPS), administered locally by Suffolk County Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

The following table shows the current bandings of employee's pensionable pay and percentage contributions required.

| Local Government Pension Scheme - Salary Bandings for Employee Contributions | 2018/19 |
|---|---|
| Up to £14,100 | 5.50% |
| £14,101 - £22,000 | 5.80% |
| £22,001 - £35,700 | 6.50% |
| £35,701 - £45,200 | 6.80% |
| £45,201 - £63,100 | 8.50% |
| £63,101 - £89,400 | 9.90% |
| £89,401 - £105,200 | 10.50% |
| £105,201 - £157,800 | 11.40% |
| Over £157,800 | 12.50% |

## Transactions relating to post-employment benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

| Local Government Pension Scheme - Transactions relating to post-employment benefits | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Comprehensive Income and Expenditure Statement** | | |
| Cost of Services: | | |
| Current service cost | 3,086 | 3,043 |
| Past Service cost/(gain) including curtailments | 489 | 4 |
| Financing and Investment Income and Expenditure: | | |
| Net interest expense | 745 | 753 |
| **Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services** | **4,320** | **3,800** |
| Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | | |
| Return on plan assets (excluding amounts included in net interest expense) | 2,718 | 1,264 |
| Actuarial gains and losses arising on changes in financial assumptions | (5,620) | 1,736 |
| Other experience | (14) | 170 |
| **Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement** | **(2,916)** | **3,170** |
| Movement in Reserves Statement | | |
| Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code | (4,320) | (3,800) |
| Actual amount charged against the General Fund Balance for pensions in the year: | | |
| Employers' contributions payable to scheme | (2,496) | (2,131) |
| Contributions in respect of unfunded benefits | (20) | (20) |

# Note 32 - Pension Schemes Accounted for as Defined Benefit Schemes

## Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined plan is in the following table:

| Local Government Pension Scheme - Pensions Assets and Liabilities Recognised in the Balance Sheet | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Present value of the defined benefit obligation | (111,995) | (102,714) |
| Fair value of plan assets | 78,990 | 74,429 |
| **Net liability arising from defined benefit obligation** | **(33,005)** | **(28,285)** |

| Local Government Pension Scheme - Reconciliation of the movements in Fair Value of the Scheme (Plan) Assets | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Opening fair value of scheme assets 1 April** | 74,429 | 71,774 |
| Interest income | 1,936 | 1,791 |
| Remeasurement gains and (losses): | | |
| Return on plan assets (excluding net interest) | 2,718 | 1,264 |
| Employer contributions | 2,496 | 2,131 |
| Contributions in respect of unfunded benefits | 20 | 20 |
| Contributions from employees into the scheme | 520 | 506 |
| Benefits paid | (3,109) | (3,037) |
| Unfunded Benefits paid | (20) | (20) |
| **Closing fair value of scheme assets 31 March** | **78,990** | **74,429** |

## Reconciliation of the Movements in Fair Value of the Scheme (Plan) Assets

| Local Government Pension Scheme - Assets comprised: | 2018/19 Fair Value of Scheme Assets £'000 | 2017/18 Fair Value of Scheme Assets £'000 |
|---|---|---|
| **Cash and Cash Equivalents** | 1,113 | 773 |
| **Equity Instruments (by industry)** | | |
| Consumer | 5,153 | 5,392 |
| Manufacturing | 2,400 | 1,912 |
| Energy & Utilities | 1,253 | 1,127 |
| Financial Institutions | 2,357 | 2,483 |
| Health & Care | 1,356 | 1,154 |
| Information Technology | 2,464 | 2,176 |
| Other | 688 | 778 |
| **Sub-total Equity Instruments** | **15,671** | **15,022** |
| **Bonds (by sector)** | | |
| Corporate Bonds (investment grade) | 17,787 | 18,042 |
| UK Government | - | 2,830 |
| **Sub-total Bonds** | **17,787** | **20,872** |
| **Private Equity** | | |
| All | 801 | - |
| **Sub-total Private Equity** | **801** | **-** |
| **Property** | | |
| UK Property | 8,061 | 7,215 |
| **Sub-total Property** | **8,061** | **7,215** |
| **Other Investment Funds** | | |
| Equities | 17,339 | 17,257 |
| Bonds | 3,074 | - |
| Hedge Funds | 7,578 | 3,035 |
| Other | 5 | 4,144 |
| **Sub-total Other Investment Funds** | **27,996** | **24,436** |
| **Derivatives** | | |
| Foreign Exchange | 38 | (3) |
| **Sub-total Derivatives** | **38** | **(3)** |
| **Other Quoted Assets:** | **Assets in Non Active Markets £'000** | **Assets in Non Active Markets £'000** |
| **Quoted Prices for:** | | |
| Private Equity | 2,451 | 2,682 |
| Infrastructure | 3,514 | 1,941 |
| Other | 1,558 | 1,491 |
| | **7,523** | **6,114** |
| **Total Assets** | **78,990** | **74,429** |

**Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)**

| Local Government Pension Scheme - Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation) | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| **Opening balance 1 April** | (102,714) | (101,580) |
| Current service cost | (3,086) | (3,043) |
| Interest cost | (2,681) | (2,544) |
| Contributions by scheme participants | (520) | (506) |
| Remeasurement gains and (losses): - | | |
| Actuarial gains/losses arising from changes in financial assumptions | (5,620) | 1,736 |
| Other | (14) | 170 |
| Past Service Costs | (489) | (4) |
| Benefits paid | 3,109 | 3,037 |
| Unfunded benefits paid | 20 | 20 |
| **Closing balance at 31 March** | **(111,995)** | **(102,714)** |

**Local Government Pension Scheme assets comprised of:**

## Note 32 - Pension Schemes Accounted for as Defined Benefit Schemes

**Basis for estimating assets and liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

The Scheme liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Suffolk County Council Fund being based on the latest full triennial valuation of the scheme as at 31 March 2016.

The significant assumptions used by the actuary have been:

| Local Government Pension Scheme - Basis for estimating assets and liabilities | 2018/19 | 2017/18 |
|---|---|---|
| Mortality assumptions: | | |
| Longevity at 65 for current pensioners: | | |
| Men | 22 years | 22 years |
| Women | 24 years | 24 years |
| Longevity at 65 for future pensioners: | | |
| Men | 24 years | 24 years |
| Women | 26 years | 26 years |
| Rate of inflation | 2.5% | 2.4% |
| Rate of increase in salaries | 2.8% | 2.7% |
| Rate of increase in pensions | 2.5% | 2.4% |
| Rate for discounting scheme liabilities | 2.4% | 2.6% |

**Sensitivity Analysis**

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used

in the previous period.

The following table shows the sensitivity of the results to changes in assumptions used to measure the scheme liabilities:

| Local Government Pension Scheme - Sensitivity Analysis: Impact on the Defined Benefit Obligation in the Scheme | Increase in Assumptions to Employer Liability % | Increase in Assumptions to Employer Liability £'000 |
|---|---|---|
| **Change in assumptions at year ended 31 March 2018 :** | | |
| 0.5% decrease in Real Discount Rate | 9% | 10,145-10,163 |
| 0.5% increase in the Salary Increase Rate | 1% | 1,159 |
| 0.5% increase in the Pension Increase Rate | 8% | 8,840-8,858 |

A one year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3-5%. In practice the a ctual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages).

**Impact on the Council's Cash Flow**

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The
Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2019.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2018. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The total employer contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2019 are £2.496m. This includes a contribution of £0.884m towards the Council's pension fund deficit.

The weighted average duration of the defined benefit obligation for scheme members is 16.3 years in 2018/19 (16.3 years in 2017/18).

# Note 33 - Contingent Liabilities and Assets

**Contingent Liabilities:**

The Council has the following contingent liabilities:

**Local Government Pension Scheme**

In 2015 the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes in 2015. In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the judicial scheme, as part of the reforms, amounted to unlawful discrimination with regards to age discrimination. This ruling has implications for the Local Government Pension Scheme (LGPS), in relation to the judgement in the McCloud case.

The final position in terms of employer pension liabilities and a financial impact was not clear at 31 March 2019. This is because the Government have appealed the ruling and any remediation process, including cost cap considerations, may affect the resolution and financial impact for local authorities in relation to employer contributions and compensation to employees.

The timescale for the resolution is unknown and the outcomes are challenging for local authorities to assess and quantify, therefore it is currently unknown whether the impact on the Council could be material for 2018/19.

The Government Actuary's Department (GAD) anticipate an assessment of the impact, which is not finalised, to show the potential impact of McCloud in the region of 0.5% to 1% of total liabilities (equivalent to about 2% to 3% of active liabilities). However, depending on the profile of the membership of individuals in the LGPS, the impact could vary widely.

The 31 March 2019 pension liability for the Council can be seen in detail in Note 32.

Since the year end, additional evidence, including the legal ruling by the Supreme Court on 27 June 2019 which rejected the Governments appeal to the ruling, provided evidence that a value could be determined for the liabilities. The value of the Council's liability, as assessed by the Pension Fund actuary Hymans Robertson LLP, was £396,000 in the Local Government Pension Scheme (LGPS).

**Dangerous Structures**

The Council has an outstanding legal case relating to dangerous structures which may result in potential costs to be incurred by the Council. Depending on the outcome, the Council may be able to recover some or all this.

**Contingent Assets**

The Council has no contingent assets

# Note 34 - Nature and Extent of Risks Arising from Financial Instruments

## Financial Instruments - Risks

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2017.

In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Investment Strategy in compliance with the Ministry for Housing, Communities and Local Government Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.



The main risks covered are:

- **Credit Risk:** The possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing a loss to the Council.

- **Liquidity Risk:** The possibility that the Council might not have the cash available to make contracted payments on time.

- **Market Risk:** The possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

## Credit Risk: Investments

The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings upon which the Council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

A limit of £2m /10% of the total portfolio is placed on the amount of money that can be invested with a single counterparty (other than the UK government). The Council also sets limits on investments in certain sectors. No more than £2m /10% in total can be invested for a period longer than one year.

The table below summarises the credit risk exposures of the Council's investment portfolio by credit rating and remaining time to maturity:

| Credit Rating | 31 March 2019 | | 31 March 2018 | |
|---|---|---|---|---|
| | Long term £000s | Short term £000s | Long term £000s | Short term £000s |
| AAA | - | 1,400 | - | 1,500 |
| A+ | - | 1,480 | - | 894 |
| Unrated pooled funds | - | 8,698 | - | 8,698 |
| Unrated companies | 38,475 | 365 | 12,404 | 766 |
| Central Government | - | - | - | - |
| **Total investments** | **38,475** | **11,943** | **12,404** | **11,858** |

# Note 34 - Nature and Extent of Risks Arising from Financial Instruments

**Credit Risk: Trade and Lease Receivables**

The Council's credit risk on lease receivables is mitigated by its legal ownership of the assets leased, which can be repossessed if the debtor defaults on the lease contract.

Loss allowances on trade and contract assets have been calculated by reference to the Council's historic experience of default. Receivables are determined to have suffered a significant increase in credit risk where they are 30 or more days past due and they are determined to be credit-impaired where they are 90 or more days past due.

Receivables are written off to the Surplus or Deficit on the Provision of Services when they are six years past due, but steps are still taken to collect sums owing.

The following analysis summarises the Council's trade and lease receivables, by due date. Only those receivables meeting the definition of a financial asset are included.



| Trade Receivables | 31 March 2019 £'000 | 31 March 2018 £'000 |
|---|---|---|
| Neither past due nor impaired | 203 | 117 |
| Past due < 3 months | 10 | 14 |
| Past due 3 - 6 months | 3 | 8 |
| Past due 6 - 12 months | 2 | 60 |
| Past due 12+ months | 104 | 38 |
| Total receivables | **322** | **237** |

**Liquidity Risk**

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies.

There is no perceived risk that the Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans and ensuring that no more than 50% of the Council's borrowing matures in any one financial year.

The maturity analysis of financial instruments is as follows:

| | 31 March 2019 | | | 31 March 2018 | | |
|---|---|---|---|---|---|---|
| Time to maturity (Years) | Liabilities £000s | Assets £000s | Net £000s | Liabilities £000s | Assets £000s | Net £000s |
| Not over 1 | (22,716) | 14,484 | (8,232) | (31,313) | 14,743 | (16,570) |
| Over 1 but not over 2 | (17,367) | - | (17,367) | (300) | - | (300) |
| Over 2 but not over 5 | (3,470) | 14,521 | 11,051 | (450) | - | (450) |
| Over 5 but not over 10 | (20,951) | - | (20,951) | (15,000) | - | (15,000) |
| Over 10 but not over 20 | (31,800) | - | (31,800) | (30,000) | - | (30,000) |
| Over 20 but not over 40 | (29,410) | - | (29,410) | (24,037) | - | (24,037) |
| Over 40 | (7,941) | 23,301 | 15,360 | (4,000) | - | (4,000) |
| Uncertain date | - | 5,830 | 5,830 | - | 12,611 | 12,611 |
| **Total** | **(133,655)** | **58,136** | **(75,519)** | **(105,100)** | **27,354** | **(77,746)** |

The Council has £4m (2018 was £4m) of "Lender's option, borrower's option" (LOBO) loans where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, in the unlikely event that the lender exercises its option, the Council is likely to repay these loans. The maturity date is therefore uncertain.

## Note 34 - Nature and Extent of Risks Arising from Financial Instruments

**Market Risks: Interest Rate Risk**

**Credit Risk: Loans, Financial Guarantees and Loan Commitments**

The Council has lent money to CIFCO Ltd and Gateway 14 Ltd to invest in commercial property at market rates of interest. If CIFCO Ltd or Gateway 14 Ltd default on loan repayments the Council has the right to repossess assets and recover funds.

The Council manages the credit risk inherent in its loans for service purposes, financial guarantees and loan commitments in line with its published Investment Strategy

Loss allowances on loan commitments have been calculated by reference to predicted future repayments of interest and principal discounted to adjust for current and forecast economic conditions. They are determined to have suffered a significant increase in credit risk when there is changes in circumstances of CIFCO Ltd or Gateway 14 Ltd being able to make repayments and they are determined to be credit-impaired when loan repayments are not made.

| Borrower | Exposure Type | Balance sheet 2018/19 £000s | Risk exposure 2018/19 £000s | Balance sheet 2017/18 £000s | Risk exposure 2017/18 £000s |
|---|---|---|---|---|---|
| Local Company | Loans at market rates | 365 | 365 | 638 | 638 |
| Subsidiary | Loan commitment at market rates | 37,822 | 37,822 | 11,527 | 11,527 |
| **Total** | | **38,187** | **38,187** | **12,165** | **12,165** |

**Market Risks: Interest Rate Risk**

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited will rise
- investments at fixed rates – the fair value of the assets will fall.

Investments classed as "loans and receivables" and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure.

However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services.

Movements in the fair value of fixed rate investments measured at fair value will be reflected in Other Comprehensive income and Expenditure or the Surplus or Deficit on the Provision of Services as appropriate.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2019, £112.287m (2018: £74.087m) of principal borrowed was exposed to fixed rates and £18m (2018: £29m) to variable rates.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

| | 31 March 2019 £000s | 31 March 2018 £000s |
|---|---|---|
| Increase in interest payable on variable rate borrowings | 157 | 61 |
| Increase in interest receivable on variable rate investments | (161) | (157) |
| **Impact on Surplus or Deficit on the Provision of Services** | **(4)** | **(96)** |
| Decrease in fair value of available for sale financial assets | (47) | (31) |
| **Impact on Comprehensive Income and Expenditure** | **(47)** | **(31)** |
| Decrease in fair value of loans and receivables | (221) | (109) |
| Decrease in fair value of fixed rate borrowings/liabilities | (9,624) | (12,471) |

**Market Risks: Price Risk**

The market prices of the Council's fixed rate bond investments and its units in pooled bond funds are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk.

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investments of £5m. A 5% fall in commercial property prices would result in a £0.248m charge to Other Comprehensive Income & Expenditure – this would have no impact on the Surplus or Deficit on the Provision of Services until the investment was sold.

The Council's investment in a pooled equity fund is subject to the risk of falling share prices. This risk is limited by the Council's maximum exposure to equity investments of £2m. A 5% fall in share prices would result in a £0.124m charge to Other Comprehensive Income & Expenditure – this would have no impact on the Surplus or Deficit on the Provision of Services until the investments were sold.

## Note 34 - Nature and Extent of Risks Arising from Financial Instruments

### Transition to IFRS 9 Financial Instruments

The Council adopted the IFRS 9 Financial Instruments accounting standard with effect from 1 April 2018. The main changes include the reclassification and remeasurement of financial assets and the earlier recognition of the impairment of financial assets.

The Council has made use of the transitional provisions in IFRS 9 to not restate the prior year's financial statements, and the effect of the remeasurement is instead shown as an additional line in the Movement in Reserves Statement.

The changes made on transition to the balance sheet are summarised in these tables.

The categories are:
L & R – Loans and Receivables
FVPL – Fair Value through Profit and Loss
FVOCI – Fair Value through Other Income and Expenditure

| Financial Assets | IAS 39 31-Mar-18 | Reclassification | IFRS 9 01-Apr-18 |
|---|---|---|---|
| **Investments** | | | |
| L & R / Amortised cost | 786 | - | 786 |
| Available for sale / FVOCI | 8,775 | 1,232 | 10,007 |
| FVPL | 1,232 | (1,232) | - |
| **Total investments** | **10,793** | **-** | **10,793** |
| **Debtors** | | | |
| L & R / Amortised cost | 11,322 | - | 11,322 |
| FVPL | 2,500 | - | 2,500 |
| **Total debtors** | **13,822** | **-** | **13,822** |
| **Cash & Cash equivalents** | | | |
| FVPL | 2,738 | - | 2,738 |
| Total Cash & equivalents | 2,738 | - | 2,738 |
| **Total Financial Assets** | **27,353** | **-** | **27,353** |
| **Financial Liabilities** | | | |
| **Borrowing** | | | |
| Amortised cost | 103,233 | - | 103,233 |
| **Creditors** | | | - |
| Amortised cost | 1,877 | - | 1,877 |
| **Total Financial Liabilities** | **105,110** | **-** | **105,110** |
| **Net Financial Assets** | **(77,757)** | **-** | **(77,757)** |

| Reserves | IAS 39 31-Mar-18 | Reclassification | IFRS 9 01-Apr-18 |
|---|---|---|---|
| **Usable Reserves** | | | |
| General Fund | (15,253) | - | (15,253) |
| Housing Revenue Account | (4,701) | - | (4,701) |
| Other usable reserves | (7,169) | - | (7,169) |
| **Total usable reserves** | **(27,123)** | **-** | **(27,123)** |
| Unusable Reserves | | | |
| Available for sale reserve | 302 | (302) | - |
| Capital adjustment account | (78,112) | - | (78,112) |
| FI revaluation reserve (new) | - | 302 | 302 |
| **Other unusable reserves** | (29,783) | - | (29,783) |
| **Total unusable reserves** | **(107,593)** | **-** | **(107,593)** |
| **Total Reserves** | **(134,716)** | **-** | **(134,716)** |

# Note 35 - Accounting Policies

## A General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year end of 31 March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 and these regulations require it to be prepared in accordance with proper accounting practices. These practices primarily comprise the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the Local Government Act 2003. he accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

## B Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract
- Where revenue and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written off and a charge made to revenue for income that might not be collected.

The Council applies a £1,000 de-minimis policy on accruals at year-end. This means the Council does not record accruals for transactions under £1,000 except for the following:

- transactions relating to grant funding
- transactions going through our automated ordering system
- other minor exceptions

The application of the £1,000 de-minimis policy does not materially affect the accounts of the Council

## C Cash and Cash Equivalents

Cash and cash equivalents are represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management. They include short term investments in Money Market Funds. Further details can be found in Note 16 (Cash and Cash Equivalents) to the Core Statements.

**D Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made it is applied retrospectively, unless alternative transitional arrangements are specified in the Code, by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.



**E Charges to Revenue for Non-Current Assets**

Service revenue accounts and support services are charged with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision (MRP) by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Contracts related to assets under construction are accounted for using the percentage of completion method. Contract revenue is matched with contract costs incurred in reaching the state of completion at the Balance Sheet date.

**F Council Tax and Non-Domestic Rates (NDR)**

The Council is a Billing Authority. It acts as an agent collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement (CIES) is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments, prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable) the asset is written off and a charge made to the Collection Fund.



## G Employee Benefits – International Accounting Standard 19 (IAS 19)

### Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for leave etc earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out by a credit to the Accumulating Compensated Absences Adjustment Account through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs. Further details can be found at Note 19e.

### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date, or through voluntary redundancy. Costs incurred as a result are charged on an accruals basis to the appropriate service segments within the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to either terminating the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standard. Within Unusable Reserves in the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

**Post-Employment Benefits**

Employees of the Council are members of the Local Government Pension Scheme (if they take up the option to be part of the scheme), which is administered by Suffolk County Council. The scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees working for the Council.

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The defined benefit liabilities of the Suffolk County Council Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and expectations of projected earnings for current employees.
- Scheme liabilities are discounted to their value at current prices. The discount rate employed for the 2018/19 accounts is 2.4% which is based on the yield available on long-dated, high quality corporate bonds, as measured by a Corporate Bond yield curve constructed as follows:
  - Use the "Hymans Robertson" corporate bond yield curve (based on the constituents of the iBoxx AA Corporate bond index)
- The assets of the Suffolk County Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities - current bid price
  - unquoted securities - professional estimate
  - unitised securities - current bid price
  - property - market value.
- The change in the net pensions liability is analysed into three main components:

Service Cost comprising:

- Current service cost: the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- Past service cost: the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
- Net Interest on the net defined benefit liability (asset), i.e. net interest expense for the Council: the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Re-measurements comprising:

- The return on plan assets excluding amounts included in net interest on the net defined benefit liability (asset): charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses: changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These are charged to the Pensions Reserve and shown as Other Comprehensive Income and Expenditure.

Contributions:

- Contributions paid to the Suffolk County Council Pension Fund: cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.



#### Discretionary Benefits

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

For more information on Retirement Benefits and IAS19 see Note 32 of the Core Statements.

### H Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### I Financial Instruments

#### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest), and interest charged to the CIES is the amount payable for the year according to the loan agreement.

**Financial Assets**

Dividends are credited to the CIES when they become receivable by the Council.
To meet new Code requirements, financial assets are now classified into one of three categories:

- Financial assets held at amortised cost. These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specified amounts. The amount presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the CIES is the amount receivable as per the loan agreement.

- Fair Value Through Other Comprehensive Income (FVOCI) – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of.

- Fair Value through Profit and Loss (FVPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances (including balances outstanding at the date of de-recognition of an asset) are debited/credited to the Financing and Investment Income and Expenditure line in the CIES.

Changes in the value of assets carried at fair value are debited/credited to the Financing and Investment Income and Expenditure line in the CIES as they arise.

**J Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and

- the grants or contributions will be received

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. A condition exists if the grant stipulates a return of the funds if it is not used as directed.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non Specific Grant Income and Expenditure (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

.Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve

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Where it is applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects including transport, flood defence, schools, footpaths and play areas to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue expenditure.



### K Intangible Assets

Intangible Assets represent expenditure that has been properly capitalised but which does not create a tangible asset for the Council. Intangible Assets include assets such as acquired or internally developed software that qualifies for recognition as an intangible asset.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Depreciation is calculated on the basis of a useful life of 5 to 7 years (except Stock Condition Survey which is 10 years).

**L Interests in Companies and Other Entities**

The Council has a 100% shareholding in MSDC (Suffolk Holdings) Limited. The holding company has a 50% shareholding in CIFCO Capital Limited and 100% shareholding Gateway 14 Limited and 100% shareholding in Mid Suffolk Growth Ltd. This relationship has created a requirement for the Council to prepare Group Accounts.

In the Council's single entity accounts, it's interest in these companies are classified as financial assets and measured at cost less provision for any losses.

**M Inventories**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value, except where inventories are acquired through a non-exchange transaction in which case their cost is deemed to be fair value as at the date of acquisition.



**N Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfillment of the arrangement is dependent on the use of specific assets.

**The Council as Lessee**

**Finance Leases**

The Council has no finance leases where it is the lessee.

**Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

**The Council as Lessor**

**Finance Leases**

The Council has no finance leases where it is the lessor.

**Operating Leases**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).

Initial direct costs incurred in negotiating and arranging the lease are added to the Balance Sheet value of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

## O Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

## P Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.



### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. The Council has set a minimum level of expenditure of £10,000.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

### Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition will not increase the cash flows of the Council. In the latter case, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then shown in the Balance Sheet using the following measurement bases:

- Infrastructure – depreciated historical cost
- Council Dwellings – current value, determined using the basis of existing use value for social housing (EUV–SH)
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- Vehicles, plant and equipment – depreciated historical cost. These assets have short useful lives and any difference from current replacement cost would be insignificant
- Assets under construction and community assets, which are mainly parks and open spaces, are included in the Balance Sheet at historical cost
- All other assets, including Heritage assets– current value, using a valuation method appropriate for the asset in its existing use.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly (by desktop valuations) to ensure that their Balance Sheet value is not materially different from their current value at the year end, but as a minimum a full valuation is undertaken every five years. Valuations of land and buildings are carried out in accordance with the specific bases and methods of valuation set out in the professional standards of the Royal Institute of Chartered Surveyors.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement (CIES) where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the Balance Sheet value of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or insufficient balance, the Balance Sheet value of the asset is written down against the available balance and then charged to the relevant service line(s) in the CIES.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

**Impairment**

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the Balance Sheet value of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified they are accounted for:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the Balance Sheet value of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the balance sheet value of the asset is written down against the relevant service line(s) in the CIES

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

**Depreciation**

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is charged from the quarter following addition and is calculated on the following bases:

- Council dwellings, other buildings and surplus assets – straight-line allocation over the useful life of the property as estimated by the Valuer
- Infrastructure - straight line allocation over 30 years
- Vehicles, plant and equipment - straight line over its useful life, as advised by a suitably qualified officer
- IT and Communications - 5 years

Where an asset of significant value, for example the leisure centres, includes a number of components with significantly different asset lives, e.g. plant and equipment (services) then these components are treated as separate assets and depreciated over their own useful economic lives.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Where an item of Property, Plant and Equipment has major components with different useful lives and a cost that is significant in relation to the total cost of the item, the components are depreciated separately. The Council has established a threshold of £500,000 for individual General Fund assets to determine whether an asset needs to be componentised. For these assets a component is required to have a value of more than 20% of the total asset value to be depreciated separately.

Council dwellings are not componentised beyond land, buildings and PV Panels as the value of components is not considered to be significant in relation to the total cost of the asset and the difference in depreciation, which would result if componentisation was applied, is not considered to be material. The componentisation policy applies retrospectively. Componentisation for HRA assets will remain under review.

Stowmarket Leisure Centre, Stowmarket depot and Stradbroke swimming pool are depreciated on a component basis as per the agreed £500,000 de-minimis policy. Non-specialised properties assets have been split into five components: land, structure, roof, services, and, fixtures and fittings. For specialised assets such as the Leisure Centre additional specialised components have been considered.

**Disposals and Non-Current Assets Held for Sale**

When it becomes probable that the Balance Sheet value of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then stated in the Balance Sheet at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on the Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the Balance Sheet value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to Council dwelling disposals is payable to the Government. The balance of receipts remains within the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## Q Provisions, Contingent Liabilities and Contingent Assets

### Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits, and a reliable estimate can be made, but where the timing of the transfer is uncertain.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Provisions for housing rent bad debts, housing benefit overpayments and sundry debtor arrears have been made. A provision has also been made in the Collection Fund for uncollectable Council Taxes and Non-Domestic Rates.

**Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

**Contingent Assets**

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

## R Reserves

The Council sets aside specific amounts as earmarked reserves for future policy purposes or to cover contingencies (but not contingent liabilities). Reserves are created by transferring amounts out of the General Fund Balance or Housing Revenue Account in the Movement in Reserves Statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance or Housing Revenue Account in the Movement in Reserves Statement so that there is no net charge against council tax or rents for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement and employee benefits that do not represent usable resources for the Council. These reserves are explained in more detail in Note 19 to the Core Statements.

## S Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

## T VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

## U Joint working with Babergh District Council (BDC)

Costs or savings that arose through integration with Babergh District Council during 2018/19 were shared between the two Councils using an agreed basis determined as part of the budget setting process. All service areas were consulted and a basis was identified for cost sharing for each individual employee.

The basis for cost sharing will be reviewed on an ongoing basis to ensure accuracy.

## V Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at the Balance Sheet date.

Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transition to sell the asset or transfer the liability talks place either:

- In the principal, market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements and categorised within the fair value hierarchy, as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability

## W Heritage Assets

All assets in excess of £10,000 maintained principally for their contribution to knowledge and culture will be recognised at valuation in the Balance Sheet as Heritage Assets. Valuations may be made by any method that is appropriate and relevant; this may include, for example, insurance valuations. Where it is not practicable to obtain a valuation, the assets will be measured at historical cost. Where information on cost or value is not available, the asset will not be recognised in the Balance Sheet, but a disclosure will be made in the notes to the accounts.

Acquisitions of heritage assets will initially be recognised at cost.

A full revaluation every five years is not required. However, the carrying amount of all heritage assets will be reviewed annually to ensure they remain current. An impairment review will only be undertaken where it is evident that the asset has suffered physical deterioration.

Heritage Assets will not be subject to a depreciation charge.

**X Basis of consolidation for Group Accounts**

The Group Accounts have been prepared using the Group Accounts requirements of the CIPFA Code of Practice. Companies that are within the Council's group boundary have been included in the Council's Group Accounts to the extent that they are either quantitatively or qualitatively material to users of the financial statements.

This will give the reader the ability to see the complete economic activities of the Council and its exposure to risk through interests and participation in their activities.

The Council's subsidiary, MSDC (Suffolk Holdings) Limited, its joint venture, CIFCO Capital Ltd, and its wholly owned subsidiary, Gateway 14 Ltd have been consolidated on a line by line basis, subject to elimination of intra-group transactions from the statements, in accordance with The Code.

No amendments have been necessary to the accounts of the group, since the accounting policies are the same.

## Note 36 – Interest in Companies

The Council holds an interest in MSDC (Suffolk Holdings) Limited which was incorporated on 9 June 2017, and the company registration number is 10812689. It issued 100 of £1 ordinary shares to the Council.

This company has a 50% shareholding in CIFCO Capital Ltd, a 100% shareholding in Gateway 14 Ltd and a 50% shareholding in Mid Suffolk Growth Ltd. (which was incorporated on 19 March 2019).

The Council has prepared Group Accounts which can be found on pages 103 to 108. The statements are intended to present financial information about the parent company (the Council) and to reflect the Council's share of the holding company's net assets.

## Note 37 - Heritage Assets

At 31 March 2019 the Council recognises that it holds non-current assets meeting the heritage asset criteria. However, it is not material to classify these assets separately in the Balance Sheet.

The Council recognises Eye Castle as meeting the heritage asset criteria. Eye Castle is a Norman Motte and Bailey castle with medieval walls and a Victorian folly. The castle is held within community assets valued at historical cost (£43,000).

The Council also has two Bronze Age ring ditches at Needham Lake, meeting the heritage asset requirements. These ditches are of a diverse nature and have no comparable market value. The Council therefore does not consider that reliable cost or valuation information can be obtained for these assets and as a result the assets are not carried in the Balance Sheet.

# Section 4

## Supplementary Statements

# Housing Revenue Income and Expenditure Statement

The Housing Revenue Account (HRA) Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants.

Councils charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

| 2017/18 £'000 | | HRA Note | 2018/19 £'000 |
|---|---|---|---|
| | **Expenditure** | | |
| | Repairs, Maintenance and Management: | | |
| 3,030 | - Repairs and Maintenance | 1 | 3,880 |
| 3,326 | - Supervision and Management | 2 | 3,146 |
| 111 | Rents, rates and other charges | | 69 |
| 7,238 | Depreciation, Impairment and Revaluation losses of Non-current Assets: | 3 | 6,527 |
| 20 | Debt Management Costs | | 12 |
| 17 | Increase in Bad Debt allowance | 4 | 150 |
| **13,742** | | | **13,784** |
| | **Income** | | |
| | Gross Rental Income: | | |
| (14,019) | - Dwelling Rents | 5 | (14,045) |
| (410) | - Non-Dwelling Rents | 5 | (371) |
| (642) | Charges for Services and Facilities | 6 | (679) |
| (53) | Contributions towards expenditure | 7 | (35) |
| | Other Income | | |
| **(15,124)** | | | **(15,130)** |
| **(1,382)** | **Net Income of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement** | | (1,346) |
| 147 | HRA share of Corporate and Democratic Core | 8 | 209 |
| (221) | HRA share of other amounts included in Net Cost of Services but not allocated to specific services | 9 | (266) |
| **(1,456)** | **Net Income for HRA Services** | | **(1,403)** |
| | **HRA share of the operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement:** | | |
| (682) | (Gain) / Loss on the disposal of non current assets | 10 | 179 |
| 2,704 | Interest payable and similar charges | 11 | 2,693 |
| (7) | Interest receivable and similar income | 11 | (15) |
| 151 | Net interest on the net defined benefit liability / (asset) | 12 | 148 |
| **710** | **Surplus for the year on HRA services** | | **1,602** |

# Housing Revenue Account Movement on the HRA Statement

The overall objectives for the Movement on the HRA Statement and the general principles for its construction are the same as those generally for the Movement in Reserves Statement, into which it is consolidated.

The statement takes the outturn on the HRA Income and Expenditure Statement and reconciles it to the surplus or deficit for the year on the HRA Balance, calculated in accordance with the requirements of the Local Government and Housing Act 1989.

| 2017/18 £'000 | | HRA Note | 2018/19 £'000 |
|---|---|---|---|
| **(1,210)** | Balance on the HRA at the end of the previous reporting period | | **(1,210)** |
| 710 | Surplus for the year on the HRA Income and Expenditure Statement | | 1,602 |
| (1,176) | Adjustments between accounting basis and funding basis under statute (Note 7 to the Core Statements) | | (1,136) |
| **(466)** | Net increase before transfers to reserves | | **466** |
| 466 | Transfers to / (from) earmarked reserves | 19 | (466) |
| - | Increase in year on the HRA | | **-** |
| **(1,210)** | **Balance on the HRA at the end of the current reporting period** | | **(1,210)** |

# Notes to the Housing Revenue Account

## Note 1 – Repairs and Maintenance

This line covers the expenditure of the Council for the year in respect of the repair and maintenance of dwellings and other property within the HRA account. This includes works to property such as painting or the replacement of broken windows. It does not include work such as re-roofing or the installation of double glazing as this is capital expenditure.

## Note 2 – Supervision and Management

This line represents the expenditure of the Council for the year in respect of the supervision and management of dwellings (the stock of Council dwellings), including tenancy management, rent collection, and grounds maintenance, etc.

## Note 3 – Depreciation, Impairments and Revaluation Losses



The HRA includes a depreciation charge for dwellings based on their estimated useful economic lives.

The depreciation charge in respect of 'Other HRA Property' is included in the Surplus / Deficit on the Provision of services but is reversed out of net operating expenditure as a transfer from the Major Repairs Reserve (MRR) so as not to impact on housing rents.

Impairment is charged to the line for HRA in the Comprehensive Income and Expenditure Statement. Impairment of dwellings is reversed out in the Movement in Reserves Statement and therefore does not affect the overall working balance of the HRA.

| Depreciation, Impairments and Revaluation Losses | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| HRA accounting authorities are required to show depreciation charges for all of the HRA's non current assets, as follows: | | |
| Dwellings | 3,630 | 3,345 |
| Other Land and Buildings | 52 | 36 |
| Other HRA property | 79 | 60 |
| Non-operational Assets | | |
| Impairment of Dwellings and Other Land and Buildings charged to the Income and Expenditure Account | 2,766 | 3,797 |
| Reversal of Impairments charged to Income and Expenditure in prior years | | |
| **Total** | **6,527** | **7,238** |

# Notes to the Housing Revenue Account

## Note 4 – Movement in the Allowance for Bad Debts

The following table shows the change in rent arrears during the year, and the corresponding overall decrease in the allowance for bad debts:

| Movement in Arrears and for the Allowance for Bad Debts | 2018/19 | 2017/18 | Movement |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Total Arrears** | | | |
| Rent arrears - current tenants | 374 | 329 | 45 |
| Rent arrears - former tenants | 91 | 87 | 4 |
| **Total Arrears at end of year** | **465** | **416** | **49** |
| **Bad Debt Provision at start of year** | 154 | 176 | (22) |
| Write offs in the year | (72) | (39) | (33) |
| Increase / (Decrease) in Provision in the year | 150 | 17 | 133 |
| **Bad Debt Provision at end of year** | **232** | **154** | **78** |

## Note 5 - Dwelling and Non – Dwelling Rents

### Dwelling Rents

This line comprises the income of the Council receivable for the year from rents in respect of dwellings within the HRA. The Code's requirement for this item to be disclosed 'gross' means that the total includes rent remitted by way of rebate, which is financed by a compensating credit from the General Fund.

The requirement for a 'gross' disclosure means that the figure excludes any amounts in respect of rent foregone on void properties and discretionary rent-free periods.

The average rent per week in 2018/19 was £81.78 (in 2017/18 £82.74)

### Non - Dwelling Rents

This line includes the income of the Council receivable for the year from rents and charges in respect of other property within the account, such as land, garages and shops etc.

## Note 6 - Charges for Services and Facilities

This represents the income of the Council for the year in respect of services or facilities provided by the Council in connection with the provision of dwellings and other properties within the account,

These charges relate to heating, warden and other communal services provided to residents in sheltered accommodation. They also include charges to tenants for community alarm systems and central heating servicing but exclude payments for welfare services that are outside the scope of the HRA.

## Note 7 – Contribution towards expenditure

This item covers contributions received, mainly from the General Fund and outside bodies or persons, towards expenditure which has been properly debited to the HRA, such as those in respect of benefits or amenities provided under housing powers but shared by the wider community. Where service charges are received from leaseholders, they can be applied to net down the relevant expenditure, rather than credited as part of this item, provided that the expenditure was incurred directly on the leasehold property and can be identified separately from that incurred on HRA property.

# Notes to the Housing Revenue Account

## Note 8 – HRA Share of Corporate and Democratic Core

The Net Cost of Services in the HRA Income and Expenditure Statement is generally prepared in accordance with the total cost requirements of the Service Reporting Code of Practice (SeRCOP). However, the statutory requirement for the HRA to be debited with the expenditure actually incurred by the Council during the year means that an additional debit is required to charge the HRA with elements of Corporate and Democratic Core costs that can either:

- be identified directly to HRA services, or
- be fairly apportioned to HRA services in line with SeRCOP's seven general principles of overhead apportionment.

The debit is made to the HRA Income and Expenditure Statement after a sub-heading for the Net Cost of HRA Services included in the whole Council Comprehensive Income and Expenditure Statement, so that the entry for the HRA in the latter can be read across straightforwardly to the HRA Statement. However, the aggregate HRA Net Cost of Services is then presented to include this debit.



## Note 9 – HRA Share of other amounts included in Net Cost of Services but not allocated to specific services

In addition to a share of Corporate and Democratic Core costs that can be allocated to the HRA, there may be other items of expenditure excluded from total cost that should reasonably be debited against the HRA Net Cost of Services in order to satisfy statutory requirements. These include non-distributed costs, e.g. past service costs and settlements relating to post-employment benefits that can fairly be related to HRA activity.

## Note 10 – Gain or Loss on Disposal of Non-Current Assets

Non-Current Assets identified as surplus are required to be valued at Fair Value, and for Housing "Right to Buy" disposals the applicable discounts are applied after revaluation. Both the capital receipt arising from the asset sale and the carrying value of the asset at the point of disposal are then taken to the Comprehensive Income and Expenditure Statement, and any difference between the two amounts is recognised as a gain or loss on disposal.

| Gain or Loss on Disposal of Non Current Assets | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Cost of selling Council Dwellings | 17 | 34 |
| Discount on land to housing associations | | |
| Carrying value of disposed assets | 1,529 | 3,301 |
| Receipts | (1,367) | (4,017) |
| **(Gain) / Loss on disposal of Housing Non Current Assets** | **179** | **(682)** |

It is important to highlight that gains and losses are not a charge on HRA tenants, and the impact is reversed out in the Movement in Reserves Statement to ensure there is no real impact on fund balances for the year.

# Notes to the Housing Revenue Account

## Note 11- Interest Payable and Receivable

**Interest Payable and Similar Charges**

This represents the real interest charges to the HRA in respect of financing capital expenditure. Throughout the year interest is charged directly to the HRA for long term borrowing and charged to the General Fund for short term borrowing. The Item 8 adjustment then distributes the relevant interest charge for short term borrowing to the HRA.

**Interest and Investment Income**

This represents interest receivable on balances. As with short term borrowing, all investment income is credited to the General Fund in the year and then distributed to the HRA as part of the Item 8 adjustment.

## Note 12 - Net Interest on the Net Defined Benefit Liability / Asset

Allocations to the HRA of a share of the Council's overall IAS 19 pensions interest cost is based on an apportionment of costs between the General Fund and HRA. For a fuller explanation of the Pension scheme, see Note 32 Pension Schemes Accounted for as Defined Benefit Schemes, within the Notes to the Core Statements.



## Note 13 - Housing Stock

The following table analyses the total of the Council's housing stock by type of dwelling.

| Housing Stock | 2018/19 | 2017/18 Restated |
|---|---|---|
| **The stock of dwellings has changed as follows:** | | |
| Opening stock of dwellings | 3,268 | 3,263 |
| Add: additions/conversions | 16 | 37 |
| Less: sales - Right to Buy (RTB) | (12) | (31) |
| - Non-RTB | - | (1) |
| Less: properties lost to conversion, disposal and deletion | - | - |
| **Closing stock of dwellings** | **3,272** | **3,268** |
| **Analysis of closing stock numbers:** | | |
| Houses and Bungalows | 2,700 | 2,696 |
| Flats | 247 | 247 |
| Sheltered Housing - Bungalows, Flats & Bedsits | 301 | 301 |
| **Total** | **3,248** | **3,244** |

In addition the Council owns a share of 24 shared ownership properties

## Note 14 – Non-Current Assets at Balance Sheet Value

The following table shows the Balance Sheet values of all the HRA Non-Current assets at 31 March 2019.

The District Valuer carried out a desktop valuation as at 31 March 2019.

The net decreases in value resulted in impairment losses of £2,765k. Revaluation losses that were less than previous revaluation gains have been absorbed within the Revaluation Reserve.

A full valuation of Council dwellings is required every five years; the next full valuation is due on 31 March 2021.

| Non Current Assets at Balance Sheet Value | 31 March 2019 £'000 | 31 March 2018 £'000 |
|---|---|---|
| **Operational Assets** | | |
| Dwellings -General Stock | 224,910 | 215,839 |
| Other Land and Buildings | 4,066 | 4,465 |
| Community Assets | 55 | 55 |
| Intangible Assets | 190 | 247 |
| Vehicles, Plant and Equipment | 19 | 26 |
| **Non-Operational Assets** | | |
| Surplus Assets not Held for Sale | 600 | - |
| Assets under construction | 2,249 | 523 |
| **Total Balance Sheet Value of HRA Non Current Assets** | **232,089** | **221,155** |



## Note 15 – Council Dwellings at Vacant Possession Value

The vacant possession value of Council dwellings at 31 March 2019 is based on valuations at 1 April 2018. They are £595.4m for 2018/19 (2017/18 £526m).

The only assets valued at vacant possession now are Council dwellings (including special units) and Sheltered Accommodation. The vacant possession value is the Council's estimate, based on information from the District Valuer, of the total sum that it would receive if all the assets were sold on the open market.

The Balance Sheet Value for the dwellings is the 'Existing Use Social Housing Value' (EUSHV) and reflects the fact that the dwellings are occupied by secure tenants.

The Vacant Possession Value for the dwellings is equivalent to the open market value. The difference between the two values is a discount of 62%, based on guidance issued by the CLG, and reflects the economic cost of providing Council housing at less than the open market value.

# Notes to the Housing Revenue Account

## Note 16 - Capital Expenditure

The following table summarises the HRA capital programme and how it was financed.

| Capital expenditure and how it has been financed: | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| Capital Expenditure: | | |
| Dwellings | 7,692 | 4,995 |
| Assets under Construction | 2,230 | 1,797 |
| Other (including IT Infrastructure) | 32 | 124 |
| **Total Expenditure** | **9,954** | **6,916** |
| Financed by: | | |
| Borrowing | (611) | - |
| Useable Capital Receipts | (3,401) | (1,060) |
| Revenue Contributions | (1,915) | (2,193) |
| Major Repairs Reserve | (3,761) | (3,442) |
| Grants and Contributions | (266) | (221) |
| **Total Financing** | **(9,954)** | **(6,916)** |

## Note 17 - Capital Receipts

The following table summarises the number and types of assets sold and the total capital receipts generated during 2018/19.

| Capital receipts from the sale of Council Dwellings | 2018/19 No's | 2017/18 Restated No's |
|---|---|---|
| Number of dwellings disposed in year | | |
| Right to Buy | 14 | 31 |
| Shared Ownership | - | 3 |
| | **14** | **34** |
| | **£'000** | **£'000** |
| Receipts from disposals | | |
| Right to Buy | 1,367 | 3,142 |
| Shared Ownership | - | 650 |
| Other Land and Buildings | - | 200 |
| Vehicles, Plant and Equipment | - | 36 |
| | **1,367** | **4,028** |

## Note 18 - Major Repairs Reserve

The Council is required under statute to maintain a Major Repairs Reserve (MRR) to help finance major capital projects.

### Credits to the Major Repairs Reserve

(a) an amount equal to HRA dwellings depreciation for the year

(b) transfers from the HRA required by statutory provision

Item (a) has to be debited to the Capital Adjustment Account and item (b) to the HRA Balance and included as a reconciling item in the Statement of Movement on the HRA Balance and in the Reserves Adjustments, which can be seen in Note 7 to the Core Statements.

### Debits to the Major Repairs Reserve

(a) capital expenditure on land, dwellings and other property within the HRA, where this is to be funded from the MRR

(b) any repayment, made in the year, of the principal of any amount borrowed where the repayment was met by payment out of the MRR

(c) transfers to the HRA required by statutory provision.



Items (a) and (b) have to be credited to the Capital Adjustment Account and item (c) to the HRA Balance and included as a reconciling item in the Statement of Movement on the HRA Balance and in the Reserves Adjustments, which can be seen in Note 7 to the Core Statements.

This table summarises the movement on the Major Repairs Reserve:

| Movements in the Major Repairs Reserve | 2018/19<br>£'000 | 2017/18<br>£'000 |
|---|---|---|
| **Balance at 1 April** | - | - |
| Charged in the Comprehensive Income and Expenditure Statement | (3,761) | (3,442) |
| Transfer to Capital Adjustment Account | 3,761 | 3,442 |
| **Balance at 31 March** | - | - |

## Note 19 – HRA Reserves

The deficit on this year's HRA activity of £495k has been transferred from the Strategic Priorities Reserve.

# The Collection Fund Statement

The Collection Fund is an agent's statement that reflects the statutory obligation for the Council (as billing authority) to maintain a separate Collection Fund.

The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

The County Council and all the Suffolk billing authorities have entered a countywide non-domestic rates pilot arrangement, which includes provision for the risks and benefits to be shared on an agreed basis.

| Council Tax 2017/18 £'000 | Non Domestic Rates 2017/18 £'000 | | Note | Council Tax 2018/19 £'000 | Non Domestic Rates 2018/19 £'000 |
|---|---|---|---|---|---|
| | | **Income:** | | | |
| (57,374) | - | Income from Council Tax | 3 | (60,853) | - |
| - | (20,103) | Income from Non Domestic Ratepayers | 2 | - | (22,670) |
| - | (343) | Contributions towards previous year's estimated Collection Fund Deficit | | - | (2,392) |
| **(57,374)** | **(20,446)** | | | **(60,853)** | **(25,062)** |
| | | **Expenditure:** | | | |
| | | **Precepts and Demands** | | | |
| 42,352 | 2,298 | Suffolk County Council | 4 | 45,151 | 4,500 |
| 6,329 | - | Suffolk Police & Crime Commissioner | 4 | 6,861 | - |
| 8,194 | 9,192 | Mid Suffolk District Council | 4 | 8,466 | 17,998 |
| - | 11,490 | Central Government | 4 | - | - |
| **56,875** | **22,980** | | | **60,478** | **22,498** |
| | | **Charges to the Collection Fund** | | | |
| - | (140) | Transitional Protection Payments | | - | (340) |
| | | Impairment of Debts and Appeals: | | | |
| - | - | Write Offs | | - | 179 |
| 54 | 10 | Increase/(Decrease) in Bad Debt Allowance | | 105 | 69 |
| - | (313) | Increase/(Decrease) in Provisions for Appeals | | - | 607 |
| - | 127 | Cost of Collection | | - | 127 |
| - | 335 | Energy Scheme credited to General Fund | | - | 328 |
| 615 | - | Contributions towards previous year's estimated Collection Fund Surplus / (Deficit) | | 488 | - |
| **57,544** | **22,999** | | | **61,071** | **23,468** |
| 170 | 2,553 | **Movement on Fund Balance - (Surplus) / Deficit** | 1 | 218 | (1,594) |
| (614) | 227 | **(Surplus) / Deficit Brought Forward 1 April** | 1 | (444) | 2,780 |
| **(444)** | **2,780** | **(Surplus) / Deficit Carried Forward 31 March** | | **(226)** | **1,186** |

# Notes to the Collection Fund

## Note 1 – Movement on the Collection Fund Balance

The collection of council tax and non-domestic rates is in substance an agency arrangement and the cash collected belongs proportionately to the Council, the Government and major preceptors. The Council's share of the fund balance is taken to the Collection Fund Adjustment Account. Balances belonging to major preceptors and the Government are shown in the accounts within debtors or creditors as appropriate. The balance on the Council Tax fund will be taken into account in setting future Council Tax levels.

### Council Tax

| Movements on the Collection Fund Balance - Council Tax<br>Preceptors | Balance 31 March 2017<br>£'000 | Movement 2017/18<br>£'000 | Balance 31 March 2018<br>£'000 | Movement 2018/19<br>£'000 | Balance 31 March 2019<br>£'000 |
|---|---|---|---|---|---|
| Mid Suffolk District Council | (89) | 25 | (64) | **32** | **(32)** |
| Suffolk County Council | (456) | 125 | (331) | **163** | **(168)** |
| Police and Crime Commissioner | (69) | 20 | (49) | **23** | **(26)** |
| (Surplus) / Deficit | (614) | 170 | (444) | **218** | **(226)** |

### Non-Domestic Rates

| Movements on the Collection Fund Balance - NDR<br>Preceptors | Balance 31 March 2017<br>£'000 | Movement 2017/18<br>£'000 | Balance 31 March 2018<br>£'000 | Movement 2018/19<br>£'000 | Balance 31 March 2019<br>£'000 |
|---|---|---|---|---|---|
| Central Government | 113 | 1,277 | 1,390 | **(1,196)** | **194** |
| Suffolk County Council | 23 | 255 | 278 | **(80)** | **198** |
| Mid Suffolk District Council | 91 | 1,021 | 1,112 | **(318)** | **794** |
| (Surplus) / Deficit | 227 | 2,553 | 2,780 | **(1,594)** | **1,186** |

# Notes to the Collection Fund

## Note 2 – Non-Domestic Rates

The Council collects non-domestic rates in the district. From 1 April 2013 the non-domestic rates retention scheme was introduced which means that the total amounts collected from non-domestic ratepayers are no longer paid into a national pool administered by the Government. Instead, they are shared between non-domestic rates preceptors and the Government with the surplus or deficit adjusted in the following year. The Council's share of this redistribution is shown in the Comprehensive Income and Expenditure Statement.

The valuation list was revised in April 2017. The next revaluation of all non-domestic properties is due in April 2021.

| **The total non-domestic rateable value at the year-end and the national non-domestic rate multiplier for the year** | **2018/19** | **2017/18** |
|---|---|---|
| Total Rateable Value of Business Properties in March | £60.859m | £60.271m |
| National Rate in the £ | 49.3p | 47.9p |
| Small Business Rate Multiplier | 48.0p | 46.6p |



The actual income of £22.670m, shown in the accounts, differs to the estimate of £30.003m due to changes in rateable values, reliefs granted, and allowances made during the year.

## Note 3 - Income from Council Tax

The Council estimated its tax base for 2018/19 as 36,337.39 (2017/18 was 35,785.68) as shown in the following table.

| Council Tax Band | Chargeable Dwellings | Factor | Band D Equivalents £ |
|---|---|---|---|
| Disabled A | 12.75 | 5/9ths | 7.08 |
| A | 4,448.89 | 6/9ths | 2,965.93 |
| B | 10,955.03 | 7/9ths | 8,520.58 |
| C | 9,100.71 | 8/9ths | 8,089.52 |
| D | 6,640.80 | 9/9ths | 6,640.80 |
| E | 5,031.46 | 11/9ths | 6,149.57 |
| F | 2,734.71 | 13/9ths | 3,950.14 |
| G | 1,533.50 | 15/9ths | 2,555.83 |
| H | 100.00 | 18/9ths | 200.00 |
| **Total** | **40,557.85** | | **39,079.45** |
| | | | |
| Less Council Tax Reduction Scheme | | | (2,559.46) |
| Adjustment for Collection Rate for Year which was estimated at 99.5% | | | (182.60) |
| Taxbase (Band D Equivalent) | | | 36,337.39 |
| | | | |
| | | | **2018/19** |
| Average Band D Council Tax | | | **1,664.36** |
| Mid Suffolk's Share | | | **162.78** |

To meet the demands of Suffolk County Council, Suffolk Police and Crime Commissioner, Mid Suffolk District Council and Parish/Town Councils, a council tax of £60.478m (£56.875m for 2017/18) was levied on the tax base, providing an average Band D Council Tax of £1,664.36 (£1,589.32 for 2017/18).

The actual income of £60.853m, shown in the accounts, differs to the estimate of £60.478m due to changes in dwelling numbers, actual reliefs granted and discounts allowed during the year.

## Note 4 - Precepts and Demands

### Council Tax

The Suffolk County Council and the Suffolk Police and Crime Commissioner precepts are charged to the Collection Fund. Precepts by Parish and Town Councils are charged to the Council's General Fund and included in Mid Suffolk District Council's demand on the Collection Fund of £8.466m for 2018/19 (£8.194m for 2017/18). For 2018/19 the total of the Parish Precepts was £2.552m (£2.398m for 2017/18).



### Non-Domestic Rates

In 2017/18, demands on the non-domestic rates collection fund were from central government, Suffolk County Council and the District Council, at the rate of 50%, 10% and 40% respectively. The demand from the district is shown as income to the Council's General Fund.

From 1 April 2018, the Suffolk County Business Rates Retention Pool became a 100% Pilot, which meant that the demands on the collection fund, during 2018/19, were at the rate of 80% by the District Council and 20% by Suffolk County Council (the government no longer demanding a share). This explains the significant variation between the two years.

From 1 April 2019, the Suffolk County Pool will resort back to the same rate of demands as in 2017/18.

Of Mid Suffolk's £17.998m, £14.805m was paid over to the Suffolk Pool (an element of this is then retained by Suffolk County Council and the rest paid over to Central Government) as a tariff payment, leaving a £3.193m payment to the Council's General Fund in 2018/19.

Actual income and expenditure for the year is then reflected in the Fund Balance (see Note 1 above). It should be noted that there is a surplus shown, and the Government provided extra rate relief for smaller businesses during 2018/19 and giving Councils additional Section 31 grants to cover the cost. For Mid Suffolk, this grant was £2.278m (for 2017/18 £1.031m). The extra amount of grant is based on the higher rate (80% in 2018/19 compared with 40% in 2017/18).

# Group Accounts and Explanatory Notes

## Introduction

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 sets out comprehensive requirements for Group Accounts requiring Councils to consider all their interests in subsidiaries, associates and joint ventures.

The purpose of Group Accounts is to provide a picture of Mid Suffolk District Council and the group of companies which are either controlled or are significantly influenced by the Council.

The Group Accounts show the full extent of the Council's wider assets and liabilities and show its exposure to risk through interests in other entities and participation in their activities.

While the Group Accounts are not primary statements, they provide transparency and enable comparison with other entities that have different corporate entities.



The Group Accounts include the following:

- Group Movement in Reserves:
  This shows the movement in the year on the Council's single entity usable and unusable reserves together with the Council's share of the Group Reserves.
- Group Comprehensive Income and Expenditure Statement:
  This summarises the resources that have been generated and consumed in providing services and managing the group during the year. It includes all day to day expenses and related income on an accruals basis.
- Group Balance Sheet:
  This reports the Council Group financial position at the year end.
- Group Cash Flow Statement:
  This shows the changes in cash and cash equivalents of the group during the year. The statement shows how the group generates and uses cash and cash equivalents by classifying cashflows as operating, financing and investing activities.
- Notes to the Group Accounts:
  This shows where the balances are materially different to those in the single entity accounts.

## Results of Subsidiary

The following notes provide additional details about the Council's involvement in the entities consolidated to form the Group Accounts.

MSDC (Suffolk Holdings) Limited was incorporated as a private limited company on 9 June 2017 as a commercial investment vehicle for the Council.

The Council owns 100% of the shareholding, has full voting rights and can appoint and remove directors. The Council's chief executive officer is the company secretary and three councillors are board members.

The holding company owns 50% shares of CIFCO Capital Limited which has two councillors on its board of five directors and owns 100% of Gateway 14 Limited which has two councillors on its board of six directors.

The holding company also owns 50% of the shareholding of Mid Suffolk Growth Limited, which has two councillors on its board of five directors. It was incorporated on 19 March 2019 but had no transactions in 2018/19.

All the boards must provide regular reports of the activities and results to the holding company board.

For 2018/19, the company's result showed a deficit of £3.169m.

The company appointed Ensors Chartered Accountants who have prepared the draft accounts for the period ending 31 March 2019.

The company's registered office is c/o Babergh and Mid Suffolk District Councils, Endeavour House, 8 Russel Road, Ipswich, Suffolk, IP1 2BX.

## Group Movement in Reserves Statement

This statement summarises the differences between the outturn on the Group Comprehensive Income and Expenditure Account and the movement on the General Fund Balance and Housing Revenue Account.

It also shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

The Surplus or (Deficit) On the Provision of Services Line shows the true economic cost of providing the Council's services, more details of which are shown in the Group Comprehensive Income and Expenditure Statement.

| | General Fund Balance £'000 | Earmarked General Fund Reserves £'000 | HRA Balance £'000 | Earmarked HRA Reserves £'000 | Usable Capital Receipts £'000 | Deferred Credits £'000 | Total Usable Reserves £'000 | Unusable Reserves £'000 | Total Reserves (Including Group) £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Opening Balance at 31 March 2017** | (1,052) | (11,676) | (1,209) | (4,234) | (4,544) | (7) | (22,722) | (98,215) | (120,937) |
| **Movement in reserves during 2017/18** | | | | | | | | | |
| Total Comprehensive Income and Expenditure | (708) | - | 710 | - | - | - | 2 | (17,392) | (17,390) |
| Adjustments between Group Accounts and Council Accounts | 49 | - | - | - | - | - | 49 | - | 49 |
| Adjustments between accounting basis and funding basis under regulations | (4,231) | - | (1,176) | - | (2,608) | - | (8,015) | 8,015 | - |
| **Net (Increase) / Decrease before Transfers to Earmarked Reserves** | (4,890) | - | (466) | - | (2,608) | - | (7,964) | (9,377) | (17,341) |
| Transfer to/(from) Earmarked Reserves | 4,939 | (4,939) | 466 | (466) | - | - | - | | - |
| **(Increase)/Decrease in 2017/18** | 49 | (4,939) | - | (466) | (2,608) | - | (7,964) | (9,377) | (17,341) |
| **Opening Balance at 1 April 2018** | (1,003) | (16,615) | (1,209) | (4,700) | (7,152) | (7) | (30,686) | (107,592) | (138,278) |
| **Movement in reserves during 2018/19** | | | | | | | | | |
| Total Comprehensive Income and Expenditure | (5,160) | - | 1,705 | - | - | - | (3,455) | (4,972) | (8,427) |
| Adjustments between Group Accounts and Council Accounts | - | - | - | - | - | - | - | | - |
| Adjustments between accounting basis and funding basis under regulations | (3,633) | - | (1,239) | - | 2,362 | - | (2,510) | 2,510 | - |
| **Net (Increase) / Decrease before Transfers to Earmarked Reserves** | (8,793) | - | 466 | - | 2,362 | - | (5,965) | (2,462) | (8,427) |
| Transfers to / (from) reserves | 8,745 | (8,745) | (466) | 466 | - | - | - | - | - |
| **(Increase)/Decrease in 2018/19** | (48) | (8,745) | - | 466 | 2,362 | - | (5,965) | (2,462) | (8,427) |
| **Balance at 31 March 2019** | (1,051) | (25,360) | (1,209) | (4,234) | (4,790) | (7) | (36,651) | (110,054) | (146,705) |

## Group Comprehensive Income and Expenditure Statement

This statement shows the accounting cost of providing service for the group in accordance with International Financial Reports Standards.

Councils raise taxation and other charges to cover expenditure in accordance with regulations which may differ from the accounting cost.

| 2017/18 Restated | | | | 2018/19 | | |
|---|---|---|---|---|---|---|
| Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 | | Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 |
| | | | **General Fund** | | | |
| 703 | (40) | 663 | BMS Invest | 2,982 | (787) | 2,195 |
| 491 | (175) | 316 | Economic Development & Regeneration | 586 | (146) | 440 |
| 19,453 | (16,562) | 2,891 | Corporate Resources | 18,625 | (15,711) | 2,914 |
| 1,963 | (10) | 1,953 | Customer Services | 1,886 | - | 1,886 |
| 7,367 | (3,324) | 4,043 | Environment & Commercial Partnerships | 7,766 | (3,902) | 3,864 |
| 1,890 | (572) | 1,318 | Housing | 1,985 | (294) | 1,691 |
| 1,552 | (464) | 1,088 | Law & Governance | 1,558 | (472) | 1,086 |
| 2,889 | (3,943) | (1,054) | Planning for Growth | 3,624 | (8,570) | (4,946) |
| 913 | (84) | 829 | Senior Leadership Team | 647 | (28) | 619 |
| (1,556) | - | (1,556) | Charge to HRA & Capital | (1,393) | - | (1,393) |
| 13,903 | (15,359) | (1,456) | **HRA** | 14,095 | (15,396) | (1,301) |
| **49,568** | **(40,533)** | **9,035** | **Cost of Services** | **52,361** | **(45,306)** | **7,055** |
| 2,021 | - | 2,021 | Other Operating Expenditure | 3,293 | - | 3,293 |
| 3,500 | (590) | 2,910 | Financing and Investment Income and Expenditure | 3,862 | (1,243) | 2,619 |
| 6,352 | (20,297) | (13,945) | Taxation and Non-Specific Grant Income and Expenditure | 14,805 | (30,965) | (16,160) |
| **61,441** | **(61,420)** | **21** | **(Surplus)/Deficit on Provision of Services** | **74,321** | **(77,514)** | **(3,193)** |
| | | (14,208) | (Surplus) or Deficit on revaluation of property, plant and equipment assets | | | (10,386) |
| | | | (Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income | | | 2,285 |
| | | (3,170) | Remeasurement of the net defined liability/(asset) | | | 2,916 |
| | | (14) | (Surplus) or Deficit on revaluation of available for sale financial assets | | | - |
| | | **(17,392)** | **Other Comprehensive Income and Expenditure - B** | | | **(5,185)** |
| | | **(17,371)** | **Total Comprehensive Income and Expenditure (A+B)** | | | **(8,377)** |

## Group Balance Sheet

The group balance sheet shows the value of assets and liabilities recognised by the group.

These are funded by the usable and unusable reserves of the Council.

| 2017/18 £'000 | | Note | 2018/19 £'000 |
|---|---|---|---|
| 245,972 | Property, Plant and Equipment | | 257,515 |
| 1,292 | Intangible Assets | | 1,012 |
| 1,240 | Long Term Investments | | 343 |
| 11,323 | Long Term Debtors | | 28,651 |
| **259,827** | **Long Term Assets** | | **287,521** |
| 9,522 | Short Term Investments | | 10,153 |
| 73 | Inventories | | 16,738 |
| 6,814 | Short Term Debtors | G3 | 4,693 |
| 2,738 | Cash and Cash Equivalents | | 3,005 |
| **19,147** | **Current Assets** | | **34,589** |
| (29,434) | Short Term Borrowing | | (19,771) |
| (4,690) | Short Term Creditors | | (5,650) |
| (764) | Provisions | | (1,808) |
| **(34,888)** | **Current Liabilities** | | **(27,229)** |
| (73,787) | Long Term Borrowing | | (110,939) |
| (3,735) | Capital Grants & Contributions Received in Advance | | (4,232) |
| (28,285) | Defined Benefit Pension Scheme Liability | | (33,005) |
| **(105,807)** | **Long Term Liabilities** | | **(148,176)** |
| **138,279** | **Net Assets** | | **146,705** |
| (30,736) | Usable reserves | | (36,651) |
| (107,543) | Unusable reserves | | (110,054) |
| **(138,279)** | **Total Reserves** | | **(146,705)** |

## Group Cash Flow Statement

The group cash flow statement shows the changes in the cash and cash equivalents of the Group, classifying cash flows as operating, investing and financing activities for the Group.

Operating cash flow shows the funding and expenditure on services for the group.

Investing activities shows the extent to which cash outflows are made to contribute to future service delivery of the group.

Cash flows from financing activities show payments and receipts for investing and borrowing activities.

| 2017/18 £'000 | | Note | 2018/19 £'000 |
|---|---|---|---|
| 51 | Net (Surplus) or deficit on the provision of services | | (3,193) |
| (10,708) | Adjustments to net surplus or deficit on the provision of services for non-cash movements | | (12,522) |
| 4,714 | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | | 1,120 |
| (5,943) | Net cash flows from Operating Activities | G2 | (14,595) |
| 12,804 | Investing Activities | | 41,528 |
| (5,693) | Financing Activities | | (27,200) |
| 1,168 | Net increase or decrease in cash and cash equivalents | | (267) |
| (3,906) | Cash and cash equivalents at the beginning of the reporting period | | (2,738) |
| **(2,738)** | **Cash and cash equivalents at the end of the reporting period** | | **(3,005)** |

# Notes to the Group Accounts

## Notes to the Group Accounts

Where added value is provided, additional disclosures are presented below in respect of the Group Accounts. These are referenced with a **G** and can be referred to against the main statements of the Group Accounts on pages 103 to 108.

Where there are no changes to values from the accounts of Mid Suffolk District Council then no additional notes have been prepared as these are referred to in the notes in the single entity accounts.

## Note G1 - Accounting Policies for the Group

The Group Accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

The Council has consolidated its interests in the entities over which it exercises control or significant influence because they are material to the Council's balance sheet.

The results of the Council's subsidiary have been consolidated on a line by line basis. Intra-group transactions have been eliminated before consolidation.

The Accounting Policies used in the preparation of the Group Accounts are the same as for the single entity accounts of Mid Suffolk District Council, as set out in Note 35 of the Notes to the Core Statement of Accounts.



## Note G2 – Cash Flow Statement: Operating Activities

| | 2018/19 £'000 | 2017/18 £'000 |
|---|---|---|
| The cash flows for operating activities include the following items: | | |
| Interest received | (1,110) | (506) |
| Interest paid | 2,828 | 2,758 |
| | 1,718 | 2,252 |
| The surplus or deficit on the provision of services has been adjusted for the following non-cash movements: | | |
| Depreciation and amortisation | (5,094) | (5,325) |
| Impairment and (downward valuations)/reversals | (3,512) | (4,069) |
| (Increase)/decrease in creditors | (1,355) | 731 |
| Increase/(decrease) in debtors | (14,376) | 2,909 |
| Increase/(decrease) in inventories | 16,452 | 11 |
| Movement on pension liability | (1,804) | (1,649) |
| Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | (1,790) | (3,357) |
| Other non-cash items | (1,043) | 41 |
| | (12,522) | (10,708) |
| The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities: | | |
| Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 1,350 | 3,994 |
| Other items for which the cash effects are investing or financing activities | (1,948) | (1,532) |
| | (598) | 2,462 |

## Note G3 – Group Debtors

| Debtors | 31 March 2019 £'000 | 31 March 2018 £'000 |
|---|---|---|
| Trade Receivables | 485 | 2,245 |
| Prepayments | 244 | 1,822 |
| Other receivable amounts | 3,958 | 2,747 |
| **Total Debtors** | **4,687** | **6,814** |

## Note G4 – Material movements in Group accounts

Page 306

| Material movements in group accounts | 31 March 2019 £'000 |
|---|---|
| Decrease in long term debtors - Inter company loans | (14,602) |
| Increase in inventories - GW14 land holdings | 16,693 |

# Section 5

## Glossary of Terms

**Accruals**

The accruals principle is that income is recorded when it is earned rather than when it is received, and expenses are recorded when goods or services are received rather than when the payment is made.

**Accrued Retirement Benefits (Pensions)**

The retirement benefits for service up to a given point in time, whether vested rights or not.

**Actuarial Gains and Losses (Pensions)**

For a defined benefit scheme, the changes in deficits or surpluses that arise because events have not coincided with actuarial assumptions used in the last valuation (experience gains or losses) or because actuarial assumptions have changed.



**Agency Services**

These are services that are performed by or for another Council or public body, where the principal (the Council responsible for the service) reimburses the agent (the Council carrying out the work) for the costs of the work.

**Amortisation**

The process of decreasing or accounting for an amount over a period of time. Amortisation of capital expenditures of certain assets under accounting rules, particularly intangible assets, in a manner analogous to depreciation.

**Appropriations**

Amounts transferred to or from revenue or capital reserves.

**Asset**

An item owned by the Council which has an economic value e.g. land and buildings, debts or cash.

**Budget**

A financial statement of the Council's plans for any given year.

**Capital Adjustment Account**

A complex balance, it is debited with the historical cost of acquiring, creating or enhancing assets over the life of those assets, and of Revenue Expenditure Financed from Capital under Statute over the period of benefit (usually one year), and is credited with resources set aside to finance capital expenditure.

**Capital Expenditure**

Expenditure on the acquisition of new assets or expenditure, which adds to, and not merely maintains, the value of an existing fixed asset.

**Capital Financing Charges**

This is the annual charge to the revenue account in respect of interest and principal repayments and payments of borrowed money.

**Capital Grants**

Grants received towards capital spending on a particular service or project.

**Capital Receipts**

Proceeds from the sale of capital assets such as land or buildings. They are available to finance new capital outlay and to repay existing debt e.g Right to Buy capital receipts which can only be spent on providing new housing provision (known as 1-4-1 replacement)

**Chartered Institute of Public Finance and Accountancy (CIPFA)**

CIPFA is the leading professional accountancy body for public services.

**Community Assets**

Assets the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples include parks and historic buildings.

**Community Infrastructure Levy**

An income stream introduced in April 2016 following changes to planning legislation. Provides a charging schedule that maximises the funding for infrastructure within the District but does not prevent or stall development.

**Contingent Liabilities or Assets**

These are amounts potentially due to or from individuals or organisations which may arise in the future but which at this time cannot be determined accurately, and for which provision has not been made in the Council's accounts.

**Creditors**

Amounts owed by the Council for work done, goods received or services rendered, for which payment has not been made at the date of the balance sheet.

**Current Assets**

Assets where the value may change because the volume held can vary through day to day activity, e.g. cash, debtors and stock.

**Current Liabilities**

Amounts which will become payable in the next accounting period (e.g. creditors, cash overdrawn).

**Current Service Costs (Pensions)**

The increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, i.e. the ultimate pension benefits "earned" by employees in the current year's employment.

**Curtailment (Pensions)**

For a defined benefit scheme, an event that reduces the expected years of future service of current staff or reduces for a number of staff the accrual of defined benefits for some or all of their future service.

**Debtors**

Sums of money due to the Council, that have not been received at the balance sheet date.

**Defined Benefit Scheme (Pensions)**

A scheme to provide retirement benefits, the value of which are independent of the contributions payable, and that are not directly related to the underlying investments.

**Depreciation**

The measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset.

**De Minimis**

A threshold which anything falling below is too small to be of concern

**Direct Revenue Financing**

A charge to the revenue account to finance capital expenditure.

**Discretionary Benefits (Pensions)**

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the Council's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996.

**Earmarked Reserves**

The Council holds a number of reserves earmarked to be used to meet specific, known or predicted future

expenditure.

**Expected Rate of Return on Pension Assets**

For a funded, defined benefit scheme, the average rate of return, net of any charges, expected to be earned on assets held by the scheme over the remaining life of the related obligation to pay future retirement benefits.

**External Audit**

The independent examination of the activities and accounts of Local Authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Council has made proper arrangements to secure value for money in its use of resources.

**Fair Value**

Fair value is the price at which an asset could be exchanged in an arm's length transaction, less any grants receivable towards the purchase or use of the asset.

**Finance Lease**

A finance lease is one that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

**Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another, for example, a market loan. The term "financial Instrument" covers both financial assets and financial liabilities and includes the most straightforward of financial assets and liabilities such as trade receivables (debtors) and trade payables (creditors) and the most complex ones such as derivatives and embedded derivatives.

**General Fund**

This is the main revenue fund of the Council and includes the net cost of all services financed by local taxpayers and Government grants.

**Government Grants**

Payments by Central Government towards Council spending. They may be specific to a particular service e.g. Housing Benefits Grant; or general (see Revenue Support Grant).

**Group Accounts**

Report the full extent of the assets, liabilities, income and expenditure of the Council and the companies which the Council either control or significantly influence. The Council has consolidated the interests which are financially material to the Council, to provide a full picture of the Council's arrangements for good governance.

**Heritage Assets**

Assets preserved in trust for future generations because of their cultural, environmental or historical associations.

**Housing Revenue Account (HRA)**

The statutory account which sets out the revenue expenditure and income arising from providing, maintaining and managing of Council dwellings. These costs are financed by tenants' rents. Other services are charged to the General Fund.

**Impairment**

A reduction in the value of a fixed asset below its carrying amount on the balance sheet as a result of the consumption of economic benefits (such as physical damage due to fire or flood) or the fall in the price of a specific asset. A general reduction in asset values is accounted for as impairment through valuation loss.

**Income**

Amounts that the Council receives, or expects to receive, from any source. Income includes fees, charges, sales and grants that are specific and special. The term income implies that the figures concerned relate to amounts due in a financial year irrespective of whether they have been received in that period.

**Infrastructure Assets**

Fixed assets which generally cannot be sold and from which benefit can be obtained only by continued use of the asset created. Examples are highways and footpaths.



**Interest Cost (Pensions)**

For a defined benefit scheme, the expected increase during the period in the present value of the scheme's liabilities because the benefits payable are one year closer to settlement.

**International Financial Reporting Standards (IFRS)**

Defined Accounting Standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with financial statements of the other entities.

**Investments (Pensions)**

The Council's share of pension scheme assets associated with its liability to pay future retirement benefits.

**Long Term Debtors**

Amounts due to the Council more than one year after the Balance Sheet date

**Lender Option Borrower Option (LOBO)**

This is a type of loan instrument. The borrower borrows a principal sum for the duration of the loan period (typically 20 to 50 years), initially at a fixed interest rate. Periodically (typically every six months to 3 years), the lender has the ability to alter the interest rate. Should the lender make this offer, the borrower then has the option to continue with the instrument at the new rate or alternatively to terminate the agreement and pay back the principal sum with no other penalty.

**Market Value**

This is generally applied to the valuation of non-current assets. It is the value that could be achieved if the

asset was offered for sale with no restrictions that could affect its value

**Material/Materiality**

Materiality relates to the significance of transactions, balances and errors. Financial information is material if its omission or misstatement could influence the users of the accounts.

**Minimum Revenue Provision (MRP)**

The minimum amount the Council is required by statute to set aside on an annual basis for the repayment of debt.

**Ministry for Housing, Communities and Local Government (MHCLG)**

A Department of Central Government with an overriding responsibility for determining the allocation of general resources to Local Authorities.

**Net Book Value (NBV)**

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

**New Homes Bonus (NHB)**

A grant paid by Central Government to the Council to reflect and incentivize housing growth in the District. It is based on the amount of additional Council Tax revenue raised for new build homes, conversions, and long term empty homes brought back into use.

**Non-Domestic Rates (NDR) (also known as Business Rates)**

NDR is the levy on non-domestic property, based on a national rate in the pound applied to the 'rateable value' of the property. The Government determines national rate poundage each year which is applicable to all Local Authorities. The income arising is collected and shared between central government, Suffolk County Council and the District Council on the basis of a predetermined formula.

**Non-Current Assets (previously fixed assets)**

Intangible and tangible assets that yield benefits to the Council and the services it provides for a period of more than one year.

**Past Service Cost (Pensions)**

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to staff service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits payable.

**Post Balance Sheet Events**

Events, both favourable and unfavourable, which occur between the Balance Sheet date and the date on which the Statement of Accounts are authorised for issue by the Chief Financial Officer.

**Precept**

The amount levied by various authorities that is collected by the Council on their behalf. Suffolk County Council, the Suffolk Police and Crime Commissioner and various Local Councils within the District are precepting authorities and the District Council is the billing authority.

**Provisions**

Amounts set aside to meet liabilities or losses which it is anticipated will be incurred but where the amount and/or the timing of such costs are uncertain.

**Public Works Loan Board (PWLB)**

An arm of Central Government which is the major provider of loans to finance long term funding requirements for Local Authorities.

**Reserves**

Amounts set aside for general contingencies, to provide working balances or earmarked to specific future

expenditure.

**Retirement Benefits (Pensions)**

All forms of consideration given by an employer in exchange for services rendered by staff that are payable after completion of the engagement.

**Revenue Expenditure Funded from Capital Under Statute (REFCUS)**

Expenditure incurred during the year that may be capitalised under statutory provision but that does not result in the creation of a non-current asset that has been charged as expenditure to the CIES. For the Council, the most significant type of REFCUS is the payment of home improvement grants to private householders.

**Revenue Expenditure**

The day-to-day spending and income of the Council on such items as staff, goods, services and equipment.

**Scheme Liabilities (Pensions)**

The liabilities to pay future retirement benefits, measured using the projected unit method, of a defined benefit scheme for outgoings failing due after the valuation date.

**Section 31 (S31) Grant**

Grants paid to the Council by Central Government for small business rate relief and new discretionary rate reliefs.

**Settlement (Pensions)**

An irrevocable action that relieves the employer of the primary responsibility for a pension obligation.

**Treasury Management Strategy (TMS)**

A strategy prepared with regard to legislative and CIPFA requirements setting out the framework for treasury management activity for the Council.

**BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL**

| | |
|---|---|
| **COMMITTEE: Joint Audit and Standards Committee** | **REPORT NUMBER: JAC/19/10** |
| **FROM: Katherine Steel, Assistant Director, Corporate Resources** | **DATE OF MEETING: 27 January 2020** |
| **OFFICER: Melissa Evans, Corporate Manager Finance and Commissioning & Procurement<br>Sue Palmer, Senior Financial Services Officer** | **KEY DECISION REF NO. N/A** |

# HALF YEAR REPORT ON TREASURY MANAGEMENT 2019/20

## 1. PURPOSE OF REPORT

1.1 The report is part of the Councils' management and governance arrangements for Treasury Management activity under the CIPFA Code of Practice on Treasury Management ("the Code"). It provides Members with a comprehensive assessment of activities for the first six months of the financial year 2019/20.

1.2 The report specifically sets out the performance of the treasury management function, the effects of the decisions taken, and the transactions executed during the first six months of 2019/20 and any circumstances of non-compliance with the Councils' treasury management policy statement and treasury management practices.

## 2. OPTIONS CONSIDERED

2.1 This report fulfils the Councils' legal obligations to have regard to the Code and there are no other options to consider.

## 3. RECOMMENDATION TO BOTH COUNCILS

3.1 That the Treasury Management activity for the first six months of 2019/20 as set out in this report and Appendices be noted.

3.2 That it be noted that both Councils' Treasury Management activity for the first six months of 2019/20 was in accordance with the approved Treasury Management Strategy, and that the Council has complied with all the Treasury Management Indicators for this period.

**REASON FOR DECISION**

**It is a requirement of the Code of Practice on Treasury Management that full Council notes the Half-Year position.**

## 4. KEY INFORMATION

4.1 The 2019/20 Treasury Management Strategy for both Councils was approved in February 2019.

4.2 The Strategy and activities are affected by several factors, including the regulatory framework, economic conditions, best practice and interest rate/liquidity risk. The attached appendices summarise the regulatory framework, economic background and information on key activities for the first six months of 2019/20.

4.3 The Joint Treasury Management outturn report for 2018/19 was presented to Members at the Joint Audit and Standards Committee on 29 July 2019.

4.4 The Section 151 Officer is pleased to report that all treasury management activities undertaken in the first half of the year complied fully with the CIPFA Code of Practice and the Councils' approved Treasury Management Strategy.

4.5 The Treasury Management Indicators aim to ensure that the capital investments of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice.

4.6 Appendix D shows the position on key Treasury Management Indicators for the first six months of 2019/20.

4.7 The following key points relating to activity for the first half of the year are set out below:

- UK labour market data for the 3 months to September 2019 showed unemployment rate lower, at 3.8%, while employment was at 76%, lower than the previous quarter (76.1%). Real wages (adjusted for inflation) grew by 1.7%.
- The first estimate of Q3 GDP showed growth of 0.3%, following contraction in Q2 of 0.2%
- The Bank of England maintained the official Bank Rate at 0.75% during this period.
- Investment of surplus funds - As market conditions, credit ratings and bank ring-fencing have changed during the year, institutions that the Councils invest with and the period of the investments have been reviewed.
- Credit risk scores were within the benchmark A- credit ratings.
- Babergh's debt increased by £989k, mainly by reducing long term PWLB loans through making repayments and by taking out more short-term loans to cover day to day cash flow needs.
- Mid Suffolk's overall debt reduced by £2.671m. The Council lent £4.9m to Gateway 14 Ltd, which was financed from available short-term money market funds. As a result of surplus cash from council tax and business rates the need to borrow has reduced during the period.

4.8 In terms of the investment of surplus funds, Appendix A sets out the issues that are impacting on current and future activity.

4.9 Money market funds, short-term deposits and call accounts are used to make short term investments on a daily basis.

4.10 Both Councils made another investment on 24 May 2019 of £2m each in a higher yielding strategic pooled fund (Investec Diversified Income Fund) whilst reducing their investment in Funding Circle during the period.

## 5. LINKS TO JOINT CORPORATE PLAN

5.1 Ensuring that the Councils have the resources available underpins the ability to achieve the priorities set out in the Joint Corporate Plan.

## 6. FINANCIAL IMPLICATIONS

6.1 As outlined in this report and appendices.

## 7. LEGAL IMPLICATIONS

7.1 The legal status of the Treasury Management Code derives in England from regulations issued under the Local Government Act 2003 (the 2003 Act).

7.2 Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the 2003 Act.

7.3 The latest statutory guidance on local government investments was issued under section 15(1)(a) of the 2003 Act and effective for financial years commencing on or after 1 April 2018. Under that section local authorities are required to “have regard” to “such guidance as the Secretary of State may issue.

## 8. RISK MANAGEMENT

8.1 This report is most closely linked with the Councils’ Significant Risk Register, Risk no.13. “We may be unable to respond in a timely and effective way to financial demands”.

8.2 The key risks are set out below:

| Risk Description | Likelihood | Impact | Mitigation Measures |
|---|---|---|---|
| If the Councils lose the investments this will impact on their ability to deliver services. | Highly Unlikely (1) | Bad (3) | Strict lending criteria for high credit rated institutions. |
| If the Councils achieve a poorer return on investments than planned, there will be fewer resources available to deliver services. | Highly Probable (4) | Noticeable (2) | Focus is on security and liquidity, and careful cash flow management in accordance with the TM Strategy is undertaken throughout the year. |

| Risk Description | Likelihood | Impact | Mitigation Measures |
|---|---|---|---|
| If the Councils have liquidity problems, then they will be unable to meet their short-term liabilities. | Unlikely (2) | Noticeable (2) | As above. |

## 9. CONSULTATIONS

9.1 Regular meetings have taken place with the Councils' Treasury advisors, Arlingclose, who also provide important updates on treasury management issues as they arise.

## 10. EQUALITY ANALYSIS

10.1 An equality analysis has not been completed because the report content does not have any impact on the protected characteristics.

## 11. ENVIRONMENTAL IMPLICATIONS

11.1 All Council activities will need to be reviewed as part of the work of the Climate Change Task Group and have regard to the Councils' ambition to be carbon neutral by 2030.

## 12. APPENDICES

| Title | Location |
|---|---|
| (a) Background, Economy and Outlook | Appendix A |
| (b) Borrowing Strategy | Appendix B |
| (c) Investment Activity | Appendix C |
| (d) Treasury Management indicators | Appendix D |
| (e) Glossary of Terms | Appendix E |

## 13. BACKGROUND DOCUMENTS

13.1 CIPFA's Code of Practice on Treasury Management ("the Code").

13.2 Joint Treasury Management Strategy 2019/20 (Paper JAC/18/16).

**Appendix A**

## Background, Economy and Outlook

### 1. Introduction

1.1 In February 2012 both Councils adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Councils to approve treasury management half year and annual reports.

1.2 The Joint Treasury Management Strategy for 2019/20 was approved at both full Councils in February 2019. Both Councils have borrowed and invested substantial sums of money and are therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Councils' Treasury Management Strategy.

1.3 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Councils' first Capital Strategy, for the financial year 2019/20, complying with CIPFA's Code requirement, was approved by both full Councils in February 2019.

1.4 The Statutory Guidance on Local Government Investments (MHCLG, 2018) requires local authorities to produce an investment strategy, covering investments that are not part of treasury management activity. The Councils' first Investment Strategy, for the financial year 2019/20, was also approved by both full Councils in February 2019.

### 2. External Context

2.1 **Economic background:**

2.1.1 UK Consumer Price Inflation (CPIH) increased by 1.7% for the year to September 2019, unchanged from August 2019, weaker than the consensus forecast of 1.8% and below the Bank of England's target. The most recent labour market data for the three months to September 2019 showed the unemployment rate edged back down to 3.8% while the employment rate was, at 76%, higher than a year earlier (75.5%) but lower than the previous quarter (76.1%). Nominal annual wage growth measured by the 3-month average both including and excluding bonuses was 3.6%. Adjusting for inflation, real wages were up 1.7% excluding bonuses and 1.8% including bonuses.

2.1.2 The first estimate of Q3 GDP showed the UK economy increased by 0.3% following the 0.2% contraction in Q2. The services sector registered an increase in growth of 0.4%, with production being flat following a fall of 1.8% in Q2 2019 (the largest fall in the industry since Q4 2012). Construction output increased by 0.6%, a reverse of the previous quarter when it decreased by 1.2%. Business investment was flat in Q3 which follows negative growth in Q2 alongside four negative consecutive quarters in 2018.

2.1.3 Politics, both home and abroad, continued to be a big driver of financial markets over the last quarter. Boris Johnson won the Conservative Party leadership contest and, having failed to achieve Brexit by 31 October 2019, has now committed to leave the EU by 31 January 2020. The outcome of the General Election on 12 December 2019 has not removed all of the uncertainty.

2.1.4 China and the US are expected to announce an interim deal which will cancel, in phases, the various tariffs imposed during their trade war. In an announcement by Chinese officials, a timetable was not given but expectations include the US scrapping tariffs scheduled for 15 December 2019 on almost $160bn of Chinese imports. The US Federal Reserve cut its target Federal Funds rates by 0.25% in September to a range of 1.75% - 2%, a pre-emptive move to maintain economic growth amid escalating concerns over the trade war and a weaker economic environment leading to more pronounced global slowdown. The euro area Purchasing Manager Indices (PMIs) pointed to a deepening slowdown in the Eurozone. These elevated concerns have caused key government yield curves to invert, something seen by many commentators as a predictor of a global recession. Market expectations are for further interest rate cuts from the US Federal Reserve and in September the European Central Bank reduced its deposit rate to -0.5% and announced the recommencement of quantitative easing from 1 November 2019.

2.1.5 The Bank of England maintained Bank Rate at 0.75%. In its November 2019 Monetary Policy Report the Bank noted the weaker global growth, driven by trade protectionism, and the domestic impact of Brexit-related uncertainties. The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction to ensure a sustainable return of inflation to the 2% target.

## 2.2 Financial markets:

2.2.1 After rallying early in 2019, financial markets have been adopting a more risk-off approach in the following period as equities saw greater volatility and bonds rallied (prices up, yields down) in a flight to quality and anticipation of more monetary stimulus from central banks. The Dow Jones, FTSE 100 and FTSE 250 are broadly back at the same levels seen in March/April.

2.2.2 Gilt yields remained volatile over the period on the back of ongoing economic and political uncertainty. From a yield of 0.63% at the end of June 2019, the 5-year benchmark gilt yield fell to 0.32% by the end of September 2019. There were falls in the 10-year and 20-year gilts over the same period, with the former dropping from 0.83% to 0.55% and the latter falling from 1.35% to 0.88%. 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.65%, 0.75% and 1.00% respectively over the period.

2.2.3 Recent activity in the bond markets highlight that weaker economic growth remains a global risk. The US yield curve remains inverted with 10-year Treasury yields lower than US 3-month bills. History has shown that a recession hasn't been far behind a yield curve inversion. Following the sale of 10-year Bunds at -0.24% in June 2019, yields on German government securities continue to remain negative in the secondary market with 2 and 5-year securities currently both trading around -0.77%.

2.3 **Credit background:**

2.3.1 Credit Default Swap (CDS) spreads rose and then fell again during the quarter, continuing to remain low in historical terms. After rising to almost 120bps in May 2019, the spread on non-ringfenced bank, NatWest Markets plc fell back to around 80bps by the end of September 2019, while for the ringfenced entity, National Westminster Bank plc, the spread remained around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 34 and 76bps at the end of the period.

2.3.2 There were minimal credit rating changes during the period. Moody's upgraded The Co-operative Bank's long-term rating to B3, and Fitch upgraded Clydesdale Bank and Virgin Money to A-.

**3 Outlook for the remainder of 2019/20:**

3.1 The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased dramatically.

3.2 Some positivity on the trade negotiations between China and the US has prompted worst case economic scenarios to be pared back. However, information is limited, and upbeat expectations have been wrong before.

3.3 Brexit has been delayed until 31 January 2020 and a key concern is the limited transitionary period following exit date, which will maintain and create additional uncertainty over the next few years.

3.4 Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

3.5 The Councils' treasury advisor, Arlingclose, expects the Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on political outcomes and the evolution of the global economy. Arlingclose also expects gilt yields to remain at low levels for the foreseeable future and judge the risks to be broadly balanced.

3.6 Arlingclose – Forecast rates

| | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Official Bank Rate | | | | | | | | | | | | | |
| Upside Risk | 0.00 | 0.00 | 0.25 | 0.25 | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Arlingclose Central Case | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 |
| Downside Risk | -0.50 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 |

## 4 Local Context

4.1 On 31 March 2019, Babergh had net borrowing requirement of £101m and Mid Suffolk had net borrowing requirement of £125.8m arising from revenue and capital income and expenditure.

4.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 that follows.

4.3 **Table 1: Balance Sheet Summary**

| **Balance Sheet Summary** | **31.3.19 Babergh £m** | **31.3.19 Mid Suffolk £m** |
|---|---|---|
| General Fund CFR | 45.126 | 66.285 |
| HRA CFR | 86.673 | 87.970 |
| **Total CFR** | **131.799** | **154.255** |
| (Less): Usable reserves | (32.710) | (36.855) |
| (Less) / Add: Working capital | 1.927 | 8.429 |
| **Net borrowing requirement** | **101.016** | **125.829** |

4.4 The current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

4.4 The treasury management position at 30 September 2019 and the change during the half year is show in Table 2 that follows.

## 4.5 Table 2: Treasury Management Summary

| **Babergh** | **31.3.19 Balance £m** | **Movement £m** | **30.9.19 Balance £m** | **30.9.19 Rate %** |
|---|---|---|---|---|
| Long-term borrowing | 97.047 | (0.511) | 96.536 | 3.17% |
| Short-term borrowing | 7.000 | 1.500 | 8.500 | 0.79% |
| **Total borrowing** | **104.047** | **0.989** | **105.036** | |
| | | | | |
| Long-term investments | 9.430 | 1.784 | 11.214 | 4.98% |
| Short-term investments | 1.000 | (0.500) | 0.500 | 0.65% |
| Cash and Cash equivalents | 1.421 | (0.599) | 0.822 | 0.65% |
| **Total Investments** | **11.851** | **0.685** | **12.536** | |
| | | | | |
| **Net borrowing** | **92.196** | | **92.500** | |

| **Mid Suffolk** | **31.3.19 Balance £m** | **Movement £m** | **30.9.19 Balance £m** | **30.9.19 Rate %** |
|---|---|---|---|---|
| Long-term borrowing | 112.287 | (0.671) | 111.616 | 2.88% |
| Short-term borrowing | 18.000 | (2.000) | 16.000 | 0.80% |
| **Total borrowing** | **130.287** | **(2.671)** | **127.616** | |
| | | | | |
| Long-term investments | 9.423 | 1.792 | 11.215 | 4.95% |
| Short-term investments | 1.400 | 0.100 | 1.500 | 0.62% |
| Cash and Cash equivalents | 1.480 | (0.253) | 1.227 | 0.65% |
| **Total Investments** | **12.303** | **1.639** | **13.942** | |
| | | | | |
| **Net borrowing** | **117.984** | | **113.674** | |

**Appendix B**

## 1 Borrowing Strategy

1.1 At 30 September 2019 Babergh held £105m of loans, an increase of £989k, Mid Suffolk held £127.6m of loans, a decrease of £2.6m.

1.2 Babergh has increased net overall borrowing by reducing long term PWLB loans through making repayments and by taking out more short-term loans to cover day to day cash flow needs.

1.3 Mid Suffolk lent £4.9m to Gateway 14 Ltd, which was financed from available short-term money market funds. As a result of surplus cash from council tax and business rates the need to borrow has reduced during the period.

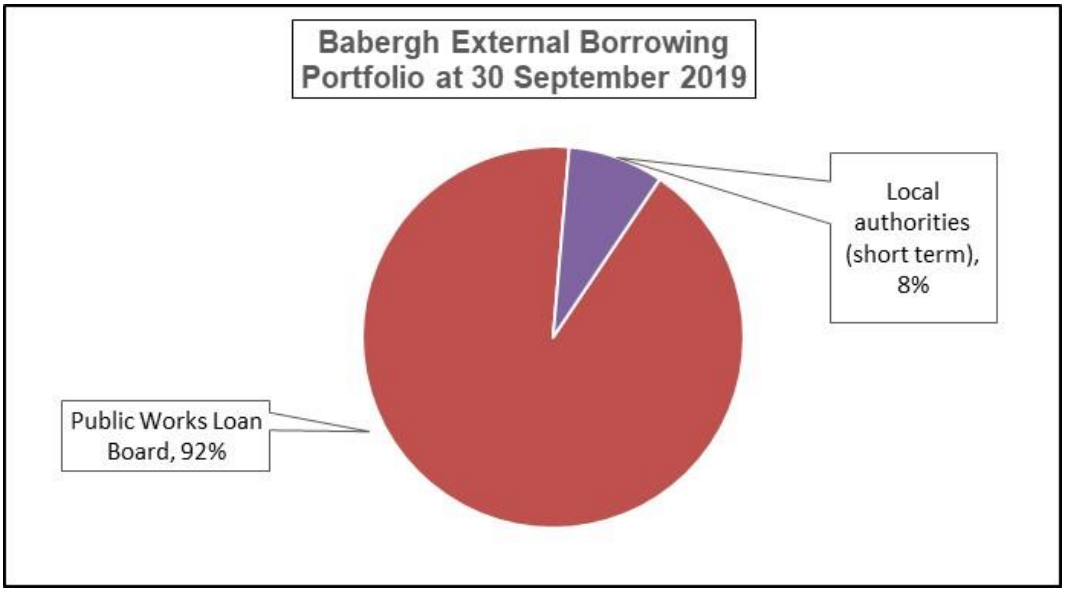
1.4 The borrowing position at 30 September 2019 is shown in Table 3 that follows.

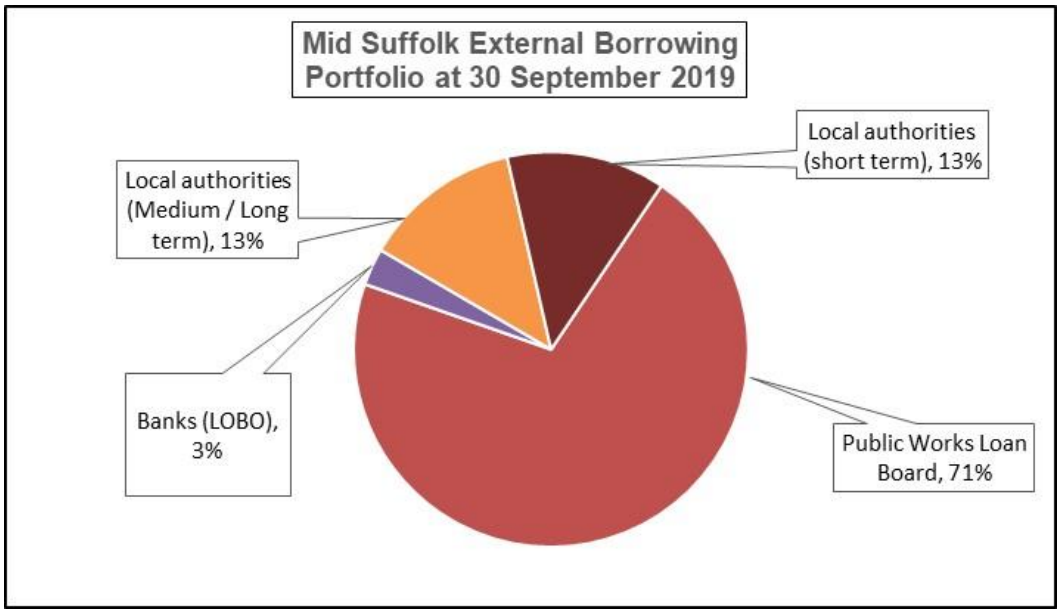
1.5 **Table 3: Borrowing Position**

| **Babergh** | **31.3.19 Balance £m** | **Movement £m** | **30.9.19 Balance £m** | **30.9.19 Weighted Average Rate %** |
|---|---|---|---|---|
| Public Works Loan Board | 97.047 | (0.511) | 96.536 | 3.17% |
| Local authorities (short term) | 7.000 | 1.500 | 8.500 | 0.79% |
| **Total borrowing** | **104.047** | **0.989** | **105.036** | |

| **Mid Suffolk** | **31.3.19 Balance £m** | **Movement £m** | **30.9.19 Balance £m** | **30.9.19 Weighted Average Rate %** |
|---|---|---|---|---|
| Public Works Loan Board | 92.287 | (0.671) | 91.616 | 3.24% |
| Banks (LOBO) | 4.000 | 0.000 | 4.000 | 4.21% |
| Local authorities (Medium / Long term) | 16.000 | 0.000 | 16.000 | 1.20% |
| Local authorities (short term) | 18.000 | (2.000) | 16.000 | 0.80% |
| **Total borrowing** | **130.287** | **(2.671)** | **127.616** | |

1.6 **Table 3 - Charts - The Councils' Borrowing Portfolios at 30 September 2019:**




1.7 The Councils' chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with the secondary objective of having flexibility to renegotiate loans should the Councils' long-term plans change.

1.8 With short-term interest rates remaining much lower than long-term rates, the Councils considered it more cost effective in the near term to use internal resources or short-term loans instead.

1.9 The Treasury Management Strategy shows that both Councils have increasing CFR's and estimated net borrowing requirements which are for further expenditure on CIFCO Ltd and Gateway 14 Ltd.

1.10 The Councils' borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long-term borrowing was maintained.

1.11 The Councils did not take out any new medium or long-term borrowing in the period.

1.12 LOBO loans: Mid Suffolk continues to hold £4m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the first half of 2019/20.

**Appendix C**

## 1 Treasury Investment Activity

1.1 Babergh and Mid Suffolk hold invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half of 2019/20, Babergh's investment balances ranged between £10.5m and £20.2m. Mid Suffolk's investment balances ranged between £11.9m and £19m. These movements are due to timing differences between income and expenditure.

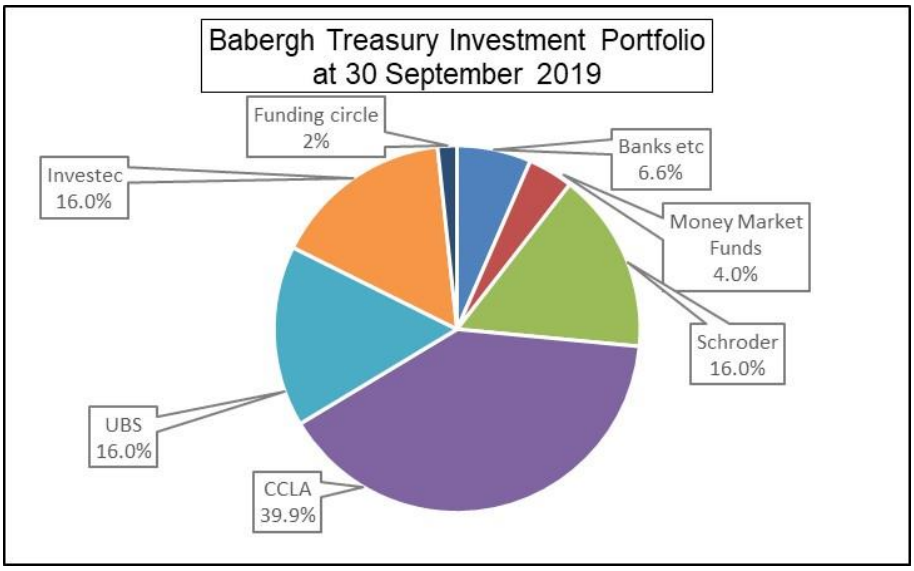
1.2 The investment position and weighted average rates during the first six months of the year is shown in Table 4 as follows. Both Councils invested £2m each in a new pooled fund (Investec Diversified Income Fund) during the period and withdrew more of their investments in Funding Circle.

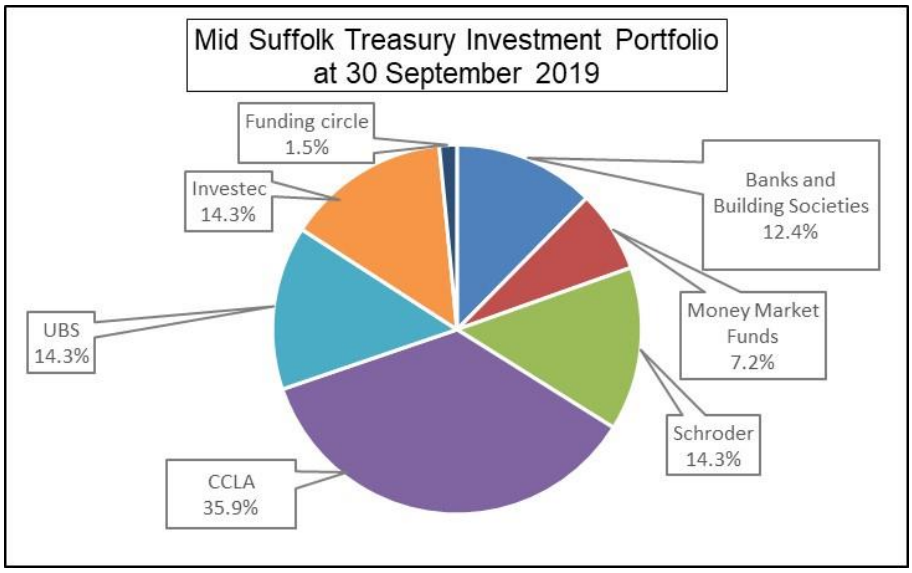
**1.3 Table 4: Treasury Investment Position**

| **Babergh** | **31.3.19 Balance £m** | **Movement £m** | **30.9.19 Balance £m** | **30.9.19 Weighted Average Rate %** |
|---|---|---|---|---|
| Banks and Building Societies | 1.421 | (0.599) | 0.822 | 0.65% |
| Money Market Funds | 1.000 | (0.500) | 0.500 | 0.65% |
| Other Pooled Funds | 9.430 | 1.784 | 11.214 | 4.98% |
| **Total Investments** | **11.851** | **0.685** | **12.536** | |

| **Mid Suffolk** | **31.3.19 Balance £m** | **Movement £m** | **30.9.19 Balance £m** | **30.9.19 Weighted Average Rate %** |
|---|---|---|---|---|
| Banks and Building Societies | 1.480 | 0.247 | 1.727 | 0.65% |
| Money Market Funds | 1.400 | (0.400) | 1.000 | 0.62% |
| Other Pooled Funds | 9.423 | 1.792 | 11.215 | 4.95% |
| **Total Investments** | **12.303** | **1.639** | **13.942** | |

## 1.4 The Councils' Investment Portfolios at 30 September 2019:




1.5 Both the CIPFA Code and government guidance requires the Councils to invest their funds prudently, and to have regard to the security and liquidity of their treasury investments before seeking the optimum rate of return, or yield. The Councils' objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

1.6 Given the increasing risk and low returns from short-term unsecured bank investments, each Council made another investment of £2m in a higher yielding fund to provide monthly income and long-term capital growth (Investec Diversified Income Fund). This is in line with the strategy for pooled funds (e.g. pooled property, multi asset and equity funds) and reduced their investments in Funding Circle.

1.7 As a result, investment risk was diversified while the average rate of return has increased. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 that follows.

**1.8 Table 5: Investment Benchmarking – Treasury investments managed in-house**

| Babergh | Credit Score | Credit Rating | Bail-in Exposure | Weighted Average Maturity (days) | Rate of Return |
|---|---|---|---|---|---|
| 31.03.2019 | 5.17 | A+ | 92% | 210 | 4.13% |
| 30.06.2019 | 5.28 | A+ | 91% | 97 | 4.20% |
| 30.09.2019 | 5.21 | A+ | 86% | 147 | 4.62% |
| Similar LAs | 4.26 | AA- | 61% | 80 | 1.68% |
| All LAs | 4.28 | AA- | 62% | 28 | 1.34% |

| Mid Suffolk | Credit Score | Credit Rating | Bail-in Exposure | Weighted Average Maturity (days) | Rate of Return |
|---|---|---|---|---|---|
| 31.03.2019 | 5.16 | A+ | 93% | 173 | 4.00% |
| 30.06.2019 | 5.11 | A+ | 95% | 54 | 3.81% |
| 30.09.2019 | 4.94 | A+ | 93% | 75 | 4.21% |
| Similar LAs | 4.26 | AA- | 61% | 80 | 1.68% |
| All LAs | 4.28 | AA- | 62% | 28 | 1.34% |

1.9 Bail-in involves the shareholders and creditors of a failing financial institution meeting the costs, instead of the government. Babergh and Mid Suffolk have a higher proportion of investments in strategic pooled funds compared to total investments, so their bail-in exposure is proportionately higher than the local authorities in Arlingclose's benchmarking group. Babergh and Mid Suffolk have chosen to adopt a strategy of generating higher returns by investing funds available in banks and strategic pooled funds.

1.10 Babergh has £11.2m of externally managed strategic pooled equity, property and multi assets funds where the primary objectives are regular revenue income and long-term price stability. This has generated an average total income return, since the date of the initial investments, of £1.7m (4.92%) which is used to support service provision.

1.11 Mid Suffolk has £11.2m of externally managed strategic pooled equity, property and multi assets funds which has generated an average total income return, since the date of the initial investments, of £1.6m (4.94%) which is used to support service provision.

1.12 These pooled funds have no defined maturity date but are available for withdrawal after a notice period. Their performance and continued suitability in meeting the Councils' investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years, but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

1.13 Recent changes to International Financial Reporting Standards for pooled funds mean that changes in valuations must be taken through the Comprehensive Income and Expenditure Statement. The MHCLG has granted a statutory override until 2022/23 so these changes will have no impact on the "bottom line" until 2023/24.

1.14 It is intended to set aside any increases in valuation to a reserve to mitigate future potential losses. These pooled funds are long term investments and the Councils would not sell the units whilst their value was less than the original investment.

1.15 **Readiness for Brexit:** The scheduled date for the UK to leave the EU is now 31 January 2020. A deal has been agreed with the EU and as the exit date approaches the Councils will ensure there are enough accounts open at UK domiciled banks and Money Market Funds to hold sufficient liquidity required in the near term and that its account with the government's Debt Management Account Deposit Facility (DMADF) remains available for use in an emergency.

## 2 Long Term investments – Pooled Fund Performance

2.1 Both Councils' have investments in pooled funds to generate an income return. Table 6 that follows is a summary of performance by fund from initial investment date until the most recent return valuation available and details of interest received.

### 2.2 Table 6: Pooled Fund Performance

2.1.1 Both Councils invested £5m each into the CCLA Local Authority Property Fund. Babergh purchased 1.657m units on 31 August 2015 and Mid Suffolk 1.632m units on 29 October 2015. The valuations are based on the number of units owned.

2.1.2 **Table 6.1 CCLA Performance**

| CCLA | Babergh | | | | |
|---|---|---|---|---|---|
| | **31.3.18 Balance** | **2018/19 Movement** | **31.3.19 Balance £m** | **6 months Movement £m** | **30.9.19 Balance £m** |
| Amount invested | 5.000 | | 5.000 | | 5.000 |
| Investment Valuation | 4.927 | 0.077 | 5.004 | (0.047) | 4.957 |
| **Cumulative Net Interest received from date of initial investment** | **0.581** | | **0.798** | | **0.907** |
| | | | | | |
| **Annual Performance** | | | | | |
| Net Interest received in year | **0.227** | | **0.217** | | **0.109** |
| Average Rate of Return for year | **4.54%** | | **4.33%** | | **4.36%** |

| CCLA | Mid Suffolk | | | | |
|---|---|---|---|---|---|
| | 31.3.18 Balance £m | 2018/19 Movement £m | 31.3.19 Balance £m | 6 months Movement £m | 30.9.19 Balance £m |
| Amount invested | 5.000 | | 5.000 | | 5.000 |
| Investment Valuation | 4.851 | 0.075 | 4.927 | (0.046) | 4.881 |
| **Cumulative Net Interest received from date of initial investment** | **0.539** | | **0.752** | | **0.860** |
| | | | | | |
| **Annual Performance** | | | | | |
| Net Interest received in year | **0.224** | | **0.213** | | **0.108** |
| Average Rate of Return for year | **4.47%** | | **4.27%** | | **4.29%** |

2.1.3 Both Councils invested £2m each into the Schroder Income Maximiser Fund on 10 February 2017.

2.1.4 **Table 6.2 Schroder Performance**

| Schroder Maximiser Fund | Babergh | | | | |
|---|---|---|---|---|---|
| | 31.3.18 Balance £m | 2018/19 Movement £m | 31.3.19 Balance £m | 6 months Movement £m | 30.9.19 Balance £m |
| Amount invested | 2.000 | | 2.000 | | 2.000 |
| Investment Valuation | 1.927 | (0.051) | 1.876 | 0.107 | 1.983 |
| **Cumulative Net Interest received from date of initial investment** | **0.178** | | **0.322** | | **0.419** |
| | | | | | |
| **Annual Performance** | | | | | |
| Net Interest received in year | **0.137** | | **0.144** | | **0.097** |
| Average Rate of Return for year | **6.86%** | | **7.20%** | | **9.70%** |

| Schroder Maximiser Fund | Mid Suffolk | | | | |
|---|---|---|---|---|---|
| | 31.3.18 Balance £m | 2018/19 Movement £m | 31.3.19 Balance £m | 6 months Movement £m | 30.9.19 Balance £m |
| Amount invested | 2.000 | | 2.000 | | 2.000 |
| Investment Valuation | 1.927 | (0.051) | 1.876 | 0.107 | 1.983 |
| **Cumulative Net Interest received from date of initial investment** | **0.178** | | **0.322** | | **0.419** |
| | | | | | |
| **Annual Performance** | | | | | |
| Net Interest received in year | **0.137** | | **0.144** | | **0.097** |
| Average Rate of Return for year | **6.86%** | | **7.20%** | | **9.70%** |

2.1.5 Babergh invested £2m in the UBS Multi Asset Income Fund on 26 November 2015, whilst Mid Suffolk invested £2m on 28 March 2017.

2.1.6 **Table 6.3 UBS Performance**

| UBS | Babergh | | | | |
|---|---|---|---|---|---|
| | 31.3.18 Balance £m | 2018/19 Movement £m | 31.3.19 Balance £m | 6 months Movement £m | 30.9.19 Balance £m |
| Amount invested | 2.000 | | 2.000 | | 2.000 |
| Investment Valuation | 1.923 | (0.024) | 1.899 | 0.024 | 1.923 |
| **Cumulative Net Interest received from date of initial investment** | **0.192** | | **0.274** | | **0.321** |
| | | | | | |
| **Annual Performance** | | | | | |
| Net Interest received in year | **0.075** | | **0.082** | | **0.047** |
| Average Rate of Return for year | **3.74%** | | **4.09%** | | **4.67%** |

| UBS | Mid Suffolk | | | | |
|---|---|---|---|---|---|
| | 31.3.18 Balance £m | 2018/19 Movement £m | 31.3.19 Balance £m | 6 months Movement £m | 30.9.19 Balance £m |
| Amount invested | 2.000 | | 2.000 | | 2.000 |
| Investment Valuation | 1.920 | (0.024) | 1.896 | 0.024 | 1.919 |
| **Cumulative Net Interest received from date of initial investment** | **0.096** | | **0.178** | | **0.225** |
| | | | | | |
| **Annual Performance** | | | | | |
| Net Interest received in year | **0.075** | | **0.082** | | **0.047** |
| Average Rate of Return for year | **3.73%** | | **4.08%** | | **4.66%** |

2.1.7 Both Councils invested £2m each into the Investec Diversified Income Fund on 24 May 2019. This fund aims to provide monthly income with the opportunity for long-term capital growth, investing in equities, fixed income investments (e.g. corporate or government bonds) as well as cash and money market funds.

2.1.8 **Table 6.4 Investec Performance**

| Investec | Babergh | | | | |
|---|---|---|---|---|---|
| | 31.3.18 Balance £m | 2018/19 Movement £m | 31.3.19 Balance £m | 6 months Movement £m | 30.9.19 Balance £m |
| Amount invested | | | 0.000 | 2.000 | 2.000 |
| Investment Valuation | | | 0.000 | 1.977 | 1.977 |
| **Cumulative Net Interest received from date of initial investment** | | | | | **0.031** |
| | | | | | |
| **Annual Performance** | | | | | |
| Net Interest received in year | | | | | **0.031** |
| Average Rate of Return for year | | | | | **6.20%** |

| Investec | Mid Suffolk | | | | |
|---|---|---|---|---|---|
| | 31.3.18 Balance £m | 2018/19 Movement £m | 31.3.19 Balance £m | 6 months Movement £m | 30.9.19 Balance £m |
| Amount invested | | | 0.000 | 2.000 | 2.000 |
| Investment Valuation | | | 0.000 | 1.977 | 1.977 |
| **Cumulative Net Interest received from date of initial investment** | | | | | **0.031** |
| | | | | | |
| **Annual Performance** | | | | | |
| Net Interest received in year | | | | | **0.023** |
| Average Rate of Return for year | | | | | **4.65%** |

2.1.9 Both Councils invested in Funding Circle on 1 November 2015 and has varied the amounts invested since.

2.1.10 **Table 6.5 Funding Circle Performance**

| Funding Circle | Babergh | | | | |
|---|---|---|---|---|---|
| | 31.3.18 Balance £m | 2018/19 Movement £m | 31.3.19 Balance £m | 6 months Movement £m | 30.9.19 Balance £m |
| Amount Invested - National | 0.613 | (0.208) | 0.405 | (0.191) | 0.214 |
| Amount Invested - Local | 0.025 | 0.000 | 0.025 | (0.025) | 0.000 |
| **Total Amount Invested** | **0.638** | **(0.208)** | **0.430** | **(0.216)** | **0.214** |
| Bad debts to date | (0.016) | (0.015) | (0.031) | (0.009) | (0.040) |
| Accrued Interest | 0.019 | 0.003 | 0.022 | (0.019) | 0.003 |
| **Valuation** | **0.641** | **(0.220)** | **0.421** | **(0.244)** | **0.177** |
| | | | | | |
| Income received | 0.071 | | 0.099 | | 0.107 |
| Servicing costs | (0.008) | | (0.012) | | (0.013) |
| **Cumulative Net Interest received from date of initial investment** | **0.063** | | **0.087** | | **0.095** |
| | | | | | |
| **Annual Performance** | | | | | |
| Net Interest received in year | **0.038** | | **0.025** | | **0.007** |
| Average Rate of Return for year | **4.54%** | | **5.02%** | | **4.96%** |

| Funding Circle | Mid Suffolk | | | | |
|---|---|---|---|---|---|
| | 31.3.18 Balance £m | 2018/19 Movement £m | 31.3.19 Balance £m | 6 months Movement £m | 30.9.19 Balance £m |
| Amount Invested - National | 0.617 | (0.219) | 0.398 | (0.183) | 0.215 |
| Amount Invested - Local | 0.025 | 0.000 | 0.025 | (0.025) | 0.000 |
| **Total Amount Invested** | **0.642** | **(0.219)** | **0.423** | **(0.208)** | **0.215** |
| Bad debts to date | (0.016) | (0.023) | (0.040) | (0.006) | (0.046) |
| Accrued Interest | 0.017 | (0.001) | 0.016 | (0.013) | 0.003 |
| **Valuation** | **0.643** | **(0.243)** | **0.399** | **(0.227)** | **0.172** |
| | | | | | |
| Income received | 0.075 | | 0.102 | | 0.110 |
| Servicing costs | (0.009) | | (0.012) | | (0.013) |
| **Cumulative Net Interest received from date of initial investment** | **0.066** | | **0.090** | | **0.097** |
| | | | | | |
| **Annual Performance** | | | | | |
| Net Interest received in year | **0.039** | | **0.024** | | **0.007** |
| Average Rate of Return for year | **4.63%** | | **4.78%** | | **4.89%** |

## 3 Other Investment Activity

3.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Councils' as well as other non-financial assets which the Councils' hold primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to include all such assets held partially for financial return.

3.2 On 5 August 2016 Babergh purchased Borehamgate Shopping centre in Sudbury for £3.56m. This has been classified as an investment property and on 31 March 2019, it was assessed at Fair Value of £2.66m.

3.3 Babergh holds £2.726m of equity in Babergh Holdings Ltd and has £24.537m of loans in Capital Investment Fund Company (CIFCO Ltd), a subsidiary of Babergh Holdings Ltd. These loans have generated £1.472m of investment income since the start of trading.

3.4 Mid Suffolk holds £2.726m of equity in Mid Suffolk Holdings Ltd and has £24.537m of loans in Capital Investment Fund Company (CIFCO Ltd), a subsidiary of Mid Suffolk Holdings Ltd. These loans have generated £1.472m of investment income since the start of trading.

3.5 Mid Suffolk also holds £21.152m of investment in another subsidiary of Mid Suffolk Holdings Ltd, Gateway 14 Ltd, which has generated £0.886m of accrued investment income since 13 August 2018.

## 4 Table 7: Debt Limits

4.1 Compliance with the authorised limit and operational boundary for external debt is demonstrated in the table that follows.

| Borrowing | Actual Maximum | 30.9.19 Actual | 2019/20 Operational Boundary | 2019/20 Authorised Limit | Complied |
|---|---|---|---|---|---|
| Babergh | £108m | £108m | £164m | £179m | ✓ |
| Mid Suffolk | £130m | £128m | £189m | £204m | ✓ |

4.2 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

## 5 Compliance

5.1 The Section 151 Officer is pleased to report that all treasury management activities undertaken during the period complied fully with the CIPFA Code of Practice and the Councils' approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in Table 8 that follows.

### 5.2 Table 8: Investment Limits

| Babergh | Actual Maximum | 30.9.19 Actual | 2019/20 Limit | Complied |
|---|---|---|---|---|
| Lloyds Bank | £1.743m | £0.822m | £2m | ✓ |
| Money market funds | 41.40% | 3.99% | 50% | ✓ |
| DMADF | Nil | Nil | No limit | ✓ |
| CCLA | £5m | £5m | £5m | ✓ |
| UBS | £2m | £2m | £5m | ✓ |
| Investec | £2m | £2m | £5m | ✓ |
| Schroder | £2m | £2m | £5m | ✓ |
| Funding Circle | £0.430m | £0.214m | £1m | ✓ |

| Mid Suffolk | Actual Maximum | 30.9.19 Actual | 2019/20 Limit | Complied |
|---|---|---|---|---|
| Lloyds Bank | £1.912m | £1.227m | £2m | ✓ |
| Barclays Bank | £0.500m | £0.500m | £2m | ✓ |
| Svenska Handelsbanken | Nil | Nil | £2m | ✓ |
| Money market funds | 35.34% | 7.17% | 50% | ✓ |
| DMADF | £3m | Nil | No limit | ✓ |
| CCLA | £5m | £5m | £5m | ✓ |
| UBS | £2m | £2m | £5m | ✓ |
| Investec | £2m | £2m | £5m | ✓ |
| Schroder | £2m | £2m | £5m | ✓ |
| Funding Circle | £0.423m | £0.215m | £1m | ✓ |

**Appendix D**

## 1 Treasury Management Indicators

1.1 The Councils measure and manage their exposure to treasury management risks using the following indicators.

1.2 **Security:** The Councils have adopted a voluntary measure of exposure to credit risk by monitoring the value-weighted average credit score of their investment portfolios. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

| Portfolio Average Credit Score | 30.9.19 Actual | 2019/20 Target | Complied |
|---|---|---|---|
| Babergh | 5.21 | 7.0 | ✓ |
| Mid Suffolk | 4.94 | 7.0 | ✓ |

1.3 **Liquidity:** The Councils have adopted a voluntary measure of exposure liquidity risk by monitoring the amount it can borrow each period without giving prior notice.

| Total sum borrowed in the past 3 months without prior notice | 30.9.19 Actual | 2019/20 Target | Complied |
|---|---|---|---|
| Babergh District Council | Nil | £5m | ✓ |
| Mid Suffolk District Council | Nil | £5m | ✓ |

1.4 **Interest Rate Exposures:** This indicator is set to control the Councils' exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest was:

| Upper impact on Revenue of a 1% increase in rates | 30.9.19 Actual | 2019/20 Target | Complied |
|---|---|---|---|
| Babergh District Council | £0.067m | £0.376m | ✓ |
| Mid Suffolk District Council | £0.080m | £0.490m | ✓ |

1.5 The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

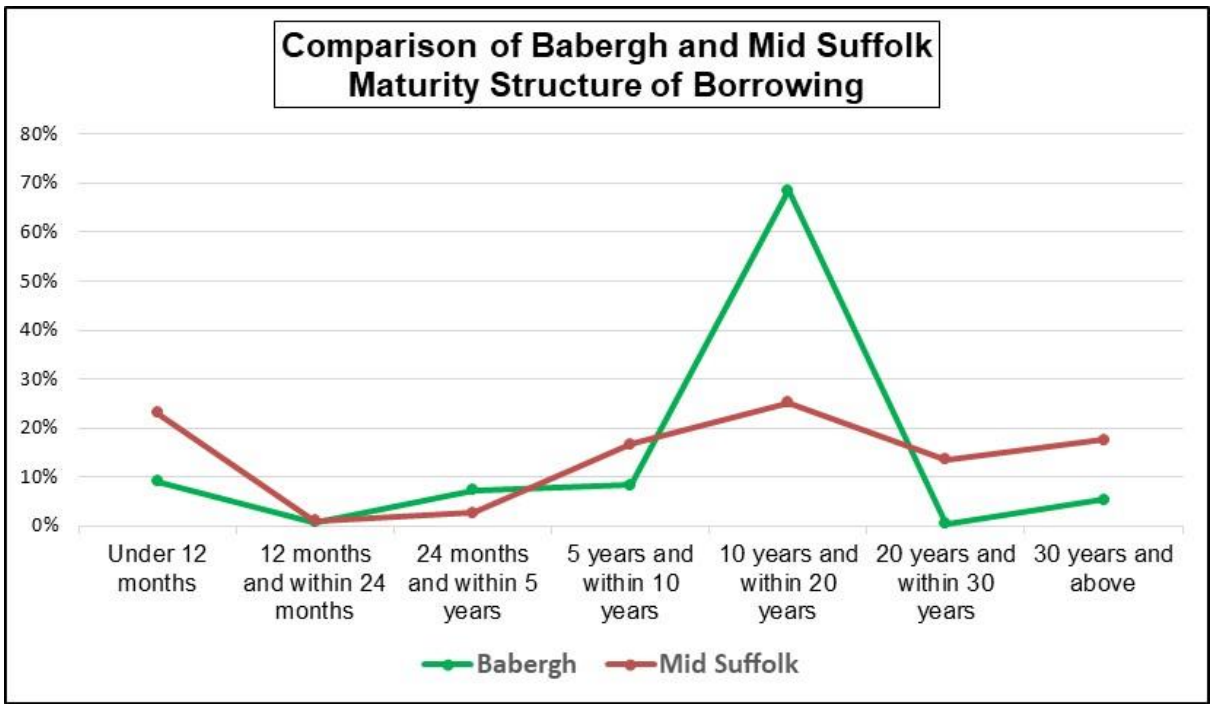
1.6 **Maturity Structure of Borrowing:** This indicator is set to control the Councils' exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing are shown in the following table:

## 1.7 Table to show Maturity Structure of Borrowing:

| Babergh | 30.9.19 Actual | Lower Limit | Upper Limit | Complied |
|---|---|---|---|---|
| Under 12 months | 9.07% | 0 | 50% | ✓ |
| 12 months and within 24 months | 0.80% | 0 | 50% | ✓ |
| 24 months and within 5 years | 7.31% | 0 | 50% | ✓ |
| 5 years and within 10 years | 8.31% | 0 | 100% | ✓ |
| 10 years and within 20 years | 68.62% | 0 | 100% | ✓ |
| 20 years and within 30 years | 0.46% | 0 | 100% | ✓ |
| 30 years and above | 5.43% | 0 | 100% | ✓ |

| Mid Suffolk | 30.9.19 Actual | Lower Limit | Upper Limit | Complied |
|---|---|---|---|---|
| Under 12 months | 23.13% | 0 | 50% | ✓ |
| 12 months and within 24 months | 1.12% | 0 | 50% | ✓ |
| 24 months and within 5 years | 2.73% | 0 | 50% | ✓ |
| 5 years and within 10 years | 16.69% | 0 | 100% | ✓ |
| 10 years and within 20 years | 25.16% | 0 | 100% | ✓ |
| 20 years and within 30 years | 13.60% | 0 | 100% | ✓ |
| 30 years and above | 17.57% | 0 | 100% | ✓ |

## 1.8 Chart to show the Maturity Structure of Borrowing:




1.9 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

1.10 **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Councils' exposure to the risk of incurring losses by seeking early repayment of their investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

| **Actual Principal invested beyond year end** | **2019/20** | **2020/21** | **2021/22** |
|---|---|---|---|
| Babergh Actual | Nil | Nil | Nil |
| Mid Suffolk Actual | Nil | Nil | Nil |
| **Limit on principal invested beyond year end** | **£2m** | **£2m** | **£2m** |
| Babergh Complied | ✓ | ✓ | ✓ |
| Mid Suffolk Complied | ✓ | ✓ | ✓ |

**Appendix E**

**Glossary of Terms**

| | |
|---|---|
| BPS | Base Points. A unit of percentage measure equal to 0.01%. Basis points are commonly used when discussing changes to interest rates, equity indices, and fixed-income securities. |
| CDS | Credit Default Swap. In effect, insurance against non-payment. Through a CDS, the buyer can mitigate the risk of their investment by shifting all or a portion of that risk onto an insurance company or other CDS seller in exchange for a periodic fee. In this way, the buyer of a credit default swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the debt security. |
| CFR | Capital Financing Requirement. The underlying need to borrow to finance capital expenditure. |
| CIPFA | The Chartered Institute of Public Finance and Accountancy. This is the leading professional accountancy body for public services. |
| CPI | Consumer Price Index. This measures changes in the price level of consumer goods and services purchased by households. |
| CPIH | Consumer Price Index Housing. A measure of consumer price inflation including a measure of owner occupiers' housing costs (OOH). |
| CCLA | Churches, Charities and Local Authority Property Fund |
| DMADF | Debt Management Account Deposit Facility. |
| Funding Circle | Accounts set up to lend money to local and national businesses at competitive rates |
| GDP | Gross Domestic Product. This is the market value of all officially recognised goods and services produced within a country in a given period of time. |
| HRA | Housing Revenue Account. The statutory account to which revenue costs are charged for providing, maintaining and managing Council dwellings. These costs are financed by tenants' rents. |
| LIBID | London Interbank Bid Rate. The interest rate at which banks bid to take short-term deposits from other banks in the London interbank market. |
| LOBO | Lender's Option Borrower's Option. This is a loan where the lender has certain dates when they can increase the interest rate payable and, if they do, the Council has the option of accepting the new rate or repaying the loan. |
| LVNAV | Low Volatility Net Asset Value. A new type of Low Volatility Net Asset Value Money Market Fund - a new fund category introduced as part of a new regulatory reform of the sector in Europe. |

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| MHCLG | A Government department – The Ministry of Housing, Communities and Local Government |
| MiFID | The Markets in Financial Instruments Directive (2014/65/EU) (MiFID II). The EU legislation that regulates firms who provide services to clients linked to 'financial instruments' (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded. |
| MPC | Monetary Policy Committee. A committee of the Bank of England which decides the Bank of England's Base Rate and other aspects of the Government's Monetary Policy. |
| MRP | Minimum Revenue Provision. Local authorities are required to make a prudent provision for debt redemption on General Fund borrowing |
| NAV | Net Asset Value. The NAV is the value of a fund's assets less the value of its liabilities on a per unit basis. |
| PWLB | Public Works Loan Board - offers loans to local authorities below market rates. |
| QE | Quantitative Easing. The purchase of Government bonds by the Bank of England to boost the money supply. |
| T Bills | Treasury Bill. A short-term Government Bond. |
| UBS | UBS Multi Asset Income Fund (UK) – a pooled fund. |

**BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL**

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| **COMMITTEE: Joint Audit and Standards Committee** | **REPORT NUMBER: JAC/19/11** |
| **FROM: Corporate Manager – Internal Audit** | **DATE OF MEETING: 27th January 2020** |
| **OFFICER: Corporate Manager – Internal Audit** | **KEY DECISION REF NO. N/A** |

**INTERIM INTERNAL AUDIT REPORT 2019/20**

## 1. PURPOSE OF REPORT

1.1 The purpose of this report is to inform Councillors of the work undertaken within the Internal Audit Service for the first half year, 2019/20 and provides Councillors with a review of the variety and scope of projects and corporate activities which are supported through the work of the team.

## 2. OPTIONS CONSIDERED

2.1 This is a regulatory report and there are no options to consider.

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| **3. RECOMMENDATIONS**<br><br>3.1 That the contents of this Internal Audit report, supported by Appendix A, be noted. |
| **REASON FOR DECISION**<br><br>For the Committee to note the Internal auditor's half year report for 2019/20. |

## 4. KEY INFORMATION

4.1 Requirement of Internal Audit - Public Sector Internal Audit Standards (PSIAS)

The PSIAS require the Corporate Manager – Internal Audit to report periodically to senior management and this Committee on Internal Audit's performance relative to its Internal Audit Plan including significant risk exposures and control issues where relevant, fraud risks and governance issues.

4.2 As the Councils' Delivery Programme and management review continues and re-shapes and transforms its services the demand on Internal Audit's services to provide assurance, support and guidance on a diverse range of activities continues. The management review, Phases 2 and 3, will also require a level of input from Internal Audit to ensure key controls are maintained. The Corporate Manager – Internal Audit monitored requests, with a risk-based approach, for the re-allocation of Internal Audit resources from the approved 2019/20 Internal Audit Plan.

4.3 Subsequent to the 2018/19 Year End the current Specialist Lead for Internal Audit, retired, leaving a resource shortfall in the team. The position has been further compounded following the appointment of the Specialist Lead for Risk Management to a role within the Councils' Finance Team, effective from 9th December 2019. A

recent recruitment campaign for the Specialist Lead for Audit proved unsuccessful. With the latest resource shortfall the Corporate Manager – Internal Audit is currently considering a number of options with senior management.

4.4 In determining and managing the resource shortfall the Corporate Manager – Internal Audit is allocating audits from the 2019/20 plan based on the level of risk and the skills and experience within the team. The situation is being carefully monitored to ensure that coverage and the consequent annual audit opinion is not compromised.

4.5 There was due consideration in conducting this year's audits to ensure that Internal Audit maintained its objectivity and independence. As further demonstration of organisational independence, the Corporate Manager – Internal Audit can confirm that there has been no inappropriate scope or resource limitations placed upon him.

4.6 In line with the Councils' Internal Audit Charter the work was conducted to ensure that it delivers against the PSIAS and the requirement to produce an annual Head of Internal Audit opinion. In doing this it can be confirmed that the work conducted covered the following activities:

- Governance processes
- Monitoring
- Ethics
- Information and Information technology governance
- Risk management
- Fraud management

## 5. LINKS TO CORPORATE PLAN

The delivery of a comprehensive Internal Audit service supports the strategic priorities within the Councils' Corporate Plan.

5.1 Appendix A provides a summary of the work undertaken under the relevant strategic priority. This work will contribute to the 2019/20 overall Internal Audit opinion on the Councils' control environment provided by the Corporate Manager – Internal Audit, as required by the Accounts and Audit (England) Regulations 2015.

## 6. FINANCIAL IMPLICATIONS

6.1 There are no direct financial implications arising from this report. All Internal Audit recommendations must be considered in terms of their cost effectiveness.

## 7. LEGAL IMPLICATIONS

7.1 There are no direct legal implications arising from this report.

## 8. RISK MANAGEMENT

8.1 This report is not directly linked with any one of the Councils' Significant Risks. The key risk, however, is set out below:

| Risk Description | Likelihood | Impact | Mitigation Measures |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Internal controls within each Council may not be efficient and effective.<br><br>As a result each Council may not identify any significant weakness that could impact on the achievement of their aims and/or lead to fraud, financial loss or inefficiency. | Unlikely 2 | Bad 3 | Councillors receive and approve the Internal Audit work programme and other reports on internal controls throughout the year.<br><br>The work programme is based on an assessment of risk for each system or operational area. |

## 9. CONSULTATIONS

9.1 The 2019/20 Internal Audit Plan was approved by the Joint Audit and Standards Committee on 11th March 2019 (Paper JAC/18/20), having previously been endorsed by the S151 Officer and the Senior Leadership Team.

As part of the preparation for this Plan, auditors engaged with senior management to identify their view of the coming year's risks linked to the Corporate Plan and Delivery Programme, and to gather and map management assurance across the Councils' functions.

9.2 During preparation this report has been shared with both Chairs of the Joint Audit and Standards Committee; Cabinet Lead Members for Customers, Digital Transformation & Improvement; the Senior Leadership Team, including the Section 151 Officer and the Assistant Director, Law and Governance and Monitoring Officer.

## 10. EQUALITY ANALYSIS

An equality analysis has not been completed because the report content does not have any impact on the protected characteristics.

## 11. ENVIRONMENTAL IMPLICATIONS

There are no environmental implications arising from this report.

## 12. APPENDICES

| Title | Location |
|---|---|
| (a) Appendix A - Overview of Internal Audit Work | Attached |

Authorship:

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Corporate Manager – Internal Audit

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**Appendix A**

## Overview of Internal Audit Activity, 6 Months to 30th September 2019

### 1. Introduction

1.1 The work completed by Internal Audit to date for the Financial Year 2019/20 is reported here to the Joint Audit and Standards Committee.

1.2 Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS) which have been in place since 1 April 2013, were revised on 1 April 2016 and have been further revised on 1 April 2017.

### 2. Internal Audit reports with Adverse Opinions

2.1. 2 audits with an audit opinion of 'Limited Assurance' have been issued this period and are detailed below. All audits conducted this period are listed in Section 6 below.

The reviews that returned an audit opinion on the control environment of "Limited Assurance' in the last financial year (2018/19) where actions were outstanding have been kept under review by audit and, where appropriate, the management actions have been reassessed with the appropriate manager. These audits, with their present status are outlined below:

<u>2018/19</u>

1. Land Charges (Fee reconciliations) (to be revisited following conclusion of the management review)
2. Sourcing contracts and tendering process and contract management (to be revisited following conclusion of the management review)
3. Contract spend (to be revisited following conclusion of the management review)
4. Governance – Gifts and hospitality and Declarations of Interest (audit closed)
5. Housing Delivery (request from management to follow-up during 2020/21)
6. Payroll (audit closed)

<u>2019/20</u>

7. Workplace security
8. IT purchases

2.1.1 2018/19 Land Charges (Fee Reconciliations): Internal Audit Opinion: "Limited Assurance"

| Key Risk | Issue Raised | Management Response |
|---|---|---|
| Fee income is not recognised through | Fee levels have not been reviewed recently; nor the | We need to annually review the land charges search |

| | | |
|---|---|---|
| inadequate processes and controls. | two largest self-billing customers' invoices reconciled to searches conducted. | fees to ensure that the income covers the cost of delivery of the service, which is currently the case.<br><br>Formal annual reviews to be established.<br><br>Regular reconciliation of searches against income will be established, along with a retrospective reconciliation. |
| Present status at this report date:<br><br>The full reconciliation of income against delivery cost, including the two largest self-billing customers, will be carried out in parallel with phase 3 of the management review and a further proposed restructure in 2020. Considerations will still need to be given to capital costs of service improvement which now fall across multiple services following the management restructure. | | |

2.1.2 2018/19 Sourcing contracts and tendering process and contract management: Internal Audit Opinion: "Limited Assurance"

| Key Risk | Issue Raised | Management Response |
|---|---|---|
| The Councils are vulnerable to reputational and financial risks as contracts may fail to meet performance expectations, exceed budget and/or breach compliance.<br><br>Poor communication with contractor fails to correct performance. | Although no issues were identified during testing, due to a lack of meeting minutes, it was not clear for all contracts tested, what actions take place to address any service delivery issues should they arise.<br><br>It could not be:<br><br>• Evidenced that contracts include expected performance measures and associated penalties for not meeting these;<br><br>• Confirmed that appropriate contractor insurance is in place as no evidence was obtained by contract managers. | Many of the recommendations made within this report could potentially be addressed through appropriate training provided to the Contract Managers which they would benefit from.<br><br>It remains however, the responsibility of Managers to manage this process once equipped with the tools to do so.<br><br>Furthermore, consideration could be given to escalating these issues to the Procurement Board which would strengthen this course of action. |
| Present status at this report date:<br><br>The Corporate Manager for Finance and Commissioning and Procurement has commissioned a piece of work with the East of England Local Government Association to | | |

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| undertake a review of the entire commissioning and procurement function. This review will involve a workshop, interviews and a survey to understand how this function is operating within the organisation, with recommendations for best practice and a programme of implementation for improvements to follow, including a training programme for managers on effective contract management and establishing their responsibilities.<br>The team have now migrated all paper contracts to Suffolk Sourcing which is the software the Council has opted to use used for contract management, the next phase with be a training programme for all Corporate Managers/contract owners which will assist them with effective contract management.<br>Whilst a Business Partner model operates within this area, the Corporate Manager acknowledges that this needs reviewing, therefore a workshop for all corporate managers and Assistant Directors is scheduled for February to explore how this is working and how this can be improved. |

2.1.3 2018/19 Contract spend: Internal Audit Opinion: 'Limited Assurance'

| Key Risk | Issue Raised | Management Response |
|---|---|---|
| Loss of money through poor and/or inadequate contractual arrangements for supplier services. | Inconsistent operating model to describe relationship and service provision between Contract Manager and the Finance and Procurement Business Partners. | Whilst management have responded positively to the findings and recommendations in the report it is recognised that the Councils' operational services are embarking on a significant restructuring. Whilst the principles of the findings should not be lost it is likely that the detail of how and when they will be considered and enacted is presently open. |
| Present status at this report date:<br>The same comments refer as reported in 2.1.2 above | | |

2.1.4 2018/19 Governance – Gifts and Hospitality and Declarations of Interest: Internal Audit Opinion: "Limited Assurance"

| Key Risk | Issue Raised | Management Response |
|---|---|---|
| Undeclared gifts or interests may lead to challenges of independence; of inability to demonstrate fair and lawful actions; and a lack of transparency to our stakeholders. | Staff gifts, hospitality and 'declarations of interest' are not subject to review and would appear that not all staff are aware of this log and procedures to report. | Online form generated. A user guide to go alongside this is being produced and a process for logging completed forms is to be agreed. |

| | | |
|---|---|---|
| | | All Senior staff are currently required to complete annual related party transaction declarations which covers part of the Declaration of Interests already. |
| Present status at this report date: (Sufficient) Reasonable assurance<br><br>Officers are working on a common corporate approach for registering and monitoring Declaration of Interests and Gifts and Hospitality. Once agreed, communications will go out to all officers and Councillors and will also form part of the induction process. | | |

2.1.5 2018/19 Housing Delivery: Housing Delivery: Internal Audit Opinion: 'Limited Assurance'

| Key Risk | Issue Raised | Management Response |
|---|---|---|
| Statutory and regulatory obligations are not complied with (e.g. servicing of boilers; fire alarms; etc.)<br><br>Failure to implement an agreed Compliancy Action Plan may lead to a lack of focus and critical deadlines for compliance improvements being missed. | Without full confidence that all relevant Council owned properties are registered on the Open Housing (OH) system, no assurance can be given that the Councils are compliant in meeting the required housing servicing and maintenance checks.<br><br>Close liaison between the Corporate Asset Register and the OH system should continue to ensure all known properties meet the required standards. | An Interim Corporate Asset Manager has recently been appointed to undertake this task. |
| Present status at this report date:<br><br>An Interim Building Services Manager was appointed in November 2019 and their role is to focus on ensuring Babergh and Mid Suffolk are compliant as a Landlord by conducting a review.<br><br>As a result, in the past two months a full audit of Gas Compliance has taken place with work undertaken to check compliance as well as policy and procedural changes to ensure we are compliant going forward.<br><br>The focus has now moved on to Fire Safety and Legionella.<br><br>As a result of the recent housing consultation the planned staffing structures now support an Asset Compliance Manager and the introduction of an Administration Team Leader focussed on Compliance management. In addition, a dedicated inhouse Asbestos Surveyor has been introduced rather than relying solely on external contractors. | | |

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| The development of a business case in relation to a Joint Venture between Babergh, Mid Suffolk and Flagship Housing includes measuring compliance and identifying any gaps with a plan to close those gaps, thereby ensuring compliance. These matters were recently raised with the Chief Executive and the Health and Safety Board. Future corporate awareness will be achieved through the development of a Corporate Compliance dashboard, which is now in development.<br><br>Housing would like to see in the 2020/21 Corporate Audit Plan a focus on checking controls and procedures as well as the compliance of individual Council owned properties. |

2.1.6 2018/19 Payroll: Internal Audit Opinion: 'Limited Assurance'

| Key Risk | Issue Raised | Management Response |
|---|---|---|
| Penalty or censure arising from incorrect treatment for contractors and temporary employees assessed as inside IR35. | A lack of awareness of the legislation by Corporate Managers. | A recruitment policy has been drafted and includes IR35 guidance. The policy will be published on Connect, promoted in Working Together and in Managers' Monthly email 'Bulletin'.<br><br>The Interim Corporate Manager will also liaise with the Corporate Manager, Finance to ensure Commissioning and Procurement and Human Resources agree the best internal process. |
| Present status at this report date: (Sufficient) Reasonable assurance<br><br>IR35 guidance has been produced, communicated to staff and published on 'Connect'. | | |

2.2 As well as conducting audit reviews Internal Audit had significant involvement within the period in a variety of different Council activities/issues, which included:

Section Reference:

**3 Council Governance**
**4 Risk Management**
**5 Probity**
**6 Audits conducted**
**7 Business support activities**

## 3 Council Governance

3.1 Annual Governance Statement (AGS)

Internal Audit has led on the production of the AGS which was completed as at the end of the financial year 2018/19, presented to this Committee on 29th July 2019 (Paper JAC/19/2) alongside an Assurance Mapping exercise across the Councils designed to identify gaps in good practice and aid the 2019/20 Internal Audit planning process. The outcome of the planning was reported to this Committee on 11th March 2019 (Paper JAC/18/20).

3.2 Statutory Officers Working Group

The Corporate Manager – Internal Audit attends this meeting in his capacity as 'Head of Internal Audit' and as the Councils' Deputy Monitoring Officer to provide appropriate professional determination on governance matters as they arise. This Group also has responsibility for managing Information Governance and compliance with the requirements of the General Data Protection Regulations (GDPR) 2018.

3.3 Deputy Monitoring Officer (DMO)

The Corporate Manager - Internal Audit is one of two DMOs for the Councils with the specific duty to ensure that the Councils, their officers, and elected councillors, maintain the highest standards of conduct in all they do, pursuant to Section 5 of the Local Government and Housing Act 1989, as amended by Schedule 5 paragraph 24 of the Local Government Act 2000.

3.4 Developing our Values

The Councils have championed the development of values through a natural work team approach. The Corporate Manager - Internal Audit believes that a clear set of values and behaviours is a cornerstone to supporting good governance and has provided team resource to support the project.

## 4 Risk Management

4.1 Internal Audit continues to maintain and facilitate development of the Councils' Significant Risk register with councillors and senior management. As a living document Internal Audit regularly review the content with management and report half yearly to Cabinet (reported in December 2019). The End of Year Significant Risks register was reported to this Committee on 29th July 2019 (Paper JAC/19/5). This report also includes areas where we have strengthened the risk management process.

4.2 Audit has provided support to Corporate Managers in the development of their operational risk registers, which forms part of their service plans.

## 5 Probity

5.1 Full details of the anti-fraud and corruption work undertaken during the year was reported to this Committee in a report entitled 'Managing the Risk of Fraud and Corruption'. The last report was for 2018/19 and presented on 11th March 2019 (Paper JAC18/19).

5.2 The data requirements and data specifications for the 2019/20 National Fraud Initiative (NFI) exercise commenced in October 2019 using the NFI's secure electronic upload facility. Elections and single person discounts data were uploaded in December 2019. Final outcomes are to be confirmed, but already the exercise has identified one case with a recoverable overpayment of £6,300. The overpayment was caused by the claimant not notifying that they were a full-time student and in receipt of student finance.

5.4 The release of matches of information across all the contributor's data is managed on a risk-based approach by the system users, supported by Internal Audit. The system users access their data from the NFI and can investigate, in conjunction with the matched partner / contributor, to evaluate the potential fraud indicated by the match.

## 6 Audits Conducted

6.1 In line with the 2019/2020 Internal Audit Plan, reporting of outcomes is associated with all the Councils' strategic priorities. Both audits in progress and completed are reported below, with the latter given with their associated audit opinion on the control environment.

### 6.1.1 Economy

| AUDIT | PURPOSE OF AUDIT | KEY RISK(S) | SUMMARY OF KEY FINDINGS | AUDIT OPINION |
|---|---|---|---|---|
| 1<br>Receivables<br>(Focus on debt management, analysis and reporting) | Audit has worked with Finance Staff to review and evaluate the revised working practices in the transaction team. | Monies due to the Councils are not recognised, accounted for or collected on a timely basis. | This was consultative and advisory work and does not result in a report with findings.<br>However, this area will be subject to a subsequent review in early 2020. | No formal opinion is currently offered. |
| 2<br>BMS Invest | As reported to the Board (BDC Suffolk Holdings Ltd and MSDC Suffolk Holdings Ltd) in June 2018 the audit approach would follow several stages of review. The first, Governance, has been concluded and the next area proposed was the transactional testing, to verify the key processes and procedural controls created by management are fit for purpose and operating as planned. | General considerations are insufficient to ensure best fit to company strategy.<br><br>Legal and money laundering considerations are not sufficiently robust or not undertaken in early due diligence.<br><br>An inappropriate tenant is engaged in the property. | Acquisitions selected confirmed that appropriate controls were in place for all aspects reviewed:<br>* Market research undertaken was appropriate and complete.<br>* Adequate consideration has been given to legal implications of the acquisitions.<br>* Appropriate money laundering checks were undertaken<br>* Terms of tenancies detail roles and responsibilities of | Substantial assurance |

| | | | | |
|---|---|---|---|---|
| | | Financial investment and risk considerations are ineffective. | tenants.<br>* Risks are managed and monitored at Board level with Council oversight. | |
| 3<br>General Ledger | To review the controls in operation in both the structure and management of the operating system and the associated key reconciliations between the host and feeder systems to ensure that posting accuracy and financial integrity are assured. | Control accounts and reconciliations are mismanaged or ineffective and mis-posting may go unnoticed. | Reconciliations of the principal control accounts were at the time of testing found to be performed regularly and on a timely basis. | (Sufficient) Reasonable assurance |
| 4<br>IT purchasing | Following a request from the Assistant Director, Customer Services, Digital Transformation and Improvement, Internal Audit reviewed the adequacy of internal controls operating under the ordering, receiving and payment of IT equipment. | Unauthorised IT purchases may be made. | There is no internal proof of IT goods received to confirm against the purchase order. Furthermore, there is no formal monitoring or records maintained of who receives the equipment. This provides a further risk to the Council of potential loss of assets. | Limited Assurance<br>(Follow-up planned by the end of 2019/20) |
| 5<br>Corporate Payment Cards | With the introduction of a new payment card user guide in January 2019 the audit sought to gain assurance that appropriate controls are in place and operating effectively in relation to usage. | Non-compliance with user guide.<br><br>Cardholders may not be appropriately trained.<br><br>Fraudulent spending patterns may go undetected. | Work in progress - outcomes will be reported in the full year report to this Committee. | - |

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|---|---|---|---|---|
| 6<br><br>Fees and Charges | A review of the Councils fees and charges was included within the 2019/20 Audit Plan to identify any new potential income streams, benchmark to other authorities and gain assurances of oversight and review. | There may not be adequate oversight of charging processes within service areas.<br><br>Fees and charges may be inappropriate and the Councils may miss opportunity to bring in more revenue.<br><br>The Councils may lose business if their fees and charges are not competitive with other providers. | Work in progress - outcomes will be reported in the full year report to this Committee. | |

### 6.1.2 Housing

| AUDIT | PURPOSE OF AUDIT | KEY RISK(S) | SUMMARY OF KEY FINDINGS | AUDIT OPINION |
|---|---|---|---|---|
| 7<br><br>Voids | The purpose of the audit was to provide assurance that effective controls and processes are in place for managing void properties. | Processes and procedures to obtain notification of empty property and promotion of empty properties are inadequate.<br><br>Inadequate prioritisation and assessment of the potential tenant results in the property remaining empty.<br><br>Appropriate decisions and actions not being taken to support the effective operation to resolve empty and void properties. | Work in progress - outcomes will be reported in the full year report to this Committee. | |

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|---|---|---|---|---|
| 8<br><br>Disabled Facilities Grants | This audit focused on the administration function to ensure grants are awarded in accordance with the Councils' criteria and the conditions set by Central Government. | Funding is not given to the correct people, meeting the correct criteria or reclaimed appropriately. | The conditions attached to the Disabled Facilities Capital Grant Determination (2018-19) No [31/3337] have been complied with. | Prescribed declaration presented to the Ministry for Housing, Communities and Local Government via the administrating authority, Suffolk County Council. |

### 6.1.3 Customers and Wellbeing

| AUDIT | PURPOSE OF AUDIT | KEY RISK(S) | SUMMARY OF KEY FINDINGS | AUDIT OPINION |
|---|---|---|---|---|
| | | | | |
| 9<br><br>Workplace security | The audit sought to provide management with reasonable, but not absolute, assurance on the adequacy and effectiveness of key controls relating to building security through site visits; security of information within the buildings; and compliance with the Councils' IT policies. | Access to the workplace is not secure and controlled.<br><br>Passwords are not kept confidential.<br><br>Printing is not secure and sensitive data is not disposed of safely.<br><br>IT equipment is not kept secure at all times. | Council responsibility for Health and Safety issues in Endeavour House unclear.<br><br>Instances were identified at Endeavour House and Creeting Road depot where IT and security policies and procedures have not been followed. | Limited Assurance<br><br>(Follow-up planned by the end of 2019/20) |

6.2 In undertaking this work there was due consideration to ensure that Internal Audit maintained its objectivity and independence. The prioritisation of work took account of the requirements of the approved audit plan.

Objectivity was maintained in that the auditors had no personal or professional involvement with or allegiance to the area audited. The determination of appropriate parties to which the details of an impairment to independence or objectivity is disclosed was dependent upon the expectations of the activity and was expressed during the planning of each audit.

Annual declarations of interest were signed by each auditor.

## 7 Business Support Activities

7.1 Babergh and Mid Suffolk District Councils and West Suffolk Council commissioned a joint review into the implementation and delivery of the Shared Legal Services team. The Corporate Manager – Internal Audit was part of a team that undertook a light touch gateway review, which involved interviewing key officers who use the service, with a view to take the learning from what has been achieved and to look at opportunities for further developing the service.

7.2 Internal Audit aim to retain close working relationships with colleagues and have provided support and advice on proposed system and control developments, enhancements and changes. The material of which have been described within the report.

In addition, Internal Audit will undertake specific investigations and reviews at the request of management. These are often not in the original audit plan and, if not appropriate to an existing piece of work, are conducted at the discretion of the Corporate Manager, Internal Audit.

## 8. Resources

8.1 Subsequent to the 2018/19 year end the Specialist Lead for Internal Audit, has retired, leaving a resource shortfall in the team. The position has been further compounded by the appointment of the Specialist Lead for Risk Management to a role within the Councils' Finance Team, effective from 9th December 2019. A current recruitment campaign for the Specialist Lead for Audit proved unsuccessful. With the latest resource shortfall the Corporate Manager – Internal Audit is currently considering a number of options with senior management.

8.2 In determining and managing the resource shortfall the Corporate Manager – Internal Audit is allocating audits from the 2019/20 plan based on the level of risk and the skills and experience within the team. The situation is being carefully monitored by the Corporate Manager – Internal Audit to ensure that coverage and the consequent annual audit opinion is not compromised.

## 9 Professional Practice

9.1 <u>Membership of audit bodies</u>

It is important to keep abreast of best professional practice. Internal Audit has strong links with audit colleagues both within Suffolk and nationally and are members of the Suffolk Working Audit Partnership (SWAPs) and the Midland Audit Group.

9.2 <u>Public Sector Internal Audit Standards (PSIAS)</u>

The team has fully reviewed their working practices to ensure that the Internal Audit documents and processes comply with, and can be evidenced to, the PSIAS.
This has resulted in a refining of the Internal Audit Charter Strategy, Internal Audit Services Manual, Internal Audit Risk Log, Quality Assurance and Improvement

Programme, procedure notes and working papers. These documents are published on the Councils' intranet, 'Connect', and remain subject to regular review.
Subsequent to this exercise the actions arising from the review are materially implemented.

9.3 Independence

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner, which facilitates impartial and effective professional judgements and recommendations.

The Corporate Manager – Internal Audit is also responsible for overseeing the risk management and most recently following the phase 2 management review data protection arrangements across both Councils. Each of these roles has an independent sponsor to champion reports and proposals. These are vested in the Assistant Director, Law & Governance and Monitoring Officer.

## 10 Conclusions

The Corporate Manager – Internal Audit considers that there are no additional audit related issues that currently need to be brought to the attention of this committee.

**Draft Circulation:**

Dave Muller Chair of the Joint Audit and Standards Committee – Mid Suffolk

Bryn Hurren Chair of the Joint Audit and Standards Committee – Babergh

Lee Parker (Cabinet lead for Customers, Digital Transformation & Improvement – Babergh)

Suzie Morley (Cabinet lead for Customers, Digital Transformation & Improvement – Mid Suffolk)

Katherine Steel Assistant Director, Corporate Resources

Emily Yule Assistant Director, Law & Governance and Monitoring Officer

**BABERGH AND MID SUFFOLK DISTRICT COUNCILS**

| | | |
|---|---|---|
| **TO:** | **Joint Audit and Standards Committee** | **REPORT NUMBER: JAC/19/12** |
| **FROM:** | **Monitoring Officer** | **DATE OF MEETING: 27 January 2020** |
| **OFFICER:** | **Jan Robinson - Corporate Manager, Democratic Services** | **KEY DECISION REF NO. N/A** |

**REPORT FROM THE MONITORING OFFICER**

## 1. PURPOSE OF REPORT

1.1 The report provides the Committee with an update on Code of Conduct complaints received or determined since the last time that such complaints were reported to the Committee.

## 2. OPTIONS CONSIDERED

2.1 The Monitoring Officer is required by the constitution to regularly report complaints to the Joint Audit and Standards Committee.

## 3. RECOMMENDATION

3.1 That the Code of Conduct Complaints monitoring information contained in Paper JAC/19/?? be noted.

## 4. KEY INFORMATION

4.1 This report covers complaints received in the 6 months from 19 July 2019 to 10 January 2020. The complaints are listed in the table below along with the previous complaints that were previously reported to Committee.

| | BDC (31.10.2018 - 18.07.2019) (reported at previous meeting) | BDC (19.07.2019 - 10.01.2020) | BDC Total | | MSDC (31.10.2018 - 18.07.2019) (reported at previous meeting) | MSDC (19.07.2019 - 10.01.2020) | MSDC Total |
|---|---|---|---|---|---|---|---|
| N.o of complaints received | 21 | 24 | 45 | | 12 | 12 | 24 |
| N.o of complaints against District Councillors | 5 | 6 | 11 | | 3 | 1 | 4 |
| N.o of complaints against Parish Councillors | 16 | 18 | 34 | | 9 | 11 | 20 |
| N.o of complaints held & action taken | 1 | 1 | 2 | | 2 | 3 | 5 |
| N.o of findings of no breach of code and no action taken | 13 | 17 | 30 | | 8 | 6 | 14 |
| N.o of complaints where complaint is referred to the Police (not within the powers of the Monitoring Officer) | 3 | 0 | 3 | | 1 | 1 | 2 |
| Number of Complaints under consideratio n/ pending decision | 4 | 6 | 10 | | 1 | 2 | 3 |

4.2 The Monitoring Officer and Deputies continue to receive a high number of enquiries for pre-complaint advice and from Town and Parish Councils requesting procedural and governance advice. The table above shows that there has been a sharp increase in complaints received with 33 being received in the last six months whereas in the 9 months prior to that 36 had been received. Where there have been large numbers of complaints from a Council, the Deputy Monitoring Officer has provided extra support. Queries regarding informal advice are being recorded to monitor the volume and nature of the enquiries and to ensure that all respondents are providing consistent advice.

4.3 The Deputy Monitoring Officers have been taking a pro-active approach to dealing with complaints and have been offering training to Parish Councils on the Code of Conduct as well as to provide general Governance advice. So far 3 Councils have received training but we will be offering this training to any Parish / Town Councils who wish to take up this training or where the Deputy Monitoring Officers feel the Parish/ Town Council would benefit from training.

## 5. LINKS TO CORPORATE PLAN

5.1 To provide public confidence and legitimacy to the decision-making process that underpins all decisions that are made by the Council that support the priorities identified in the Corporate Plan.

## 6. FINANCIAL IMPLICATIONS

6.1 There are no direct financial implications arising from this report.

## 7. LEGAL IMPLICATIONS

7.1 Under the Localism Act 2011, the Monitoring Officer is required to establish a local code of conduct for councillors and to investigate complaints made relating to breaches of that code.

## 8. RISK MANAGEMENT

8.1 Key Risks are set out below:

| Risk Description | Likelihood | Impact | Mitigation Measures |
|---|---|---|---|
| Complaints are not handled promptly | 2 - Unlikely | 1 - Minimal | Monitoring of complaints |
| Decisions are not sound | 2 - Unlikely | 3 - Bad | Apply adopted procedures |

## 9. CONSULTATIONS

9.1 Where appropriate the Monitoring Officer is required to consult the Independent Person when considering Code of Conduct complaints.

## 10. EQUALITY ANALYSIS

10.1 Equality Impact Assessment (EIA) not required.

## 11. ENVIRONMENTAL IMPLICATIONS

12.1 There are no environmental implications associated with this report.

## 12. APPENDICES

| Title | Location |
|---|---|
| None | None |

## 13. BACKGROUND DOCUMENTS

13.1 None.

**BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL**

| | |
|---|---|
| **TO:** Joint Audit and Standards Committee | **REPORT NUMBER: JAC/19/13** |
| **FROM:** Katherine Steel, Assistant Director, Corporate Resources | **DATE OF MEETING: 27 January 2020** |
| **OFFICER:** Melissa Evans, Corporate Manager, Finance, Commissioning & Procurement, Sue Palmer, Senior Financial Services Officer | **KEY DECISION REF NO. Item No.** |

**JOINT CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGIES 2020/21**

## 1. PURPOSE OF REPORT

1.1 This report presents the Joint Capital, Investment and Treasury Management Strategies for the financial year 2020/21.

1.2 These are in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code, the CIPFA Prudential Code, which were both updated in 2017, and the 2018 Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance, which introduced the requirement to prepare a Capital Strategy and an Investment Strategy. The Treasury Management Strategy remained largely unchanged.

1.3 The Prudential Indicators and Minimum Revenue Provision (MRP) Statement are linked to the Budget report that will be presented to Cabinet and the Full Council meetings in February 2020.

1.4 The Codes of Practice recommend that these strategies are subject to scrutiny before being presented to Full Council, which falls within the remit of the Joint Audit and Standards Committee.

## 2. OPTIONS CONSIDERED

2.1 This report fulfils the Councils legal obligations to have regard to the Code and MHCLG Guidance.

2.2 Individual strategies were considered but Joint Strategies have been prepared.

## 3. RECOMMENDATIONS TO BOTH CABINETS AND COUNCILS

That the following be approved:

3.1 The Joint Capital Strategy for 2020/21, including the Prudential Indicators, as set out in Appendix A

3.2 The Joint Investment Strategy for 2020/21, as set out in Appendix B.

| | |
|---|---|
| 3.3 | The Joint Treasury Management Strategy for 2020/21, including the Joint Annual Investment Strategy as set out in Appendix C. |
| 3.4 | The Joint Treasury Management Indicators as set out in Appendix D. |
| 3.5 | The Joint Treasury Management Policy Statement as set out in Appendix G. |
| 3.6 | The Joint Minimum Revenue Provision Statement as set out in Appendix H. |
| 3.7 | That the key factors and information relating to and affecting treasury management activities set out in Appendices E, F, and I be noted. |
| | **REASON FOR DECISION**<br><br>**Local authorities are required to approve their Treasury Management Strategy (TMS), their Capital Strategy (including an overview of the TMS) and their Investment Strategy annually before the start of the financial year.** |

## 4. KEY INFORMATION

### Introduction

4.1 The Joint Capital Strategy and the Joint Investment Strategy were new for 2019/20, as required by changes in CIPFA and MHCLG guidance. The Joint Treasury Management Strategy remained largely unchanged. This report combines an overview of how capital expenditure, capital financing, treasury and other investment activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

4.2 The strategies set limits and indicators that embody the risk management approach that the Councils believe to be prudent. The strategies are set against the 2020/21 budget and the four-year outlook and the context of the UK economy and projected interest rates. The information included in Appendix A to H reflects the current plans for income, expenditure and investments of both Councils.

4.3 The Joint Investment Strategy, at Appendix B, covers the non-financial assets that councils hold for financial return such as property portfolios, shares in council owned companies and loans. These are defined as treasury management investments but are not managed as part of treasury management or under treasury management delegations.

### Strategic Context

4.4 In recent years the government policy frameworks have been reducing core funding for local government as part of its deficit reduction strategy. In response to this both Councils strategy over the medium term as set out in the 2020/21 budget reports is to become self-financing and to generate more funds than are required for core services, and to enable additional investment in the districts.

4.5 The three strategies within this report set out the Councils approach to capital spend, borrowing and investment in order to deliver this.

4.6 MHCLG and CIPFA are aware that most local authorities are taking a more commercial approach in order to bridge the gap they face as a result of diminishing funding from government. In response to this both bodies state that they do not seek to prescribe precisely how councils invest but they clearly have concerns that some councils are taking increasing commercial risks using borrowed money. As a result, this report provides a more extensive strategy so that more of the risks that the Codes and guidance highlight are apparent to Members.

**Statutory Background**

4.7 This report is part of the Councils' legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Ministry for Housing, Communities and Local Government (MHCLG) Guidance. The Councils must:

- ensure priority is given to security and portfolio liquidity, when investing treasury management funds,
- ensure the security of the principal sums invested through robust due diligent procedures for all external investments,
- have regard to CIPFA's Prudential Code when determining how much money they can afford to borrow,
- ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice,
- monitor against the Prudential Code indicators each year, these are included in the Joint Capital Strategy in Appendix A, and
- set, revise, and, if there are material changes to the strategies and prudential indicators, present to Full Council for approval.

**Purpose of the Strategies**

**<u>Joint Capital Strategy Appendix A</u>**

4.8 The Joint Capital Strategy (Appendix A), under the requirements of the Codes, gives a high-level overview of how capital expenditure, capital financing, and treasury management activities contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

4.9 In terms of investment, the Councils invest their money for three broad purposes:

- because there is surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
- to support local public services by lending to or buying shares in other organisations (service investments), and

- to earn investment income (known as commercial investments where this is the main purpose).

4.10 The Joint Capital Investment Strategy covers all three of the above points.

**Joint Investment Strategy Appendix B**

4.11 The Joint Investment Strategy (Appendix B) as required by the statutory guidance issued by the MHCLG, covers all three of the points in 4.9 above and shows the proportionality of investments, total investment exposure, and rate of return.

**Joint Treasury Management Strategy Appendix C**

4.12 The Joint Treasury Management Strategy (TMS) (Appendix C) covers the first point in 4.9 above and details of borrowing including authorised limits, economic and interest rate forecasts and treasury management indicators are also shown in Appendix D to G.

4.13 These three strategies together show the impact of the Councils' capital programme and Joint Investment Strategy in terms of risk, prudent levels of borrowing, associated interest costs and the net financial returns to the Councils to support core services in the medium term.

## 5. LINKS TO JOINT CORPORATE PLAN

5.1 Ensuring that the Council makes best use of its resources is what underpins the ability to achieve the priorities set out in the Joint Corporate Plan. Specific links show how these are met through financially sustainable Councils, managing the corporate assets effectively, and property investment to generate income.

## 6. FINANCIAL IMPLICATIONS

6.1 As outlined in this report and appendices.

## 7. LEGAL IMPLICATIONS

7.1 The legal status of the Treasury Management Code derives in England from regulations issued under the Local Government Act 2003 (the 2003 Act).

7.2 The Capital Finance and Accounting Regulations 2003 – SI 2003/3146, Regulation 24, explicitly require authorities to "have regard" to the Treasury Management Code.

7.3 Authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the 2003 Act.

7.4 The latest statutory guidance on local government investments was issued under section 15(1)(a) of the 2003 Act and effective for financial years commencing on or after 1 April 2018. Under that section local authorities are required to "have regard" to "such guidance as the Secretary of State may issue".

## 8. RISK MANAGEMENT

8.1 This report is most closely linked with the Councils' Significant Risk No.13 – We may be unable to react in a timely and effective way to financial demands and also Corporate Risk No. SE05 – if the Finance Strategy is not in place with a balanced position over the medium term the Councils will not be able to deliver the core objectives and service delivery may be at risk of not being delivered.

8.2 The report also links to the Councils' Significant Risk No.10 around the Capital Investment Fund – we may be unable to meet the income projections for the Councils.

8.3 Other key risks are set out below:

| Risk Description | Likelihood | Impact | Mitigation Measures |
|---|---|---|---|
| If the Councils lose the investments this will impact on their ability to deliver services. | Highly Unlikely (1) | Bad (3) | Strict lending criteria for high credit rated institutions. |
| If the Councils achieve a poor return on investments, there will be fewer resources available to deliver services. | Unlikely (2) | Noticeable (2) | Focus is on security and liquidity, and careful cash flow management in accordance with the Joint TM Strategy is undertaken throughout the year. |
| If the Councils have liquidity problems, then they will be unable to meet their short-term liabilities. | Unlikely (2) | Noticeable (2) | As above. |
| If the Councils incur higher than expected borrowing costs, there will be fewer resources available to deliver services. | Unlikely (2) | Noticeable (2) | Benchmark is to borrow from the Public Works Loan Board (PWLB), whose rates are very low and can be on a fixed or variable basis. However, PWLB rates have recently increased so research lowest rates available within borrowing boundaries and use other sources of funding and internal surplus funds temporarily. |

## 9. CONSULTATIONS

9.1 Regular meetings have taken place with the Councils' Treasury advisors, Arlingclose, who also provide important updates on treasury management issues as they arise.

## 10. EQUALITY ANALYSIS

10.1 There are no equality and diversity implications, as the contents and recommendations of this report do not impact on those with protected characteristics.

## 11. ENVIRONMENTAL IMPLICATIONS

11.1 All Council activities will need to be reviewed as part of the work of the Climate Change Task Group and the Councils' ambition to be carbon neutral by 2030.

## 12. APPENDICES

| Title | Location |
|---|---|
| (a) Joint Capital Strategy 2020/21 | Attached |
| (b) Joint Investment Strategy 2020/21 | Attached |
| (c) Joint Treasury Management Strategy 2020/21 | Attached |
| (d) Treasury Management Indicators | Attached |
| (e) Economic Outlook and Interest Rate Forecast | Attached |
| (f) Existing Borrowing and Investments | Attached |
| (g) Treasury Management Policy Statement | Attached |
| (h) Minimum Revenue Provision (MRP) Statement | Attached |
| (i) Credit Ratings Criteria | Attached |
| (j) Glossary of Terms | Attached |

## 13. BACKGROUND DOCUMENTS

2017 CIPFA Treasury Management in the Public Services

2017 The Prudential Code for Capital Finance in Local Authorities

2018 Ministry of Housing, Communities and Local Government Investment Guidance

# JOINT CAPITAL STRATEGY 2020/21

## 1. Introduction

1.1 This Joint Capital Strategy for 2020/21 gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these often-technical areas.

1.2 Decisions made this year on capital and treasury management will have financial consequences for the Councils for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

1.3 The strategy demonstrates that the Councils take capital expenditure and investment decisions in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability.

## 2. Capital Expenditure and Financing

2.1 Capital expenditure is where the Councils spend money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy or enhance assets.

2.2 The Councils have some limited discretion on what counts as capital expenditure; for example, individual assets costing below £10k are not capitalised and are charged to revenue in the year.

2.3 Table 1 that follows shows the actual spend for 2018/19, the forecast for 2019/20 and the budget from 2020/21 to 2023/24, for the General Fund and the HRA as per the 2020/21 budget report.

**Table 1: Prudential Indicator: Estimated Capital Expenditure**

| **Capital Expenditure** | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget Including c/fwd from 19/20 £m** | **2021/22 Budget Including c/fwd from 19/20 £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| General Fund | 1.68 | 6.28 | 8.24 | 1.30 | 3.31 | 1.30 |
| Capital Investments | 13.98 | 11.45 | 13.17 | 10.21 | 0.00 | 0.00 |
| **Total General Fund** | 15.67 | 17.73 | 21.40 | 11.51 | 3.31 | 1.30 |
| | | | | | | |
| Council Housing (HRA) | 7.23 | 23.26 | 11.48 | 16.24 | 11.49 | 11.98 |
| **Total Capital Expenditure** | **22.89** | **40.99** | **32.89** | **27.74** | **14.79** | **13.28** |

| Capital Expenditure | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget Including c/fwd from 19/20 £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| General Fund | 4.71 | 2.61 | 10.81 | 1.54 | 3.45 | 1.71 |
| Capital Investments | 30.00 | 15.70 | 13.58 | 4.83 | 0.00 | 0.00 |
| **Total General Fund** | 34.71 | 18.31 | 24.39 | 6.37 | 3.45 | 1.71 |
| | | | | | | |
| Council Housing (HRA) | 9.95 | 12.26 | 16.55 | 24.77 | 12.18 | 6.92 |
| **Total Capital Expenditure** | **44.67** | **30.57** | **40.94** | **31.14** | **15.63** | **8.63** |

## General Fund Capital Expenditure

2.4 The main General Fund projects included in the Capital Programme for Babergh over the period 2020/21 to 2023/24 are Kingfisher Leisure Centre (£1.1m), Hadleigh Pool and Leisure Centre Refurbishment (£1.5m), Babergh Regeneration Investment Fund (£3m), Housing grants (£3.3m), Community Grants (£0.6m) and replacement vehicles (£2.3m).

2.5 The main General Fund projects included in the Capital Programme for Mid Suffolk over the period 2020/21 to 2023/24 are Mid Suffolk Leisure Centre (£0.8m), Stradbroke Pool (£0.6m), Mid Suffolk Regeneration Investment Fund (£3m), replacement vehicles (£2.3m), Housing grants (£2.9m), leisure contracts (£1.3m) and Various Public Access schemes (£2.1m).

## Capital Investments Capital Expenditure

2.6 There are two types of Capital investment. They are made:

- to support local public services by lending to or buying shares in other organisations (service investments), and
- to earn investment income (known as commercial investments where this is the main purpose).

These will relate to non-financial assets that the Councils hold primarily or partially to generate a rate of return and will contribute towards service delivery objectives.

2.7 Details of the Councils Capital investments can be found in section 3 and 4 of the Joint Investment Strategy in Appendix B.

## The Housing Revenue Account Capital Expenditure

2.8 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately and includes purchasing houses from the private sector to increase the housing stock as well as new build schemes over the forecast period.

## Governance - General Fund Capital Expenditure:

2.9 Proposed capital projects are appraised by the Senior Leadership Team based on a comparison of service priorities against financing (even if the project is fully financed from external funds) before being included in the Councils capital programmes. The final capital programmes are then presented to Cabinet in February and onto Full Council in February each year.

2.10 Full details of the Councils' capital programmes are included initially in the Budget report that will be presented to Cabinet in January 2020, then this Cabinet and onto the Full Council meetings in February 2020 following review by Overview and Scrutiny Committee.

## Capital Financing

2.11 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Councils' own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is as follows:

### Table 2: Capital financing

| Capital Financing - General Fund | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| Capital Receipts | 0.03 | 0.68 | 0.00 | 0.00 | 0.00 | 0.00 |
| Revenue Contributions | 0.00 | 0.04 | 0.34 | 0.00 | 0.00 | 0.00 |
| Revenue Reserves | 0.06 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Grants | 0.26 | 0.20 | 1.43 | 0.41 | 0.41 | 0.41 |
| External Contributions | 0.11 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Borrowing | 15.21 | 16.80 | 19.64 | 11.10 | 2.90 | 0.89 |
| | | | | | | |
| **Total GF Capital Financing** | **15.67** | **17.73** | **21.40** | **11.51** | **3.31** | **1.30** |

| Capital Financing - HRA | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| Capital Receipts | 1.49 | 4.13 | 0.72 | 1.28 | 0.81 | 3.89 |
| Revenue Contributions | 2.18 | 3.92 | 2.88 | 4.60 | 4.00 | 2.94 |
| Revenue Reserves | 3.53 | 3.31 | 3.31 | 3.56 | 3.56 | 3.56 |
| Grants | 0.03 | 1.45 | 1.25 | 0.74 | 0.81 | 0.00 |
| External Contributions | 0.00 | 1.12 | 0.00 | 0.00 | 0.00 | 0.00 |
| Borrowing | 0.00 | 9.34 | 3.33 | 6.07 | 2.31 | 1.60 |
| | | | | | | |
| **Total HRA Capital Financing** | **7.23** | **23.26** | **11.48** | **16.24** | **11.49** | **11.98** |
| **Total ALL Capital Financing** | **22.89** | **40.99** | **32.89** | **27.74** | **14.79** | **13.28** |

| Capital Financing - General Fund | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| Capital Receipts | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Revenue Reserves | 1.94 | 0.24 | 7.35 | 0.00 | 0.00 | 0.00 |
| Grants | 0.47 | 0.25 | 1.00 | 0.38 | 0.38 | 0.38 |
| External Contributions | 0.39 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Borrowing | 31.91 | 17.82 | 16.05 | 5.99 | 3.07 | 1.34 |
| | | | | | | |
| **Total GF Capital Financing** | **34.71** | **18.31** | **24.39** | **6.37** | **3.45** | **1.71** |

| Capital Financing - HRA | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| Capital Receipts | 3.40 | 1.63 | 2.84 | 5.61 | 2.87 | 0.80 |
| Revenue Contributions | 1.92 | 2.83 | 2.60 | 3.82 | 2.59 | 2.41 |
| Revenue Reserves | 3.76 | 3.71 | 3.71 | 3.67 | 3.71 | 3.71 |
| Grants | 0.27 | 0.33 | 3.22 | 2.05 | 0.00 | 0.00 |
| External Contributions | 0.00 | 0.00 | 0.28 | 0.00 | 0.00 | 0.00 |
| Borrowing | 0.61 | 3.77 | 3.89 | 9.62 | 3.02 | 0.00 |
| | | | | | | |
| **Total HRA Capital Financing** | **9.95** | **12.26** | **16.55** | **24.77** | **12.18** | **6.92** |
| **Total ALL Capital Financing** | **44.67** | **30.57** | **40.94** | **31.14** | **15.63** | **8.63** |

## Repayment of Debt

2.12 Debt is only a temporary source of finance, since loans and leases must be repaid, usually from revenue, which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets or principal repayment of loans/leases (known as capital receipts) may also be used to repay debt finance.

2.13 The Councils planned MRP and repayment of borrowing charged to revenue are shown in Table 3 as follows:

## Table 3: Repayment of debt

| Repayment of Debt Finance | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| Repayment of Borrowing from HRA Revenue | 0.50 | 0.50 | 0.40 | 0.15 | 0.00 | 0.00 |
| Minimum Revenue Provision | 0.93 | 1.01 | 1.22 | 1.43 | 1.59 | 1.71 |
| | | | | | | |
| **Total Repayment of Debt Finance** | **1.43** | **1.51** | **1.62** | **1.58** | **1.59** | **1.71** |

| Repayment of Debt Finance | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| Minimum Revenue Provision | 0.84 | 1.02 | 1.34 | 1.54 | 1.56 | 1.62 |
| | | | | | | |
| **Total Repayment of Debt Finance** | **0.84** | **1.02** | **1.34** | **1.54** | **1.56** | **1.62** |

2.14 The Councils' full minimum revenue provision statement is shown in Appendix H.

## Capital Financing Requirement

2.15 The underlying need to borrow for capital purposes is measured by the capital financing requirement (CFR). The CFR, together with usable reserves, is one of the core drivers of both Councils' treasury management activities.

2.16 The cumulative outstanding amount of debt finance for both Councils is measured by the CFR. This increases with new debt-financed (borrowing/leases) capital expenditure and reduces with MRP and capital receipts used to repay debt.

2.17 Babergh's CFR is expected to increase by £21.34m and Mid Suffolk's by £18.6m during 2020/21. Based on the above figures for expenditure (Table 1) and financing (Table 2), the Councils estimate that their CFR will be as shown in Table 4 that follows:

2.18

## Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

| Cumulative Capital Financing Requirement (CFR) | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| General Fund | 31.14 | 35.57 | 38.47 | 46.58 | 50.20 | 49.37 |
| Capital Investments | 13.98 | 25.35 | 40.87 | 48.48 | 48.48 | 48.48 |
| **Total General Fund** | 45.13 | 60.92 | 79.33 | 95.06 | 98.68 | 97.86 |
| | | | | | | |
| Council Housing (HRA) | 86.67 | 95.51 | 98.44 | 98.29 | 98.29 | 99.89 |
| **Total CFR** | **131.80** | **156.43** | **177.77** | **193.36** | **196.97** | **197.75** |

| Cumulative Capital Financing Requirement (CFR) | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2018/19 Actual £m** | **2019/20 Forecast** | **2020/21 Budget** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| General Fund | 36.28 | 37.53 | 40.33 | 40.94 | 42.46 | 42.17 |
| Capital Investments | 30.00 | 45.55 | 57.46 | 61.29 | 61.29 | 61.29 |
| **Total General Fund** | 66.28 | 83.08 | 97.78 | 102.24 | 103.75 | 103.47 |
| | | | | | | |
| Council Housing (HRA) | 87.97 | 91.74 | 95.63 | 105.25 | 108.27 | 108.27 |
| **Total CFR** | **154.25** | **174.81** | **193.41** | **207.48** | **212.01** | **211.73** |

### Asset disposals:

2.19 When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The expected profile of capital receipts is shown in Table 5 that follows.

### Capital Receipts:

2.20 Capital Receipts are used to finance capital expenditure either in the year the asset is sold or put into a capital reserve and used for later capital expenditure or used to repay debt. Table 5 that follows shows the year in which the receipts will be used.

## Table 5: Capital receipts used

| Capital Receipts | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| General Fund | 0.03 | 0.68 | 0.00 | 0.00 | 0.00 | 0.00 |
| General Fund Capital Loan Repayments | 0.07 | 0.12 | 0.17 | 0.23 | 0.24 | 0.26 |
| Council Housing (HRA) 1-4-1 Receipts | 0.91 | 2.43 | 0.72 | 1.28 | 0.26 | 3.89 |
| Council Housing (HRA) Other | 0.59 | 1.70 | 0.00 | 0.00 | 0.55 | 0.00 |
| **Total Capital Receipts** | **1.59** | **4.93** | **0.89** | **1.50** | **1.05** | **4.14** |

| Capital Receipts | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| General Fund | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| General Fund Capital Loan Repayments | 0.07 | 0.12 | 0.17 | 0.23 | 0.24 | 0.26 |
| Council Housing (HRA) 1-4-1 Receipts | 1.55 | 0.88 | 2.15 | 2.02 | 1.69 | 0.80 |
| Council Housing (HRA) Other | 1.85 | 0.75 | 0.69 | 3.59 | 1.18 | 0.00 |
| **Total Capital Receipts** | **3.48** | **1.75** | **3.02** | **5.84** | **3.11** | **1.06** |

## 3. The Prudential Code

3.1 The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal.

3.2 The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the Councils.

3.3 The Prudential Code requires both Councils to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long run financing implications and potential risks to the Councils. Effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudential approach to capital expenditure, investment and debt.

3.4 The Prudential Indicators included in the Joint Capital Strategy, (Appendix A Tables 1, 4, 6, 8 and 9) illustrate the affordability and impact of capital expenditure decisions and set out both Councils overall capital and treasury framework.

3.5 Effective management and decisions on funding ensure both Councils comply with the provisions of Section 32 of the Local Government Finance Act 1992 to set a balanced budget. Using borrowing powers to undertake investment in line with the Joint Corporate Plan priority outcomes and generate a rate of return to produce additional income in order to address the funding pressures that both Councils face over the next 4 years.

## 4. Treasury Management

4.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Councils' spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Councils are typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing. Appendix F shows the current position.

4.2 As at 30 November 2019:

- Babergh has £102.54m total borrowing at an average interest rate of 2.36% and £13.87m of treasury investments at an average rate of 3.81%.

- Mid Suffolk has £122.12m total borrowing at an average interest rate of 3.24% and £13.76m treasury investments at an average interest rate of 3.73%.

**Borrowing strategy:**

4.3 The Councils' main objective when borrowing is to achieve a low but certain cost of finance whilst retaining flexibility if plans should change in the future. This objective is often conflicting, and the Councils therefore seek to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0% to 3.0%).

4.4 The forecast movement in the CFR in coming years is one of the Prudential Indicators. The movement in actual external debt and usable reserves combine to identify the Councils' borrowing requirement and potential treasury management investment strategy in the current and future years.

4.5 Projected levels of the Councils' total outstanding debt (borrowing and leases) are shown in Table 6 that follows, compared with the capital financing requirement (in paragraph 2.17, Table 4 above).

**Table 6: Prudential Indicator: Gross Debt and Capital Financing Requirement**

| Gross Debt and Capital Financing Requirement | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **31.3.2019 Actual £m** | **31.3.2020 Forecast £m** | **31.3.2021 Budget £m** | **31.3.2022 Budget £m** | **31.3.2023 Budget £m** | **31.3.2024 Budget £m** |
| Outstanding Borrowing (Debt) | (104.05) | (122.96) | (138.21) | (147.25) | (147.33) | (147.41) |
| Capital Financing Requirement | 131.80 | 156.43 | 177.77 | 193.36 | 196.97 | 197.75 |
| **Headroom** | **27.75** | **33.47** | **39.56** | **46.11** | **49.64** | **50.34** |

| Gross Debt and Capital Financing Requirement | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **31.3.2019 Actual £m** | **31.3.2020 Forecast** | **31.3.2021 Budget** | **31.3.2022 Budget £m** | **31.3.2023 Budget £m** | **31.3.2024 Budget £m** |
| Outstanding Borrowing (Debt) | (145.29) | (139.58) | (169.90) | (166.54) | (158.09) | (168.61) |
| Capital Financing Requirement | 154.25 | 174.81 | 193.41 | 207.48 | 212.01 | 211.73 |
| **Headroom** | **8.97** | **35.23** | **23.51** | **40.95** | **53.93** | **43.12** |

4.6 Statutory guidance says that debt should remain below the CFR, except in the short-term. As can be seen from Table 6 above, both Councils expect to comply with this in the medium-term.

**Liability benchmark:**

4.7 To compare the Councils' actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing (see Appendix C Table 2 for detailed calculation). This looks at the level of the CFR which could be reduced by use of reserves, working capital and investments. It assumes that cash and investment balances are kept to a minimum of Treasury Investments for each Council over the medium-term level (the lowest being £13.01m). This benchmark is currently £133.47m for Babergh and £152.92m for Mid Suffolk for 2019/20 and is forecast to increase to £176.15m and £193.62m respectively over the next four years.

4.8 The Councils can internally borrow when they have generated a cash surplus on their revenue activities, for example from council tax, business rates, etc received in advance of use. This cash surplus can be used, in the short term, to finance capital expenditure meaning that there is not an immediate requirement to borrow from third parties.

4.9 **Table 7: Borrowing and the Liability Benchmark**

| Borrowing and Liability Benchmark | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| Outstanding Borrowing (Debt) | (104.05) | (122.96) | (138.21) | (147.25) | (147.33) | (147.41) |
| Liability Benchmark | 105.41 | 133.47 | 152.75 | 167.87 | 171.71 | 176.15 |
| | **1.36** | **10.51** | **14.54** | **20.62** | **24.38** | **28.74** |

| Borrowing and Liability Benchmark | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| Outstanding Borrowing (Debt) | (145.29) | (139.58) | (169.90) | (166.54) | (158.09) | (168.61) |
| Liability Benchmark | 131.98 | 152.92 | 176.86 | 189.23 | 194.91 | 193.62 |
| | **(13.30)** | **13.34** | **6.95** | **22.70** | **36.82** | **25.02** |

The detailed calculation of the Liability Benchmark is shown in Appendix C Table 2.

**Affordable borrowing limit:**

4.10 The Councils are legally obliged to set an affordable borrowing limit (also called the authorised limit for external debt) each year and to keep it under review. The Councils 'have set a limit of £15m above the operational boundary for each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach this limit. This equals the Councils’ CFR.

4.11 Both Councils outstanding debt over the medium term are below the liability benchmark, operational boundary and authorised limits.

**Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt**

| | | | | | |
|---|---|---|---|---|---|
| **Operational Boundary for External Debt** | **2019/20 Limit £m** | **2020/21 Limit £m** | **2021/22 Limit £m** | **2022/23 Limit £m** | **2023/24 Limit £m** |
| Babergh District Council | 157.00 | 178.00 | 194.00 | 197.00 | 198.00 |
| Mid Suffolk District Council | 175.00 | 194.00 | 208.00 | 213.00 | 212.00 |

| | | | | | |
|---|---|---|---|---|---|
| **Authorised Limit for External Debt** | **2019/20 Limit £m** | **2020/21 Limit £m** | **2021/22 Limit £m** | **2022/23 Limit £m** | **2023/24 Limit £m** |
| Babergh District Council | 172.00 | 193.00 | 209.00 | 212.00 | 213.00 |
| Mid Suffolk District Council | 190.00 | 209.00 | 223.00 | 228.00 | 227.00 |
| | | | | | |
| **% Proportion of Debt to Authorised Limit** | **%** | % | % | % | % |
| Babergh District Council | 60.49 | 63.71 | 66.13 | 69.46 | 69.17 |
| Mid Suffolk District Council | 76.47 | 66.79 | 76.19 | 73.04 | 69.64 |

4.12 Further details on borrowing are shown in Appendix C section 4 of the Joint Treasury Management Strategy.

**Joint Treasury Investment Strategy:**

4.13 Treasury investments arise from receiving cash before it is paid out again. The Councils hold several long-term investments as a result of this. These and all other treasury management activities are set out in the Joint Treasury Management Strategy in Appendix C. The Councils planned spend on the capital programme has an impact on the amount of surplus cash available for treasury investments and, as explained in paragraph 4.4 above, this results in the Councils need to borrow.

4.14 Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management. These are explained further in the Joint Investment Strategy in Appendix B.

4.15 **Risk management:**

The effective management and control of risk are prime objectives of the Councils' treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks**.**

4.16 **Governance:**

Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Assistant Director, Corporate Resources (the S151 Officer) and staff, who must act in line with the treasury management strategy approved by full Council. Half yearly reports on treasury management activity are presented to the Joint Audit and Standards Committee (JASC) who is responsible for scrutinising treasury management decisions.

## 5. Investments for Service Purposes

5.1 Service investments are where the Councils can support the provision of local public services by lending to or buying shares in other organisations.

5.2 The Councils do not have, nor currently have any plans to make, any investments in organisations to assist in the provision of local public services over the medium-term.

## 6. Liabilities:

6.1 In addition to debt of £122.96m for Babergh and £139.58m for Mid Suffolk, as detailed in Table 6 above for 2019/20, the Councils are committed to making future payments to cover their pension fund deficits. At 31 March 2019 Babergh's was valued at £0.615m and Mid Suffolk's was £0.884m

**Governance:**

6.2 Reports are taken to Cabinet as part of the monitoring process.

## 7. Revenue Budget Implications

7.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, Business Rates and general government grants for the General Fund and housing rents for the HRA.

7.2 For Babergh the maximum return (net income) is 4.53% in 2020/21 and for Mid Suffolk is 10.03% in 2021/22 for the General Fund, as shown in Table 9 that follows. For the HRA the levels (net costs) are higher due to the link to the debt associated with the Councils housing stock.

## 8. Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

| Proportion of Net Financing Costs to Net Revenue Stream | | | | | |
|---|---|---|---|---|---|
| **Babergh District Council** | **2019/20 Forecast** | **2020/21 Budget** | **2021/22 Budget** | **2022/23 Budget** | **2023/24 Budget** |
| **General Fund -** | | | | | |
| Net Financing costs / (Income) £m | (0.53) | (0.59) | (0.42) | (0.25) | (0.17) |
| Proportion of net revenue stream % | -4.29% | -4.53% | -3.34% | -1.97% | -1.36% |
| **Council Housing (HRA) -** | | | | | |
| Net Financing costs £m | 3.11 | 3.15 | 3.26 | 3.17 | 3.81 |
| Proportion of net revenue stream % | 18.97% | 19.46% | 18.82% | 17.46% | 20.31% |

| Proportion of Net Financing Costs to Net Revenue Stream | | | | | |
|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2019/20 Forecast** | **2020/21 Budget** | **2021/22 Budget** | **2022/23 Budget** | **2023/24 Budget** |
| **General Fund -** | | | | | |
| Net Financing costs / (Income) £m | (0.97) | (0.84) | (1.40) | (1.19) | (0.88) |
| Proportion of net revenue stream % | -7.25% | -5.77% | -10.03% | -8.61% | -6.79% |
| **Council Housing (HRA) -** | | | | | |
| Net Financing costs £m | 2.90 | 2.96 | 3.14 | 3.14 | 3.11 |
| Proportion of net revenue stream % | 19.96% | 20.25% | 20.19% | 19.09% | 18.22% |

8.1 In addition to capital receipts, grants and borrowing the housing capital programme is partly financed by income received from housing rents. Table 10 that follows, shows these contributions and associated costs as an equivalent average weekly rent.

8.2 **Table 10: Impact of Capital Decisions on HRA Rents**

| Impact of Capital Investment Decisions on Rents | | | | | |
|---|---|---|---|---|---|
| **Increase in average weekly rents** | **2019/20 Forecast £** | **2020/21 Budget £** | **2021/22 Budget £** | **2022/23 Budget £** | **2023/24 Budget £** |
| Babergh District Council | 12.37 | 24.04 | 18.64 | 27.68 | 24.62 |
| Mid Suffolk District Council | 11.53 | 17.72 | 17.26 | 26.34 | 19.59 |

8.3 The setting of rent levels has been determined separately through the 30-year business model and any surplus or deficit on the HRA is transferred to or from Reserves.

8.4 Further details of the revenue implications of capital expenditure are included in the Budget Report that will be presented to this Cabinet and then onto the Full Council meetings in February 2020.

## 9. Sustainability

9.1 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Assistant Director – Corporate Resources is satisfied that the proposed capital programme is prudent, affordable and sustainable over the medium term. This is due to the fact that debt remains below the CFR, (see Table 6), below the liability benchmark (see Table 7) , and below the operational boundary and authorised limits (see Table 8), as well as an acceptable low level of financing costs proportionate to the net revenue stream (Table 9).

## 10. Knowledge and Skills

10.1 The Councils employ professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Assistant Director - Corporate Resources is a CIPFA qualified accountant with 29 years' experience and the Corporate Manager – Finance, Commissioning and Procurement with 19 years' experience. The Council employs an Assistant Director – Assets and Investments, who is a qualified chartered surveyor (MRICS) of 21 years' experience in both the private and public sector. The Council pays for staff to study towards relevant professional qualifications in finance such as the ICAEW and AAT.

10.2 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers.

10.3 Other advisers include Jones Lang Lasalle (JLL) as property consultants, Carter Jonas for development appraisal and Browne Jacobson for legal support. For the development of the council offices Purcell Architects, Lawson Planning Partnership, Hoggarth Cooke and Morley Riches and Ablewhite were appointed. This approach is more cost effective than employing such staff directly and ensures that the Councils have access to knowledge and skills commensurate with its risk appetite.

10.4 Both Councils are working with Norse Group Holdings Ltd to complete the developments at the sites of the former council offices, in Hadleigh and Needham Market, through the Councils' trading companies, Babergh Growth Ltd and Mid Suffolk Growth Ltd.

10.5 The Councils have a Learning and Development programme for staff which includes access to internal and externally provided training including attaining full professional qualifications.

# JOINT INVESTMENT STRATEGY 2020/21

## 1. Introduction

1.1 The Councils invest their money for three broad purposes:

- because they have surplus cash as a result of their day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
- to support local public services by lending to or buying shares in other organisations (known as service investments), and
- to earn investment income (known as commercial investments where this is the main purpose).

1.2 Neither Council has invested in third party or related organisations which provide public services (known as service investments).

1.3 This Joint Investment Strategy is for 2020/21, meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the commercial investments which are or will be disclosed in the Councils' annual accounts. The MHCLG defines property to be an investment (commercial) if it is held primarily or partially to generate a profit.

1.4 For each type of investment, the Councils are required to show the contribution the investments make to the Councils' objectives.

## 2. Treasury Management Investments

2.1 The Councils typically receive their income in cash (e.g. from taxes and grants) before they pay for their expenditure in cash (e.g. through payroll and invoices). The Councils also hold reserves for future expenditure (and collect local taxes on behalf of other local authorities and central government). These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.2 For details of the Councils' treasury management investments, see section 5 of the Joint Treasury Management Strategy in Appendix C.

**Contribution:**

2.3 The contribution that these investments make to the objectives of both Councils is to support effective treasury management activities.

## 3. Commercial Investments: Property

3.1 Commercial Investments in property can take the form of using and developing council owned assets. The definition does not include the redevelopment for council housing through the HRA.

**Contribution:**

3.2 The Councils invest in commercial and residential property within their Districts, with the intention of generating a profit that will be spent on local public services, regeneration and development.

3.3 The current and future property investments for council owned assets are described below.

**Babergh**

- **Borehamgate, Sudbury**

  Babergh purchased Borehamgate shopping precinct on 1 August 2016 for £3.5m as part of a plan to redevelop the Hamilton Road quarter of Sudbury. This prospective development is still at an early stage and amounts for minor improvements have been included in the capital programme.

- **Belle Vue, Sudbury**

  - On 25 September 2018, Babergh approved a £6.5m investment to develop a restaurant and hotel on the former swimming pool site in Belle Vue, Sudbury (and then lease the property to a national hotel operator). Although partially a commercial opportunity, the regeneration of the Belle Vue site is considered essential to support the wider leisure, tourism and retail ambitions of Sudbury.

  - Formal expressions of interest were invited from interested parties to put forward financially viable proposals for the future use of Belle Vue House by Friday 1 November 2019. Strutt & Parker were appointed to assist with this process.

  - Proposals were received from commercial operators and community groups. These proposals are subject to public consultation in January. A decision on the best future use of the building will be made by Cabinet later this year.

- **Former Council Offices in Hadleigh**

  - In September 2016 both Councils decided to relocate from their existing Council offices in Hadleigh and Needham Market to Endeavour House in Ipswich and subsequently relocated in November 2017. In December 2018, the Councils approved investments in market led housing schemes for the former office sites to realise value from these now surplus assets.

  - Babergh approved the conversion of the former Corks Lane Council office in Hadleigh into 31 new homes and also the construction of an additional 26 new homes on the site, all for market sale.

  - The Council created a new company, Babergh Growth Ltd, on 19 March 2019, which entered into a joint venture with Norse Group Holdings Ltd, to complete the development and they will provide 50% of the finance.

- A peak cash flow funding requirement of £3.57m is included in the capital programme, based on the assumption that Babergh will provide 50% of the development finance. The scheme is scheduled to commence in 2020/21.

**Mid Suffolk**

- **Former Aldi site, Stowmarket**
  - Mid Suffolk bought the former Aldi site in Gipping Way, Stowmarket for £1.4m on 7 January 2019. A licence to operate the car park was entered into before completion enabling the development and use of this site for public pay and display car parking from December 2018.
  - Planned maintenance to the building in 2020/21 will enable it to be used by tenants to provide rental income to the Council and promote the economy of Stowmarket.

- **Former NatWest Bank premises, Stowmarket**

  The former NatWest Bank in the Market Place in Stowmarket was purchased on 13 March 2018 for £351k. External redecoration works were completed before Christmas 2018 and since then the Council has been working in partnership with the John Peel Centre.

- **Former Council Offices in Needham Market**
  - As stated above, both Councils decided to relocate their offices to Endeavour House in Ipswich and subsequently relocated in November 2017.
  - Mid Suffolk obtained for planning permission for 93 new homes on the former Council office and car park sites, in Needham Market, including 83 for market sale, 7 for affordable rent and 3 for shared ownership and a convenience store.
  - The Council created a new company, Mid Suffolk Growth Ltd on 19 March 2019, which entered into a joint venture with Norse Group Holdings Ltd, to complete the development and they will provide 50% of the finance.
  - A peak cash flow funding requirement of £3.31m (which is the Council's 50% share of the whole cost) is included in the capital programme. The scheme is expected to commence early in 2020/21 and the Council's 50% contribution is included in the capital expenditure shown in Table 1 that follows.

## Table 1: Property held for investment purposes

| Cumulative Expenditure on Property Investments | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **2018/19 Cumulative Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| Borehamgate, Sudbury | 0.00 | 0.08 | 0.15 | 0.15 | 0.15 | 0.15 |
| Belle Vue, Sudbury | 0.03 | 0.23 | 2.75 | 6.53 | 6.53 | 6.53 |
| Former Council Offices, Hadleigh | 0.39 | 0.39 | 0.97 | 3.57 | 3.57 | 3.57 |
| | | | | | | |
| **Total** | **0.42** | **0.70** | **3.87** | **10.24** | **10.24** | **10.24** |

| Cumulative Expenditure on Property Investments | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2018/19 Cumulative Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| Former Council Offices, Needham Market | 0.41 | 0.64 | 2.31 | 3.31 | 3.31 | 3.31 |
| Former Aldi Premises, Stowmarket | 0.00 | 0.15 | 0.21 | 0.21 | 0.21 | 0.21 |
| Former Natwest Premises, 11 Market Place, Stowmarket | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 |
| **Total** | **0.76** | **1.14** | **2.88** | **3.87** | **3.87** | **3.87** |

### Security:

3.4 In accordance with government guidance, the Councils consider a property investment to be secure if its accounting valuation is at the same level or higher than its purchase cost including taxes and transaction costs at the time of anticipated disposal.

3.5 A fair value assessment of the Councils' directly owned investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. If during the preparation of the 2019/20 year end accounts and audit process the value of these properties are materially below their purchase cost, then an updated investment strategy will be presented to Full Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

### Risk assessment:

3.6 As mentioned in section 8 of the main report this strategy has links to the Councils' Significant Risk Register, specifically risk no's 10 and 13 and Corporate risk no. SE05.

3.7 The Councils assess the risk of loss before investing in and whilst holding every property investment.

3.8 The Councils also commission third parties to provide expert advice. These advisors are appointed on the basis of reputation, experience and price and their advice is scrutinised by the company board members and officers responsible for investment decisions.

3.9 Babergh purchased Borehamgate shopping precinct for £3.56m in 2016 as an investment property and the 31 March 2019 balance sheet reflects its fair value of £2.66m (subject to audit). This is as a result of fluctuations in the commercial property market. The retail units generate income from leases and are subject to pressures in the retail sector as a result of the general economic conditions. The Council has accepted the risks associated with this property whilst taking a longer-term view of its future as part of the regeneration and development of the Hamilton Road area in Sudbury.

3.10 Babergh's investment in a hotel and restaurant on the Council owned Belle Vue site is the outcome of an open tender process undertaken by Strutt & Parker on behalf of the Council. The preferred business model of the recommended bid is a 24-year lease of a building developed and owned by the Council. A development appraisal and financial viability analysis was undertaken for the Council by Carter Jonas, based on the proposed heads of terms.

Browne Jacobson are providing legal support and the Council's treasury advisors, Arlingclose, will be requested to recommend a borrowing strategy. The Council has accepted the risks associated with this development of the site.

3.11 Market sale housing development:

- Purcell Architects, Lawson Planning Partnership, Hoggarth Cooke and Morley Riches & Ablewhite were appointed to support the Council with design, planning advice, feasibility and financial viability appraisals of the options for future use of the former Babergh and Mid Suffolk council office sites in Hadleigh and Needham Market.

- Proposed housing schemes were approved in principle by each Council in July 2018 and the delivery option subsequently chosen for both schemes were Joint Venture developments with a public partner (in both cases Norse Group Holdings Ltd).

- This enables the Councils to manage these schemes in a timely manner, control the quality of the housing, mitigate risk through securing an experienced socially wedded public sector partner and secure a commercial return.

3.12 Mid Suffolk bought the empty property, formerly occupied by Aldi, in Stowmarket, including the car park and introduced managed parking. The acquisition also aims to bring the site back into use after being vacant for a long time. Maintenance to the building next year will enable the Council to invite new tenants to occupy the premises.

3.13 The process to identify a long-term tenant for the former NatWest Bank building is ongoing.

**Liquidity:**

3.14 Property can be relatively difficult to sell quickly because of a lack of ready and willing investors or speculators to purchase the asset and convert to cash at short notice. However, all these properties will be part of the Councils commercial or residential regeneration schemes.

## 4. Commercial Investments: Shares and Loans

4.1 The Councils invest through share ownership and giving loans to their wholly owned companies, special purpose vehicles or third parties (local organisations) as part of a strategy for generating a rate of return or improving the local economy.

**Contribution:**

CIFCO Ltd

4.2 The Councils invest indirectly in property, through two wholly owned holding companies, by a combination of shares (equity) and loans (debt), matching the funding requirements of the underlying investment and the returns required by the Councils. All debt financed investment complies with EU State Aid rules.

4.3 BDC (Suffolk Holdings) Limited, a wholly owned subsidiary of Babergh, and MSDC (Suffolk Holdings) Limited, a wholly owned subsidiary of Mid Suffolk, were both incorporated on 9 June 2017, and are commercial investment vehicles for each Council.

4.4 Each holding company owns 50% of the issued share capital of CIFCO Ltd which was incorporated on 12 June 2017 to invest in a portfolio of commercial property in primarily the Eastern region. Each Council's investment in these companies is split 10% share capital in their holding companies and 90% loan direct to CIFCO Ltd.

4.5 Each Council approved an initial investment (CIFCO Ltd 1) of a total of £27.5m (£2.75m shares, £24.75m loans) of which £26.1m was invested by 31 March 2019 to acquire 11 properties. There will be no further purchases from this tranche.

4.6 Each Council approved a further investment (CIFCO Ltd 2) of £25m (£2.5m shares, £22.5m loans) with £11.17m forecast to be spent in 2019/20, £10m included in 2020/21 and £3.83m in 2021/22 in each Council's capital programme. To date three properties have been acquired and a further one acquisition is planned by the end of March 2020.

Gateway 14 Ltd

4.7 MSDC (Suffolk Holdings) Limited also owns 100% of the issued share capital of Gateway 14 Ltd which was incorporated on the 1 November 2017 as an SPV to acquire Gateway 14, a 135-acre site located to the eastern fringe of Stowmarket and develop a business park. Mid Suffolk's initial investment in this company was split 10% share capital in the holding company and 90% loan to Gateway 14 Ltd, with further investments anticipated to be 100% loans.

4.8 Mid Suffolk Council approved an initial investment of the Gateway 14 site which was acquired for £16.5m (£1.6m shares, £14.9m loans) on 13 August 2018. A further investment of £4.16m was made in August 2019. This additional investment by the Council will accelerate the anticipated economic and financial benefits of the site.

Babergh Growth Ltd

4.9 BDC (Suffolk Holdings) Limited, also owns 50% of Babergh Growth Ltd. This was incorporated on 19 March 2019. The other 50% is owned by Norse Group Holdings Ltd. This is a joint venture with the purpose of delivering the housing development at the former council offices at Hadleigh and other residential and mixed used schemes in the future.

Mid Suffolk Growth Ltd

4.10 MSDC (Suffolk Holdings) Limited, also own 50% of Mid Suffolk Growth Ltd. This was incorporated on 19 March 2019. The other 50% is owned by Norse Group Holdings Ltd. This is a joint venture with the purpose of delivering the housing development at the former council offices at Needham Market and other residential and mixed used schemes in the future.

4.11 **Table 2 Total Investments in shares and loans**

| Cumulative Investments through Shares and Loans | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **2018/19 Cumulative Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| CIFCO Ltd (1) | 26.10 | 26.10 | 26.10 | 26.10 | 26.10 | 26.10 |
| CIFCO Ltd (2) | 0.00 | 11.17 | 21.17 | 25.00 | 25.00 | 25.00 |
| **Total** | **26.10** | **37.27** | **47.27** | **51.10** | **51.10** | **51.10** |
| | | | | | | |
| Investment in Shares | 2.61 | 3.73 | 4.73 | 5.11 | 5.11 | 5.11 |
| Investment through Loans | 23.49 | 33.54 | 42.54 | 45.99 | 45.99 | 45.99 |
| | | | | | | |
| **Total** | **26.10** | **37.27** | **47.27** | **51.10** | **51.10** | **51.10** |

| Cumulative Investments through Shares and Loans | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2018/19 Cumulative Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| CIFCO Ltd (1) | 26.10 | 26.10 | 26.10 | 26.10 | 26.10 | 26.10 |
| CIFCO Ltd (2) | 0.00 | 11.17 | 21.17 | 25.00 | 25.00 | 25.00 |
| Gateway 14 Ltd | 16.22 | 20.38 | 22.22 | 22.22 | 22.22 | 22.22 |
| **Total** | **42.32** | **57.64** | **69.49** | **73.32** | **73.32** | **73.32** |
| | | | | | | |
| Investment in Shares | 4.23 | 5.35 | 6.35 | 6.73 | 6.73 | 6.73 |
| Investment through Loans | 38.09 | 52.29 | 63.14 | 66.59 | 66.59 | 66.59 |
| | | | | | | |
| **Total** | **42.32** | **57.64** | **69.49** | **73.32** | **73.32** | **73.32** |

**Risk Assessment:**

4.12 As mentioned in section 8 of the main report this strategy has links to the Councils Significant Risk Register, specifically risk no. 10, if CIFCO Ltd does not generate forecast investment returns and Gateway 14 Ltd fails to bring forward the development of the site.

4.13 CIFCO Ltd and Gateway 14 Ltd, also maintain their own risk registers and the Corporate Manager for Internal Audit attends the regular Risk Management Panel meetings.

4.14 The Councils' holding companies have appointed directors to the boards of CIFCO Ltd, Gateway 14 Ltd, Babergh Growth Ltd and Mid Suffolk Growth Ltd that offer a Council shareholder perspective (elected member directors) and commercial property expertise (industry expert directors). It is anticipated that boards of any future investment SPVs, will have a similar membership.

CIFCO Ltd

4.15 CIFCO Ltd's investment strategy targets medium to long term resilience based on;

- a strategy that balances the portfolio, so a significant number of assets are 'core' and liquid and,
- a strategy that balances other attributes such as geography, asset class and sector so that resistance to market stresses in any individual attribute can be mitigated.

4.16 Each property acquisition is approved by the CIFCO Ltd Board and reported to each holding company Board for approval before funds are released, and due diligence is done on the tenant as assets are acquired, including a Dun and Bradstreet credit check.

4.17 On a quarterly basis, CIFCO Ltd's fund managers Jones Lang LaSalle (JLL) provide a portfolio analysis report including market forecasts and any tenancy arrears, and the CIFCO Ltd Chair (an independent industry expert) reports on performance to simultaneous holding company board meetings and twice a year to Full Council.

4.18 As part of annual business planning, JLL provide a full market conditions assessment, based on the individual attributes of each asset class targeted by CIFCO Ltd, and the CIFCO Ltd Board consider any revisions to its investment strategy based on this assessment and the ongoing quarterly portfolio analysis reports.

4.19 With financial return being the main objective, the Councils accept higher risk on commercial investments than they do with treasury management investments. The potential risks for property held for income are voids and falls in rental income. The commercial properties acquired for income are bought as long-term holdings and are professionally managed. They could be sold individually if the long-term prognosis is an underachievement of net return targets.

Gateway 14 Ltd

4.20 Mid Suffolk and its holding company delegated authority to the board to acquire the site and develop a detailed delivery model for this business park development. Since acquisition, Avison Young has been advising the board in respect of delivery models and partners to bring forward the development of this 150 acres business park. The preferred model and partner have now been identified and is subject to the approval of Council in February 2020. The Holding company will approve subsequent requests for the drawdown of capital for infrastructure and development works across the site.

4.21 The board monitor and manage the progress of the project. In due course a delivery model will be proposed with revised financial costs and benefits for approval by the Council and its holding company.

**Liquidity:**

4.22 Loans are repaid often over a long time and consist of principal and interest in accordance with the loan agreements. The interest is a revenue receipt and is available for use immediately. The Councils have a charge on the properties acquired by CIFCO Ltd which gives the Councils security. With regard to the Regal Theatre, to protect Mid Suffolk's interest, discussions are ongoing with Stowmarket Town Council about how surety can be gained before the loan agreement is signed, and any funds released to the Town Council.

## 5. Proportionality

5.1 Both Councils have some dependency on profit generating investment activity to achieve a balanced revenue budget. Table 3 shows the extent to which the Councils expenditure is dependent on achieving the expected net profit from investments over the medium-term.

Should the Councils fail to achieve the expected net profit, both Councils have contingency plans for continuing to provide these services by reducing overheads, continuing to make services more efficient and through digital transformation.

**Table 3: Proportionality of Investments**

| Proportionality of Investments | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| Gross service expenditure | 33.88 | 33.37 | 33.22 | 34.28 | 34.84 | 35.32 |
| Gross Investment income | 1.50 | 2.06 | 2.56 | 3.04 | 3.08 | 3.07 |
| **Proportion** | **4.42%** | **6.18%** | **7.69%** | **8.87%** | **8.83%** | **8.70%** |

| Proportionality of Investments | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| Gross service expenditure | 33.28 | 32.86 | 33.36 | 34.59 | 35.03 | 35.36 |
| Gross Investment income | 1.76 | 2.76 | 3.36 | 4.78 | 4.60 | 4.24 |
| **Proportion** | **5.28%** | **8.41%** | **10.07%** | **13.81%** | **13.13%** | **12.00%** |

## 6. Borrowing in Advance of Need

### CIPFA Prudential Code

6.1 The 2017 Prudential Code states that "authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed".

6.2 The underlying need to borrow is reflected in the CFR adjusted for long term liabilities (see Appendix A Table 4). Neither Council plans to borrow above its CFR which is in accordance with the Prudential Code.

**MHCLG Guidance**

6.3 Government guidance issued in October 2018 has extended the Prudential Code definition to include borrowing to finance the acquisition of non-financial as well as financial investments that the organisation holds primarily or partially to generate a profit. This includes all loans and property investments.

6.4 Both Councils' have borrowed and plan to borrow to invest in their own properties and to give loans to CIFCO Ltd and Gateway 14 Ltd and other special purpose vehicles in order to make a profit to reinvest in Council services and achieve a balanced revenue budget. The Councils' view of this activity is that it meets the service needs and is within their CFR as per the CIPFA definition.

6.5 The Councils' policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing are:

- When exercising the power to invest, the Councils will act for a proper purpose and act in a reasonable manner, its fiduciary duty to obtain value for money and whether the investments are proportionate and properly balanced against the anticipated benefits as well as the wider interests of the Councils' local Business Rate and Council Tax payers.
- To have regard to the regeneration and development strand of the Councils' Joint Asset and Investment Strategy when investing for profit, acknowledging that the Councils have a key role to play in using their own assets and enabling/facilitating the use of private and other public sector assets to deliver housing and economic growth. To appoint independent industry expert directors to the Councils' investment and SPV company boards
- For the SPVs to prepare a business case for each purchase and report to the Council on expected cost and benefits
- To appoint relevant expert advisors when assessing, entering and holding an investment.
- When investing in development projects, where possible and appropriate, to contract with an experienced development partner.
- To prioritise medium to long term resilience of investments, over short-term gain.
- To fund and structure each investment to optimise risks & rewards, having regard to previous bullet point.

## 7. Knowledge and Skills

7.1 As per section 10 of the Joint Capital Strategy in Appendix A

## 8. Governance – Capital Investments

8.1 The Capital Programme is approved as part of the annual budget setting process by Cabinet and Full Council in February. Other investment decisions occurring outside of this process that exceed £150k qualify as a key decision as per part one of the Councils' constitution and is approved by Cabinet and Full Council.

## 9. Investment Indicators

9.1 The Councils have set the following quantitative indicators to allow elected members and the public to assess the Councils' total risk exposure as a result of their investment decisions. These are shown in Tables 4, 5 and 6.

**Total risk exposure:**

9.2 The first indicator shows the Councils' cumulative total exposure to potential investment losses.

**Table 4: Total investment exposure**

| Cumulative Investment Exposure | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| Treasury Management Investments | 11.85 | 13.69 | 13.18 | 13.13 | 13.03 | 13.01 |
| Capital Investments | 13.98 | 25.43 | 38.60 | 48.81 | 48.81 | 48.81 |
| **Total Exposure** | **25.83** | **39.12** | **51.78** | **61.94** | **61.84** | **61.82** |

| Cumulative Investment Exposure | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| Treasury Management Investments | 12.30 | 13.68 | 13.17 | 13.09 | 13.03 | 13.01 |
| Capital Investments | 30.00 | 45.70 | 59.29 | 64.11 | 64.11 | 64.11 |
| **Total Exposure** | **42.31** | **59.39** | **72.45** | **77.20** | **77.15** | **77.12** |

**How investments are funded:**

9.3 Government guidance is that these indicators should include how investments are funded. Since the Councils do not normally associate particular assets with particular liabilities, this guidance is difficult to apply. However, the following investments could be described as funded by borrowing.

9.4 For those investments funded by borrowing the exposure at the beginning of 2020/21 is forecast to be £25.43m for Babergh and £45.7m for Mid Suffolk as shown in Table 5 that follows.

## Table 5: Investments funded by borrowings

| Cumulative investments funded by borrowings | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| Capital Investments | 13.98 | 25.43 | 38.60 | 48.81 | 48.81 | 48.81 |
| **Total Funded by borrowing** | **12.00** | **25.43** | **38.60** | **48.81** | **48.81** | **48.81** |

| Cumulative investments funded by borrowings | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| Capital Investments | 30.00 | 45.70 | 59.29 | 64.11 | 64.11 | 64.11 |
| **Total Funded by borrowing** | **30.00** | **45.70** | **59.29** | **64.11** | **64.11** | **64.11** |

### Rate of return received:

9.5 This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

## Table 6: Investments net rate of return

| Investments net rate of return | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **2018/19 Actual %** | **2019/20 Forecast %** | **2020/21 Forecast %** | **2021/22 Forecast %** | **2022/23 Forecast %** | **2023/24 Forecast %** |
| Treasury Management Investments | 3.24 | 3.23 | 3.30 | 3.31 | 3.32 | 3.34 |
| Other Capital Investments | 5.09 | 3.98 | 4.78 | 4.92 | 5.06 | 5.21 |
| CIFCO Ltd (1) | 3.05 | 3.40 | 2.19 | 2.26 | 2.34 | 2.40 |
| CIFCO Ltd (2) | 0.00 | 1.57 | 2.91 | 1.83 | 1.64 | 1.72 |
| **All investments (Average)** | **3.90** | **3.49** | **2.87** | **2.37** | **2.31** | **2.39** |

| Investments net rate of return | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2018/19 Actual %** | **2019/20 Forecast %** | **2020/21 Forecast %** | **2021/22 Forecast %** | **2022/23 Forecast %** | **2023/24 Forecast %** |
| Treasury Management Investments | 3.17 | 3.04 | 3.17 | 3.18 | 3.19 | 3.20 |
| CIFCO Ltd (1) | 2.50 | 2.47 | 2.52 | 2.58 | 2.63 | 2.70 |
| CIFCO Ltd (2) | 0.00 | 1.58 | 2.91 | 1.83 | 1.64 | 1.72 |
| Gateway 14 Ltd | 4.23 | 4.50 | 3.35 | 3.97 | 4.29 | 4.36 |
| **All investments (Average)** | **2.94** | **3.03** | **2.87** | **2.88** | **2.85** | **2.79** |

# JOINT TREASURY MANAGEMENT STRATEGY 2020/21

## 1. Introduction

1.1 The Joint Treasury Management strategy contains the following:

- Borrowing Strategy (section 4)
- Annual Investment Strategy (section 5)
- Treasury Management Indicators (Appendix D)
- Economic and Interest Rate Forecast (Appendix E)
- Existing Investment and Debt Portfolio (Appendix F)
- Treasury Management Policy Statement (Appendix G)

1.2 Treasury management is the management of the Councils' cash flows, borrowing and investments, and the associated risks. Babergh and Mid Suffolk invest surplus funds and both Councils borrow to fund capital investment and manage cash flows. Both Councils are therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates.

1.3 The successful identification, monitoring and control of financial risk are therefore central to the Councils' prudent financial management.

1.4 The Councils will continue to:

- Make use of call accounts, if necessary
- Use the strongest/lowest risk non-credit rated building societies
- Use covered bonds (secured against assets) for longer term investments
- Consider longer term investments in property or other funds

1.5 The Local Government Act 2003 requires the Councils to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities 2017 (the Prudential Code) when determining how much money they can afford to borrow.

1.6 Treasury risk management at both Councils is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the TM Code) which requires the Councils to approve a treasury management strategy before the start of each financial year. This report fulfils the Councils legal obligation under the Local Government Act 2003 to have regard to the TM Code.

1.7 The MHCLG Investment Guidance 2018, in paragraph 21, requires local authorities to prioritise Security, Liquidity and Yield in that order of importance.

1.8 The Joint Treasury Management Strategy for 2020/21 continues to focus primarily on the effective management and control of risk and striking a balance between the security, liquidity and yield of those investments. The Councils' objective when investing money is to strike an appropriate balance between risk and return.

1.9 Details of investments held for service purposes or for commercial profit are included in the Joint Investment Strategy, which are shown in Appendix B.

## 2. External Context

2.1 A detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix E.

## 3. Local Context

### Interest rates on Investments and Borrowing

3.1 For the purpose of setting the budget, it has been assumed that new short-term investments will be made at an average rate of 0.75%, and that new long-term loans will be borrowed at an average rate between 2.0% and 3.0%.

### Capital Financing Requirement

3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Councils' current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

3.3 As at the 30 November 2019, Babergh held £102.54m of borrowing and £13.87m of investments, Mid Suffolk held £122.12m of borrowing and £13.76m of investments. This is set out in further detail at Appendix F. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 that follows.

**Table 1: Capital Financing Requirement Summary and forecast**

| Cumulative Capital Financing Requirement | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| General Fund | 31.14 | 35.57 | 38.47 | 46.58 | 50.20 | 49.37 |
| Capital Investments | 13.98 | 25.35 | 40.87 | 48.48 | 48.48 | 48.48 |
| Council Housing (HRA) | 86.67 | 95.51 | 98.44 | 98.29 | 98.29 | 99.89 |
| **Total CFR** | **131.80** | **156.43** | **177.77** | **193.36** | **196.97** | **197.75** |
| Less: External Borrowing** | (104.05) | (105.02) | (104.09) | (102.30) | (101.74) | (101.18) |
| **Internal (Over) Borrowing (Cumulative)** | **27.75** | **51.41** | **73.68** | **91.06** | **95.23** | **96.57** |
| Less: Balances & Reserves -General Fund | (11.59) | (10.09) | (10.41) | (10.35) | (10.35) | (10.37) |
| Less: Balances & Reserves HRA | (21.12) | (21.03) | (22.26) | (22.73) | (22.42) | (18.72) |
| Less Working Capital Deficit | (5.53) | (5.53) | (5.53) | (5.53) | (5.53) | (5.53) |
| **New Net (Investment) / Borrowing Requirement** | **(10.49)** | **14.76** | **35.48** | **52.45** | **56.93** | **61.95** |

| Cumulative Capital Financing Requirement | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| General Fund | 36.28 | 37.53 | 40.33 | 40.94 | 42.46 | 42.17 |
| Capital Investments | 30.00 | 45.55 | 57.46 | 61.29 | 61.29 | 61.29 |
| Council Housing (HRA) | 87.97 | 91.74 | 95.63 | 105.25 | 108.27 | 108.27 |
| **Total CFR** | **154.25** | **174.81** | **193.41** | **207.48** | **212.01** | **211.73** |
| Less: External Borrowing** | (145.29) | (110.94) | (93.57) | (92.34) | (91.23) | (90.10) |
| **Internal (Over) Borrowing (Cumulative)** | **8.97** | **63.87** | **99.84** | **115.15** | **120.78** | **121.63** |
| Less: Balances & Reserves-General Fund | (26.62) | (27.45) | (22.36) | (22.04) | (21.78) | (21.55) |
| Less: Balances & Reserves-HRA | (10.24) | (10.41) | (9.64) | (11.57) | (10.64) | (11.85) |
| Add Working Capital surplus | 2.28 | 2.28 | 2.28 | 2.28 | 2.28 | 2.28 |
| **New Net (Investment) / Borrowing Requirement** | **(25.61)** | **28.30** | **70.12** | **83.81** | **90.64** | **90.51** |

** shows only loans to which the Councils are currently committed and excludes optional refinancing.

3.4 The Councils have an increasing CFR due to the capital programme and investments and will therefore need to borrow up to £197.8m for Babergh and £211.73m for Mid Suffolk over the forecast period.

3.5 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Councils' total debt should be lower than their highest forecast CFR over the next three years. Table 1 above shows that the Councils expect to comply with this recommendation over the forecast period.

**Liability benchmark:**

3.6 A liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above, but that cash and investment balances are kept to a minimum level of Treasury Investments for each Council over the medium-term (the lowest being £13.01m) to maintain sufficient liquidity but minimise credit risk.

3.7 A comparison the Councils' actual borrowing against this alternative strategy was shown in Table 7 in Appendix B, paragraph 4.8. This showed that both Councils' expected debt is below the Liability Benchmark (lowest risk level) for the forecast period.

**Table 2: Liability Benchmark**

| Liability Benchmark | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| CFR | 131.80 | 156.43 | 177.77 | 193.36 | 196.97 | 197.75 |
| Less: Usable Reserves | (32.71) | (31.12) | (32.66) | (33.08) | (32.76) | (29.08) |
| Less Working Capital Deficit | (5.53) | (5.53) | (5.53) | (5.53) | (5.53) | (5.53) |
| Plus: Minimum Investments | 11.85 | 13.69 | 13.18 | 13.13 | 13.03 | 13.01 |
| **Liability Benchmark** | **105.41** | **133.47** | **152.75** | **167.87** | **171.71** | **176.15** |

| Liability Benchmark | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2018/19 Actual £m** | **2019/20 Forecast £m** | **2020/21 Budget £m** | **2021/22 Budget £m** | **2022/23 Budget £m** | **2023/24 Budget £m** |
| CFR | 154.25 | 174.81 | 193.41 | 207.48 | 212.01 | 211.73 |
| Less: Usable Reserves | (36.85) | (37.85) | (32.00) | (33.61) | (32.42) | (33.40) |
| Add Working Capital surplus | 2.28 | 2.28 | 2.28 | 2.28 | 2.28 | 2.28 |
| Plus: Minimum Investments | 12.30 | 13.68 | 13.17 | 13.09 | 13.03 | 13.01 |
| **Liability Benchmark** | **131.98** | **152.92** | **176.86** | **189.23** | **194.91** | **193.62** |

## 4. Borrowing Strategy

### Overview

4.1 As at 30 November 2019 Babergh held loans of £102.54m and Mid Suffolk £122.12m. These have increased by £7.5m for Babergh and £6.18m for Mid Suffolk on the previous year, due to funding previous years' capital programmes.

4.2 The balance sheet forecast for borrowing in Table 1 above shows that Babergh expects to borrow up to £21.34m and Mid Suffolk expects to borrow up to £18.6m in 2020/21. The Councils may borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £193m for Babergh and £209m for Mid Suffolk, as shown in Appendix A Table 8.

**Objectives**

4.3 The Councils' chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. A secondary objective is the flexibility to renegotiate loans should the Councils' long-term plans change.

**Strategy**

4.4 Given the significant cuts to public expenditure and in particular to local government funding, the Councils' borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolios. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. This position will be monitored and evaluated on an ongoing basis to ensure both Councils achieve value for money.

4.5 By doing so, the Councils are able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose (the Councils' treasury advisers) will assist the Councils with this 'cost of carry' and breakeven analysis.

4.6 Its output may determine whether the Councils borrow additional sums at long-term fixed rates in 2020/21 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.7 The Councils have previously raised the majority of their long-term borrowing from the PWLB but the government increased PWLB rates by 1% in October 2019 making it now a relatively expensive option. The Councils will continue look to borrow any long-term loans from other sources including banks, pension funds and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the Treasury Management Code.

4.8 Alternatively, the Councils may arrange forward starting loans during 2020/21, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

4.9 In addition, the Councils may borrow more short-term loans to cover unplanned cash flow shortages.

**Sources of borrowing**

4.10 The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)

- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Suffolk County Council Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

**Municipal Bonds Agency**

4.11 UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons:

- borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason,

- there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Full Council

**LOBOs**

4.12 Mid Suffolk holds £4m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. All of these loans have options during 2020/21, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £4m.

**Short-term and variable rate loans**

4.13 These loans leave the Councils exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

**Other sources of debt finance**

4.14 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

**Local Application**

4.15 The Councils have previously raised the majority of their long-term borrowing from the PWLB, but continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

4.16 Consideration will be given to all forms of borrowing/financing in relation to any future capital investment plans. This is most likely to be via the Public Works Loan Board (PWLB) but consideration will also be given to borrowing from other sources such as other local authorities, commercial banks, the European Investment Bank (EIB), money markets, capital markets (stock issues, commercial paper and bills) and leasing. The Councils will receive the “certainty rate” discount of 0.2%. on PWLB loans.

4.17 In conjunction with advice from Arlingclose, both Councils will keep these sources of finance under review.

4.18 Officers will take advice on the optimum time to undertake additional borrowing and will adopt a flexible approach in consultation with their treasury advisors, after consideration of the following:

- Affordability
- Maturity profile of existing debt
- Interest rate and refinancing risks
- Borrowing source

4.19 The General Fund revenue budget for 2020/21 will include provision for interest payments relating to external borrowing and the statutory Minimum Revenue Provision (MRP) to ensure the principal is repaid. Different arrangements apply to the Housing Revenue Account (Council Housing) in that there is no MRP. The strategy and activities are affected by a number of factors, including the regulatory framework, economic conditions, best practice and interest rate/liquidity risk. Appendix D, E, F, G, H and I summarise the regulatory framework, economic background and information on key activities for the year.

4.20 In accordance with the MHCLG Guidance, the Councils will be asked to approve a revised Treasury Management Strategy if the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Councils’ capital programmes or in the level of investment balances.

**Debt rescheduling**

4.21 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Councils may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

## 5. Annual Investment Strategy

5.1 The Councils hold significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past twelve months, Babergh's investment balances have ranged between £10.5m and £28.8m. Mid Suffolk's investment balances ranged between £11.4m and £38.1m. Similar levels are expected to be maintained in the forthcoming year.

### Objectives

5.2 CIPFA's TM Code requires the Councils to invest funds prudently, and to have regard to the security and liquidity of their investments before seeking the highest rate of return or yield. The Councils' objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.3 Cash that is likely to be spent in the short term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both short-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which investments to buy and the Councils may request their money back at short notice.

5.4 Where balances are expected to be invested for more than one year, the Councils will aim to achieve a total return that is equal to or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

5.5 Table 3 shows the planned level of investments for treasury management purposes over the medium-term. Long term investments are those made for more than one year. Cash and cash equivalents include money market funds and current bank accounts.

### Table 3: Treasury management investments

| Treasury Management Investments | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **31.3.2019 Actual £m** | **31.3.2020 Forecast £m** | **31.3.2021 Budget £m** | **31.3.2022 Budget £m** | **31.3.2023 Budget £m** | **31.3.2024 Budget £m** |
| Long Term Investments | 9.43 | 11.19 | 11.18 | 11.13 | 11.03 | 11.01 |
| Cash and Cash Equivalents | 2.42 | 2.50 | 2.00 | 2.00 | 2.00 | 2.00 |
| **Total TM Investments** | **11.85** | **13.69** | **13.18** | **13.13** | **13.03** | **13.01** |

| Treasury Management Investments | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **31.3.2019 Actual £m** | **31.3.2020 Forecast £m** | **31.3.2021 Budget £m** | **31.3.2022 Budget £m** | **31.3.2023 Budget £m** | **31.3.2024 Budget £m** |
| Long Term Investments | 9.42 | 11.18 | 11.17 | 11.09 | 11.03 | 11.01 |
| Cash and Cash Equivalents | 2.88 | 2.50 | 2.00 | 2.00 | 2.00 | 2.00 |
| **Total TM Investments** | **12.30** | **13.68** | **13.17** | **13.09** | **13.03** | **13.01** |

**Governance – Treasury Management:**

5.6 Decisions on treasury management investment and borrowing are made daily and are delegated to the Assistant Director - Corporate Resources (the S151 Officer) and Finance staff, who must act in line with the Joint Treasury Management Strategy approved by Full Council in February each year.

5.7 There is a Joint Half Year and Joint Annual Outturn Report on treasury management activity presented to Council. The Joint Audit and Standards Committee is responsible for scrutinising treasury management decisions.

**Negative interest rates**

5.8 If the UK enters into a recession in 2020/21, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

**Strategy**

5.9 Given the increasing risk and very low returns from short-term unsecured bank investments, both Councils have diversified into higher yielding asset classes. This diversification represents a continuation of the new strategy adopted in 2015/16.

**Business Models**

5.10 Under the new IFRS 9 standard, accounting for certain investments depends on the Councils' "business model" for managing them. The Councils aim to achieve value from their internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

**Approved counterparties**

5.11 The minimum proposed investment criteria for UK counterparties in the 2020/21 Treasury Management Strategy remains at A-. (See Appendix I for list). (Note: This would be the lowest credit rating determined by credit rating agencies).

5.12 In line with advice received from Arlingclose the Councils may invest surplus funds with any of the counterparty types in Table 4 that follows, subject to the cash limits (per counterparty) and the time limits shown.

**Table 4: Approved investment counterparties and limits for Babergh and Mid Suffolk**

| Credit Rating | Banks Unsecured | Banks Secured | Government | Corporates | Registered Providers |
|---|---|---|---|---|---|
| UK Govt | n/a | n/a | £ Unlimited<br>50 years | n/a | n/a |
| AAA | £2m<br>5 years | £2m<br>20 years | £2m<br>50 years | £1m<br>20 years | £1m<br>20 years |
| AA+ | £2m<br>5 years | £2m<br>10 years | £2m<br>25 years | £1m<br>10 years | £1m<br>10 years |
| AA | £2 m<br>4 years | £2m<br>5 years | £2m<br>15 years | £1m<br>5 years | £1m<br>10 years |
| AA- | £2m<br>3 years | £2m<br>4 years | £2m<br>10 years | £1m<br>4 years | £1m<br>10 years |
| A+ | £2m<br>2 years | £2m<br>3 years | £2m<br>5 years | £1m<br>3 years | £1m<br>5 years |
| A | £2 m<br>13 months | £2m<br>2 years | £2m<br>5 years | £1 m<br>2 years | £1m<br>5 years |
| A- | £2m<br>6 months | £2m<br>13 months | £2m<br>5 years | £1m<br>13 months | £1m<br>5 years |
| None | £1m<br>6 months | n/a | £1m<br>25 years | £50,000<br>5 years | £1m<br>5 years |
| Pooled funds | £5m per fund | | | | |

Table 3 should be read in conjunction with the following notes:

- **Credit rating**
  Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

- **Banks unsecured**
  Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

- **Banks secured**
  Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one

bank will not exceed the cash limit for secured investments.

- **Government**
  Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

- **Corporates**
  Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £50,000 per company as part of a diversified pool in order to spread the risk widely.

- **Registered providers**
  Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England). As providers of public services, they retain the likelihood of receiving government support if needed.

- **Pooled funds**
  Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

  Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Councils to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Councils investment objectives will be monitored regularly.

  If the risks or returns of pooled funds change significantly enough over a period that they no longer meet the Councils objectives, the funds will be withdrawn at the earliest opportunity. No new or re-investments will be made into those funds and alternatives will be considered. This will continue to be applied to Funding Circle in 2020/21.

**Council banker and Operational bank accounts**

5.13 The Councils may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £2m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Councils maintaining operational continuity. Both Councils bank with Lloyds Bank plc which currently has a credit rating of A+.

**Risk assessment and credit ratings**

5.14 Credit ratings are obtained and monitored by the Councils treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.15 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.16 See the table in Appendix I for an explanation of the credit ratings issued by the main credit ratings agencies.

**Other information on the security of investments**

5.17 The Councils understand that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Councils treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

5.18 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Councils will restrict investments to those organisations of higher credit quality and reduce the maximum duration of investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions.

5.19 If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Councils' cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office (DMADF) or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.

**Investment limits**

5.20 The Councils' total General Fund reserves available to cover investment losses are forecast to be £10.09m for Babergh and £27.45m for Mid Suffolk on 31 March 2020. In order to minimise the available reserves that would be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5m.

5.21 A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as stated in Table 5 that follows. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

**Table 5: Investment limits for Babergh and Mid Suffolk**

| Investment Limits | Babergh | Mid Suffolk |
|---|---|---|
| Any single organisation, except the UK Central Government | £2m each | £2m each |
| UK Central Government | Unlimited | Unlimited |
| Any group of organisations under the same ownership | £1m per group | £1m per group |
| Any group of pooled funds under the same management | £5m per manager | £5m per manager |
| Negotiable instruments held in a broker's nominee account | £10m per broker | £10m per broker |
| Foreign countries | £2m per country | £2m per country |
| Registered Providers and registered social landlords | £5m in total | £5m in total |
| Unsecured investments with building societies | £2m in total | £2m in total |
| Loans to unrated corporates | £1m in total | £1m in total |
| Money Market Funds | 50% total Investments | 50% total Investments |

**Liquidity management**

5.22 The Councils use purpose-built cash flow forecasts to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Councils being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Councils medium-term budget planning and cash flow forecasts.

## TREASURY MANAGEMENT INDICATORS

The Councils measure and manage their exposure to treasury management risks using the following indicators:

### 1. Security

1.1 The Councils have adopted a voluntary measure of their exposure to credit risk by monitoring the value-weighted average credit score of their investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk. Positions at the 30 September 2019 were Babergh 5.21 and Mid Suffolk 4.94 respectively.

| | **Target** |
|---|---|
| Portfolio average credit score | 7.0 |

### 2. Liquidity

2.1 The Councils have adopted a voluntary measure of their exposure to liquidity risk by monitoring the amount they can borrow each quarter without giving prior notice.

| **Liquidity risk indicator** | |
|---|---|
| **Total sum borrowed in past 3 months without prior notice** | **2020/21 Target £m** |
| Babergh District Council | £5m |
| Mid Suffolk District Council | £5m |

### 3. Interest rate exposures

3.1 This indicator is set to control the Councils' exposure to interest rate risk. The boundary on the one-year revenue impact of a 1% rise in interest rates will be:

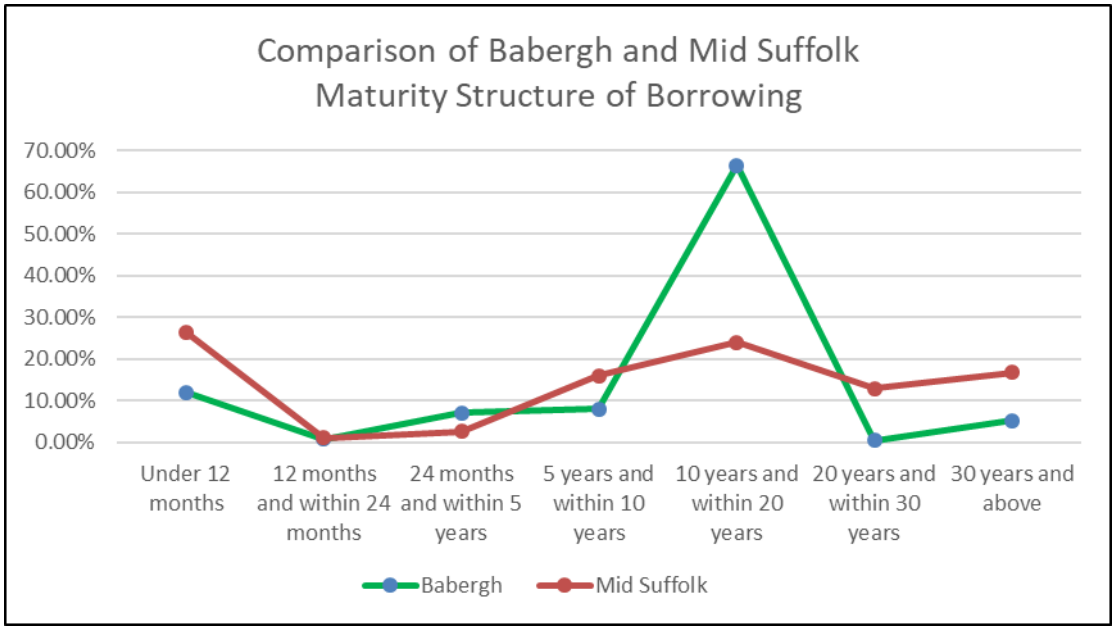
| **Interest rate risk indicator** | |
|---|---|
| **Upper impact on Revenue of a 1% increase in rates** | **2020/21 Limit £m** |
| Babergh District Council | 0.490 |
| Mid Suffolk District Council | 0.708 |

3.2 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

## 4. Maturity structure of borrowing

4.1 This indicator is set to control the Councils exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

| Refinancing rate risk indicator | | | | |
|---|---|---|---|---|
| % of total borrowing | Babergh 30.11.201 Proportion | Mid Suffolk 30.11.2019 Proportion | Upper Limit % | Lower Limit % |
| Under 12 months | 12.00% | 26.43% | 50.00 | 0.00 |
| 12 months and within 24 months | 0.77% | 1.07% | 50.00 | 0.00 |
| 24 months and within 5 years | 7.07% | 2.61% | 50.00 | 0.00 |
| 5 years and within 10 years | 8.04% | 15.97% | 100.00 | 0.00 |
| 10 years and within 20 years | 66.40% | 24.08% | 100.00 | 0.00 |
| 20 years and within 30 years | 0.45% | 13.02% | 100.00 | 0.00 |
| 30 years and above | 5.26% | 16.81% | 100.00 | 0.00 |




4.2 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

## 5. Principal sums invested for periods longer than a year

5.1 The purpose of this indicator is to control the Councils exposure to the risk of incurring losses by seeking early repayment of their investments. The limits on the long-term principal sum invested to final maturities beyond the period will be:

| Price risk indicator | | | |
|---|---|---|---|
| Limit on principal invested beyond year end | 2020/21 Limit £m | 2021/22 Limit £m | 2022/23 Limit £m |
| Babergh District Council | £2m | £2m | £2m |
| Mid Suffolk District Council | £2m | £2m | £2m |

## 6. Related Matters

6.1 The CIPFA TM Code requires the Councils to include the following in their Joint Treasury Management Strategy.

**Policy on the use of financial derivatives**

6.2 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

6.3 The Councils will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Councils are exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be considered when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

6.4 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

6.5 In line with the TM Code, the Councils will seek external advice and will consider that advice before entering into financial derivatives to ensure that they fully understand the implications.

**Policy on apportioning interest to the Housing Revenue Account (HRA)**

6.6 On 1 April 2012, the Councils notionally split each of their existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account.

6.7 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured annually, and interest transferred between the General Fund and HRA at each Council's average interest rate on investments, adjusted for credit risk.

**Markets in Financial Instruments Directive**

6.8 The Councils have opted up to professional client status with their providers of financial services, including advisers, banks, brokers and fund managers, allowing access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Councils' treasury management activities, the S151 Officer believes this to be the most appropriate status.

**Financial Implications**

6.9 The budget for investment income in 2020/21 is £2.56m for Babergh and £3.36m for Mid Suffolk, based on an average investment portfolio of £60.35m for Babergh and £78.9m Mid Suffolk. The average return is 4.25% for Babergh and 4.27% for Mid Suffolk.

6.10 The budget for debt interest paid in 2020/21 is £3.91m for Babergh and £4.15m for Mid Suffolk, based on an average debt portfolio of £138.67m for Babergh and £170.36m for Mid Suffolk. The average cost is 2.82% for Babergh and 2.43% for Mid Suffolk.

6.11 If actual levels of investments and borrowing, or actual interest rates, differ from that forecast, performance against budget will be correspondingly different.

**Other Options Considered**

6.12 The CIPFA TM Code does not prescribe any particular treasury management strategy for local authorities to adopt. The S151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed in the following table.

| Alternative | Impact on income and expenditure | Impact on risk management |
|---|---|---|
| Invest in a narrower range of counterparties and/or for shorter times | Interest income will be lower | Lower chance of losses from credit related defaults, but any such losses may be greater |
| Invest in a wider range of counterparties and/or for longer times | Interest income will be higher | Increased risk of losses from credit related defaults, but any such losses may be smaller |
| Borrow additional sums at long-term fixed interest rates | Debt interest costs will rise; this is unlikely to be offset by higher investment income | Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain |
| Borrow short-term or variable loans instead of long-term fixed rates | Debt interest costs will initially be lower | Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain |
| Reduce level of borrowing | Saving on debt interest is likely to exceed lost investment income | Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain |

## ECONOMIC & INTEREST RATE FORECAST

### 1 Economic background

1.1 The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Councils' treasury management strategy for 2020/21. The General Election has removed some uncertainty within the market. However, following the expected Withdrawal Bill, uncertainties around the future trading relationship with the EU remain.

1.2 GDP growth rose by 0.4% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.1% from 1.2%. Services, construction and production added positively to growth, by 0.5%, 1.2% and 0.1% respectively, while agriculture recorded a fall of 0.1%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

1.3 The headline rate of UK Consumer Price Inflation remained the same in November 2019 at 1.5% year-on-year, the same as October 2019, however continuing to fall from highs of 2.1% in July and April 2019 as accommodation services and transport continued to contribute to a level of inflation below the Bank of England target of 2%. Labour market data continues to be positive. The International Labour Organisation unemployment rate continues to hold at historic lows at 3.8%, its lowest level since 1975. The 3-month average annual growth rate for pay excluding bonuses rose to 3.5% in November 2019 providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation this means real wages were only up by 0.9% in October 2019 and only likely to have a moderate impact on household spending.

1.4 Domestic inflationary pressures have abated, as domestic gas and electricity price freezes have taken effect until 2020. The price of oil has fallen through the year, despite a rise in prices in December 2019. The limited inflationary pressure from real wages will likely keep inflation below the Bank of England target of 2%. The Bank of England maintained Bank Rate to 0.75% in November following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

1.5 The US economy has continued to perform relatively well compared to other developed nations; however, the Federal Reserve has started to unwind its monetary tightening through 2019. The Federal Reserve has cut rates three times to 1.5% - 1.75%, to stimulate growth as GDP growth has started to fall (to 2.1%).

1.6 The fallout from the US-China trade war continues which, risks contributing to a slowdown in global economic activity in 2019. Recent suggestions have been an initial compromise and potential unwinding of tariffs; however, this can change quickly. Slow growth in Europe, combined with changes in leadership at the ECB and IMF has led to a change of stance in 2019. Quantitative easing has continued and been extended.

## 2 Credit outlook

2.1 The recent Bank of England stress tests assessed all seven UK banking groups. The tests scenarios include deep simultaneous recessions in the UK and global economies that are more severe overall than the global financial crisis, combined with large falls in asset prices and a separate stress of misconduct costs. All seven banks passed the test on both a CET1 ratio and a leverage ratio basis.

2.2 Major banks have steadily increased their capital for many years now. However, there are a number of shortcomings in the Bank's approach; timeliness as the results are over 11 months out of date when they are published, being based on end-2018 balance sheets; ringfencing, as the tests ignore the restrictions on transferring capital between ringfenced "retail" banks and non-ringfenced "investment" banks within the larger groups and; coverage – the tests should be expanded to cover a wider range of UK banks and building societies.

2.3 The Bank of England will seek to address some of these issues in 2020, when Virgin Money/Clydesdale will be added to the testing group and separate tests will be included of ringfenced banks.

2.4 Challenger banks hit the news headlines in 2019 with Metro Bank and TSB Bank both suffering adverse publicity and falling customer numbers.

2.5 Looking forward, the potential for a "no-deal" Brexit and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable.

## 3 Underlying assumptions

3.1 The global economy continues to slow on the back of ongoing geopolitical issues, primarily the trade policy stance of the US and its stand-off with China. However, it has been reported that Phase I of a trade deal between the two countries will be signed on 15 January 2020.

3.2 The UK economy continues to slow due to both post-Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased. Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets over the period, including bond markets.

3.3 UK economic Parliament passed Prime Minister Boris Johnson's Withdrawal Agreement Bill and the UK will now exit the EU on 31 January 2020. The bill also rules out an extension to the transition period for agreeing a trade deal which means a no-deal Brexit cannot be entirely ruled out for 2020.

## 4 Interest Rate Forecast

4.1 The Councils' treasury advisor, Arlingclose, expects Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on Brexit/trade deal outcomes as well as the evolution of the global economy. Arlingclose also expects gilt yields to remain at low levels for the foreseeable future and judges the risks to be weighted to the downside.

4.2 The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely even in the event of a deal.

4.3 **Table 1 Interest Rate Forecast**

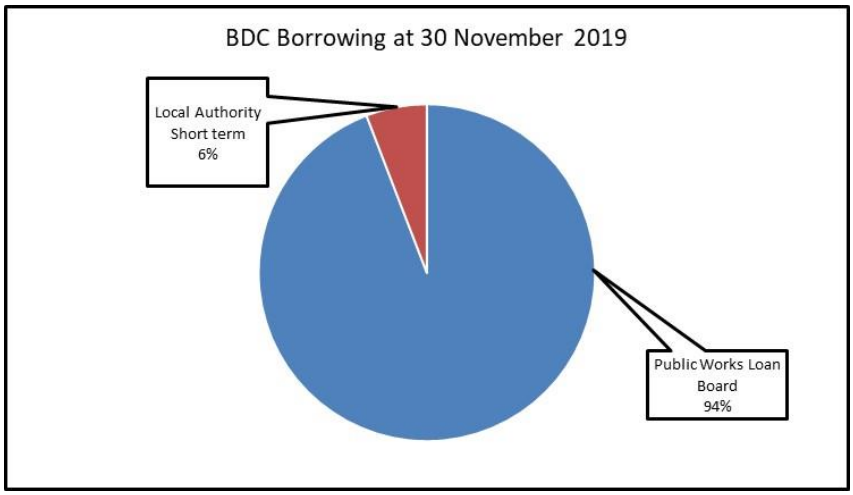
| | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Average |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Official Bank Rate | | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.00 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.21 |
| Arlingclose Central Case | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 |
| Downside risk | -0.50 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.73 |
| 3-month money market rate | | | | | | | | | | | | | | |
| Upside risk | 0.10 | 0.10 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.25 |
| Arlingclose Central Case | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 |
| Downside risk | -0.50 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.73 |
| 1yr money market rate | | | | | | | | | | | | | | |
| Upside risk | 0.10 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | 0.25 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.23 |
| Arlingclose Central Case | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 |
| Downside risk | -0.30 | -0.50 | -0.55 | -0.65 | -0.65 | -0.65 | -0.65 | -0.65 | -0.65 | -0.65 | -0.65 | -0.65 | -0.65 | -0.60 |
| 5yr gilt yield | | | | | | | | | | | | | | |
| Upside risk | 0.30 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.40 | 0.45 | 0.45 | 0.45 | 0.37 |
| Arlingclose Central Case | 0.50 | 0.50 | 0.50 | 0.55 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.57 |
| Downside risk | -0.35 | -0.50 | -0.50 | -0.55 | -0.60 | -0.60 | -0.60 | -0.60 | -0.60 | -0.60 | -0.60 | -0.60 | -0.60 | -0.56 |
| 10yr gilt yield | | | | | | | | | | | | | | |
| Upside risk | 0.30 | 0.30 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.40 | 0.40 | 0.45 | 0.45 | 0.37 |
| Arlingclose Central Case | 0.75 | 0.75 | 0.80 | 0.80 | 0.85 | 0.85 | 0.90 | 0.90 | 0.95 | 0.95 | 1.00 | 1.00 | 1.00 | 0.88 |
| Downside risk | -0.40 | -0.40 | -0.40 | -0.40 | -0.45 | -0.45 | -0.45 | -0.45 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.45 |
| 20yr gilt yield | | | | | | | | | | | | | | |
| Upside risk | 0.30 | 0.30 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.40 | 0.40 | 0.45 | 0.45 | 0.37 |
| Arlingclose Central Case | 1.20 | 1.20 | 1.25 | 1.25 | 1.25 | 1.30 | 1.30 | 1.30 | 1.35 | 1.35 | 1.35 | 1.40 | 1.40 | 1.30 |
| Downside risk | -0.40 | -0.40 | -0.45 | -0.45 | -0.45 | -0.45 | -0.45 | -0.45 | -0.45 | -0.45 | -0.45 | -0.50 | -0.50 | -0.45 |
| 50yr gilt yield | | | | | | | | | | | | | | |
| Upside risk | 0.30 | 0.30 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.40 | 0.40 | 0.45 | 0.45 | 0.37 |
| Arlingclose Central Case | 1.20 | 1.20 | 1.25 | 1.25 | 1.25 | 1.30 | 1.30 | 1.30 | 1.35 | 1.35 | 1.35 | 1.40 | 1.40 | 1.30 |
| Downside risk | -0.40 | -0.40 | -0.45 | -0.45 | -0.45 | -0.45 | -0.45 | -0.45 | -0.45 | -0.45 | -0.45 | -0.50 | -0.50 | -0.45 |

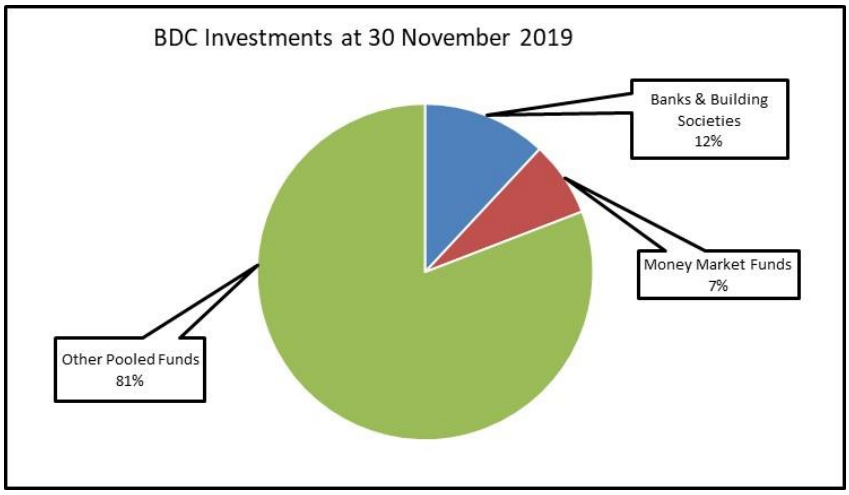
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%

PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

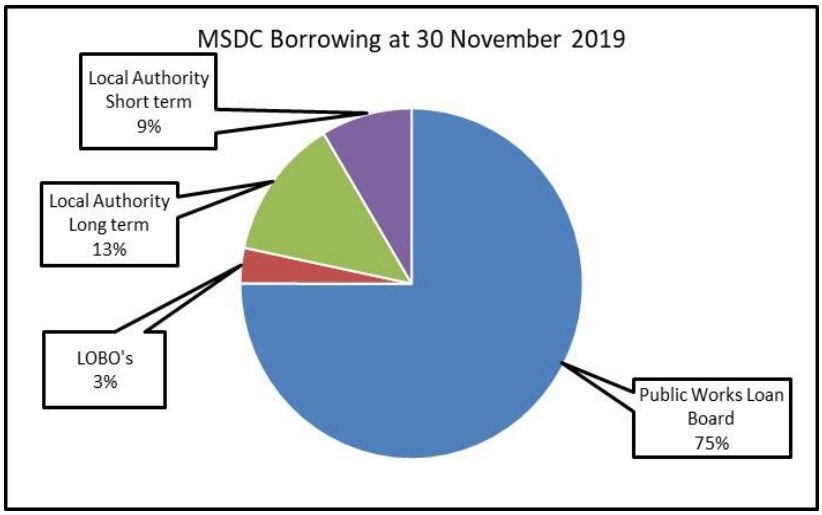
## EXISTING INVESTMENT & DEBT PORTFOLIO POSITION

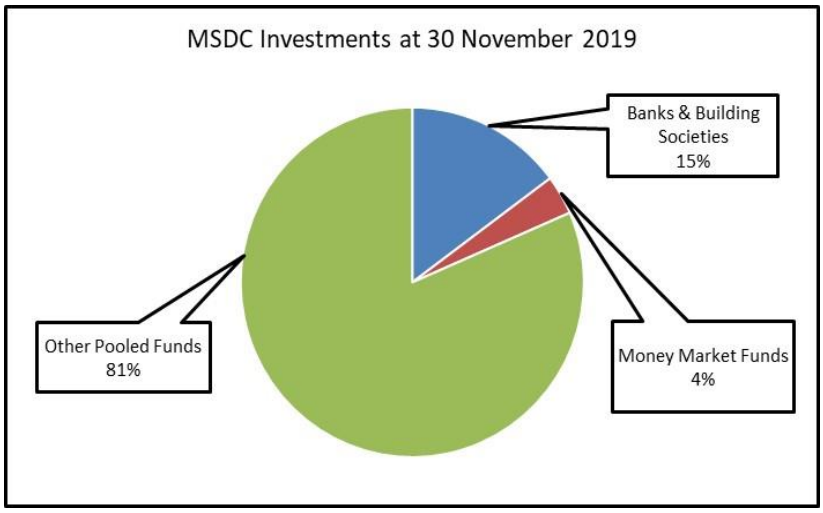
| Babergh | 30.11.2019 Portfolio £m | Average Rate % |
|---|---|---|
| **External Borrowing:** | | |
| Public Works Loan Board | 96.54 | 3.17% |
| Local Authority Short term | 6.00 | 0.75% |
| **Total External borrowing** | **102.54** | 2.36% |
| **Treasury Investments:** | | |
| Banks & Building Societies | 1.66 | 0.65% |
| Money Market Funds | 1.00 | 0.67% |
| Other Pooled Funds | 11.21 | 5.60% |
| **Total Treasury Investments** | **13.87** | 3.81% |
| **Net Debt** | **88.67** | |



| Mid Suffolk | 30.11.2019 Portfolio £m | Average Rate % |
|---|---|---|
| **External Borrowing:** | | |
| Public Works Loan Board | 91.62 | 3.24% |
| LOBO's | 4.00 | 4.21% |
| Local Authority Long term | 16.00 | 1.20% |
| Local Authority Short term | 10.50 | 0.81% |
| **Total External borrowing** | **122.12** | 3.24% |
| **Treasury Investments:** | | |
| Banks & Building Societies | 2.04 | 0.63% |
| Money Market Funds | 0.50 | 0.74% |
| Other Pooled Funds | 11.22 | 5.52% |
| **Total Treasury Investments** | **13.76** | 3.73% |
| **Net Debt** | **108.36** | |



# TREASURY MANAGEMENT POLICY STATEMENT

## 1. Introduction and Background

1.1 The Councils adopt the key recommendations of the CIPFA Code of Practice on Treasury Management in Public Services 2017 Edition (the TM Code) as described in Section 5 of the Code.

1.2 In addition, the Ministry of Housing, Communities and Local Government (MHCLG) revised guidance on Local Councils Investments issued in 2018 requires councils to approve a treasury management investment strategy before the start of each financial year.

1.3 Accordingly, the Councils will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
- Suitable treasury management practices (TMPs), setting out the manner in which the Councils will seek to achieve those policies and objectives, and prescribing how they will manage and control those activities.

1.4 The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the TM Code, subject only to amendment where necessary to reflect the particular circumstances of the Councils. Such amendments will not result in the Councils materially deviating from the TM Code's key principles.

1.5 The Full Council meeting for Babergh and Mid Suffolk will receive recommendations from Cabinet on their treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a half-year review and an annual outturn report after its close.

1.6 The Councils delegate responsibility for the implementation of their treasury management policies and practices to the Cabinet, monitoring to the Joint Audit and Standards Committee and the execution and administration of treasury management decisions to the Section 151 Officer and/or Corporate Manager - Financial Services, who will act in accordance with the Councils policy statement, the TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.7 The Joint Audit and Standards Committee is responsible for ensuring effective scrutiny of the Joint Treasury Management Strategy and policies.

## 2. Policies and Objectives of Treasury Management Activities

2.1 The Councils define their treasury management activities in line with the TM Code definition as: "the management of the organisations investments and cash flows, their banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance associated with those risks."

2.2 The Councils regard the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of their treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on the risk implications for the Councils and any financial instruments entered into to manage these risks.

2.3 The Councils recognise that effective treasury management will provide support towards the achievement of their business and service objectives. They are therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques within the context of effective risk management.

2.4 Both Councils' borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken, and the type of borrowing should allow the Councils transparency and control over their debt.

2.5 Both Councils' primary objectives in relation to investments remain the security of capital. The liquidity or accessibility of the Councils investments followed by the yield earned on investments remain important but are secondary considerations.

**ANNUAL MINIMUM REVENUE PROVISION (MRP) STATEMENT 2020/21**

1.1 Where the Councils finance their capital expenditure by debt, they must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Councils to have regard to the Ministry for Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the CLG Guidance) most recently issued in 2018 and effective from 1 April 2018.

1.2 The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by grant income that has been rolled into Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

1.3 A charge to a revenue account for MRP cannot be a negative charge.

1.4 The CLG Guidance requires Full Council to approve an Annual MRP Statement each year and recommends a number of options for calculating an amount of MRP that they consider to be prudent. The following paragraph lists the options recommended in the Guidance.

1.5 The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

1.6 For capital expenditure incurred before 1 April 2008, MRP will be determined in accordance with the former regulations that applied on 31 March 2008, incorporating an "Adjustment A" of £2.4m for Mid Suffolk (Option 1). Babergh does not have any capital expenditure incurred before 1st April 2008 on which to charge MRP.

1.7 For capital expenditure incurred after 31 March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset on an annuity basis using an interest rate equivalent to the average PWLB annuity rate for the year of expenditure. MRP charges start in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years. (Option 3).

1.8 For assets acquired by leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

1.9 Where investments are made in the Councils subsidiaries for the purpose of the companies purchasing land and buildings, MRP will be charged over 40 years.

1.10 For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Councils will make no MRP charge, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational.

1.11 No MRP will be charged in respect of assets held within the Housing Revenue Account. However, voluntary MRP contributions from the HRA may be made.

1.12 Capital expenditure incurred during 2019/20 will not be subject to an MRP charge until 2020/21 and capital expenditure incurred during 2020/21 will not be subject to an MRP charge until 2021/22.

1.13 If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to Full Council at that time.

1.14 Based on the Councils latest estimates of their Capital Financing Requirements on 31 March 2020, the budget for MRP for 2020/21 has been set as follows:

| **Estimated Capital Financing Requirement** | | |
|---|---|---|
| **Babergh District Council** | **31.3.2020 Estimated CFR £m** | **2020/21 Estimated MRP £m** |
| Unsupported capital expenditure after 31.3.2008 | 27.38 | 1.14 |
| Finance leases (due to change in Accounting Policy) | - | 0.09 |
| Loans to other bodies repaid in instalments | 33.54 | - |
| **Total General Fund** | **60.92** | **1.22** |
| Assets in the Housing Revenue Account | 9.34 | - |
| HRA subsidy reform payment | 86.17 | - |
| **Total Housing Revenue Account** | **95.51** | **-** |
| **Total CFR** | **156.43** | **1.22** |

| **Estimated Capital Financing Requirement** | | |
|---|---|---|
| **Mid Suffolk District Council** | **31.3.2020 Estimated CFR £m** | **2020/21 Estimated MRP £m** |
| Capital expenditure before 01.04.2008 | 8.22 | 0.08 |
| Unsupported capital expenditure after 31.3.2008 | 23.17 | 1.18 |
| Finance leases (due to change in Accounting Policy) | - | 0.09 |
| Transferred debt to HRA | (0.60) | - |
| Loans to other bodies repaid in instalments | 52.29 | - |
| **Total General Fund** | **83.08** | **1.34** |
| Assets in the Housing Revenue Account | 33.93 | - |
| HRA subsidy reform payment | 57.21 | - |
| Transferred debt from GF | 0.60 | - |
| **Total Housing Revenue Account** | **91.74** | **-** |
| **Total CFR** | **174.82** | **1.34** |

## INSTITUTIONS MEETING HIGH CREDIT RATINGS CRITERIA

1.1 Detailed below is the list of the banks and building societies that both Councils can lend to (based on information on credit risk and credit ratings as at November 2019). This will be continuously monitored as the position changes throughout the year as credit ratings are reviewed and additional market information is evaluated.

1.2 This is based on UK Banks and Building Societies A-, Money Market Funds, Foreign Banks AA-. Foreign banks must be in a country with a sovereign rating of AAA.

| Counterparty | Long term rating - Fitch | Duration |
|---|---|---|
| **UK BANKS** | | |
| Bank of Scotland PLC | A+*- | *** |
| Barclays Bank PLC | A+*- | ** |
| Barclays Bank UK PLC | A+*- | ** |
| Close Brothers Limited | A*- | *** |
| Goldman Sachs International Bank | A | ** |
| HSBC Bank PLC | AA-*- | *** |
| HSBC UK Bank PLC | AA-*- | *** |
| Lloyds Bank PLC | A+*- | *** |
| Santander UK PLC | A+*- | *** |
| Standard Chartered Bank | A+ | *** |
| **UK BUILDING SOCIETIES** | | |
| Nationwide Building Society | A+ | *** |
| Leeds Building Society | A-*- | ** |
| Coventry Building Society | A-*- | *** |
| **FOREIGN BANKS** | | |
| **Australia** | | |
| Australia and NZ Banking Group | AA- | *** |
| Commonwealth Bank of Australia | AA- | *** |
| National Australia Bank | AA- | *** |
| Westpac Banking Group | AA- | *** |
| **Canada** | | |
| Bank of Montreal | AA- | *** |
| Bank of Nova Scotia | AA- | *** |
| Canadian Imperial Bank of Commerce | AA- | *** |
| Royal Bank of Canada | AA | *** |
| Toronto-Dominion Bank | AA- | *** |
| **Finland** | | |
| Nordea Bank AB | AA- | **** |
| **Netherlands** | | |
| Cooperative Rabobank | AA- | **** |
| **Singapore** | | |
| DBS Bank Ltd | AA- | **** |
| Oversea-Chinese Banking Corporation | AA- | **** |
| United Overseas Bank | AA- | **** |
| **Sweden** | | |
| Svenska Handelsbanken | AA | *** |

| Counterparty | Long term rating - Fitch | Duration |
|---|---|---|
| **MONEY MARKET FUNDS (MMF)** | | |
| Aberdeen Standard Sterling Liquidity Fund | AAAmmf | * |
| Goldman Sterling Liquid Reserves Fund | AAAmmf | * |
| Insight Sterling Liquidity Fund | AAAmmf | * |
| Federated Investors (UK) Sterling Liquidity Fund | AAAmmf | * |
| Invesco AIM STUC Sterling Liquidity Portfolio | AAAmmf | * |
| Blackrock Institutional Sterling Liquidity Fund | *1 | * |

| | |
|---|---|
| * | Overnight Limit |
| ** | Maximum limit to maturity 100 days |
| *** | Maximum limit to maturity 6 months |
| **** | Maximum limit to maturity 13 months |
| ***** | Maximum exposure limit 10% of total investments per fund |
| *1 | Blackrock has withdrawn from Fitch Rating |

1.3 MMFs – Federated is domiciled in the UK for tax and administration purposes, Standard Life, Goldman Sachs, BlackRock, Invesco and Insight are domiciled in Ireland for tax and administration purposes.

### Long Term Investments Grades - Fitch

| **Agency - Fitch** | |
|---|---|
| **Rating** | **Definition** |
| AAA | Highest credit quality – 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events. |
| AA | Very high credit quality 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. |
| A | High credit quality – 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings. |

### Long Term Investments Grades – Moody's

| **Agency - Moody's** | |
|---|---|
| **Rating** | **Definition** |
| Aaa | Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk. |
| Aa1 | Obligations rated Aa are judged to be of high quality and are subject to very low credit risk. |
| Aa2 | |
| Aa3 | |
| A1 | Obligations rated A are considered upper-medium grade and are subject to low credit risk. |
| A2 | |
| A3 | |

**Long Term Investments Grades – Standard & Poor's**

| **Agency - Standard & Poor's** | |
|---|---|
| **Rating** | **Definition** |
| AAA | An obligator rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by Standard & Poor's. |
| AA | An obligator rated 'AA' has very strong capacity to meet its financial commitments. It differs from the highest rated obligators only to a small degree. |
| A | An obligator rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligators in higher rated categories. |

**Glossary of Terms**

| | |
|---|---|
| CCLA | Churches, Charities and Local Authority Property Fund |
| CFR | Capital Financing Requirement. The underlying need to borrow to finance capital expenditure. |
| CIPFA | The Chartered Institute of Public Finance and Accountancy. This is the leading professional accountancy body for public services. |
| CLG | Ministry for Housing, Communities and Local Government. This is a ministerial department. |
| DMADF | Debt Management Account Deposit Facility. |
| Funding Circle | Accounts set up to lend money to local and national businesses at competitive rates |
| GDP | Gross Domestic Product. This is the market value of all officially recognised goods and services produced within a country in a given period of time. |
| HRA | Housing Revenue Account. The statutory account to which are charged the revenue costs of providing, maintaining and managing Council dwellings. These costs are financed by tenants' rents. |
| LOBO | Lender's Option Borrower's Option. This is a loan where the lender has certain dates when they can increase the interest rate payable and, if they do, the Council has the option of accepting the new rate or repaying the loan. |
| MIFID II | Markets in Financial Instruments Directive 2014/65/EU. Effective from 1 January 2018. The Councils have met the conditions to opt up to professional status. The Councils will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. |
| MPC | Monetary Policy Committee – A committee of the Bank of England which meets each month to decide the official interest in the UK. It is also responsible for other aspects of the Government's monetary policy framework such as quantitative easing and forward guidance. |
| MRP | Minimum Revenue Provision. Local authorities are required to make a prudent provision for debt redemption on General Fund borrowing. |

| | |
|---|---|
| PWLB | Public Works Loan Board - offers loans to local authorities below market rates. |
| QE | Quantitative Easing. The purchase of Government bonds by the Bank of England to boost the money supply. |
| T Bills | Treasury Bill. A short-term Government Bond. |
| UBS | UBS Multi Asset Income Fund (UK) - a pooled fund |

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**BABERGH AND MID SUFFOLK DISTRICT COUNCILS**

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| **TO: Joint Audit and Standards Committee** | **REPORT NUMBER: JAC/19/14** |
| **FROM: Corporate Manager – Democratic Services** | **DATE OF MEETING: 27 January 2020** |

**JOINT AUDIT AND STANDARDS COMMITTEE FORWARD PLAN**

**Date of Committee – 30 March 2020**

| Topic | Purpose | Lead Officer |
|---|---|---|
| Joint Annual Audit Letter for 2018/19 | For comment and agreement | Corporate Manager – Financial Services |
| Certification of Claims and Returns Annual Report 2018/19 | To note | Ernst and Young |
| Joint Audit Plan 2018/19 | To note | Ernst and Young |
| Managing the Risk of Fraud and Corruption - Annual Report | For comment and agreement | Corporate Manager – Internal Audit |
| Internal Audit Plan 2019/20 | For comment and agreement | Corporate Manager – Internal Audit |
| External Audit Interim Update Report 2018/9 | To note | Ernst and Young |
| Constitutional Update | To agree any Constitutional amendments as reported by the Monitoring Officer | Monitoring Officer |
| Complaints Monitoring report | To note | Monitoring Officer |

**Date of Committee – 11 May 2020**

| Topic | Purpose | Lead Officer |
|---|---|---|
| Constitutional Update | To agree any Constitutional amendments as reported by the Monitoring Officer | Monitoring Officer |
| Complaints Monitoring report | To note | Monitoring Officer |