Public

To:
All members of the Audit Committee

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Date: 13 October 2017

Supplementary Agenda

Audit Committee - Tuesday, 17 October 2017

Dear Councillor

I enclose the following item which was marked 'to follow' on the agenda for the Audit Committee meeting to be held on Tuesday, 17 October 2017:

Yours sincerely

Dan Skerten
Corporate Governance

To the members of the Audit Committee

Councillors:

M.J. Madams (Chairman) J.G. Kavanagh H.R.D. Williams

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D. Patel (Vice-Chairman)	B.B. Spoor
T.J.M. Evans	H.A. Thomson

Audit Committee

17 October 2017

Title	External Audit Report on the 2016/17 Audit and Statement of Accounts		
Purpose of the report	To note		
Report Author	Terry Collier		
Cabinet Member	Councillor Howard Williams	**Confidential**	No
Corporate Priority	Financial Sustainability		
Recommendations	The Audit Committee is asked to note the External Auditor's 2016/17 audit report (Appendix A). That the Chief Finance Officer and Chairman of the Committee sign the Statement of Accounts. That the Audit Committee notes the draft officer responses to the recommendations made in Appendices 1 and 2 of the Auditors report.		
Reason for Recommendation	The Committee has the delegated authority to sign off the audited Statement of Accounts		

1. Key issues

1.1 External auditors appointed by the National Audit office, KPMG, are required, in accordance with international auditing standards, to annually report to the Council on:

- Their opinion on the Statement of Accounts
- Any uncorrected items in the Statement of Accounts
- Qualitative aspects of the Council's accounting practices and financial reporting
- The Annual Governance Statement
- Their annual Value for Money conclusion

1.2 They also report annually on their audit of the Council's accounting and internal control systems.

1.3 The KPMG report on the 2016/17 audit is attached as Appendix A Financial Statements

1.4 The final version of the Statement of Accounts, reflecting the amendments required by the external auditors, is attached as Appendix B. It has been a challenging Statement of Accounts process this year both for the Accountancy team and for the auditors. This is largely as result of the team losing both the Deputy Chief Accountant and then the Chief Accountant and some issues with the interim cover brought in. The Council now has in place an experienced permanent chief accountant and a permanent deputy chief accountant with a good range of technical accounting experience. The Chief Finance Officer, working with the Chief Accountant and Deputy Chief Accountant will ensure that lessons are applied from this year's process and that there is a smooth close down process for 2017-18.,

1.5 KPMG report that the Annual Governance Statement is Satisfactory.

1.6 KPMG set out recommendations on improvements to be made for future processes which are set out on pages 14 to 19 along with the management responses.

Value for Money

1.7 As result of the additional work generated to review the arrangements and impact of the large BP site acquisition KPMG are still concluding their work reviewing to confirm that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Options analysis and proposal

2.0 That the Deputy Chief Executive in his role as the statutory Chief Financial Officer, and the Chairman of the Audit Committee sign the draft letter of representation.

2.1 That the Committee note the recommendations made in Appendices 1 and 2, of the auditor's report and draft responses made by Officers. Progress on implementation will be reported back future meetings of the Committee

3 Financial implications

There are none.

4, Other considerations

1.1 There are none.

5 Timetable for implementation

As per the responses set out to the recommendations.

Background papers: None

Appendices: Appendices:

A- KMPG Report
B- Audited Statement of Accounts 2015/16

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External Audit Report 2016/17

Spelthorne Borough Council

Year ended 31 March 2017

17 October 2017

Content

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This report is addressed to Spelthorne Borough Council (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. PSAA issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on PSAA's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Jo Lees, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (0207 694 8981, andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Important notice

This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to Spelthorne Borough Council (the Authority) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Authority. External auditors do not act as a substitute for the Authority's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Basis of preparation: We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

Purpose of this report: This Report is made to the Authority's Audit Committee in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report or for the opinions we have formed in respect of this Report.

Limitations on work performed: This Report is separate from our audit opinion and does not provide an additional opinion on the Authority's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit: Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Audit Committee meeting. The following work is ongoing:

— Financial statements audit:

- NDR balances testing;
- Accounting treatment of sale and leaseback transaction;
- Review of journals created since draft accounts produced;
- Whole of Government Accounts (WGA) audit;
- Casting and consistency check of latest Authority provided financial statements;
- Any subsequent finalisation points from Audit Manager and Director review; and
- Signed management representation letter.

— Value for money conclusion:

- Our work in this area is still ongoing.

Summary

Financial statements audit – see section 2 for further details
We are in the process of completing our audit of the financial statements. We have read the Narrative Report and reviewed the Annual Governance Statement (AGS). Our key findings are: • There are no unadjusted audit differences, explained in section 2 and appendix 3. • There are 12 adjusted audit differences. These are shown in appendix 3. • We agreed presentational changes to the accounts with Finance, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. • In additional to our routine requests we are asking for specific management representations, which are explained in section 2. • We will report that your AGS complies with delivering Good Governance guidance issued by CIPFA / SOLACE in April 2016. • We reviewed the Narrative Report and suggested a number of presentational amendments. • We did not receive any queries or objections from local electors this year.
Value for money – see section 3 for further details
Our VFM audit work is still ongoing.

Summary

Other matters

ISA 260 requires us to communicate to you by exception ‘audit matters of governance interest that arise from the audit of the financial statements’ which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions / objections, opening balances, etc.).

The draft accounts published by the Authority on 17 July 2017 had not been adequately prepared or reviewed by an appropriate member of the Authority’s finance team.

Due to staff turnover, both of the accounts preparers were both new joiners and did not have historical knowledge of the Authority’s systems or operations in preparing the accounts. In addition, Furthermore there was limited evidence of independent review of the accounts by a senior member of the team before they were presented for audit.. Significant personnel changes have occurred across the Authority’s financial team with further changes anticipated. As a result, there is increased risk around succession planning, retaining corporate memory and maintaining business as usual at the Authority.

In addition, during our testing of journals we identified issues relating to the way some transactions were processed and evidenced during the financial year 2016/17.

We have raised three high (red) priority recommendations in relation to the issues described above. We have made a total of five new recommendations as a result of our 2016/17 work. We also identified two prior year recommendations that require further action by Management. All recommendations are shown in appendix 1.

We undertake other grants work for the Authority that does not fall under the PSAA arrangements. The status of our grants work is summarised below:

- Housing benefits certification: work is expected to be performed and completed in October and November 2017.

The fee for this work is explained in section 2 and appendix 4.

Financial statements audit

We audit your financial statements by undertaking the following:

	Accounts production stage		
Work Performed	**Before**	**During**	**After**
1. Business understanding: review your operations	✓	✓	–
2. Controls: assess the control framework	✓	–	–
3. Prepared by Client Request (PBC): issue our prepared by client request	✓	–	–
4. Accounting standards: agree the impact of any new accounting standards	✓	✓	–
5. Accounts production: review the accounts production process	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures	–	✓	✓
7. Representations and opinions: seek and provide representations before issuing our opinions	✓	✓	✓

We have completed the first six stages and report our key findings below:

1. Business understanding	In our 2016/17 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section.
2. Assessment of the control environment	We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found weaknesses in financial controls on which we seek to place reliance, such as in the segregation of duties required for inputting and approving journal entries; suitable review of the draft financial statements prior to presentation for audit; and ensuring resilience within the Authority's finance team following staff changes. We have made three high priority recommendations relating to these issues. We have also raised two medium priority recommendations in relation to the external surveyor's valuation work and ensuring that the Authority has fixed asset registers in place with respect to IT equipment, intangible assets and heritage assets. We believe that these recommendations (see appendix 1) will strengthen your control environment. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work.
3. Prepared by client request (PBC)	We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with the Interim Chief Accountant, and this was issued as a final document to the finance team. Due to delays in receiving information and significant staff turnover within the Authority's finance team we experienced difficulty in obtaining documentation to corroborate accounts balances and evidence for disclosures made. Audit trails and evidence for transactions were not consistently clear. As a result of these issues we were required to delay the start of our final onsite work on two occasions. We have raised a high priority recommendation in appendix 1 around the resilience of the finance team.

Financial statements audit

4. Accounting standards	We work with you to understand changes to accounting standards and other technical issues. For 2016/17 these changes related to: • Updates to the presentation of the Comprehensive Income and Expenditure Statement and the Movements in Reserves Statement and the introduction of the new Expenditure and Funding Analysis; and • Amended guidance on the Annual Governance Statement.
5. Accounts Production	We received draft accounts by 30 June 2017 in accordance with the deadline. Following initial review of the draft accounts, a number of amendments to figures and disclosure notes were required. Adjustments made by the Authority since the draft accounts were produced are shown at appendix 3. We have raised two high priority recommendations relating to: the financial accounts production and review; and to building resilience into the finance function to enable it to continue to operate effectively when staff leave the organisation. Management should consider these recommendations as a priority to ensure that the draft 2017/18 financial statements are completed to a sufficient level of quality. There is significant scope to improve the financial reporting process through putting in place additional reviews of reconciliations and finance working papers, particularly those that are new areas for the Authority and/or which involve key areas of judgement. This is of particular significance given the deadline for completion of the 2017/18 accounts audit has been brought forward to 31 July 2018. We will fully debrief with Finance to share views on the 2016/17 accounts audit in order to build in efficiencies for the 2017/18 audit process.
6. Testing	We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. During the audit we identified presentational changes to the accounts along with audit adjustments which we have presented in appendix 3.
7. Representations	You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We will provide a draft of this representation letter to the Deputy Chief Executive. We draw attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking Management to provide specific representations on: • The accuracy of the balance sheet valuation as at 31 March 2017 of the pension liability due to the LGPS Triennial Valuation; • The accuracy of valuations as at 31 March 2017 attributed to Land and Buildings included within the financial statements; and • The completeness and accuracy of disclosures in relation to Knowle Green Estates Ltd, the Authority's subsidiary company set up in May 2016. We are not anticipating any furtheradditional areas of representation will be requested

Financial statements audit

ISA 260 requires us to communicate to you by exception ‘audit matters of governance interest that arise from the audit of the financial statements’ which include:

— Significant difficulties encountered during the audit;

— Significant matters arising from the audit that were discussed, or subject to correspondence with Management;

— Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

— Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, opening balances, public interest reporting, questions/objections, etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority’s 2016/17 financial statements.

To ensure that we provide a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over changes to the pension liability, valuation of land and buildings and the sale and leaseback transaction with BP, which were identified as significant risks within our audit plan and which will form a part of our audit opinion;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Significant changes in the pension liability due to LGPS Triennial Valuation	Net liability arising from defined benefit obligation: CY £34,768K, PY £44,129K	We agreed data provided by the Authority to the actuary, back to the relevant systems and reports from which it was derived. We also liaised with Grant Thornton, the auditors of the Pension Fund, where this data was provided by the Pension Fund on the Authority's behalf, to check the completeness and accuracy such data. No exceptions were identified.
Valuation of Land and Buildings	PPE: CY £46,346K, PY £44,960K	We reviewed the valuation methodology adopted by the Authority's valuer, to confirm that it is in accordance with RICS principles and the Authority's accounting policies for Property, Plant and Equipment and Investment Properties, and the valuation instructions provided. We reviewed the basis on which the valuation has been carried out to ensure it is in line with The Code of Practice on Local Authority Accounting in the United Kingdom 2016-17. We performed testing to ensure that revaluation gains and losses have been correctly reflected in the financial statements. We assessed the independence and objectivity of the surveyors and the terms under which they were engaged by Management. We undertook appropriate work to understand the basis upon which any impairments to land and buildings have been calculated. We engaged KPMG property experts to undertake an assessment of the revaluations carried out by the Authority's external valuers. Whilst we are satisfied that valuations included within the financial statements are unlikely to be materially misstated, we have identified some areas for improvement in this process at Appendix 1.
Sale leaseback arrangement with British Petroleum	Investment Properties: CY £392,145K, PY £215K Long term borrowing: CY £405,764K, PY £nil	The below work is ongoing: We vouched the value, transaction costs and date of the acquisition to sale and purchase agreements and bank statements. We inspected title deeds to assess whether the entity has legal title to the asset. We assessed the reasonableness of the valuation model used and the key assumptions applied, including the sensitivity of these assumptions. We confirmed that the accounting treatment is appropriate based on the entity's accounting policies and we reviewed the disclosures related to the sale leaseback agreement to ensure that they are in line with the Code.

Financial statements audit

Other areas of audit focus

We identified one other area of audit focus. This is not considered to be a significant risk as it is less likely to give rise to a material error. Nonetheless this is an area of importance where we carry out audit procedures to ensure that there is no material misstatement.

Other areas of audit focus	Summary of findings
Disclosures associated with retrospective restatement of CIES, EFA and MiRS	We assessed how the Authority has actioned the revised disclosure requirements for the CIES, MiRS and the new EFA statement as required by the Code. We validated the restated numbers and associated disclosures for accuracy, correct presentation and compliance with applicable Code guidance. No issues were identified as part of our work.

Financial statements audit

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
Fraud risk from revenue recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebutted this risk in our External Audit Plan 2016/2017 and did not incorporate specific work in relation to this over and above our standard fraud procedures.	Since we have rebutted this presumed risk, there has been no impact on our audit work.
Fraud risk from management override of controls	Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. We have identified a risk of management override in relation to the processing of journal entries within the accounting system that is specific to this audit.	During our testing of journals we identified issues relating to the way some journal transactions were processed and evidenced during the financial year 2016/17. We identified instances where the segregation of duties control had failed and where evidence for transactions could not be provided. The Authority has concluded that it is not possible to recreate the evidence to support these journals. The individuals who processed and/or approved the journals have now left the Authority and have left no written record of why they were processed and the line descriptions are often inadequate. We have raised a high priority recommendation in relation to these issues in appendix 1.

Financial statements audit

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Judgements in your financial statements

We consider the level of prudence in key judgements in your financial statements. We summarise our view below using the following scale:

Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Provisions (excluding NDR)	3	4	£150k (PY:£69k)	We consider the provision disclosures to be balanced. The prior year rating of 4 was in relation to provisions in totality (including NDR).
NDR provisions	4	4	£1.6m (PY:£1.9m)	In 2013/14, local authority funding arrangements meant that the Authority is now responsible for a proportion of successful rateable value appeals. The Authority has provided for a fixed percentage of outstanding appeals in accounting for the potential liability, based on historical appeals success rates. The level of NDR provision has decreased from the prior year as more appeals become finalised. We consider the related disclosure to be proportionate, though slightly optimistic in line with the prior year.
Pension liability	3	3	£44.1m (PY:£34.8)	The pension liability has been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. discounted to present values. We have reviewed the accounting entries for pensions supplied by the Surrey Fund actuary, Hymans Robertson and consider the disclosures to be appropriate.

Financial statements audit

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Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Property, Plant and Equipment	4	3	£46.3 (PY:£44.9m)	A full valuation took place in 2014/15 before the adoption of a 5 year rolling valuation programme in 2015/16. 20% of land and buildings were revalued in the current year with no material movements noted. We considered the revaluation basis to be appropriate. The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The Authority has utilised an external valuation expert, Kempton Carr Croft to provide valuation estimates. We reviewed instructions provided and deem that the valuation exercise is generally in line with the instructions. We have a recommendation to strengthen this process at Appendix 1.
PPE: asset lives	3	3	No changes noted	Vehicles, plant, furniture and equipment is allocated over the useful life of the asset as defined by a suitable qualified officer. Our work on PPE has not indicated any significant losses on disposal or assets no longer in working order.
Debtors provisioning	2	2	£1.4m (PY:£1.9m)	The council had opening balances of £1.4m and has increased its provision by £0.5m This is a result of an increase in the outstanding business rates and housing benefit overpayments. We consider the provision disclosures to be acceptable, though this remains cautious.

Financial statements audit

Narrative Report of the Authority

We have reviewed the Authority's Narrative Report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Queries from local electors

We did not receive any questions or objections from members of the public this year.

Audit certificate

In order for us to issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year. We are not in a position to issue our audit certificate until the areas listed on page 3 have been resolved.

Whole of Government Accounts (WGA)

We will undertake our work relating to review of the WGA consolidation pack once our audit of the financial statements is complete.

Other grants and claims work

We undertake housing benefits certification work for the Authority that does not fall under the PSAA arrangements. Work on this claim is currently underway at the date of this Report.

Audit fees

Our fee for the audit was £48,128 excluding VAT (£48,128 excluding VAT in 2015/16). This fee was in line with that highlighted in our audit plan approved by the Audit Committee in February 2017.

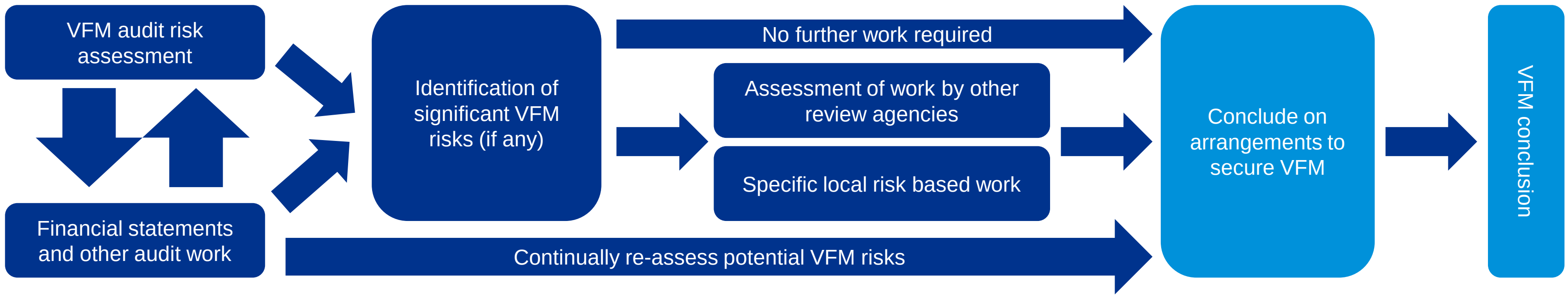
As a result of the delays in undertaking our audit work and the complexity of our VFM work relating to the sale and leaseback of the BP campus, we have incurred overruns on our audit costs. We will agree an additional fee with the Authority and the PSAA.

Our work on the certification of Housing Benefits (BEN01) is not yet complete. The planned scale fee for this is £7,568 excluding VAT (£7,102 excluding VAT in 2015/16).

We have not completed any additional non-audit work at the Authority in the 2016-17 year.

Value for money

For 2016/17 our value for money (VFM) work follows the NAO's guidance. It is risk based and targets audit effort on the areas of greatest audit risk. Our methodology is summarised below.



Significant risk based VFM audit work

Our VFM audit work is still ongoing. As well as the overall arrangements that the Authority has in place, we are focusing on the sale and leaseback of the BP site, given the significance and materiality of this transaction. We will provide an updated report to the Audit Committee upon conclusion of our work.

Recommendations raised and followed up

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Recommendations raised as a result of our financial statements work in the current year are as follows:

Priority rating for recommendations					
❶	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
1	❶	**Financial statements production** The draft accounts published by the Authority on 17 July 2017 had not been adequately prepared or reviewed by an appropriate member of the Authority's finance team. Due to staff turnover, both of the subsequent accounts preparers were new joiners and did not have historical knowledge of the Authority's systems or operations to prepare the accounts. There was limited evidence of independent review of the draft accounts. As a result, the accounts did not appropriately reflect significant transactions that took place during the year, such as the acquisition of the BP campus or the drawdown of over £400m in loans. In addition, we identified a significant volume of presentational/disclosure errors, material inconsistencies within the accounts, and departures from the CIPFA guidance notes. This caused significant delays in the audit timetable, and we were required to postpone our work mid-audit and reschedule the remaining fieldwork until the accounts had been corrected. We recommend that the financial statements are prepared by individuals with sufficient knowledge and experience of the organisation. Following preparation, the accounts should be independently reviewed by a senior officer and any errors or discrepancies identified should be recorded in advance of the onsite audit period. The Authority must strengthen its financial reporting in order to put it in a good position to meet the new 2017/18 deadline of 31 July. Additional reviews of working papers, particularly those that involve key areas of judgement, should be made a matter of routine.	**Management Response:** As the report highlights several key members of the Accountancy team left during the accounts process and there were issues with an interim individual. The Council now has in place a permanent Chief Accountant with many years experience of closing of accounts (and indeed has been involved recently in piloting CIPFA's "Big Red Button" process for speeding up accounts closure. We also now have in place a permanent Deputy Chief Accountant with a broad range of technical accounting experience. The Chief Accountant and Chief Finance Officer are undertaking a fundamental review of the close down process and will ensure that it is speeded up and additional review is built into the process to be completed before Christmas 2017. Other members of the team are being provided with additional training. The Accountancy team will also draw on its Treasury Management advisers to review relevant technical (financial instruments etc.) notes and treatment during the closure process. **Action by:** Chief Finance Officer / Chief Accountant **Due date:** 23 December 2017

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
2	❶	**Resilience of Authority finance team** Significant personnel changes have occurred across the Authority's financial team with further changes anticipated. As a result, there is increased risk around succession planning, retaining corporate memory and maintaining business as usual at the Authority. We recommended that the Authority develops a succession and stability plan to ensure that the finance team is resilient to personnel and structural changes and that stability is maintained when individuals leave. The Authority should also consider creating practical strategies that Management can use to engage and retain talent within its finance team.	**Management Response:** As per response to Recommendation 1, we are undertaking a training plan to develop the skills and experience of the team and to build in more experience. We are examining options to help retain talent within the team. The Chief Accountant will be reviewing succession planning and looking to ensure that there is greater resilience in the accountancy team. **Action by:** Chief Finance Officer / Chief Accountant **Due date:** 23 December 2017

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Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
3	❶	**Journal approvals and segregation of duties** During our testing of journals we identified issues relating to the way some transactions were processed and evidenced during the financial year 2016/17. The Authority has concluded that it is not possible to recreate the evidence for why these journals were processed. The individuals who processed and/or approved the journals have now left the Authority and have left no written record of why they were processed and the line descriptions are often inadequate. We recommend that for all journal entries, the Authority ensures: ▪ All journal entries are approved by an individual separate from the person who uploads them; ▪ Either the Deputy Chief Accountant or the Chief Accountant approves all journals over £20,000 in value; ▪ A meaningful description is provided for each journal entry stating the reason why the journal was necessary and what the journal represents in accounting terms; ▪ Adequate supporting evidence is kept on file for each journal raised; and ▪ Accountancy team Management regularly review the files to monitor compliance and raise with individuals through one to ones or the annual appraisal system if there are recurring issues.	**Management Response:** Chief Accountant will provide a quarterly review to Chief Finance Officer to confirm compliance. Action by Chief Accountant. **Action by:** Chief Finance Officer / Chief Accountant **Due date:** Now implemented

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
4	2	**Valuation of land and buildings** As part of our procedures to provide assurance over the valuation of land and buildings within the financial statements, a review of the year end Valuation Report produced by the external valuer and commissioned by the Authority was undertaken as well as a review of the Authority processes and controls in relation to the valuation exercise. From this review, we have identified a number of detailed recommendations to strengthen the approach that the Authority takes to the valuation of its land and buildings and have shared these with the Finance Team. This includes demonstration of the consideration and challenge of the assumptions applied by the external valuer and ensuring a robust data trail underpins the valuations applied to the accounts. We recommend that the Finance implement our action plan ahead of the next valuation exercise.	**Management Response:** Agreed. **Action by:** Chief Accountant **Due date:** 1 February 2018
5	2	**Fixed asset registers** During our testing of fixed assets we were unable to obtain Fixed Asset Registers in relation to IT equipment, intangible assets and heritage assets. Without a complete listing, the Authority is unable to effectively manage and report on the assets it holds. We recommend the Authority conducts an exercise to produce a full listing of assets held within the IT equipment, intangible and heritage asset categories. All assets should be assessed for impairment to ensure that the valuations held within the financial statements are materially correct.	**Management Response:** We will conduct an exercise to produce a full listing of IT equipment. Whilst we have in recent years reviewed heritage assets we will conduct further review. **Action by:** Chief Accountant **Due date:** 31 March 2018

Recommendations raised and followed up

We have followed up the recommendations from the prior year's audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
4	2	2

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at October 2017
Financial statements				
1	2	**Valuation Frequency and Timing** While the Authority is moving to a programme of rolling valuation from 2015/16, up until this point the Authority obtained a full valuation of its land and buildings portfolio once every 5 years on 1 April for the financial year in which the valuation was accounted for. We recommend that the Authority should seek to obtain valuations as at 31 March to minimise the risk of potentially significant changes in valuation during the course of the financial year, either impairments or upwards movements. Due to the new policy of revaluing some assets each year this creates a risk that significant asset changes for those assets not valued in that year are not recorded in the intervening period, potentially leading to material movements at the end of the revaluation cycle. As a matter of course we would recommend that as part of its annual reporting that management formally communicate to members their in-year assessment of any impairment or potential upward valuation of assets where those assets have not been subject to valuation at year end. This is particularly important where the Authority elects to continue to obtain valuations dated 1 April.	**Accepted** We will change the valuation dates to 31 March. As part of the formal annual reporting management will report to councillors their in-year assessment of any impairment or upward revaluation of assets where those assets have not been subject to valuation at year end. Action by: Principal Accountant and Head of Asset Management Deadline: 30 June 2016 As part of the revaluation rolling programme, the valuers were instructed to value the properties which were due on the rolling programme valuation list for 2015/16 to be valued at 31 March 2016. Management has not reported to councillors on the in-year assessment of impairment and upward revaluation where those assets have not been subject to valuation at year end. Specific consideration should be given to management reporting to councillors in 2016/17. Action by: Principal Accountant and Head of Asset Management Revised deadline: 30 June 2017	**Management Response:** Action agreed outstanding. **Action by:** Chief Accountant in partnership with Commercial Property Manager **Due date:** 1 March 2018

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at October 2017
Financial statements				
2	❸	**Timeliness of reconciliations** During our testing of payroll controls it was noted that reconciliations are not being prepared and reviewed in a timely manner. During our testing of cash, it was noted that reconciliations were not performed for nine months. The main cause is due to the Council not having a contingency plan in place when staff are on sick leave or unavailable. We recommend that the Council implement a robust plan to ensure that there is sufficient resilience within the finance team to cope with short term absences.	**Accepted** We will review our procedures around preparing and reviewing the reconciliations that are preformed and will look at the resilience issues within the team to cover short term absences. The problems around the testing of cash were not as a result of staff being unavailable or on sick leave. Date: 31st December 2016	We reviewed two payroll reconciliations from the 2016/17 year and noted that neither had been reviewed within a month of the reconciliation being produced. We have therefore re-raised this recommendation to Management. **Management Response:** Action agreed outstanding. Sickness absences have impacted. **Action by:** Deputy Chief Accountant **Due date:** 30 November 2017

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects:

- Material errors by **value** are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements;
- Errors which are material by **nature** may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff; and
- Errors that are material by **context** are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2016/17, presented to you in February 2017.

Materiality for the Authority's accounts was set at £1.4 million which equates to around 2% of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work. Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. *ISA 450* requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £70K for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Audit differences

Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are ‘clearly trivial’, which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor’s report, individually or in aggregate. As communicated previously with the Audit Committee, details of all adjustments greater than £70K are shown. There are no unadjusted audit differences.

Appendix 3

Audit differences

Adjusted audit differences

To assist the Audit Committee in fulfilling its governance responsibilities we present in the tables below a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Authority adjusted audit differences (£'000)						
#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
1					Dr Revaluation Reserve £12,356k Cr Capital Adjustment Account – Impairment £12,356k Dr General Fund – Impairment £12,356k Cr General Fund Movement – Impairment £12,356k	Recode revaluation previously coded to impairment following SBC fixed asset review.
2			Dr Investment Properties - Capital Expenditure £2,478k Cr PPE Land & Buildings - Capital Expenditure £2,478k			Reclassification of Fixed Asset expenditure to correctly account for Harper House investment property following SBC fixed asset review.

Audit differences

Authority adjusted audit differences (£'000)						
#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
3	Dr Impairment £13,637k		Cr Investment Properties – Impairment £13,637k		Dr Revaluation Reserve £13,637k Cr General Fund Movement - Impairment £13,637k	Investment Properties Impairment correction following SBC fixed asset review.
4			Dr Investment Properties - Impairment £25,993k Cr Investment Properties - Revaluation £25,570k Cr PPE - Revaluation £423k			Reclassify Impairment to Revaluation following SBC fixed asset review.
5	Dr Impairment £450k		Cr PPE Vehicles, Plant & Equipment – Non Enhancing expenditure £450k		Dr Capital Adjustment Account – Impairment £450k Cr General Fund Movement – Impairment £450k	Write back of Capital to Revenue following SBC fixed asset review.

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Audit differences

Authority adjusted audit differences (£'000)						
#	**Income and expenditure statement**	**Movement in reserves statement**	**Assets**	**Liabilities**	**Reserves**	**Comments**
6	Cr Impairment £2,943k		Dr PPE Land & Buildings – Revaluation £1,836k		Dr General Fund – Impairment £2,941k Dr Revaluation Reserve – Revaluations £1,088k Cr Capital Adjustment Account – Impairment £2,922k	Corrections to Revaluation gains/losses and impairments for Land & Buildings following SBC fixed asset review.
7					Dr Capital Adjustment Account – Impairment £25,993k Cr Revaluation Reserve £25,993k	Transfer of Investment price Impairment following SBC impairment review.
8			Dr PPE Land & Buildings – Depreciation £732k		Cr Revaluation Reserve £732k	Correction to revaluation depreciation on PPE following SBC fixed asset review.
9			Dr PPE Vehicles, Plant & Equipment – Revaluation £423k Cr PPE Land & Buildings – Revaluation £423k			Transfer Bugle Returns Public House valuation within PPE following SBC fixed asset review.

Appendix 3

Audit differences

Authority adjusted audit differences (£'000)						
#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
10			Cr PPE Land & Buildings – Disposals £2,986k		Dr Capital Adjustment Account - Disposals £2,986k	Adjustments related to Harper House and Knowles Green Estates Limited (KGEL) following SBC fixed asset review: - Reclassification of Harper House - Donated Asset to KGEL - De recognition of asset.
11			Dr Long Term Investments £2,001k Cr Short Term Investments £2,001k			Balance sheet allocation correction between short term and long term investments following SBC accounts review.
12			Dr Short Term Payables £75k Cr Short Term Receivables £52k Cr Cash and Cash Equivalents £22k Cr Provisions £1k			Balance sheet allocation correction between receivables/payables/cash following SBC accounts review.
Total	**Dr £11,144k**		**Cr 14,505k**		**Dr £3,361k**	**Total impact of corrected audit differences**

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Audit independence

This appendix communicates all significant facts and matters that bear on KPMG LLP's independence and objectivity and informs you of the requirements of *ISA 260 (UK and Ireland) Communication of Audit Matters to Those Charged with Governance.*

Integrity, objectivity and independence

We are required to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and audit team. We have considered the fees paid to us by the Authority for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies all KPMG LLP audit partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings. Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews. We would be happy to discuss any of these aspects of our procedures in more detail. There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed.

Audit matters

We are required to comply with *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* when carrying out the audit. ISA 260 requires that we consider the following audit matters and formally communicate them to those charged with governance:

- Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement lead and audit staff;
- The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements;
- The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Authority's financial statements;
- The potential effect on the accounts of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
- Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the Authority's financial statements;
- Material uncertainties related to events and conditions that may cast significant doubt on the Authority's ability to continue as a going concern;
- Disagreements with Management about matters that, individually or in aggregate, could be significant to the Authority's financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter;
- Expected modifications to the auditor's report;

Audit independence

- Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involving management; and
- Any other matters agreed upon in the terms of the audit engagement.

We continue to discharge these responsibilities through our attendance at Audit Committees, commentary and reporting and, in the case of uncorrected misstatements, through our request for management representations.

Auditor declaration

In relation to the audit of the financial statements of Spelthorne Borough Council for the financial year ending 31 March 2017 we confirm that there were no relationships between KPMG LLP and Spelthorne Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We summarise below the non-audit services that we have provided, the fee, the potential threats to auditor independence and the associated safeguards in place.

Description of non audit services	2016-17 fees	Potential threat to auditor independence	Associated safeguards in place
Housing Benefits claim certification	£7,568, excluding VAT	Audit of the annual Housing Benefits return. This is a standard return for which an agreed upon set of procedures is completed. There is no impact on the financial statements audit.	None required.
Total fees	**£7,568, excluding VAT**		
Total fees as a % of the external audit fees	15.7%		

We have considered the ratio of audit to non-audit fees and as required by the APB Ethical Standards. The principal threat which arises from fees from non-audit services which are large in absolute terms relative to the audit fee is the perception of self-interest and advocacy. In this regard, we do not consider that the above ratio creates such a self-interest or advocacy threat since the absolute level of non-audit fees is not significant to our firm as a whole and neither the audit partner nor members of the audit team are incentivised on, or rewarded in respect of, the provision of non-audit services to you. We believe that the question of perception is best addressed through appropriate disclosure as to use of the auditor for the provision of non-audit services in the Authority's annual report and accounts.

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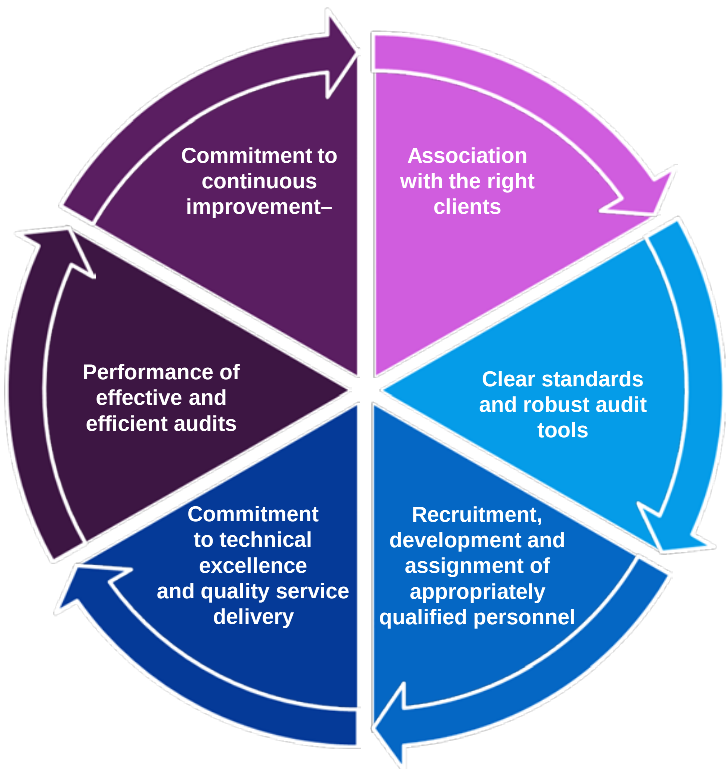
Appendix 5

Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management



- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

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Spelthorne Borough Council

Statement of Accounts 2016-2017

T Collier
Chief Finance Officer

Financial Statements and Annual Report

Contents

Narrative Statement

By the Chief Finance Officer

Spelthorne Borough Council is one of the eleven Local Councils in the county of Surrey. It is the northernmost local government district in Surrey. The Borough covers 19.75 square miles in North Surrey and is a mix of urban and non-urban environments with 17% of the Borough made up of water and 12 miles of River Thames frontage. It combines a vibrant economy with an attractive environment.

The total population of Spelthorne according to the 2011 census is 95,598, which is a 5.8% increase since the last Census in 2001. There are 39,512 households with the average household size being 2.4 people.

Our population continues to age with 15% of residents being over 65 years of age.

Councils adjacent to Spelthorne include Runnymede and Elmbridge to the South, Windsor and Maidenhead and Slough to the west and the London Boroughs of Hounslow, Hillingdon and Richmond upon Thames to the north and east.

The urban part of the Borough comprises the towns of Ashford, Laleham, Shepperton, Staines upon Thames, Stanwell and Sunbury on Thames.

65% of Spelthorne is within the Green Belt and includes 18 Parks, embanked water retaining reservoirs, narrow buffering land being arable farming and horse grazing meadows with sheep grazing on the reservoir embankments.

The local economy comprises over 4500 business including large employers like BP, Wood Group Kenny and Shepperton Studios.

The Borough is twinned with the French town of Melun and Grand Port Mauritius.

Spelthorne Borough Council is a multifunctional and complex organisation. Its policies are directed by the Political Leadership and implemented by the Corporate Management Team.

Political Structure in the 2016/17 Municipal Year

Spelthorne has 13 wards represented by 39 Councillors. The Council last held all out elections on the 7 May 2015 and the current political make-up of the council is:

Conservative Party 31
Ashford & Staines Residents Group (ASRG) 4
Liberal Democrat Party 3
Labour Party 1

The Council has adopted the Leader and Cabinet model as its political management structure arising from the Local Government and Public Involvement in Health Act 2007. The Leader of the Council has responsibility for the appointment of Members of the Cabinet, the allocation of Portfolios and the delegation of Cabinet Functions. Cabinet Members are held to account by a system of scrutiny which is also set out in the Constitution. Scrutiny of Cabinet decisions for 2016/17 has been undertaken by either the:

- Overview and Scrutiny Committee; or the
- Audit Committee.

The current Leader, Cllr Ian Harvey, has been leader for the past 18 months with the deputy Leader, Cllr Tony Harman.

Management Structure

Supporting the work of councillors is the organisational structure of the Council headed by the Corporate Management Team, led by the Chief Executive Mr Daniel Mouawad.
The Corporate Management team consists of:
•Chief Excutive
Deputy Chief Executive / Chief Finance Officer
• Deputy Chief Executive

The Corporate Management Team is responsible for the delivery of Council services, directing improvements and future plans for Spelthorne. It provides managerial leadership and supports Councillors in:
• developing strategies;
• identifying and planning resources;
• delivering plans; and
• reviewing the Council's effectiveness with the overall objective of providing excellent services to the public.

The Corporate Management Team are supported by the following Group and service heads

• Group Head of Regeneration and Growth
• Group Head of Community and Wellbeing
• Group Head of Commissioning and Transformation
• Group Head of Neighbourhood Services
• Head of Corporate Governance (Monitoring Officer)
• Deputy Head of Finance and Customer Relations

The financial year 2016-17 was another challenging financial year for local government with further reductions in Revenue Support Grant. The Council broadly maintained collection rates at the same level as for the previous year achieving 98.5% for Council Tax.

Whilst the national economy was recovering in 2016-17, the Council faced further funding pressures and service pressures in areas such as homelessness. Despite these it is pleasing to see that the Council outturn was within budget. A key factor in the net factor in the net significant underlying surplus for the year was the acquisition by the Council of the bulk of the site in September 2016 and the "South West Corner" in December 2016 for a combined sum approaching £400m. The BP site will provide a long term ongoing revenue stream (net of capital financing and setting aside sums to cover supervision, refurbishment and void risks) of approximately £4m per annum to the Council available to support the provision of services to our residents. This income stream will help offset the impact of disappearing general revenue grant support from the Government. As such the acquisition is consistent with the Council's "Towards a Sustainable Future" of looking to generate additional sustainable income streams.

Whilst BP have been located at the site for 100 years and show every intention of remaining long time clearly this was a major acquisition by the Council and we undertook extensive due diligence around the legal and property issues, using appropriate professional advisers, relating to the acquisition and putting in place a sale and leaseback agreement with BP. Given the extensive understanding of the site the Council has of the site which it has gained over the years through it being located within the Borough, the very high covenant strength of the tenant and the quality of the site the Council believes that the acquisition represents a sensible level of risk. The acquisition gives the Council control over a key economic asset located within the Borough close to the M25 and M3, Heathrow and near to a planned Crossrail 2 station. Clearly the acquisition of the site has a significant impact on the shape of the Council's accounts particularly the Balance Sheet on both the Assets and Liabilities sides.

The changes the Council made to its Investment Strategy back in 2012-13 continued to bear fruit in 2016-17, with the diversified policy resulting in £9.5m of pooled funds (backed by equities, assets or corporate bonds) returning on average just over 5.18% and making approximately £1.7m capital appreciation since inception.

The Statement of Accounts is presented in accordance with the Code of Accounting Practice on Local Council Accounting in the United Kingdom 2016-17 as required by the Accounts and Audit Regulations 2013.

The purpose of the Statement of Accounts is to give electors, other local taxpayers, councillors, employees and other interested parties, clear information about the Council's finances – what local services have cost, how the Council pays for them and what the assets and liabilities are at the year end. The objective is to give a 'true and fair' view of the financial position and transactions of the Council.

The following paragraphs provide a brief explanation of the statements which make up the Statements of Accounts.

The Statement of Accounts' core statements consist of the following:

- Movement in Reserves Statement (page 12)
- Comprehensive Income and Expenditure statement (page 13)
- Balance Sheet (page 14)
- Statement of Cash Flows (page 15)
- Expenditure Funding Analysis (page 29)

The **Movement in Reserves Statement** (page 12) 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 deficit for 2016-17 on the provision of services (£31.927m) shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. The surplus/deficit figures are different from the statutory amounts required to be charged to the General Fund balance for council tax setting purposes.

The net decrease before transfers to/from earmarked reserves is £0.979m (PY (£0.09m)). This is the statutory General Fund balance before any discretionary transfers to or from earmarked reserves. The net decrease after transfers to/from earmarked reserves is £31.927m (PY (£2.369m)).

The **Comprehensive Income and Expenditure Statement** (page 13) 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. Councils raise taxation to cover expenditure in accordance with regulations. The segmental reporting note to the Statement enables a comparison of the outturn figures to the format in which budget monitoring figures have been reported to Councillors throughout the year. The total net deficit on the Total Other Comprehensive Income and Expenditure Statement of £31.927m reflects a deficit on the provision of services of £26.045m and a £5.881m deficit on other items which is brought about by the remeasurement of the net defined benefit and revaluations of land and buildings. Full details are shown on the Comprehensive Income and Expenditure Statement.

The **Balance Sheet** (page 14) shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets £7.75m (PY £39.736m) of the Council are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves (as at 31 March 2017 totalling £11.681m) , 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. The second category of reserves is those the Council is not able to use to provide services, known as non-usable reserves (as at 31 March 2017 totalling £(3.929)m). This category includes reserves that hold unrealised gains and losses (for example the revaluation reserves) 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 **Statement of Cash Flows** (page 15) 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 inflows arising from operating activities £19,923K (£(4,212K) in 2015-16) 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. The investing activities represent the extent to which cash outflows have been made for resources intended to contribute to the Council's future service delivery.

Local Councils have been required to produce their statements of accounts in accordance with International Financial Reporting Standards (IFRS). Whilst not a core statement within the Statement of Accounts as a local Council with responsibility for collecting council tax and business rates we are required to prepare an annual **Collection Fund Statement** (pages 67-68). The Local Government Finance Act 1988 requires each charging council to operate a Collection Fund to account for the Council Tax and Business Rate Income and its distribution to Precepting Councils (Surrey County Council and Surrey Police Council) and Central Government.

This Council's levy on the Collection Fund for 2016-17 was set at £187.44 per Band D property (a 2.7% increase on the previous year) after taking account of a transfer of £730,000 from reserves and a transfer of £2.148m out of the Collection Fund following higher than expected collection rates for Council Tax during the previous year. 2016-17 saw the continued development of the localised retention of business rates scheme introduced in 2013-14, under which part of the business rates are retained by the Council and the County Council to contribute towards their revenue budgets. The changes to the business rates appeals system resulted in continued uncertainties as to the levels of provision required to be made for potential successful appeals which would then be backdated. Spelthorne made a full provision of £1.552m for 2016/17, a decrease of £0.264m from 2015/16. This provision will give greater certainty for the next few years as the scheme continues to develop. The impact of this appeals provision has contributed to a business rates surplus of £8.166m in 2016-17. On council tax there was a deficit of £0.080m, mainly due to adjustments to allocate surpluses accumulated in previous financial years.

Capital Expenditure

The Council's capital expenditure plans must be prudent and affordable in the longer term and the Council adheres to guidance set out in the *CIPFA Prudential Code for Capital Finance in Local Councils,* which has legislative backing. Whilst it has taken the view that it will use capital receipts to fund its capital programme, it may consider using borrowing in the future for specific capital projects.

The capital programme is prepared on a 4 year rolling basis and is reviewed every year. The capital programme consists of housing investment, mainly renovation and renewal grants made to individuals and tenants of housing associations, and non-housing activities including information technology, vehicle replacement and improvements of major assets and acquisition of assets. During 2016-17 the Council acquired the BP International Campus at over £400m which is why the level of capital expenditure is significantly higher than previous years. The acquisition was financed by borrowing from the Government's Public Works Loans Board (PWLB) at low rates of interest.

Total gross capital expenditure in 2016-17 was £422.414m and a breakdown of the schemes making up this spend can be found in note 30 (page 59). The following statement shows the total gross capital expenditure for the year and how it has been financed.

	£000
Total Capital Expenditure	**422,414**
Financed by:	
Capital Receipts	2,718
Specific Government Grants	467
Other Grants and Contributions	157
Borrowing	413,264
Revenue Reserves	5,808
Total Capital Financing	**422,414**

The programme in the past was mainly financed from capital receipts generated from asset sales, however as highlighted above the acquisition of the BP site was financed by borrowing from the PWLB. In addition, grants and contributions received from other bodies including central government are used for financing specific expenditure.

Future capital expenditure and resources are as follows:

Future Capital Investment Plans and Resources	**Estimate 2017/18 £000**	**Estimate 2018/19 £000**	**Estimate 2019/20 £000**	**Estimate 2020/21 £000**
Capital Programme	210,276	216	216	216
Resources available:				
Capital Receipts	500	500	500	500
Borrowing	210,000	-	-	-
Capital Grants/Contributions	285	285	285	285
	210,785	**785**	**785**	**785**

Capital receipts also generate investment income but in the current low interest rate environment investment returns are relatively very low so in the near term capital spending will continue to be financed from capital receipts. To strengthen these reserves potential asset sales are kept under review but completing disposals can be a major challenge in the current financial climate.

In May 2016, the Council set up a 100% owned subsidiary Knowle Green Estates Ltd and provided £2.986 m in loan finance to enable the company to purchase Harper House in Ashford Middlesex.

Pensions (see notes Pages 61 to 66)

International Accounting Standard 19 'Employee Benefits' ('IAS19') requires Councils to provide clear information on the impact of the Council's obligation to fund the retirement benefits of its staff. Information has been received from the Actuary on the latest position as at March 2017, showing a deficit of £44.129m for this Council, which represents a £9.361m increase relative to 2015-16.

- The deficit has increased due to a number of factors the main one being an increase in the present value of the defined benefit obligations by over £18 million, which is more than the £9m increase in the value of the pension fund assets.

- It must be emphasised that this calculation has been made for the specific requirements of 'IAS 19' and should not be used for any other purpose. There was a separate triennial revaluation based on the pension fund as at 31 March 2016, the result of which kept employer ongoing current contributions unchanged but will result in past service contributions increasing in steps of £180k in each year between 2015-16 and 2017-18**.** The liabilities of £44.129m show the underlying commitments that the Council has in the long run to pay retirement benefits. The liability has a substantial impact reducing the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

The deficit on the pension scheme will be made good by contributions over the remaining working life of employees as assessed by the scheme actuary.

Finance is only required to cover discretionary benefits when the pensions are actually paid.

The Government has implemented changes to public sector pensions which are likely to reduce the future cost to employers of such schemes. A revised National Local Government Pension Scheme took effect from 1st April 2014.

Borrowing

During the year the Council entered into external borrowing of £413m to finance asset purchases. This was the first time for a number of years that significant long term borrowing had been undertaken by Spelthorne Borough Council. This resulted in a financing charge of £4.091m being charged in the accounts all of which was more than covered by additional income generated by the assets acquired.

Provisions

The Business Rates Retention system was introduced from 1st April 2013 under which part of the business rates collected are retained by the Council. There was an element of risk linked to the new system in respect of appeals which can be made by businesses over their rateable value. Accordingly, a provision of £1.816m was made in 2015/16 which has been reduced in 2016/17 to £1.552 m to reflect the possible impact of outstanding appeals which are successful.

Revenue Expenditure

An analysis of the Council's total gross revenue income and expenditure identifying major variances from the original budget is shown below.

The Council has always adopted the accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA). These accounts comply fully with their current requirements.

Comparison of 2016/17 Actual Revenue Expenditure to Budget	Budget 2016/17 £000	Actual Outturn £000	Variance Actual to Budget £000
Gross Expenditure	56,719	57,168	449
Gross Income	(41,925)	(51,311)	(9,386)
Net Service Expenditure	**14,794**	**5,857**	**(8,937)**
Interest on balances	(1,150)	(984)	166
Transfers (from)/ to reserves	(731)	-	731
Interest on repayments	-	4,089	4,089
Budget Requirement	**12,913**	**8,962**	**(3,951)**
Financed by:			
Non-service related Grants	1,896	1,896	-
Revenue Support Grant	680	680	-
Non-domestic rates from national pool	3,009	3,009	-
Precept on Collection Fund	7,328	3,377	(3,951)
	12,913	**8,962**	**(3,951)**

The above analysis covers revenue expenditure and income only and is not directly comparable with the Expenditure and Funding Analysis statement on page 30 which provides a more detailed breakdown at service expenditure level, for revenue and capital.

Financial Strategy Review

The Council continuously reviews and updates its financial strategy. During 2016-17 the strategy was updated to respond to the grant cuts the Council will experience over the next few years. The Council is preparing for the certainty that from 2017-18 it will cease to receive general Revenue Support Funding from central Government.

The main issues identified in the review and the outline budget process were the following:

- The need to maximise savings and efficiencies. Strategies to deliver this include:
  - Sharing of services with other Councils - during 2016-17 the Council continued to share one head of service with a neighbouring borough council. The Council also shares its Head of Legal Services with another Surrey council. . The Council is exploring opportunities for more fundamental sharing of ICT services.
  - Acquiring new revenue income generating streams
  - Maximising income from the assets the Council owns. The Council has prioritised a number of projects which over the medium term will deliver significant income.
  - Continuing to diversify the Council's investment portfolio and seek to maximise investment returns whilst balancing risk.
  - Investing in initiatives to mitigate some of the homelessness pressures on the Council's revenue budget
  - Seeking procurement savings
  - Rationalising accommodation and letting out office space. The Council is exploring options for the future provision of its office accommodation.
  - Tight vacancy control
  - Reviewing fees and charges
  - Smarter use of technology
  - Restructuring management and staffing levels
  - Seeking to encourage economic development within the Borough which ultimately may help stimulate business rates growth which will assist the Council's future funding.

The Council will continue to evaluate the impact of the decision in June 2016 for UK to move towards leaving the European Union on its budget strategy.

Summary

The next few years will continue to be extremely challenging, with a post Brexit future adding to the uncertainties. The Council has been impacted by the public sector deficit reduction programme, which means levels of government grant are being cut and will continue to reduce for a number of years. The Council's ability to generate capital receipts has been reduced, although with the economy now improving this is changing.

The additional ongoing revenue income from the BP Acquisition enabled the Council to set a balanced budget for 2017-18.The Council has reserves but these have been used in the past to support the budget over a number of years and this approach was not sustainable in the medium term, therefore the Council has introduced a programme entitled *Towards a Sustainable Future* and these reserves will be used in a targeted way to pump prime income generation projects along with a number of other strategies which have been developed as part of the Towards a Sustainable Future programme including partnership working and sharing services with other local Councils; seeking procurement savings; rationalising accommodation and letting out surplus space to other organisations; better use of technology and looking at the way it offers services. By pursuing these strategies we are confident that we can ensure that Spelthorne Borough Council has a sustainable financial future.

Spelthorne has a history of prudence in the way we manage the finances, and we will continue to review rigorously all our services to ensure that they are needed and are delivered economically, efficiently and effectively.

Following the EU referendum in June 2016 and the vote by the United Kingdom to leave the EU, the impact on the Council is uncertain at the present time.

The accounts were authorised for issue by Mr T Collier, Chief Finance Officer on 6 October 2017 and events after the Balance Sheet date have been considered up to this date.

Further Information

If you require any further information, please contact Terry Collier, Chief Finance Officer on Tel: 01784 446296 at the Council Offices, Knowle Green Staines-upon-Thames, TW18 1XB.

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 ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Deputy Chief Executive.

- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

- To approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities

The Deputy Chief Executive 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 Deputy Chief Executive has:

- Selected suitable accounting policies and then applied them consistently;

- Made judgements and estimates that were reasonable and prudent;

- Complied with the Local Authority "Code";

- Kept proper accounting records which were up to date; and

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I hereby certify that the Statement of Accounts presents a true and fair view of the financial position of Spelthorne Borough Council and its Income and Expenditure for the year ended 31 March 2017.

Mr Terry Collier, CPFA, CA
Chief Financial Officer

Date: 17th October 2017

Councillor Mary Madams
Chair of Audit Committee

Date: 17th October 2017

Movement in Reserves Statement

This statement shows the movement from the start of the year to the end 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 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 for the year. The Increase/ (Decrease) line shows the statutory General Fund Balance movements in the year following those adjustments. The 2015/16 figures are shown for comparison.

	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Council Reserves £000**
2016/17						
Balance at 31 March 2016	**12,601**	**1,448**	**503**	**14,552**	**25,184**	**39,736**
Movement in Reserves during 2016/17						
Total Comprehensive Income and Expenditure	(26,103)	-	-	(26,103)	(5,881)	(31,984)
Adjustments between accounting basis and funding basis under regulations (Note 7)	25,062	(1,448)	(387)	23,227	(23,227)	-
Increase/ (Decrease) in 2016/17	**(1,041)**	**(1,448)**	**(387)**	**(2,876)**	**(29,108)**	**(31,984)**
Balance at 31 March 2017 carried forward	**11,560**	**-**	**116**	**11,676**	**(3,924)**	**7,752**

2015/16 - Comparative Year						
Balance at 31 March 2015	**12,590**	**1,181**	**551**	**14,322**	**23,043**	**37,365**
Movement in Reserves during 2015/16						
Total Comprehensive Income and Expenditure	(2,814)	-	-	(2,814)	5,185	2,371
Adjustments between accounting basis and funding basis under regulations (Note 7)	2,825	267	(48)	3,044	(3,044)	-
Increase/ (Decrease) in 2015/16	**11**	**267**	**(48)**	**230**	**2,141**	**2,371**
Balance at 31 March 2016 carried forward	**12,601**	**1,448**	**503**	**14,552**	**25,184**	**39,736**

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 funded from taxation. The Council raises taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis (page 31) and the Movement in Reserves Statement (page 12).

2015/16				2016/17		
Expenditure £'000	Income £'000	Net £'000	**COST OF SERVICES**	Expenditure £'000	Income £'000	Net £'000
1,402	(301)	**1,101**	Leader	1,397	(342)	**1,055**
668	(20)	**648**	Deputy Leader	551	(39)	**512**
1,859	(74)	**1,785**	Corporate Management	2,068	(52)	**2,016**
35,384	(34,162)	**1,222**	Housing	34,988	(34,504)	**484**
1,959	(748)	**1,211**	Finance and Customer Service	3,526	31	**3,557**
3,653	(1,108)	**2,545**	Planning and Economic Development	3,650	(4,584)	**(934)**
12,060	(5,084)	**6,976**	Environment and Compliance	11,265	(5,194)	**6,071**
3,997	(2,762)	**1,235**	Community and Wellbeing	3,428	(2,612)	**816**
60,982	**(44,259)**	**16,723**	**Cost of Services (Note 1)**	**60,873**	**(47,296)**	**13,577**
-	-	**-**	Other operating expenditure	2,986	-	**2,986**
1,293	(1,084)	**209**	Financing and Investment Income and Expenditure (Note 9)	30,922	(10,219)	**20,703**
-	(14,118)	**(14,118)**	Taxation and non-specific grant income (Note 10)	-	(11,163)	**(11,163)**
62,275	**(59,461)**	**2,814**	**(Surplus)/Deficit on Provision of Services (Note 1)**	**94,781**	**(68,678)**	**26,103**
		(414)	(Surplus)/deficit on revaluation of property, plant and equipment assets			(1,601)
		400	(Surplus)/deficit on revaluation of available for sale financial assets			(1,071)
		(5,171)	Remeasurement of the net defined benefit liability (assets)			8,553
		(5,185)	Other Comprehensive Income and Expenditure			**5,881**
		(2,371)	Total Comprehensive Income and Expenditure			**31,984**

Balance Sheet

The 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 the reserves held by the Council. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. 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 may only be used to fund capital expenditure or to repay debt.) The second category of reserves is those that the Council may not use to fund services. This category of 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 30th June 2017 and the audited accounts were authorised for issue on 13th October 2017.

31st March 2016 £000		Note	31st March 2017 £000
44,960	Property, Plant and Equipment	11	46,346
156	Heritage Assets	12	154
215	Investment Properties	13	392,145
409	Intangible Assets	14	455
12,518	Long term Investments	15	21,599
14,863	Long Term Receivables		14,752
73,121	**Long Term Assets**		**475,451**
-	Short Term Investments	15	-
1,185	Assets Held For Sale	18	-
40	Inventories		58
7,000	Short Term Receivables	16	5,811
6,352	Cash and Cash Equivilents	17	7,337
14,578	**Current Assets**		**13,206**
(4,026)	Short Term Borrowings	15	(7,525)
(7,130)	Short Term Payables	19	(21,455)
(1,885)	Provisions	20	(1,703)
(13,040)	**Current Liabilities**		**(30,683)**
(34,768)	Other Long Term Liabilities	34	(44,129)
-	Long Term Borrowing	15	(405,764)
(155)	Capital Grants Receipts in Advance	29	(329)
(34,923)	**Long Term Liabilities**		**(450,222)**
39,736	**Net Assets**		**7,752**
14,552	Usable Reserves	21	11,681
25,184	Unusable Reserves	22	(3,929)
39,736	**Total Reserves**		**7,752**

Statement of Cash Flows

The Statement of Cash Flows 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.

2015/16 £000		Note	2016/17 £000
(2,815)	Net surplus or (deficit) on the provision of services		(26,103)
(1,397)	Adjustment to surplus or deficit on the provision of services for noncash movements	23	46,784
0	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23	(758)
(4,212)	Net Cash flows from operating activities		19,923
(598)	Net Cash flows from Investing Activities	24	(429,769)
3,999	Net Cash flows from Financing Activities	25	410,633
(811)	Net increase or (decrease) in cash and cash equivalents		787
7,360	Cash and cash equivalents at the beginning of the reporting period		6,549
6,549	**Cash and cash equivalents at the end of the reporting period**		**7,336**

Statement of Accounting Policies

1. General Principles
The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31st March 2017. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2016/17 (the Code), and supported by International Financial Reporting Standards (IFRS).

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

2. Changes in Accounting Policies
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 stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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 year adjustment.

Material errors discovered in the prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

3. Accrual 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 the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefit or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that the economic benefit or service potential associated with the transaction will flow to the Council.
- 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 receivable or payable for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of receivables is written down and a charge made to revenue for the income that might not be collected.

4. Cash and Cash Equivalents
Cash comprises cash in hand and deposits with financial institutions repayable without penalty on notice of more than 24 hours. Cash equivalents are short term, highly liquid investments that mature in 7 days

or less from the date of acquisition or are repayable without penalty on notice of no more than 7 days. They are readily convertible to known amounts of cash with insignificant risk of change in value. All funds held in money market funds that are repayable on notice, and bank deposits held are accounted for as cash equivalents. Term deposits that mature in more than 7 days from the date of acquisition are not classified as cash equivalents.

In the Statement of Cash Flows, 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.

5. Exceptional Items
When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Account or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

6. Charges to Revenue for Non-current Assets
Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed 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 Non-current 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 annual contribution from revenue towards the reduction in its overall borrowing requirement. Until 2015/16, the Council had no long term outstanding debt. In 2016/17, the Council has £413m outstanding debt. However, no minimum revenue provision is required until the first full financial year after the debt has been drawn in line with the Council's MRP policy. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

7. Employee Benefits
a) Benefits payable during employment
Short term employee benefits are those due to be settled 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 (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render services to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) 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 wage and salary rate applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

b) Termination benefits
Termination benefits are amounts payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy and are charged on an accruals basis to the Comprehensive Income and Expenditure Statement when the Council can no longer withdraw the offer of termination benefits or when the council recognises the cost of restructuring.

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 in accordance to the relevant accounting standard. 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 the debits for cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

c) Post-employment benefits
Employees of the Council are members of the Local Government Pension Scheme, administered by Surrey County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Local Government Pension Scheme is accounted for as a defined benefit scheme.

- The liabilities of the Surrey 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 projections of earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on a high quality corporate bond (as measured by the yield on the iboxx Sterling Corporates Index, AA over 15 years).

- The assets of the Surrey Pension Fund attributable to the Spelthorne Borough Council are included in the Balance Sheet at their fair value as follows:
    - 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 the following 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 or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
        - Net interest on the net defined benefit liability i.e. net interest expense for the Council – the change during the period in the net defined benefit that arises from the passage of time charged to the financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit at the beginning of the period – taking into account any changes in the net defined benefit obligation during the period as a result of contribution and benefit payments.

    - Re-measurements comprising:

    - the return on plan assets – excluding amounts included in net interest on the net defined benefit – 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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

  - Contributions paid to the Surrey 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 post-employment benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits and credits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

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

8. Events after the Balance Sheet Date
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 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 may be adjusted to reflect such events.
- Those that are indicative of conditions that arose after the end of 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 authorisation for issue are not reflected in the Statement of Accounts.

9. 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 are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective rate of interest 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 all borrowings the Council has, the amount presented in the Balance Sheet is the outstanding principal repayable plus accrued interest; and the interest charged to the Comprehensive Income and Expenditure Statement is the amount due for the year according to the loan agreement.

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed and determinable payments.

Loans and Receivables

Loans and receivables are recognised in the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the assets multiplied by the effective rate of interest for the instrument. For most of the loans the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus accrued interest and the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of the likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. Trade receivables are recorded at their nominal amount less an allowance for doubtful debts. The Balance Sheet and the notes to the accounts disclose the amount accordingly.

Available-For-Sale Assets

Available- For -sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. All the Available-For-Sale assets held by the Council have fixed and determinable payments and annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument.

Assets are maintained in the Balance Sheet at fair value, including equity shares where applicable, and values are based on the following principles:

- Instruments with quoted prices – the market price.
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly
- Level 3 inputs – unobservable inputs for the asset

Changes in the fair value are balanced by an entry in the Available-For-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on the Revaluation of Available-For-Sale Financial Assets. The exception is where impairment losses have been incurred. These are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-For-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair values fall below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective rate of interest. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayments and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-For-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

10. 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. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

When 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. Where it has been 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.

11. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that the future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are only re-valued where the fair value of the assets held by the Council can be determined by reference to the 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 in the Comprehensive Income and Expenditure Account. The useful life is deemed to be five years and any gain or loss arising on disposal or abandonment of an intangible asset is posted to the Other Operating expenditure line in the Comprehensive Income and Expenditure Account.

When 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.

Amortisation of intangible assets

- straight-line allocation over useful economic life, deemed to be 5 years

12. Investment Property

Investment properties are those that are solely used 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, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. 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 and Expenditure 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 proceeds greater than £10,000) the Capital Receipts Reserve.

13. 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 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 fulfilment of the arrangement is dependant on the use of specific assets.

<u>The Council as Lessee</u>

<u>Finance Leases</u>

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals payable under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the service benefiting from use of the leased property, plant or equipment. Changes 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

Where the council grants a finance lease over a property or an item of plant and equipment, the relevant asset is written out of the balance sheet as a disposal and also written off to the comprehensive Income and Expenditure account as part of the gain/loss on disposal.
A gain representing the Council's net investment in the lease is also credited in the comprehensive income and expenditure statement also as part of the gain/loss on disposal (ie netted off against the carrying value of the asset at the time of disposal)matched by a lease(long term debtor) asset in the balance sheet.
Lease rentals are apportioned between a charge for the acquisition of the interest in the property and finance income. When future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor.

Where the Council grants an operating lease over a property the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure in the Comprehensive Income and Expenditure Statement for non-investment property assets and to the Financing and Investment Income and Expenditure line for the income from leases of investment property.

14. Property, Plant and Equipment
Assets that have physical substance and are held for use in the provision of services, for rental to others or for administration 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 with the item will flow to the Council and the cost of the item can be reliably measured. 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 the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The cost of assets other than by purchase is deemed to be its fair value.

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

- Infrastructure and community assets - depreciated historical cost.
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate for fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance on the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment
Assets are assessed at the 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 carrying amount, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance on the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service lines in the Comprehensive Income and Expenditure Statement, 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.

Depreciation is calculated on the following bases:

- Dwellings and other buildings - straight-line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, plant and equipment - vehicles and plant and IT equipment 20% per annum on the reducing balance and other equipment, straight-line allocation over the estimated useful life of the asset, deemed to be 5 years.

Where an item of property has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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.

Disposals and Non- current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is classified as an Asset Held for Sale. These assets are available for immediate sale in their present condition and where the sale is highly probable. The asset is revalued immediately before reclassification and then carried 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 previous losses recognised in the Surplus or Deficit on 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 the Council may sell at some point but which do not meet the criteria as set out in this policy, are classified as Surplus Assets Held for Disposal. Assets that are 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 (netted off against the carrying 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 disposals in excess of £10,000 are categorised as capital receipts which are credited to the Capital Receipts Reserve and can only be used for new capital investment. Receipts are appropriated to the Capital Receipts 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.

15. Heritage Assets

A heritage asset is an asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. Heritage assets can be either tangible assets or intangible assets.

Heritage assets are those assets that are intended to be preserved on trust for future generations because of their cultural, environmental or historical associations. They are held by the Council in pursuit of its overall objectives in relation to the maintenance of heritage. This class of asset includes historic buildings, archaeological sites, civic regalia, museum and gallery collections, works of art etc. The Council has very few material heritage assets, mainly war memorials and these are carried at valuation.

The carrying amounts of heritage assets are reviewed every year together with the annual impairment review which is carried out by the Head of Asset Management in consultation with the Council's selected Valuer. These assets are re-valued as part of the Council's 5 year rolling valuation programme and any impairment is recognised and measured in line with the Council's general polices on impairment.

16. 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 or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year 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 and 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.

Where some or all of the payments required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

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 circumstance 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 reasonably be measured.

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.

17. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance in the Movement on 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 Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employment benefits and that do not represent usable resources for the Council – these reserves are explained in the relevant policies.

18. Revenue Expenditure Funded from Capital under Statute

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 so that there is no impact on the level of council tax.

19. Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue and Customs. VAT receivable is excluded from income. The net amount due to or from HM Revenues and Customs is included in Payable or Receivables in the Balance Sheet.

20. 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 each reporting 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 transaction to sell the asset or transfer the liability takes 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, maximising the use of relevant observable inputs and minimising 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 are 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 Level 1 that are observable for the asset or liability, either directly or indirectly
• Level 3 – unobservable inputs for the asset or liability.

21. Council Tax and Non-Domestic Rates

The council acts as agent for the collection of Council Tax and Business Rates (NDR) on behalf of the major preceptors, including central government. The council is 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 these legislative arrangements, the council, major preceptors and central government share proportionately the risks and rewards of the sharing arrangements.

The council tax and NDR income included in the CI&E represents the council's share of accrued income for the year. Regulations determine the amount of council tax and NDR that must be included in the council's General Fund. The difference between the accrued income and the regulatory amount is included in the Collection Fund Adjustment Account; a reconciling item being included in the Movement in Reserves Statement.
The council's balance sheet includes the council's share of the end of year balances for council tax and NDR (arrears, impairment allowances (debt and NDR appeals) and overpayments.

Notes to the Core Financial Statements

1. Statement of Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax (and rent) payers how the funding available to the Council (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by Councils in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposed between the Council's directorates (services or departments). Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2015/16				2016/17		
Net Expenditure Chargeable to the General Fund £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000		Net Expenditure Chargeable to the General Fund £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
1,065	36	1,102	Leader	1,061	(6)	1,055
518	130	648	Deputy Leader	512	-	512
1,262	523	1,785	Corporate Management	1,741	275	2,016
1,221	1	1,222	Housing	1,601	(1,118)	483
2,768	(1,556)	1,212	Finance and Customer Service	3,203	354	3,557
2,373	172	2,545	Planning and Economic Development	(10,115)	9,180	(934)
4,577	2,399	6,976	Environment and Compliance	4,715	1,356	6,071
67	1,168	1,235	Community and Wellbeing	153	663	816
13,851	**2,873**	**16,724**	**Net Cost of Services**	**2,871**	**10,704**	**13,576**
(13,861)	(48)	(13,909)	Other Income and Expenditure	(1,835)	14,362	12,527
(10)	**2,825**	**2,815**	**(Surplus) or Deficit**	**1,036**	**25,066**	**26,103**
(12,591)			Opening General Fund Balance including Earmarked Reserves	(12,601)		
(10)			Less/Plus (Surplus) / Deficit on General Fund in Year	1,036		
(12,601)			**Closing General Fund Balance including Earmarked Reserves at 31st March**	**(11,565)**		

Adjustments between Funding and Accounting Basis 2016/17:

	2016/17			
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statements amounts	**Adjustments for Capital Purposes (Note i) £000**	**Net change for the Pensions Adjustments (Note ii) £000**	**Other Differences (Note iii) £000**	**Total £000**
Leader	1	-	(7)	(6)
Deputy Leader	-	-	-	-
Corporate Management	283	-	(8)	275
Housing	-	-	(1,118)	(1,118)
Finance and Customer Service	-	-	354	354
Planning and Economic Development	26,390	-	(17,210)	9,180
Environment and Compliance	1,251	-	105	1,356
Community and Wellbeing	666	-	(3)	663
Net Cost of Services	**28,591**	**-**	**(17,887)**	**10,704**
Other income and expenditure from the Expenditure and Funding Analysis	(1,080)	808	14,634	14,362
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**27,511**	**808**	**(3,253)**	**25,066**

Note i: Adjustments relating to capital include depreciation, amortisation of intangible assets, impairment, revenue funded under statute, movement in the value of investment properties, gains/losses on disposal of non-current assets, capital grants and contributions and revenue contributions to capital outlay.

Note ii: Adjustments relating to pensions are the removal of employee pension costs for the Local Government Pension Scheme and their replacement with current service costs and past service costs plus net interest on the defined benefit pension liability.

Note iii: Other adjustments include the difference between what is chargeable under statutory regulations for council tax and NDR and employee benefits.

Adjustments between Funding and Accounting Basis 2015/16:

	2015/16			
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statements amounts	**Adjustments for Capital Purposes £000**	**Net change for the Pensions Adjustments £000**	**Other Differences £000**	**Total £000**
Leader	5	-	31	36
Deputy Leader	-	-	130	130
Corporate Management	293	-	230	523
Housing	-	-	1	1
Finance and Customer Service	-	-	(1,556)	(1,556)
Planning and Economic Development	822	-	(650)	172
Environment and Compliance	988	-	1,411	2,399
Community and Wellbeing	630	-	538	1,168
Net Cost of Services	**2,738**	**-**	**135**	**2,873**
Other income and expenditure from the Expenditure and Funding Analysis	(1,785)	1,365	372	(48)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**953**	**1,365**	**507**	**2,825**

Segmental Income – Income received on a segmental basis is analysed below:

Income from Services	**2015/16 £000**	**2016/17 £000**
Leader	301	342
Deputy Leader	20	39
Corporate Management	74	52
Housing	34,162	34,504
Finance and Customer Service	748	(31)
Planning and Economic Developmen	1,108	4,584
Environment and Compliance	5,084	5,194
Community and Wellbeing	2,762	2,612
	44,259	**47,296**

Expenditure and income Analysed by nature - The Council's expenditure and income is analysed as follows:

Expenditure / Income	2015/16 £000	2016/17 £000
Expenditure:		
Employee benefits expenses	12,980	12,312
Other services expenses	32,890	41,282
Support service recharges	5,957	(57)
Depreciation, amortisation and impairment	2,738	28,470
Interest payments	27	4,135
Precepts and levies	7,684	8,639
Total Expenditure	**62,276**	**94,781**
Income:		
Fees, charges and other service income	(44,318)	(56,183)
Interest and investment income	(1,025)	(1,332)
Income from council tax and non-domestic rates	(10,058)	(7,804)
Government grants and contributions	(4,060)	(3,359)
Total Income	**(59,461)**	**(68,678)**
Surplus or Deficit on the Provision of Services	**2,815**	**26,103**

2. Accounting Standards Issued but not yet adopted
The International Accounting Standards Board (IASB) has issued a number of revised accounting standards that have not yet been adopted by either the Code or the Council, but will apply to the Council from the 1 April 2017. These are outlined below:

- Amendments to IAS19 Employee benefits
- Annual improvements to IFRSs (2010-2012 Cycle)
- Amendment to IFRS11 Joint Arrangements
- Amendment to IAS16 Property, Plant and Equipment and IAS38 Intangible Assets
- Annual improvements to IFRSs (2012-2014 Cycle)
- Amendment to IAS1 Presentation of Financial Statements
- Changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis
- Changes to the format of the Pension Fund Account and the Net Assets Statement.

3. Critical Judgement in Applying Accounting Policies
In applying the accounting policies set out on pages 17 to 30, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- 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.

4. Prior Period Adjustment
There were no prior period adjustments accounted for in 2016/17 (2015/16: There were no prior period adjustments made).

5. 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 2017 for which there is a significant risk of material adjustments in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred 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.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.
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, mortality rates and expected returns on pension fund assets. Surrey Pension Fund have engaged a firm of consulting actuaries who provide the Council with expert advice.	The effect on the net pension's liability of changes in individual assumptions can be measured. However, the assumptions interact in complex ways.
Arrears	At 31 March 2017, the Council had a balance of sundry Receivables **for £7.0m** and has made a provision **of £1.4m for impairment of doubtful** debts.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an **additional £1.4m to be set aside as an allowance**.
Business Rates Appeals	A provision of £1.553m has been included in the accounts to reflect the Council's share (40%) of the estimated impact of business rate payers successfully appealing the rateable value assigned to their properties. This is based on the number of appeals outstanding as at 31st March 2017 and the historical success rate of all appeals since 2010.	The Council will be required to reimburse all rate payers who are successful with their appeals, and this will also impact upon business rates receivable in future years.

6. Material Items of Income and Expense
The major item of expenditure included in the Comprehensive Income and Expenditure Account is Housing Benefits which was £31.2m in 2016/**17 (£31.2m 2015/16).** However, this expenditure is fully recovered by the receipt of subsidy from central Government, £31.2m in 2016/17(£31.0m 2015/16), so the net cost to the Council is minimal. In addition, a net £16.725m was received in terms of investment properties (see Note 13).

7. Adjustments between Accounting Basis and Funding Basis under Regulations

Adjustments are made to the Comprehensive Income and Expenditure Statement recognised by the Council in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The adjustments are made against the following reserves:

General Fund Balance

The General Fund is a statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities 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 practices. 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 that the Council is required to recover) at the end of the financial year.

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 resources that have to be applied for these purposes at year end.

Capital Grants Unapplied

The Capital Grants Unapplied Account holds the grants and contributions received towards capital projects for which that Council has met the conditions that would otherwise require the repayment of the monies but which have yet to be applied to meet capital 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.

The following tables provide an analysis of the movement in the above reserves for 2016/17 and the prior year 2015/16:

2016/17	General Fund Balance £000	Capital Receipts £000	Capital Grant Unapplied £000	Movement in Unusable Reserves £000
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Adjustments primarily involving the Capital Adjustment Account:				
Charges for depreciation and impairment of non-current assets	2,735	-	-	2,735
Movement in the market value of investment properties	25,570	-	-	25,570
Revenue expenditure funded from capital under statute	550	-	-	550
Other adjustments				-
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	232	-	(232)	-
Application of grants to capital financing transferred to the Capital Adjustment Account	(470)	-	(155)	(625)
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,271)	1,271	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	(2,718)	-	(2,718)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement :				
Revenue Contribution to capital finance	165	-	-	165
Adjustment primarily involving the Pension Reserve:				
Reversal of items relating to retirement benefits debited/credited to the Comprehensive Income and Expenditure Statement	3,277	-	-	3,277
Contributions to the pension fund	(2,469)	-	-	(2,469)
Adjustment primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and business rates income calculated for the year in accordance with statutory requirements	(3,258)	-	-	(3,258)
Total Adjustments	**25,062**	**(1,448)**	**(387)**	**23,227**

2015/16	General Fund Balance £000	Capital Receipts £000	Capital Grant Unapplied £000	Movement in Unusable Reserves £000
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Adjustments primarily involving the Capital Adjustment Account:				
Charges for depreciation and impairment of non-current assets	2,738	-	-	2,738
Revenue expenditure funded from capital under statute	569	-	-	569
Other adjustments	(6)	-	-	(6)
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(136)	-	136	-
Application of grants to capital financing transferred to the Capital Adjustment Account	(347)	-	(184)	(531)
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,049)	1,049	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	(782)	-	(782)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement :				-
Revenue Contribution to capital finance	(816)	-	-	(816)
Adjustment primarily involving the Pension Reserve:				
Reversal of items relating to retirement benefits debited/credited to the Comprehensive Income and Expenditure Statement	3,704	-	-	3,704
Contributions to the pension fund	(2,339)	-	-	(2,339)
Adjustment primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and business rates income calculated for the year in accordance with statutory requirements	507	-	-	507
Total Adjustments	**2,825**	**267**	**(48)**	**3,044**

8. Transfers to and from Reserves

This note sets out the amounts set aside from the General Fund and balances in Earmarked Reserves to provide financing for future expenditure plans and the amounts transferred from Earmarked Reserves to meet General Fund expenditure in 2016/17.

Reserve Description	Balance at 1 April 2016 £000	Transfers In 2016/17 £000	Transfers Out 2016/17 £000	Balance as at 31 March 2017 £000
General Fund	**1,895**		**(944)**	951
Earmarked Reserves:				
Revenue Grants Unapplied	904	-	(103)	801
Capital Fund	443	-	-	443
Risk Management Fund	-	190	-	190
Interest Equalisation	493	-	-	493
New Schemes Fund	1,221	-	-	1,221
Housing Initiatives	5,794	-	(2,821)	2,973
Insurance	50	-	-	50
New Homes Bonus	50	-	-	50
Revenue Carry Forwards	239	-	-	239
Bridge Street	69	-	-	69
Bronzefield Maintenance	277	-	(4)	273
Youth Council	20	-	-	20
Business Rates Equalisation	1,145	-	-	1,145
BP Main Site Reserves	-	1,867	-	1,867
BP SWC Reserves	-	340	-	340
Elmbrook House Reserves	-	118	-	118
Elmbrook House	-	322	-	322
	10,705	**2,837**	**(2,928)**	**10,614**
TOTAL	**12,600**	**2,837**	**(3,872)**	**11,565**

9. Financing and Investment Income and Expenditure

2015/16				2016/17		
Expenditure £000	**Income £000**	**Net £000**		**Expenditure £000**	**Income £000**	**Net £000**
1,198		1,198	Net Interest on the net defined benefit liability	1,175		**1,175**
27		27	Interest Payable	4,135		**4,135**
	(400)	(400)	Finance Lease Income		(400)	**(400)**
	(625)	(625)	Interest receivable and similar income		(932)	**(932)**
68	(59)	9	Income and expenditure in relation to investment properties and changes in their fair value (note 13)	25,613	(8,888)	**16,725**
1,293	**(1,084)**	**209**		**30,922**	**(10,219)**	**20,703**

10. Taxation and Non Specific Grant Income

2015/16 £000		2016/17 £000
7,194	Council Tax Income	7,329
2,864	Non Domestic Rates Income and expenditure	995
3,576	Non-ringfenced government grants	2,427
484	Capital grants and contributions	412
14,118		**11,163**

11. Property, Plant and Equipment Movement on Balances in 2016/17:

2016/17	Land and Buildings £000	Surplus Assets £000	Vehicles, Plant and Equipment £000	Total Property, Plant and Equipment £000
Cost or valuation				
At 1 April 2016	44,228	750	7,712	52,690
Revaluation increases / (decreases) recognised in the Revaluation Reserve	1,601	-	-	1,601
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(432)	-	-	(432)
Assets reclassified	1,935	(750)	-	1,185
Written Back to CI&E	(24)	-	(450)	(474)
Additions	80	-	1,060	1,140
At 31 March 2017	**47,388**	**-**	**8,322**	**55,710**
Accumulated Depreciation and Impairment				
At 1 April 2016	1,528	-	6,202	7,730
Depreciation Charge	1,863	-	503	2,366
Depreciation written out to the Revaluation Reserve	(732)	-	0	(732)
At 31 March 2017	**2,659**	**-**	**6,705**	**9,364**
Net Book Value				
at 31 March 2017	**44,729**	**-**	**1,618**	**46,346**
at 31 March 2016	**42,700**	**750**	**1,510**	**44,960**

Movement on Balances in 2015/16:

2015/16	Land and Buildings £000	Surplus Assets £000	Vehicles, Plant and Equipment £000	Total Property, Plant and Equipment £000
Cost or valuation				
At 1 April 2015	45,175	-	7,293	52,468
Revaluation increases / (decreases) recognised in the Revaluation Reserve	90	-	-	90
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	3	(67)	-	(64)
Assets reclassified	(1,185)	-	-	(1,185)
Additions	145	817	419	1,381
At 31 March 2016	**44,228**	**750**	**7,712**	**52,690**
Accumulated Depreciation and Impairment				
At 1 April 2015	-	-	5,604	5,604
Depreciation Charge	1,863	-	526	2,389
Depreciation written out to the Revaluation Reserve	(324)	-	-	(324)
Depreciation written out to the Surplus / Deficit on the Provision of Services	(11)	-	-	(11)
Impairment losses / (reversals) recognised in the Surplus/Deficit on the Provision of Services	-	-	72	72
At 31 March 2016	**1,528**	**-**	**6,202**	**7,730**
Net Book Value				
at 31 March 2016	**42,700**	**750**	**1,510**	**44,960**
at 31 March 2015	**45,175**	**-**	**1,689**	**46,864**

Depreciation
The following useful lives and depreciation rates have been used in the calculation of depreciation:

Land	Freehold land is not depreciated
Buildings	Remaining useful life as estimated by qualified valuer
Vehicles and IT Equipment	20% of the carrying amount
Other Equipment	5 years

Capital Commitments
The Council had no major capital commitments at 31 March 2017.

Effect of Changes in Estimates
In 2016/17, the Council made no material changes to its accounting estimates for property, plant and equipment.

Revaluations
The Council is required to revalue its property, plant and equipment at least once every five years. A full revaluation of all land and property assets was carried out as at 1st April 2015, and a rolling valuation programme has been implemented from this date onwards with the assets being valued split equally over the five year period. The valuations are carried out by Kempton Carr in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors (RICS).

Valuations of vehicles, plant and equipment are based on current prices where there is a second-hand market or latest prices adjusted for the condition of the asset.

12. Heritage Assets
The Council's main heritage assets are war memorials and the total book value of these is as follows:

2015/16 £000		2016/17 £000
	Cost or Valuation	
160	Balance at 1 April	156
(3)	Depreciation	(2)
(1)	Revaluations	0
156	Balance at 31 March	**154**

Depreciation is not required on heritage assets which have indefinite lives. However, war memorials have been valued by a qualified valuer and are deemed to have finite lives so depreciation has been charged in line with the Council's policy.

Heritage assets (where only insurance values are available) have not been reflected in the balance sheet. The statues and sculpture assets are subject to vandalism and the insurance values reflects the level of past insurance claims and the civic regalia and works of art are regarded de-minimus under the Council's asset valuation policy.

13. Investment Properties
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 in respect of investment properties:

2015/16 £000		2016/17 £000
(59)	Rental income from properties	(8,888)
68	Direct operating expenses arising from investment properties	25,613
9	**Total Net Cost**	**16,725**

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 receive income and the proceeds of disposal.

The following table summarises the movement in the fair value of investment properties over the year:

2015/16 £000		2016/17 £000
	Cost or Valuation	
215	Balance at 1 April	215
-	Additions	417,500
-	Revaluation Loss	(25,570)
215	**Balance at 31 March**	**392,145**

Fair Value Hierarchy

Details of the Council's investment properties and information about the fair value hierarchy as at 31 March 2017 is shown below:

Fair value as at 31 March 2016 (Level 2) £000	Recurring Fair Value measurement using:	Fair value as at 31 March 2017 (Level 2) £000
71	Land	192,521
144	Building	199,624
215	**Total**	**392,145**

Valuation Techniques used to Determine Level 2 Fair Values for Investment Properties

Significant Observable Inputs – Level 2
The land and buildings located in the local area are measured using the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local 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 taking into account any restrictions on use or sale. Such restrictions include known planning limitations on potential change of use and known title restrictions including existing tenancies.

Valuation Techniques
There has been no change in the valuation techniques used during the year for investment properties.

Valuation process for Investment Properties
The fair value of the Council's investment property is measured annually at each reporting date. All valuations were carried out by the Council's valuer in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation experts work closely with finance officers reporting directly to the Deputy Chief Executive on a regular basis regarding all valuation matters.

14. Intangible Assets
Intangible assets include purchased software licenses and these are amortised on a straight line basis over a period of five years.

31 March 2016 £000		31 March 2017 £000
444	Balance at 1 April	409
181	New Capital Expenditure	238
(216)	Less Amortisation	(192)
409	**Balance at 31 March**	**455**

15. Financial Instruments
The following categories of financial instruments are carried in the Balance Sheet:

31 March 2016 - Restated			31 March 2017	
Long Term £000	Current £000		Long Term £000	Current £000
		Investments		
2,320	-	Loans and receivables	2,596	-
10,197	-	Available-for-Sale assets	19,268	-
-	6,353	Cash and Cash Equivalents	-	7,337
12,517	**6,353**	Total Investments	**21,864**	**7,337**
		Debtors		
-	6,430	Financial assets carried at contract amounts	-	5,811
-	**6,430**	Total Debtors	**-**	**5,811**
		Borrowings		
-	4,026	Financial liabilitites at amortised cost	405,764	7,525
-	**4,026**	Total Borrowings	**405,764**	**7,525**
		Creditors		
-	6,275	Financial liabilities carried at contract amounts	-	21,455
-	**6,275**	Total Creditors	**-**	**21,455**

Income, Expense, Gains and Losses

2015/16 £000		2016/17 £000
27	Interest Payable	4,091
(625)	Interest Income	(945)
(598)	**Total**	**3,146**

Fair Values of Assets and Liabilities
Financial liabilities, financial assets represented by loans and receivables and long term receivables and payables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by

calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated ranges of interest rates at 31st March 2017 of 0.25% to 0.85% for loans and receivables based on new lending rates for equivalent loans at that date.
- No early repayment or impairment is recognised.
- Where an instrument will mature within the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables and payables is taken to be the invoiced or billed amount.
- The fair value of cash, overdrafts, and other cash equivalents is taken to be the carrying amounts.

The fair values calculated are as follows:

31 March 2016 - Restated		Fair Value	31 March 2017	
Long Term £000	**Current £000**		**Long Term £000**	**Current £000**
		Investments		
2,320		Loans and receivables	2,858	-
10,197	-	Available-for-Sale assets	19,268	-
	6,353	Cash and Cash Equivalents	-	7,337
12,517	**6,353**	Total Investments	**22,126**	**7,337**
		Debtors		
-	6,430	Financial assets carried at contract amounts	-	5,534
-	**6,430**	Total Debtors	**-**	**5,534**
		Borrowings		
-	4,026	Financial liabilitites at amortised cost	409,077	7,525
-	**4,026**	Total Borrowings	**409,077**	**7,525**
		Creditors		
-	6,275	Financial liabilities carried at contract amounts	-	19,728
-	**6,275**	Total Creditors	**-**	**19,728**

- Available-For-Sale assets are carried in the Balance Sheet at fair value. These fair values are based on public price quotations where there is an active market for the instrument.

- Short term receivables and payables are carried at cost as this is a fair approximation of their value.

Fair Value of Financial Assets

Some of the Council's financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation technique used to measure them.

Recurring fair value measurements	Input level in fair value hierarchy	Valuation techniques used to measure fair value	Fair Value as at 31st March 2017 £'000
Available for sale: Pooled Investment Funds	Level 1	Unadjusted quoted prices in active markets for identical shares	£19,268

Financial Instruments – Risks

The Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with the Prudential Code for Capital Financing in Local Authorities (revised November 2011).

Nature and Extent of Risks Arising From Financial Instruments
The Council's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk – the possibility that the Council might not have the funds available to meet its financial commitments.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in interest rates and equity prices.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Policies and procedures to minimise risk are set out in the annual Treasury Management Strategy Statement and Annual Investment Strategy approved by the Council. These policies cover principles for overall risk management, as well as covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category. The credit criteria in respect of financial assets held by the Council are as detailed below:

- The Council uses the creditworthiness service provided by its treasury advisors, Arlingclose, to assist its selection of suitable counter-parties. This service aims to assess the credit quality of counter-parties and investment instruments by reference to major rating agencies including Fitch, Moody's and Standard and Poor's. This information is also supplemented by credit default swaps data which provides a market indication of the perceived credit risk for individual institutions. This information may give investors advance warning of credit rating downgrades.
- All credit ratings are generally monitored monthly although the Council is alerted to changes in credit ratings by its treasury advisors, as they are released to the market. Downgraded counter-parties are immediately withdrawn from future use. Investments that no longer meet the Council's minimum criteria are reported to the Deputy Chief Executive (CFO) although where these investments are fixed term deposits, no effective action can be taken until the deposits mature.

- The Council will not solely rely on the service provided by their treasury advisors but it will also make use of other sources of generally available information when considering counter-party credit risk. These may include the use of the quality financial press, market data (including credit default swaps, share price, annual reports, statements to the market etc), information on government support for banks and the credit ratings of that government support.
- The Council will only invest in approved counterparties within the UK or approved counter-parties from countries with a minimum sovereign rating of A- from Fitch Ratings or the equivalent Moody's or Standard and Poor's rating.

The Council's maximum exposure to credit risk in relation to investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's investments and deposits, but there was no evidence as at 31 March 2017 that this was likely to happen.

No formal assessments are generally carried out in respect of individual customers. However, in the event of a significant commitment financial checks would be carried out to minimise the Council's exposure to loss and default.

The Council does not generally allow credit for customers but the following table shows an analysis of balances that are due past their payment date.

31 March 2016 £000		**31 March 2017 £000**
1,225	Less than three months	971
26	Three to six months	61
47	Six months to one year	820
188	More than one year	189
1,485	**Total**	**2,041**

In addition, the Council made a provision for impairment of debt of £596K for the year 2016/17 (£200K 2015/16).

Liquidity Risk

The Council has comprehensive cash flow management procedures in place to ensure that cash is available when required. If unexpected movements happen, the Council has ready access to borrowing from the money markets and there is no significant risk that it will be unable to raise finance to meet its commitments. Borrowing facilities are used for day to day cash flow requirements and all loans are currently less than one year duration. All trade and other payables are due to be paid in less than one year.

Market Risk

Interest Rate Risk

The Council is exposed principally to risk in terms of its exposure to interest rate movements on its borrowing and investments. The Council is heavily reliant on investment income to support expenditure and has several strategies in place for managing such risk.

An external treasury advisor has been retained to provide analysis of market movements and to assist in investment decisions based on their knowledge of current market conditions and interest rate forecasting. Investments are usually for fixed terms and during the year the maturity profile of the Council's portfolio shortened considerably due to the adverse conditions in global financial markets.

The Council currently has no variable rate investments except in respect of bank call accounts which are utilised for short term cash flow monies. These are kept under regular review to ensure the account terms and conditions and the interest rate payable remain competitive.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into setting the annual budget and which is used to update the budget regularly during the year. This allows for any adverse changes to be accommodated. According to this assessment strategy, at 31st March 2017, if interest rates had been 1% higher with all other variables held constant, the financial effect would be that an additional £21k interest would have been received. The impact on the Fair Value would be a reduction of £73.256m; the impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk
The Council's currently invests in pooled investment funds including three equity funds, two corporate bond funds and one property fund. There is an element of price risk because there is an active market for these instruments so the Council could be exposed to losses arising from movements in the share prices.

Details of the Council's investments in these funds including the purchase price and market value as at 31st March 2017, are set out below. The majority of the investments were purchased during the financial year 2012/13 with one purchased in 2014/15 and a couple of further amendments during 2015/16. The date of purchase is in brackets after the name of the fund:

Pooled Investment Fund Held at 31/3/17	Purchase Cost £000	Market value at 31/03/17 £000
Charteris Elite Income Fund (11/05/12)	800	846
Schroders UK Corporate Bond Fund (11/05/12)	1,500	1,700
M&G Optimal Income Sterling (13/04/15)	1,691	1,747
M&G Global Dividend Fund (27/06/12)	1,000	1,634
M&G Extra Income Fund Sterling (15/08/16)	2,000	2,022
Schroders Income Maximiser Fund (06/07/12)	1,000	1,227
Schroders Income Maximiser Fund (24/07/15)	1,000	997
Schroders Income Maximiser Fund (26/08/16)	1,000	1,059
Investec Diversified Income (25/08/16)	3,000	2,954
Threadneedle Inv Services (08/09/16)	2,000	2,089
CCLA Property Fund (31/03/13)	1,500	1,905
CCLA Property Fund (30/04/14)	1,000	1,088
Total Pooled Fund Investments	**17,491**	**19,268**

Foreign Exchange Risk
The Council has no financial assets or liabilities denominated in foreign currencies and thus have no exposure to loss arising from movements in exchange rates.

16. Receivables

31 March 2016 £000		31 March 2017 £000
2,553	Central Government bodies	765
5,783	Other entities and individuals	6,964
61	Other Local Authorities	-
(1,397)	less Provision for Bad Debts	(1,918)
7,000	**Total**	**5,811**

17. Cash and Cash Equivalents
The balance of cash and cash equivalents is made up as follows:

31 March 2016 £000		31 March 2017 £000
5	Cash Held at Bank	5
(103)	Bank Current Accounts	332
6,450	Short Term deposits	7,000
6,352	**Total Cash and Cash Equivalents**	**7,337**

18. Assets Held For Sale
The table below summarises the properties that are currently classified as held for sale.

2015/16 £000		2016/17 £000
0	Balance at 1 April	1,185
1,185	Additions	2,986
-	Reclassification	(1,185)
-	Disposal	(2,986)
1,185	**Balance at 31 March**	**-**

19. Payables

2015/16 £000		2016/17 £000
565	Central Government bodies	73
2,421	Other Local Authorities	2,768
4,144	Other Entities and individuals	18,614
7,130	**Balance at 31 March**	**21,455**

20. Provisions

Business Rates Appeals

Following the introduction of the Business Rates Retention system from 1st April 2014 the Council has taken on 40% of the liability relating to Business Rates Appeals. Business Rate payers have the right to appeal against the rateable value that has been assigned to their premises by the Central Government Valuation Office Agency (VOA). The VOA then assesses the case and if the appeal is reasonable reviews the rateable value. This provision allows for the Council's potential liability in relation to refunds that could be made following successful appeals. The total provision raised at 31st March 2017 is £3,083k (£4,539k 15/16) (included in the Collection Fund) and the Council's share of this liability is £1,552k (£1,816k 2015/16) (included in the Council's Accounts). This has been calculated based on appeals outstanding at the 31st March adjusted for historical trends and success rates.

31 March 2016 £000		31 March 2017 £000
69	Municipal Mutual Insurance	150
1,816	Business Rates Appeals	1,553
1,885	**Balance at 31 March**	**1,703**

The insurance provision includes amounts in relation to Municipal Mutual Insurance. In January 1994, the Council's then insurer, Municipal Mutual Insurance (MMI) made a Scheme of Arrangement with its creditors. Under this scheme, claims are initially paid out in full, but if the eventual winding up of the company results in insufficient assets to meet all liabilities, a clawback clause will be triggered, which can affect claims already paid.

On 13 November 2012, the directors of MMI triggered the Scheme of Arrangement. This was because solvent run off could not be foreseen and there was no alternative to insolvent liquidation.

A Levy notice was issued on 1 January 2014 by the Scheme Administrator at a rate of 15% on established scheme liabilities exceeding £50,000 in aggregate. A further levy notice was issued on 1 April 2016 stating that the levy should now be set at 25%.

The rate of Levy may be adjusted by the Scheme Administrator if, following a review of the financial position MMI, he determines that the rate requires to be increased or decreased. Any such adjustment would be applied to the carried forward gross payments at the time.

Based on most recent insurance data, £149k has been paid to the Scheme as at 31 March 2017, further payments due are estimated to be £150k (£69k for 2015/16), for which a provision has been made.

21. Unusable Reserves

31 March 2016 £000		31 March 2017 £000
20,094	Revaluation Reserve	20,538
897	Available For Sale Reserve	1,968
26,897	Capital Adjustment Account	2,377
14,544	Deferred Capital Receipts Reserve	14,544
(34,768)	Pensions Reserve	(44,129)
(2,295)	Collection Fund Adjustment Account	963
(185)	Accumulated Absences Account	(190)
25,184	**Total**	**(3,929)**

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

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

The reserve contains only the revaluation gains accumulated since 1st 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.

20,766	**Balance at 1 April**	**20,094**
414	Upward revaluation of assets	1,601
-	Written down depreciation	732
(1,086)	Difference between fair value depreciation and historic cost depreciation	(1,889)
20,094	**Balance at 31 March**	**20,538**

Available-For-Sale Financial Instruments Reserve
The Available-For-Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted prices. The balance is reduced when investments with accumulated gains are:

- Revalued upwards/downwards or impaired and the gains are lost.
- Disposed of and the gains are realised.

2015/16 £000		2016/17 £000
1,297	**Balance at 1 April**	**897**
-	Upward revaluation of investments	-
(400)	Upward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	1,071
897	**Balance at 31 March**	**1,968**

Capital Adjustment Account

The Capital Adjustment Account 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 enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling posting from the Revaluation Reserve to convert 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 enhancement.

The Account contains the accumulated gains and losses on investment properties and also contains revaluation gains accumulated on property, plant and equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 7 (Adjustments between Accounting Basis and Funding Basis under Regulations) provides details of the source of all transactions posted to the account, apart from those involving the Revaluation Reserve.

2015/16 £000		2016/17 £000
26,987	**Balance at 1 April**	**26,897**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(2,738)	Charges for depreciation and impairment of non-current assets	(3,467)
(569)	Revenue expenditure funded from capital under statute	(550)
-	Amounts of non-current assets written off on disposal or sale as part of gain/loss on disposal to the Compreheensive Income and Expenditure Statement	(2,986)
1,086	Adjusting amounts written out of the Revaluation Reserve	1,889
24,766	Net written out amount of the cost of non-current assets consumed in the year	**21,783**
	Capital financing applied in the year:	
782	Use of the Capital Receipts Reserve to finance new capital expenditure	2,718
348	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	470
185	Application of grants to capital financing from the Capital Grants Unapplied Account	155
816	Capital expenditure charged against the General Fund balance	2,821
2,131		**6,164**
-	Movement in the value of Investment Properties	(25,570)
26,897	**Balance at 31 March**	**2,377**

Deferred Capital Receipts Reserve

The Deferred capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve. This reserve relates to the Elmsleigh Centre finance lease

2015/16 £000		2016/17 £000
14,544	**Balance at 1 April**	14,544
14,544	**Balance at 31 March**	14,544

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 pay any pension for which it is directly responsible. The 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.

2015/16 £000		2016/17 £000
(38,574)	**Balance at 1 April**	**(34,768)**
5,171	Remeasurement of the net defined benefit liability (assets)	(8,553)
(3,704)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(3,277)
2,339	Employer's pension contributions and direct payments to pensioners payable in the year	2,469
(34,768)	**Balance at 31 March**	**(44,129)**

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 tax payers and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

The Collection Fund is accounted for on an agency basis, the Council being the agent in relation to the collection of Council tax and Business rates. The balance showing below reflects the Council's share of the Collection Fund balance at the end of the financial year.

2015/16 £000		2016/17 £000
(1,788)	**Balance at 1 April**	**(2,295)**
(507)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different	3,258
(2,295)	**Balance at 31 March**	**963**

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 the Account.

2015/16 £000		2016/17 £000
(189)	**Balance at 1 April**	**(185)**
4	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	(5)
(185)	**Balance at 31 March**	**(190)**

22. Statement of Cash Flows – Operating Activities

The cash flows for operating activities include the following items:

2015/16 £000		2016/17 £000
-	Interest received	948
-	Interest paid	(4,091)

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2015/16 £000		2016/17 £000
2,612	Depreciation	3,317
322	Impairment and downward valuations	(260)
-	Amortisation	-
-	Increase/(decrease) in impairment for bad debts	-
(2,511)	Increase/(decrease) in creditors	13,435
(1,665)	(Increase)/decrease in debtors	768
16	(Increase)/decrease in inventories	(18)
1,365	Movement in pension liability	808
(1,002)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	2,986
(534)	Other non-cash items charged to the net surplus or deficit on the provision of services	25,748
(1,397)		**46,784**

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2015/16 £000		2016/17 £000
-	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(758)
-		**(758)**

23. Statement of Cash Flows – Investing Activities

2015/16 £000		2016/17 £000
(1,562)	Purchase of property, plant and equipment, investment property and intangible assets	(422,414)
(134,414)	Purchase of short-term and long-term investments	(295,660)
1,638	Other payments for investing activities	-
-	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	758
134,397	Proceeds from short-term and long-term investments	287,100
(657)	Other receipts from investing activities	447
(598)	**Net cash flows from investing activities**	**(429,769)**

24. Statement of Cash Flows – Financing Activities

2015/16 £000		2016/17 £000
4,000	Cash receipts of short- and long-term borrowing	570,264
(1)	Repayments of short- and long-term borrowing	(160,945)
-	Other payments for financing activities	1,314
3,999	**Net cash flows from financing activities**	**410,633**

25. Members Allowances
The Council paid £313K to members of the Council during the year:

26. Senior Officers' Remuneration
The Council paid to its' senior officers £415,250 (including pensions contributions) during the year:

2016/17

Title	Salaries, Fees and Allowances	Pension contributions	Total
	£	£	£
Chief Executive	115,421	19,310	134,731
Deputy Chief Executive	82,959	13,491	96,449
Deputy Chief Executive	82,957	13,491	96,448
Head of Corporate Governance	75,615	12,007	87,622

2015/16

Title	Taxable Pay	Compensation for loss of office	Total (excl employers pension contributions)	Employers pension contributions	Total incl Employers pension contributions
	£	£	£	£	£
Chief Executive	114,688	-	114,688	19,250	133,938
Assistant Chief Executive	1,644	83,615	85,259	190	85,449
Assistant Chief Executive	82,090	-	82,090	13,303	95,393
Assistant Chief Executive	81,615	-	81,615	13,303	94,918
Head of Corporate Governance	73,912	-	73,912	11,888	85,800

Taxable pay is a net figure reflecting additional voluntary contributions, the figures do not therefore in all cases reflect underlying salaries.
The Council's employees receiving more than the £50,000 remuneration for the year (excluding pension contributions) were paid the following amounts:

Remuneration Band	Number	
(inc Salary and Benefits)	2015/16 - Restated	2016/17
£115,000 - £119,999	1	1
£110,000 - £114,999	1	-
£105,000 - £109,999	-	-
£100,000 - £104,999	-	-
£95,000 - £99,999	-	-
£90,000 - £94,999	-	-
£85,000 - £89,999	1	-
£80,000 - £84,999	3	2
£75,000 - £79,999	-	-
£70,000 - £74,999	1	2
£65,000 - £69,999	2	2
£60,000 - £64,999	3	3
£55,000 - £59,999	1	1
£50,000 - £54,999	1	4
	14	**15**

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
£0-£20,000	1				1		1,386	
£20,001-£40,000				1		1		12,762
£40,001-£60,000				2		2		91,829
£60,001-£80,000								
£80,001-£100,000				1		1		99,652
£100,001-£150,000								
£150,001 -£200,000								
Total	**1**	**0**	**0**	**4**	**1**	**4**	**1,386**	**204,243**

The Council terminated the contracts of four senior employees in 2016/17 incurring liabilities of £204,243 (£1,386 in 2015/16) as set out above.

27. External Audit Costs

The Council has incurred the following cost in relation to the audit of the Statement of Accounts, Certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditor:

2015/16 £000		2016/17 £000
48	Fees payable to KPMG with regard to external audit services carried out by the appointed auditor for the year	48
7	Fees payable to KPMG for the certification of grant claims and returns for the year	8
55	**Total**	**56**

28. Grant Income

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2016/17:

2015/16		2016/17
£'000		**£'000**
	Taxation and non-specific grant income	
3,576	Non-ringfenced government grants	2,427
484	Capital grants and contributions	412
4,060	**Total**	**2,839**
	Credited to Services	
32,277	Housing Benefits	32,352
72	Other grants	130
32,349	**Total**	**32,482**

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 to be returned to the giver, if the conditions are not met. The balance at the year-end was £329,201 (2015/16 - £154,511) and the amounts applied during the year to finance expenditure are as follows:

2015/16 £000		2016/17 £000
	Capital Grants Receipts in Advance	
348	Specific Capital grant (SCG)	644
348	**Total**	**644**

29. 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 has significant influence over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, providing a significant amount of funding in the form of grants and it prescribes the terms of many of the transactions the Council has with other parties (e.g. housing benefits). Details of balances with government departments are set out in notes 16 and 19 above and details of cash received from government grants is set out in note 29 above.

Members of the Council have direct control over the Council's financial and operating policies. During 2016/17 there were no material related party transactions between the Council and Council members. Any declarations of interest are properly recorded in the Register of member's Interests, which is open to public inspection. Senior officers also have the ability to influence the Council and during 2016/17 there were no related party transactions between the Council and senior officers.

Applied Resilience

Applied Resilience is a new Public Service Mutual Company set up in 2015/16 to provide risk and resilience services. The Council invested £10,000 in the company at launch equating to a 10% holding. The Council entered into a 3 year agreement with the company for the provision of emergency planning and resilience services at a cost of £55,000 a year. (£55,000 in 2016/17, £27,500 2015/16)

Knowle Green Estates Ltd

Knowle Green Estates Ltd was set up as a subsidiary company of the Spelthorne Borough Council in May 2016 to provide Housing accommodation services to the Council. The company is 100% owned by Spelthorne Borough Council. Note 36 provides more detailed disclosure on Knowle Green Estates Limited. The following Council representatives hold office in the Company:

- Terry Collier, Deputy Chief Executive - Director
- Lee O'Neill, Deputy Chief Executive - Director
- Councillor Howard Williams, Councillor - Director

30. Capital Expenditure and Financing

The total amount of capital expenditure incurred in the year is shown in the table below, 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 below:

2015/16 £000	CAPITAL FINANCING REQUIREMENT	2016/17 £000
-	**Opening Capital Financing Requirement**	**-**
	Capital investment	
564	Property, Plant and Equipment	1,140
-	Investment Properties	417,500
181	Intangible Assets	238
1,430	Revenue Expenditure Funded from Capital under Statute	3,536
2,175	**Total Capital Investment**	**422,414**
	Sources of Finance	
(783)	Capital Receipts	(2,718)
(532)	Government Grants and Contributions	(625)
(44)	Sums set aside from Revenue	(2,986)
-	Borrowing	(413,264)
(817)	Reserves	(2,821)
(2,175)	**Total Sources of Finance**	**(422,414)**
-	**Closing Capital Financing Requirement**	**-**

31. Leases

Council as lessee
Operating Leases

Expenditure on operating leases in 2016/17 was £881,900 (2015/16 £831,432).

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

2015/16 £000		2016/17 £000
383	Not later than one year	147
21	Later than one year and not later than five years	87
404	**Total**	**234**

Council as Lessor

Operating Leases
The Council leases out property and equipment under operating leases for the following purposes:

- For the provision of the community services, such as sports facilities, tourism services and community centres.

- For economic development purposes to provide to suitable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are;

2015/16		2016/17
£000		**£000**
468	Not later than one year	17,824
1,492	Later than one year and not later than five years	65,470
10,121	Later and five years	168,654
12,081	**Total**	**251,948**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rents reviews. There are no contingent rents for 2016/17 and 2015/16

Council as Lessor

Finance Leases

2015/16 £000		2016/17 £000
14,544	Finance lease debtor (net present value of minimum lease payments):	14,544
120,416	Unearned finance income	119,856
3,830	Unguaranteed residual value of property	3,830
138,790	**Gross investments in the lease**	**138,230**

Gross Investment in the Lease 31 March 16 £000	Gross Investment in the Lease 31 March 17 £000		Minimum Lease Payments 31 March 16 £000	Minimum Lease Payments 31 March 17 £000
560	560	Not later than one year	560	560
2,240	2,240	Later than one year and not later than five years	2,240	2,240
135,990	135,430	Later than five years	132,160	131,600
138,790	**138,230**	**Total**	**134,960**	**134,400**

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

32. Impairment Losses

Paragraph 4.7.4.2(1) of the Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in note 11 reconciling the movement over the year in the Property, Plant and Equipment and Intangible Asset balances. There were no impairment losses in 2016/17 (£72,271 in 2015/16).

33. Defined Benefit Pension Schemes

Participation in Pension Schemes

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 that needs to be disclosed at the time the employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme (LGPS), administered locally by Surrey 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.

Arrangements for the award of discretionary post- retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognise when awards are made. However, there are no investment assets built up to meet these pension liabilities and cash has to be generated to meet actual pension payments as they eventually fall due.

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 we are 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 via the Movement in Reserves Statement during the year.

2015/16 £000		2016/17 £000
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
	Service cost comprising:	
2,293	Current service cost	2,102
213	Past service cost	-
	Financial and Investment Income and Expenditure:	
1,198	Net interest expense	1,175
3,704	Total Post-employment Benefits charged to the Surplus or Deficit on the provision of Services	**3,277**
	Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	
	Remeasurement of the net defined benefit liability comprising:	
1,394	Return of plan assets (excuding the amount included in the net interest expense)	(8,019)
(5,060)	Actuarial gains and losses arising on changes in financial assumptions	18,399
(1,505)	Other	(1,827)
(1,467)	Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	**11,830**
	Movement in Reserves Statement	
(3,704)	Reversal of net charges made to the Surplus or Defict on the Provision of Services for post-employment benefits in accordance with the code	(3,277)
	Actual amount charged against the General Fund Balance for pensions in the year:	
2,339	Employer's contributions payable to scheme	2,469

Pensions 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 benefit plans is as follows:

2015/16 £000		2016/17 £000
103,230	Present value of the defined benefit obligation	121,626
(68,462)	Fair value of plan assets	(77,497)
34,768	**Net liability arising from defined benefit obligation**	**44,129**

Reconciliation of the Movements in the fair value of the scheme plan assets

2015/16 £000		2016/17 £000
68,967	**Opening fair value of scheme assets**	**68,461**
2,119	Interest income	2,304
	Remeasurement gain/ (loss):	
(1,394)	The return on plan assets, excluding the amount included in the net interest expense	8,019
2,136	Contributions from employer	2,270
540	Contributions from employees into the scheme	564
(3,907)	Benefits paid	(4,122)
68,461	**Closing fair value of scheme assets**	**77,496**

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

2015/16 £000	**Funded Liabilities:**	2016/17 £000
	Local Government Pension Scheme (LGPS)	
107,542	**Opening balance at 1 April**	**103,230**
2,293	Current service cost	2,102
3,317	Interest cost	3,479
540	Contributions from scheme participants	564
	Remeasurement (gain) and losses:	
(5,060)	Actuarial gains/losses arising from changes in financial assumptions	18,399
(1,505)	Other	(1,827)
213	Past service cost	-
(203)	Liabilities assumed on entity combinations	(199)
(3,907)	Benefits paid	(4,122)
103,230	**Closing balance at 31 March**	**121,626**

Local Government Pension Scheme assets comprised:

2015/16 £000	Asset category	2016/17 £000
	Equity Securities:	
5,499.5	Consumer	6,287.2
4,185.2	Manufacturing	5,699.3
1,923.4	Energy and utilities	3,124.4
4,892.9	Financial institutions	5,482.3
2,413.0	Health and care	2,070.8
3,707.7	Information technology	4,364.8
100.7	Other	157.8
	Debt Securities:	
2,928.7	Corporate Bonds (investment grade)	2,690.3
181.7	Corporate Bonds (non-investment grade)	169.9
-	Government	157.9
91.4	Other	355.2
	Private Equity:	
2,723.4	All	3,252.6
	Real Estate:	
4,131.5	UK Property	4,406.4
536.8	Overseas Property	28.7
	Investment Funds and Unit Trusts:	
17,821.2	Equities	21,490.4
7,346.1	Bonds	8,471.0
8,479.8	Other	-
	Derivatives:	
0.3	Interest Rate	(2.3)
(412.7)	Foreign Exchange	109.8
	Cash and Cash Equivalents:	
1,911.1	All	9,180.5
68,461	**Total assets**	**77,497**

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 are payable in future years dependant on assumptions about mortality rates, salary levels etc.

The fund liabilities have been assessed by Hymans Robertson, LLP, an independent firm of actuaries, being based on the latest full valuation of the scheme as at 31 March 2017.

The principal assumptions used by the actuary have been:

2015/16		2016/17
%	**Long-term expected rate of return on assets in the scheme:**	%
4.50	Equity Investments	4.50
4.50	Bonds	4.50
4.50	Property	4.50
	Cash	
Years	**Mortality assumptions:**	Years
	Longevity at 65 for current pensioners:	
22.50	Men	22.50
24.60	Women	24.60
	Longevity at 65 for future pensioners:	
24.50	Men	24.10
26.90	Women	26.40
%	**Other assumptions:**	%
2.50	Rate of inflation	2.50
3.60	Rate of increase in salaries	2.70
2.10	Rate of increase in pensions	2.40
3.40	Rate of discounting scheme liabilities	2.50
25.00	Take-up of option to convert annual pension to retirement lump sum	25.00

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 the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decrease for men and woman. 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.

Change in assumptions at 31 March 2017	Increased in Assumptions £000	Decrease in Assumption £000
Rate of increase in salaries (0.5%)	1,232	
Rate of increase in pensions (0.5%)	8,794	
Decrease in rate for discounting scheme liabilities (0.5%)		10,156

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. Funding levels are monitored on an annual basis. The triennial revaluation was completed on 31st March 2016.

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 services schemes may not provide benefits in relation to service after 31st

March 2016 (or service after 31st March 2017 for other main existing public service pension schemes in England and Wales). 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 Council anticipated to pay £2.320m expected contributions to the scheme in 2017/18.

The weighted average duration of the defined benefit obligation for scheme members is 15.7 years for 2016/17 (16.5 years 2015/16).

34. Contingent Liabilities
Mortgage guarantees on shared ownership properties which will only occur if the mortgagees default on payment and any charge to the Council will be accounted for at that time. No specific provision has been made in the accounts for this.

35. Contingent Assets
The Council may be able to recover compound interest from HMRC for VAT repayments already received for sports and leisure activities in respect of the Fleming case. No specific provision has been made for this in the accounts.

36. Knowle Green Estates Limited

INCORPORATION AND ACCOUNTING PERIOD

Knowle Green Estates Limited is a 100% owned subsidiary of Spelthorne Borough Council. The company was incorporated on 9 May 2016. Its first accounting period is from 9th May 2016 to 31st March 2017.

DIRECTORS

T M Collier was appointed as a director on 9 May 2016 and held office during the whole of the period from then to the date of this report.

L O'Neil was appointed as a director on 9 May 2016 and held office until 14 June 2016 when the appointment was terminated.

H R D Williams was appointed as a director on 14 June 2016 and held office during the whole of the period from then to the date of this report.

FINANCIAL PERFORMANCE
In its first year of operation the company made a loss of £71,109. It had net assets of £2,894,799 at 31st March 2017. Its major asset is a property, Harper Hotel, valued at £2,873,761 after depreciation. This asset was donated to the company by the Council.

INTRA-GROUP Transactions

Income

Income of £234,868 was received from the Company from the Council during the accounting period.

Expenditure

Expenditure of £39,311 was incurred by the Company for staff provided by the Council.

Collection Fund

The Collection Fund reflects the statutory obligation for billing Councils to maintain a separate Collection Fund. The statement shows the transactions of the billing Council in relation to the collection from taxpayers and distribution to local Councils and the Government of council tax and non-domestic rates.

	Total 2015/16 £000	Business Rates 2016/17 £000	Council Tax 2016/17 £000	Total 2016/17 £000
INCOME				
Council Tax Receivable	63,177		65,744	65,744
Business Rates Receivable	42,174	45,733		45,733
Transitional Protection Payments Receivable	(12)	-		-
	105,339	**45,733**	**65,744**	**111,477**
Contribution towards previous year's Deficit				
Central Government	791	4,406		4,406
Spelthorne Borough Council	632	3,525	-	3,525
Surrey County Council	158	881	-	881
	1,581	**8,812**	**-**	**8,812**
EXPENDITURE				
Precepts, Demands and Shares				
Central Government	22,523	22,768		22,768
Spelthorne Borough Council	24,946	18,215	7,181	25,395
Surrey County Council	50,817	4,554	48,586	53,139
Surrey Police	8,198		8,435	8,435
	106,484	**45,536**	**64,201**	**109,738**
Contribution towards previous year's Surplus				
Spelthorne Borough Council	266	-	148	148
Surrey County Council	1,780	-	990	990
Surrey Police	315		175	175
	2,361	**-**	**1,313**	**1,313**
Charges to the Collection Fund				
Less: write offs of uncollectable amounts	143	858	234	1,092
Less: Increase / (Decrease) in Bad Debt Provision	862	513	75	587
Less: Increase / (Decrease) in Provision for Appeals	(1,192)	(657)		(657)
Less: Cost of Collection	130	129	-	129
	(57)	**842**	**309**	**1,151**
Surplus / (Deficit) arising during the year	**(1,868)**	**8,166**	**(80)**	**8,086**
Movement on the Collection Fund				
Surplus / (Deficit) brought forward 1st April	(2,835)	(6,143)	1,440	(4,703)
Movement on the fund balance for the year	(1,868)	8,166	(80)	8,086
Surplus / (Deficit) carried forward 31st March	**(4,703)**	**2,024**	**1,360**	**3,384**

Council Tax

The Tax Base is the number of banded properties that the Council uses to set the Council Tax. It is the total number of properties in the borough weighted by reference to the Council Tax bands, which range from A to H. The Tax Base is calculated using the equivalent number of Band D dwellings. The tax base as at 31 March 2017 was:

Valuation Band	Number of Chargeable Dwellings	Ratio	Equivalent Band D dwellings
A	438	6/9	292
B	1,626	7/9	1,265
C	8,810	8/9	7,831
D	14,527	1	14,527
E	9,986	11/9	12,205
F	4,592	13/9	6,633
G	2,124	15/9	3,540
H	111	18/9	222
Total	**42,214**		**46,515**
Number of Band D Equivalents in lieu			41
Less: Allowance for losses on collection and appeals			(691)
Council Tax Base			**45,865**

Non-Domestic Rates

Non-domestic rates receivable are based on local rateable values multiplied by a national non-domestic rate multiplier. The total non-domestic rateable value as at 31 March 2017 was £116,437,304 and the national non-domestic rate multiplier for 2016/17 was 0.479 and 0.466 for small business.

ANNUAL GOVERNANCE STATEMENT 2016-17

Scope of responsibility

Spelthorne Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, this includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website at www.spelthorne.gov.uk or can be obtained from The Council Offices, Knowle Green, Staines TW18 1XB. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (amendment) (England) Regulations 2011 in relation to the publication of an annual governance statement.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled. It also identifies activities through which the Council accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives of appropriate, cost effective services

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised, and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2017 and up to the date of approval of the statement of accounts.

The Governance Framework

The key elements of the systems and processes that comprise the Council's governance arrangements are summarised below:

<u>Identifying and communicating our vision and outcomes for citizens and service users</u>

- The Council publishes on regular basis (normally every three years) its Corporate Plan.
- The Corporate Plan and priorities feed into the Service Plans which set out the financial and performance objectives of each service for the year. In 2016 the Council published a Corporate Plan for 2016-19

- The Council has a comprehensive system for the completion of Service Plans and performance reviews. A review of 16/17 is being produced and service plans for most areas have been completed for 17/18. In 16/17 service plan completion was mixed due to many areas of the Council undergoing significant structural change following on from the appointment of Group Heads in April 2016. Many service plans were therefore not completed until the autumn. However, a suite of key performance indicators were reported on quarterly to Surrey chief executives
- Other significant plans and policies are contained within the Policy Framework and are regularly reviewed to ensure that they remain relevant and effective. In 17/18 a major review of policies is being undertaken to ensure they are regularly updated revised and reported on especially following on from the organisational changes in 16/17.

Reviewing our vision and its implications for our governance arrangements

- The Council regularly reviews the overall vision for the Council and the Borough and its implications for the Council's governance arrangements. Progress towards the achievement of the corporate priority objectives will be monitored through the performance management system and reported to Cabinet or to the Overview and Scrutiny Committee as appropriate.

- The Council engages with the public through multiple channels depending on the circumstances. We also work closely with our partners to understand the wider work of the public sector in Spelthorne. This is co-ordinated through the Local Strategic Partnership 'Spelthorne Together'. The objectives of Spelthorne Together are reviewed annually at its annual assembly each September. The Council is currently discussing with its partners the way forward for the Spelthorne Together partnership.

stablished clear channels of communication with all sections of our community and other stakeholders, ensuring accountability and encouraging open consultation

- Communication and Consultation strategies are in place, together with an Equality and Diversity Strategy helping to ensure that all groups in our community have a voice, can be heard and are suitably consulted.

  The Council undertakes to consult on new policies, strategies and plans which will have an effect on the Spelthorne community. The Council uses a wide variety of methods to obtain feedback from the community. Recent examples of consultation exercises can be viewed on our on-line consultation pages.
  The Council is developing its use of social media to provide additional opportunities to engage with its residents. The Council has recently reviewed its mobile website to ensure that it is responsive to the growing need for residents to engage with the Council through mobile technology. .

- Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

- Spelthorne Borough Council has an agreed Constitution which details how the Council operates, how decisions are made and the procedures, which are to be followed to ensure that these are efficient, transparent and accountable to local people. The Council operates Executive arrangements with a Leader and Cabinet (since 2011-12 it has operated the Strong Leader model whilst retaining a Cabinet) who recommend the major policies and strategies to the

Council. The Cabinet is also responsible for most of the non-regulatory functions of the Council. The Cabinet is made up of the Leader and eight other cabinet members, who are all appointed by the Leader. Major decisions which affect significant proportions of the community are published in advance in the Cabinet's Forward Plan, and will always (unless there are exceptional circumstances) be discussed in a meeting open to the public. All decisions must be in line with the Council's overall policies and budget. Any decisions the Cabinet wishes to take outside the budget or policy framework must be referred to Council as a whole to decide.

- There is one scrutiny committee ie. the Overview and Scrutiny Committee which reviews decisions and actions taken by the Cabinet and other Council functions. A 'call-in' procedure allows scrutiny to review Cabinet decisions before they are implemented, thus presenting challenge and the opportunity for a decision to be reconsidered. The scrutiny committee also reviews, monitors and scrutinises the performance of the Council in relation to its policy objectives, performance targets, action plans and relationships with external partnership bodies and organisations. Within its community leadership functions, the scrutiny powers have been exercised by the Council in relation to the work of other partner organisations which affect the whole of the Spelthorne Community.

- The Council has agreed a Local Code of Corporate Governance in accordance with the revised CIPFA/SOLACE Framework for Corporate Governance and in doing so has adopted the highest possible standards for the governance of the Council.

<u>Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff</u>

The standards of conduct and personal behaviour expected of members and officers of Spelthorne Borough Council, its partners and the community are defined and communicated through codes of conduct and protocols. The Members Code of Conduct was revised in 2012 reflecting the changes required by the Localism Act. It has subsequently been kept under review by the Members Code of Conduct Committee along with the supporting arrangements for residents to make a complaint. The Staff Code of Conduct was also reviewed around the same time The protocols include:

- Member Code of Conduct Committee
- A policy on Gifts, Hospitality and Sponsorship
- A Conflicts of Interest policy
- A performance management system
- Regular performance appraisals for staff linked to corporate and service objectives
- An Anti Fraud, Bribery and Corruption policy
- The Member / Officer protocol

<u>Whistle-blowing and receiving and investigating complaints from the public</u>

- Confidential reporting arrangements are in place to enable internal and external whistle blowing. Informants are requested to be open in their disclosure, but it is recognised that on occasions informants will wish to remain anonymous.

  The Council handles complaints effectively, the corporate complaints process was reviewed and revised in 2016-17 following a management restructuring with new arrangements implemented in 2017

Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks

- The Council regularly reviews and updates standing orders, standing financial instructions, its scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks. In the recent years both Financial Regulations and Contract Standing Orders have been revised in light of changing circumstances. Refresher training on procurement and the application of the Contract Standing Orders has been provided to officers.

Compliance with relevant laws and regulations, internal policies and procedures

- Spelthorne Borough Council has a duty to ensure that it acts in accordance with the law and various regulations in the performance of its functions. It has developed policies and procedures for its officers to ensure that, as far as is possible, all officers understand their responsibilities both to the Council and to the public. Two key documents are the Financial Procedure Rules and the Contract Standing Orders, which are available to all officers via the Council's Intranet, as well as available to the public as part of the Constitution, which is published on the Council's website.

- Other documentation includes corporate policies on a range of topics such as Equality and Diversity, Customer Care, Data Protection, and Fraud. All policies are subject to internal review to ensure these are adequately maintained. The Council keeps all staff aware of changes in policy, or new documentation following new legislation. Reminders are provided for staff on key policies which protect them and the public, for example the whistle-blowing policy and the Money Laundering Regulations.

- The Council has a designated Monitoring Officer who is the Head of Corporate Governance who is responsible for ensuring compliance with established policies, procedures, laws and regulations. After consulting with the Head of Paid Service and the Chief Finance Officer, the Monitoring Officer will report to the full Council if he considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered. No reports have been necessary in recent years.

Measuring the quality of services for users, for ensuring they are delivered in accordance with our objectives and for ensuring that they represent the best use of resources

- The Council has performance management and data quality arrangements in place for measuring the quality of services for users, and for ensuring they are delivered in accordance with the Council's objectives and for ensuring that they represent the best use of resources.

Financial Management

- The financial management of the Council is conducted in accordance with the financial rules set out in Part 4 of the Constitution, which includes the Financial Regulations. The Council has a designated officer who fulfils the role of the Section 151 Officer in accordance to the Local Government Act 1972. The Council has in place a medium term financial strategy. The Section 151 officer sits on the corporate management team in line with best practice.

- Internal financial control is based on a framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability.

- Ongoing development and maintenance of the various processes may be the responsibility of other managers within the Council.

  In particular, the process in 2016/17 included:

- The setting of the Outline Budget framework and the detailed annual Budget;
- The production of an Efficiency Plan for the Department of Communities and Local Government by the required October 2016 deadline
- Monitoring of actual income (including investment returns) and expenditure against the annual Budget;
- Monitoring business rates retention performance and levels of appeals
- Setting of financial and performance targets, including the prudential code and associated indicators;
- Monthly reporting of the Council's financial position to corporate Management Team and quarterly to the Cabinet and the Overview and Scrutiny Committee;
- Clearly defined capital expenditure guidelines;
- The monitoring of finances against a Medium Term Financial Plan;
- The Council has invested resource in both its key asset income generation projects designed to generate future income to help offset the impact of reducing revenue support grant and in its Staines-upon-Thames development programme designed both to support the Council's economic development priority and to generate income for the Council
- The Council successfully acquired a major income generating asset within the Borough which significantly improved the Council's financial position
- Managing risk in key financial service areas.
- Funding from the Department for Local Government and Communities was made available across Surrey for an 18 month period from January 2015 to June 2016 to assist in the detection and prevention of non-benefit fraud (corporate fraud). Spelthorne participated along with other Surrey Councils, focusing on housing, (homeless and housing applications, tenancy fraud, right to buy applications) and business rates (evasion and avoidance). Significant payback/returns have been achieved from the DCLG grant funding (Spelthorne received £60,000) and as at 30th June 2016 the cumulative return for Spelthorne was £675k (shared across SBC, Surrey CC and Surrey Police). The proportion of savings retained by Spelthorne for the 18 month period were in excess of £200k. On the basis of this positive outcome a revenue growth bid for additional fraud resource was approved for 2017/18. At 31st March 2017 the cumulative return for Spelthorne since the start of the Surrey Fraud Partnership in January 2015 was £855k, out of which £581k related to Business Rates.

Sustainability

The Council recognise the importance of good governance in supporting the delivery of broader sustainability objectives; During 2016-17 the Council:

- Consulted on and updated its Economic Assessment and Strategy for the Borough and implemented a new action plan for implementation
- Updated its sustainability plan

Effectiveness of Internal Audit

- The Council maintains an internal audit section, which operates to the standards set out in the 'Public Sector Internal Audit Standards'
- A review of the effectiveness of internal audit is undertaken annually and considered by the Audit Committee.

A Governance (Audit) Committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Councils*

- The Council has an Audit Committee which is responsible for considering the effectiveness of the Council's system of internal control. This Committee performs the core functions as set out in CIPFA guidance. Undertaking the core functions of an audit committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Councils*

Compliance

- The Council's financial management arrangements conform with the governance requirements of CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (2010) with the Chief Financial Officer being a member of the corporate management team.

Performance and Risk Management

- The Council has performance management and data quality arrangements in place for measuring the quality of services for users, and for ensuring they are delivered in accordance with the Council's objectives. Following on from the LGA Peer Review in 2014 the Council has refreshed its approach to performance management to include regular reporting on a suite of indicators. The Council has further reviewed this and annual performance reviews have been produced for 16/17 following on from this a performance management strategy is being developed together with reporting on corporate plan implementation
- The Corporate Risk Management Group meet periodically. The Council's Corporate Risk Register is owned by the corporate management team which review it three times a year, as well as Cabinet and Audit Committee. During 2016-17 the Council improved how information on progress on addressing risks is identified on the Corporate Risk Register. Audit Services support the risk management process through the risk based audit approach and are assisting Managers in populating risk and control assurance templates. Risk management is built into the Council's corporate project management methodology.

The development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

- A resourced training and development plan is in place for officers and members of the Council, clearly linked to the Corporate and Service Plans and statutory responsibilities.

Incorporating good governance arrangements in respect of partnerships and other group working

The Council incorporates good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflects these in the Council's overall governance arrangements. The Council works closely with partner commissioning Councils, e.g. Surrey County Council and the Clinical Commissioning Group.

The ethical conduct of members and officers of this Council

- The Council has established a Members Code of Conduct Committee and the Members Code of Conduct was revised in accordance with the new national framework.

Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the managers within the Council who have responsibility for the development and maintenance of the governance environment, the Internal Audit Managers' annual report, and also by comments made by the external auditor and other review agencies and inspectorates.

Officer's reviewed the Council's governance arrangements and assessed them against the six CIPFA/SOLACE core principles underpinning the then new Code of Corporate Governance framework issued by CIPFA/SOLACE. The six principles are:

- Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area
- Members and officers working together to achieve a common purpose with clearly defined functions and roles
- Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- Developing the capacity and capability of members and officers to be effective
- Engaging with local people and other stakeholders to ensure robust accountability

In order to establish the ongoing basis for Annual Governance reporting, an officer working group consisting of Head of Audit Services, Head of Corporate Governance and Head of Finance and Resources completed during 2011-12 a detailed assessment of the Council's position against the criteria set out in the eight objectives underpinning the Code of Governance framework. The eight objectives are:

- Establish principal statutory obligations and organisational objectives
- Identify principal risks to achievement of objectives
- Identify and evaluate key controls to manage principal risks
- Obtain assurances on effectiveness of key controls
- Evaluate assurances and identify gaps in control/assurances
- Action plan to address weaknesses and ensure continuous improvement of the system of Corporate Governance
- Produce the Annual Governance Statement

- Report to Audit Committee

The review included reviewing the constitution, procedures and obtaining confirmation of arrangements from key officers to ensure that there was sufficient and relevant evidence to provide assurance that there are appropriate controls in place.

The officers' review of arrangements against the six principles included considering the arrangements in place for:

- The Council
- The Cabinet
- The Audit Committee and Overview and Scrutiny Committee
- The Members Code of Conduct Committee
- Internal audit
- Other explicit review/assurance mechanisms.

The review this year has provided reassurance to management of the Council that the governance arrangements in place are adequate and effective. The review has been considered by the corporate management team as well as by Audit Committee

The LGA Corporate Peer Challenge in 2014 provided useful feedback on the effectiveness of our governance arrangements and made some suggestions for consideration relating to overview and scrutiny.

The Constitution was reviewed by Council in 2016 following extensive work by Legal and Committee Services teams, the corporate management team and close liaison and feedback from members.

Significant governance issues

Informed by the work of the Internal Audit Manager our opinion is that the Council's internal control environment is adequate and effective. This is based on the work undertaken by Audit services during 2016/17 which is summarised in the Annual Audit report.

Management has agreed in the majority of cases to address any shortcomings identified by Audit, or accept the associated risks of not doing so. Issues with a significant level of risk attached have been transferred into the Council's Corporate Risk Register for regular monitoring by Management Team and the Audit Committee to ensure agreed recommendations are implemented.

During 2016-17 internal audit reviews made recommendations in the following areas:

ICT - Incident management process - identified scope for users to be made aware of their responsibilities and procedures to follow when reporting an incident, encouraging prompt reporting iof security weaknesses and regular training.

Emergency Planning and Business Continuity –- monitoring the agreement with Applied Resilience for the delivery of Emergency and Business Continuity Planning to incorporate specific targets and outcomes to enable meaningful performance monitoring.

Housing Benefits areas for improvement relating to:

- Debt management and reporting (overpayments);and Management review of daily reconciliations between Council Tax Support and Council Tax.

- Cash Collection and Banking – improvement actions identified relating to reconciliation process

- Leisure Centre Contract – recommendations made with respect to monitoring the profit sharing clause , and project management planning with respect to preparing for post 2021 Leisure Centre provision

Community Infrastructure Levy (CIL - Planning) -Scope for improvement was identified in terms of: timeliness of issuing income demand notices to developers and undertaking income reconciliation (regular exercises should form part of budget monitoring)

- Partnership Governance- A responsible officer to review, update and re-issue the Partnership Governance policy. A list of significant Partnerships entered into (strategic, commercial and work- related) should be identified and recorded centrally (work in progress).A number of other recommended actions relate to improving the governance arrangements.

- Housing - Reduction in processing times for homelessness applications to be targeted; formalisation of delegations for routine decisions;

- Provision of a banding changes report would enable clearer visibility of all banding changes and would facilitate management checks.

- Improvements to be made to monthly Sales Ledger Aged Analysis monitoring. Management review to gain assurance that all reported housing related frauds are being captured on the spreadsheet; streamlining records relating to fraud.

Creditors –recommendations highlight the need to implement compensating controls in view of the absence of segregation of duties between system administration and the processing of transactions on the system. Compliance with corporate credit card procedures has also been highlighted.

- Main Accounting Systems - Maintain a succession plan to ensure a smooth transition if key members of the Finance team leave the Council; Update the Finance service risk register with the risk and mitigating controls in the event of possible disruption to the service through absence or vacant positions. Review and update procedures guidance. Ensure journals properly evidenced. Review and improvement closedown procedures to enable the Council to meet the challenge of tighter deadlines in future.

- Business Rates – improve procedures with respect to processing refunds, updating accounts, managing suppressed accounts. Develop further efforts to counter fraud or evasion.

Debtors- improvement actions for Corporate Debt Group to update its term of reference and improve aspects of monitoring and debt recovery. Implementation of current and outstanding internal audit recommendations representing a medium or high priority should be monitored through the Corporate Debt Group, with particular emphasis on analysing aged outstanding debts and taking necessary action, clarifying responsibilities and accountability for sundry debt recovery in light of recent staffing and structural changes, establishing targets for collection rates and regular production of management information to facilitate performance management.

- Performance Management-ensure comprehensiveness of Service Planning process; review existing performance indicators; improved monitoring of the staff appraisal system

- Safeguarding – following through on circulation of the Children's and Adult Safeguarding Policy ; ensure Safeguarding Officers follow correct procedures for making children's referrals; provide an annual report to corporate management on safeguarding actions

- Procurement- recommendations made to inform the development of the Procurement Hub being set up and to ensure that the Council meets fully the requirements of the Transparency Code.

- Economic Development – with respect to the new Economic Assessment and Strategy for 2017-2020 recommendations made with respect to clarifying responsibilities and timescales for actions and improving monitoring processes.
- Health and Safety – Health and Safety Policy to be formally approved by Members of the Council; to ensure delivery of the 2017 Management Activity programme a number of actions are required such as training sessions on the SHE system and updating Management guidance .

Cllr Ian Harvey	Daniel Mouawad
....	....
Cllr Ian Harvey Leader of the Council	Daniel Mouawad Chief Executive

Independent auditor's report to the members of Spelthorne Borough Council

We have audited the financial statements of Spelthorne Borough Council for the year ended 31 March 2017 on pages 12 to 68. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2016/17.
This report is made solely to the members of the Council, as a body, in accordance with Part 5 of the Local Audit Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer 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 Council Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2017 and of the Council's expenditure and income for the year then ended; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2016/17.

Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if:

- the Annual Governance Statement set out on pages 69 to 78 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' CIPFA/SOLACE 2014 Edition); or
- the information given in the Narrative Statement for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under section 24 of the Local Audit Accountability Act 2014 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under section 24 of the Audit Commission Act 2014; or
- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

We have nothing to report in respect of these matters.

Conclusion on Spelthorne Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Council's responsibilities

The Council 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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Comptroller and Auditor General (C&AG) 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 Council 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the C&AG in November 2016 as to whether the 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 C&AG has determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are satisfied that, in all significant respects, Spelthorne Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of Spelthorne Borough Council in accordance with the requirements of the Local Audit Accountability Act 2014.

Joanne Lees
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

October 2017

GLOSSARY OF TERMS

ACCOUNTING POLICIES

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:
(i) recognising,
(ii) selecting measurement bases for, and
(iii) presenting assets, liabilities, gains, losses and changes to reserves.
Accounting policies do not include estimation techniques.
Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the accounts it is to be presented.

ACCRUALS

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

ACTUARIAL GAINS AND LOSSES

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:
(a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
(b) the actuarial assumptions have changed.

BEST VALUE

A Government initiative introduced in 1998 in a series of pilot projects and now supported by legislation from 1999, which is aimed at measuring the economy, efficiency and effectiveness of all local Council services.

BUDGET

The Council's aims and policies set out in financial terms against which performance is monitored. Both revenue and capital budgets are prepared.

CAPITAL EXPENDITURE

Expenditure on the acquisition of a fixed asset or expenditure, which adds to and not merely maintains the value of an existing fixed asset.

CAPITAL ADJUSTMENT ACCOUNT

An account that reflects the extent to which fixed assets have been financed from revenue contributions or capital receipts, and the provision for the repayment of external loans. This account replaced the Capital Financing Account from 1st April 2007.

CAPITAL RECEIPTS

The proceeds from the sale of (or reduction in our interest in) capital assets such as land, buildings and equipment.

COLLECTION FUND

A separate account maintained by the Council recording the amounts collected and distributed in relation to council tax and non-domestic rates.

COMMUNITY ASSETS

The council also owns assets classified as community assets. This includes land in cemeteries and parks which is held for community use in perpetuity, has no determinable useful life and may have restrictions on disposal. These assets are generally valued at historic cost and are not shown in the Balance Sheet as the historic cost is de-minimus.

CONSISTENCY

The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

CONTINGENCY

A situation, which exists at the Balance Sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

CONTINGENT LIABILITIES

A potential liability that is uncertain because it depends on the outcome of a future event.

CORPORATE AND DEMOCRATIC CORE

The corporate and democratic core comprises all activities which local Councils engage in specifically because they are elected, multi-purpose Councils. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

COUNCIL TAX

A local tax levied by local Councils on its residents.

CURRENT ASSET

An asset that is realisable or disposable within less than one year without disruption to services.

CURRENT LIABILITY

A liability that is due to be settled within one year.

CURRENT SERVICE COST (PENSIONS)

The increase in present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

CURTAILMENT

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:
(a) termination of employee's services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business; and
(b) termination of, or amendment to, the terms of a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

DEFINED BENEFIT SCHEME

A pension or other retirement benefit scheme into which an employer pays regular contributions (fixed as an amount or as a percentage of pay) and will have alegal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current prior periods.

DEPRECIATION

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time, obsolescence or other changes.

DISCRETIONARY BENEFITS

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 2006.

DOUBTFUL DEBT

A debt that the Council is unlikely to recover. A provision is made in the accounts for doubtful debts each year based on how long debts have been outstanding.

EXPECTED RATE OF RETURN ON PENSION ASSETS

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

EXPERIENCE GAINS/LOSSES

These are a type of actuarial gain/loss within the valuation of the pension fund. See actuarial gains/losses.

FINANCE LEASE

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

FINANCIAL REPORTING STANDARD (FRS)

Accounting standards governing the treatment and reporting of income and expenditure in an organisation's accounts.

FIXED ASSETS

Tangible assets that benefit the local Council and the services it provides for a period of more than one year.

GENERAL FUND

The division of the Council's accounts covering services paid for by the precept on the Collection Fund (Council Tax).

GOING CONCERN

The concept that the Council will remain in operational existence for the foreseeable future, in particular that the revenue accounts and Balance Sheet assume no intention to curtail significantly the scale of operations.

GOVERNMENT GRANTS

Government assistance whether in the form of cash or transfers of assets in return for compliance with certain conditions relating to the activities of the Council.

HERITAGE ASSETS

Heritage asset are assets with historic, artistic, scientific, technological, geophysical or environmental qualities held and maintained principally for its contribution to knowledge and culture.

IMPAIRMENT
A reduction in the value of a fixed asset below its carrying amount in the Balance Sheet.

INFRASTRUCTURE ASSETS
Fixed assets that are inalienable, expenditure that is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

INTERNATIONAL FINANCIAL REPORTING STANDARDS
Accounting practices recommended by the major accounting bodies and applied internationally.

INVESTMENTS
A long-term investment that is intended to be held for use on a continuing basis in the activities of the Council.

INVESTMENT PROPERTIES
Interest in land and/or buildings in respect of which construction work and development have been completed and which is held for its investment potential.

LIQUID RESOURCES
Current asset investments that are readily disposable by the Council without disrupting its business and are either: readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

LONG-TERM ASSET
A fixed asset that may be held indefinitely for the provision of services or is realisable over a longer period than one year.

LONG-TERM BORROWING
A loan repayable in more than one year from the Balance Sheet date.

LONG-TERM CONTRACTS
A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

LONG-TERM RECEIVABLE
An individual or body that owes money to the Council that is not due for payment within one year from the Balance Sheet date.

NATIONAL NON-DOMESTIC RATE (NNDR)
Business rate levied on companies and other businesses etc.

NET ASSETS
The amount by which assets exceed liabilities (same as net worth).

NET BOOK VALUE
The amount at which fixed assets are included in the Balance Sheet, i.e. their historical costs or current value less the cumulative amounts provided for depreciation.

NET CURRENT LIABILITIES

The amount by which current liabilities exceed current assets.

NET CURRENT REPLACEMENT COST

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

NET EXPENDITURE

Total expenditure for a service less directly related income.

NET REALISABLE VALUE

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

NET WORTH

The amount by which assets exceed liabilities (same as net assets).

NON-DISTRIBUTED COSTS

Overheads for which no direct user benefits and which are therefore not apportioned to services.

NON-OPERATIONAL ASSETS

Fixed assets held by a local Council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

OPERATING LEASES

A lease other than a finance lease.

OPERATIONAL ASSETS

Fixed assets held and occupied, used or consumed by the local Council in the direct delivery of those services for which it has either a statutory or discretional responsibility.

PAST SERVICE COST

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

PAYABLE

An individual or body to which the Council owes money at the Balance Sheet date.

POST BALANCE SHEET EVENTS

Those events, both favourable and unfavourable, which occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

PROJECTED UNIT METHOD

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:
(a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependents, allowing where appropriate for future increases; and
(b) the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.

PROVISIONS

An estimated figure within the accounts for liabilities that are known to exist, but that cannot be measured accurately.

RECEIVABLE

An individual or body that owes money to the Council at the Balance Sheet date.

REDUCING BALANCE DEPRECIATION

Depreciation on an asset is charged at a higher percentage rate in the earlier years of an asset and the amount of depreciation reduces as the life of the asset progresses.

RELATED PARTIES

Two or more parties are related parties when at any time during the financial period:

(i) one party has direct or indirect control of the other party; or

(ii) the parties are subject to common control from the same source; or

(iii) one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or

(iv) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

RELATED PARTY TRANSACTION

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

REMUNERATION

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

RESIDUAL VALUE

The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

RETIREMENT BENEFITS

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employer's decision to terminate an employee's employment before the normal retirement date or (ii) an employer's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

REVALUATION RESERVE

Unrealised gains and losses on revaluation of fixed assets.

REVENUE EXPENDITURE/INCOME

The cost or income associated with the day-to-day running of the services and financing costs.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)
Revenue expenditure funded from capital under statute represent spending which may properly be capitalised, but where no tangible fixed asset is created e.g. improvement grants and social housing grants.

REVENUE SUPPORT GRANT
Government financial support that does not have to be spent on a particular service. It is based on the Government's assessment of the Council's spending need, its receipt from national business rates, and its ability to generate income from the council tax.

SCHEME LIABILITIES
The liabilities of a defined scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflects the benefits that the employer is committed to provide for service up to the valuation date.

SERVICE REPORTING ACCOUNTING CODE OF PRACTICE (SeRCOP)
The code of practice containing a standard definition of services and total cost so that spending comparisons can be consistent between local Councils.

SETTLEMENT
An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:
(a) a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
(b) the purchase of an irrevocable annuity contract sufficient to cover vested benefits; and
(c) the transfer of scheme assets/liabilities relating to a group of employees leaving the scheme.

STOCKS
The amount of unused or unconsumed stocks held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises. Stocks comprise the following categories:
(a) goods or other assets purchased for resale;
(b) consumable stores;

STRAIGHT-LINE BASIS
Dividing a sum equally between several years.

USEFUL LIFE
The period over which the local Council will derive benefits from the use of a fixed asset.

VESTED RIGHTS
In relation to a defined benefit scheme, these are:
(a) for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
(b) for deferred pensioners, their preserved benefits;
(c) for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependents.

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Update to Audit committee 17 October 2017

Procurement

A Procurement and Contract Manager is now in post. The post holder Damola Aladesium is a fully qualified CIPS (Chartered Institute of Purchasing and Supply). He joined us on 18 September and has already met Group Heads to assess the number of contracts held in order to update the Contracts register and to discuss with them any future procurements. We are also now using the SEportal (Intend) for both procurement and within it a module for contract management which will assist in producing an up to date contract management system. The volume of work to be undertaken is significant but progress is already being made and a detailed work programme developed.

Partnerships

The Group Head for Commissioning and Transformation issued a report to Management team in July 2017 outlining the intention to implement all of the recommended actions. As a first stage a list of significant partnerships entered into across the authority has been compiled and shared. Unfortunately due to pressures of work/other priorities elsewhere we have not had the resource over the summer to take this further. It is intended as soon as possible to fully assess the Governance arrangements for the current partnerships.

Human Resources

HR continue to be mindful of succession planning and staff training. Currently we are, as part of the apprenticeship levy, encouraging managers to look at staff training needs. This is because the levy can be used to provide/fund training for existing staff in certain areas, which will help them grow into roles and future responsibilities associated with those roles.

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