



To:
All members of the
Audit Committee

Please reply to:

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Date: 20 March 2023

Supplementary Agenda

Audit Committee - Thursday, 23 March 2023

Dear Councillor

I enclose the following items which were marked 'to follow' on the agenda for the Audit Committee meeting to be held on Thursday, 23 March 2023:

- | | | |
|-----------|---|------------------|
| 4. | KPMG 2017/18 Audit Opinion | 3 - 148 |
| | To receive and note the KPMG 2017/18 Audit Opinion. | |
| | | |
| 7. | Corporate Risk Management | 149 - 152 |
| | To consider and present to Corporate Policy and Resources Committee the significant strategic risks and issues highlighted in the report from the Internal Audit Manager. | |

Yours sincerely

Fiona Connelly
Corporate Governance

To the members of the Audit Committee

Councillors:

Spelthorne Borough Council, Council Offices, Knowle Green

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H. Harvey (Chairman)
J. Button (Vice-Chairman)
S. Buttar

T. Fidler
I.T.E. Harvey
K. Howkins

L. E. Nichols
P. Briggs

Audit Committee

23 March 2023



Title	External Auditor's 2017-18 Opinion
Purpose of the report	To make a Key Decision
Report Author	Terry Collier, Chief Finance Officer
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	
Corporate Priority	Not applicable
Recommendations	<p>Committee is asked to:</p> <ol style="list-style-type: none"> 1. To accept the ISA 260 report from KPMG, (the External Auditor), KPMG and to accept the opinions on the Statement of Accounts and Value for Money 2. To recommend that the Chair of the Audit Committee and Chief Finance Officer, sign the Accounts and the letter of representation.
Reason for Recommendation	The Audit Committee is responsible for considering reports of external auditors.

1. Summary of the report

- 1.1 Whilst the External Auditor presented a draft ISA 260 report to the Committee in February 2019, due to the length of time it took the External Auditor to reach a conclusion on Value for Money opinion, which was ultimately resolved by their issuing a Public Interest Report, which was considered by an Extraordinary Council Meeting on 8th December 2022 the final ISA260 had just been issued.
- 1.2 As the ISA 260 report (Appendix A) states the audit has been undertaken over a prolonged period. Significant elements of the audit of the financial statements were completed in 2018 and 2019. The auditors' initial work on the value for money work was undertaken in 2019 following completion of the 2016/17 audit. As a result of this work, the Auditor determined that significant additional procedures were required in relation to the purchase of investment properties.
- 1.3 ISA 260 requires the Auditors to communicate to the Council 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.).

Statement of Accounts

1.4 The Auditors confirm that they received complete draft accounts by 31 May 2018 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. The ISA260 and the Auditor's Opinion report (Appendix B) conclude that in the Auditor's opinion the financial statements (Appendix C) :

- a) give a true and fair view of the financial position of the Authority and the Group as at 31 March 2018 and of the Authority's and the Group's expenditure and income for the year then ended; and

- b) have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Value for Money and Public Interest Report

1.5 The ISA 260 concludes an adverse Value for Money opinion for the reasons set out in the Auditor's 2022 Public Interest report. The report raised significant concerns regarding the Authority's programme of investment in commercial properties and the implications of those transactions for its overall finances. In particular, these concerns arose from the purchase of three commercial properties during the financial year 2017/18. At the Extraordinary Council Meeting on the 8th December 2022 the Council responded to those concerns and agreed the recommendations of the PIR. There is a latter report on the Agenda of this Committee setting out how the Council is following up those recommendations.

Follow up of Recommendations

1.6 The Auditors identified six prior year recommendations that require further action by Management, and one further recommendation that was superseded by a new recommendation in 2017/18. Eight new recommendations were been raised in 2017/18. These relate to the bank and payroll reconciliations, preparation of Group/Subsidiary accounts in compliance with the CIPFA Code due to different interpretations of guidance,

and purchase of commercial properties. All recommendations are shown in appendix 1 of the ISA report. Officers confirm that all of the recommendations have been addressed.

Management Representations

- 1.7 The Auditors are asking Management to provide specific representations (Appendix D) on:

The valuation of land and buildings which have not been revalued in year are not materially misstated given movements in values;

Investment property is appropriately valued and that there have been no subsequent events that would impact the valuations as at 31 March 2018; and

—The completeness and accuracy of disclosures and financial information relating to Knowle Green Estates Ltd.

Officers confirm the representations in the letter and ask that the Committee approve the Chair of the Committee and the Chief Finance Officer sign the Letter of Management Representations.

Judgements

- 1.8 **NDR (Business Rates) Appeals:** 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 disclosures relating to the provisions are appropriate. The provision has been adjusted to remove an amount for the NHS appeal, following the NHS Trusts having withdrawn their application to the Appeals Court in 2021. This was done as a late adjustment as a post balance sheet event following discussions between the Auditors and the Council.

- 1.9 **Property, Plant and Equipment:** full valuation took place in 2014/15 before the adoption of a five 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. The Auditors reviewed instructions provided and have assessed that the valuation exercise is generally in line with the instructions.

2. Options analysis and proposal

- 2.1 Option 1 – to accept the Auditor's report (**recommended**)
- 2.2 Option 2 – to not accept the Auditor's report. (**not recommended**). The Council needs to accept the report to enable the Auditors to conclude their work and for BDO to be able to commence their audit work on subsequent accounts.

2.3 **Financial Implications**

The Auditors fees are highlighted on page 17of the ISA report

3. **Risk considerations**

3.1 Addressed by the ISA260 report.

4. **Legal considerations**

4.1 There are no direct legal implications. Further to the Local Audit and Accountability Act 2014, the External Auditor is required to satisfy themselves that the Council's accounts comply with statutory requirements.

5. **Procurement considerations**

5.1 Not applicable

6. **Other considerations**

6.1 None

7. **Equality and Diversity**

7.1 Not applicable

8. **Sustainability/Climate Change Implications**

8.1 Not applicable

9. **Timetable for implementation**

9.1 Report to be accepted at the Committee on 23rd March 2023

10. **Contact**

10.1 Terry Collier t.collier@spelthorne.gov.uk

Background papers:

Appendices:

Appendix A: ISA 260 Report

Appendix B Auditor's Opinion

Appendix C Statement of Accounts

Appendix D Letter of Management Representation



External Audit Report 2017/18

Spelthorne Borough Council

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March 2023

Content

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Important notice

1. Summary

2. Financial statements audit

3. Value for money conclusion

Appendices

- 1 Recommendations raised and followed up
- 2 Materiality and reporting of audit differences
- 3 Audit differences
- 4 Audit independence
- 5 Audit quality framework

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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 Joanne 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, Tim Cutler (tim.cutler@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, or by writing to Public Sector Audit Appointments Limited, 18 Smith Square, London, SW1P 3HZ.

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 has been undertaken over a prolonged period. Significant elements of the audit of the financial statements were completed in 2018 and 2019. Our initial work on the value for money work was undertaken in 2019 following completion of the 2016/17 audit. As a result of this work, we determined that significant additional procedures were required in relation to the purchase of investment properties. This required detailed and complex discussions concerning legal and governance issues and obtaining necessary specialist legal advice. This work resulted in us issuing a report in the public interest to the Council in November 2022. Following completion of this work our audit is now substantially complete. We are in the process of completing our final review procedures and final consultations needed. We will provide an oral update on the status of our audit at the Audit Committee meeting.

Financial statements audit – see section 2 for further details

Our work in relation to the audit of the financial statements is substantially complete. We have read the Narrative Report and reviewed the Annual Governance Statement (AGS). Our key findings are:

- We have identified one unadjusted audit difference and one unadjusted presentational difference, as set out in appendix 3. We are satisfied these differences are not material in quantitative (our materiality level is set at £1 million) or qualitative terms.
- There are six adjusted audit differences and eight adjusted presentational 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 2017/18.
- In addition to our routine requests we are asking for management representations over the following, which are explained in section 2:
 - The valuation of land and buildings which have not been revalued in year are not materially misstated given movements in values
 - The valuation of investment property is fairly stated and that there have been no subsequent events that would impact the valuations as at 31 March 2018; and
 - The completeness and accuracy of disclosures and financial information relating to Knowle Green Estates Ltd.
- Subject to receiving an updated Annual Governance Statement, reflecting our audit reporting, we expect to report that your AGS complies with delivering Good Governance guidance issued by CIPFA / SOLACE in April 2016.
- We reviewed the narrative report and have no matters to raise with you.
- We did not receive any queries or objections from local electors this year.

Value for money – see section 3 for further details

We have concluded that the Authority has not established proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Recommendations raised as a result of our 2016/17 audit, which resulted in an adverse conclusion on the arrangements that the Authority has in place, remained for the 2017/18 period.

Further risks and weaknesses were identified specifically in relation to the investment property purchases in 2017/18. A Report in the Public Interest was issued in November 2022.

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.).

Report in the Public Interest

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

On 30 November 2022, we issued a report in the public interest under Section 24 and Schedule 7 of the Local Audit and Accountability Act 2014 to the Authority. The report raised significant concerns regarding the Authority's programme of investment in commercial properties and the implications of those transactions for its overall finances. In particular, these concerns arose from the purchase of three commercial properties during the financial year 2017/18.

Follow-up of recommendations

We identified six prior year recommendations that require further action by Management, and one further recommendation that was superseded by a new recommendation in 2017/18. Eight new recommendations have been raised in 2017/18. These relate to the bank and payroll reconciliations, preparation of Group/Subsidiary accounts in compliance with the CIPFA Code due to different interpretations of guidance, and purchase of commercial properties. All recommendations are shown in appendix 1.

Other work completed

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

- Housing benefits: this was finalised in December 2018 in line with the statutory deadline.

The fees for this work is explained in section two.

Section Two

Financial statements audit

We audit your financial statements by undertaking the following:

Work Performed	Accounts production stage		
	Before	During	After
1. Business understanding: review your operations	✓	✓	-
2. Controls: assess the control framework	✓	-	-
3. Prepared by Management Request (PBM): issue our prepared by management 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 2017/18 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. We have also considered the impact of subsequent events to the date of this report.
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 have made three new recommendations which relate to the bank reconciliation, the payroll reconciliation and the presentation of balances relating to the subsidiary in the financial statements. 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. We have chosen not to place reliance on their work due to the approach we adopted for the financial statements audit.
3. Prepared by management request (PBM)	We produced the PBM to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We tailored our request to the Authority and this was issued as a final document to the finance team. We have noted an improvement in the quality of working papers compared to the prior year. The Authority made good use of the SharePoint system for sharing working papers.

Financial statements audit

4. Accounting standards	For 2017/18 these changes were minor disclosure changes.
5. Accounts Production	<p>We received complete draft accounts by 31 May 2018 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.</p> <p>The Authority incorporated measures into its closedown plan to manage this complex process. The Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to year-end. We consider that the overall process for the preparation of your financial statements was adequate. The areas which you need to pay particular attention to in the future are: the completion of reconciliations, and the disclosure of the subsidiary in line with the code.</p>
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	<p>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 provided an updated draft of this representation letter to the Chief Financial Officer on 17 March 2023. 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:</p> <ul style="list-style-type: none"> — The valuation of land and buildings which have not been revalued in year are not materially misstated given movements in values; — Investment property is appropriately valued and that there have been no subsequent events that would impact the valuations as at 31 March 2018; and — The completeness and accuracy of disclosures and financial information relating to Knowle Green Estates Ltd.

Section Two

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 other 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 2017/18 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 the valuation of land and buildings, investment properties, pension liabilities and faster close 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.

Section Two

Financial statements audit

Authority significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Valuation of land and buildings	NBV £4,206K (PY £2,683K)	<p>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees land and buildings revalued over a five year cycle. As a result individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.</p> <p>We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach.</p> <p>In addition, we considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time.</p> <p>In relation to those assets which have been revalued during the year we assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions in reaching the year-end valuation).</p> <p>As a result of this work we determined that additions could be vouched to supporting information. We used a KPMG valuer to assess the valuation report provided by the Authority's valuer and provide challenge. Entries related to the valuation had been processed correctly, as such we are satisfied as to the valuation of the assets valued in 2017/18.</p> <p>We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 15.</p> <p>Our work in relation to the valuation of land and buildings is complete.</p>

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Pension liabilities	Pension liabilities £44,860K PY £44,129K	<p>The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Surrey Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.</p> <p>As part of our work we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary. We liaised with the auditors of the Pension Fund to gain an understanding of the effectiveness of the controls operated by the Pension Fund. This included consideration of the processes and controls with respect to the assumptions used in the valuation.</p> <p>We reviewed the appropriateness of the key assumptions included within the valuation and, compared them to expected ranges. We also reviewed the methodology applied in the valuation by the actuary.</p> <p>In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 15.</p> <p>We have received a response from the Pension Fund auditor to the letter sent by KPMG requesting information under the PSAA regulations. This identified one misstatement relating to a £389k unadjusted error on benefits payable at a fund level (not specific to the Authority).</p>

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Faster close		<p>At the time of issuing our Audit Plan, the planned significant shortening of the timetable to prepare and audit financial statements (the revised deadlines would have required draft accounts by 31 May and final signed accounts by 31 July) was considered to represent a significant risk across the sector.</p> <p>However, subsequently the timetable for the production and audit of local government financial statements has been revised. This along with the delay to finalisation of our audit as a result of the Value for Money risks identified, has led to this no longer being assessed as a significant risk.</p>
Investment properties	<p>Fair value £635,745K PY £392,145K</p>	<p>The Authority has purchased a number of investment properties during the 2017/18 financial year, in addition to the BP Campus which was purchased in 2016/17. There was a risk that such assets, which are outside the Authority's core operations were overvalued and not accounted for correctly within the financial statements.</p> <p>We reviewed the approach that the Authority had adopted to assess the risk that the valuation of investment assets are not materially misstated and consider the robustness of that approach. We assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions). We reviewed the accounting entries to understand whether the purchase of the properties had been recorded correctly in the accounts. We understood and challenge management around whether there were any indicators of impairment.</p> <p>We have set out our view of the assumptions used in valuing investment properties at page 15.</p> <p>Whilst our work is complete and there are no specific issues to raise on the accounting entries in 2017/18, our work in this area is intrinsically linked to our work on our value for money conclusion and the report in the public interest that we have issued specifically relating to the Authority's purchases of commercial properties.</p>

Section Two

Financial statements audit

Authority other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Other area of audit focus	Account balances effected	Summary of findings
Group accounts		<p>The Authority has a wholly owned subsidiary, Knowle Green Estates Ltd and is required to prepare Group Accounts in 2017/18 on the basis of materiality. There is a risk that the assets within the subsidiary are not valued appropriately and that the related party entries disclosed within the Authority accounts are materially misstated. There is also a risk that the disclosures required per applicable Accounting Standards and Code Guidance are not made appropriately within the financial statements.</p> <p>We have reviewed the valuation of the assets held within Knowle Green Estates Ltd, including assessing the professional competence of the valuer engaged and reviewing the instructions sent to the valuer. We have reviewed and checked the disclosures made within the Authority accounts for accuracy, presentation and compliance with applicable Accounting Standards and Code guidance.</p> <p>Financial statements had not been fully prepared for Knowle Green Estates Ltd as at 13 July 2018. The presentation of balances relating to the subsidiary within the Authority's accounts was incorrect in the first draft of the financial statements received. We required the completion of disclosures related to the subsidiary company in line with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom and this included the provision of more detailed balances related to the subsidiary company.</p> <p>We have set out our view of the assumptions used in valuing assets held within Knowle Green Estates at page 16.</p>

Financial statements audit

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
<p>Fraud risk from revenue recognition</p>	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>We do not consider this to be a significant risk for the majority of the Authority's income as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk for Council Tax, Business Rates, Housing rents, and social services income and do not incorporate specific work into our audit plan in these areas over and above our standard fraud procedures. However, we do consider it for income relating to grants which have been received with conditions attached, and rental income.</p>	<p>We have completed cut off testing over a sample of income items to assess whether the sampled items had been recorded in the correct accounting period. This has not identified any issues in the samples we have completed to date.</p> <p>We compared the Authority's accounting policy for revenue recognition to the accounting policy within the CIPFA Code of Practice in Local Authority Accounting and did not identify any issues to bring to the Authority's attention.</p> <p>We completed detailed sample testing over a sample of revenue items (including grants received) to assess whether these had been accounted for in line with the Authority's accounting policies.</p> <p>We identified one grant which should be classified as ringfenced but was not. The impact was immaterial and is adjusted. We are satisfied the matter is not pervasive.</p> <p>There are no matters from this work which we need to bring to your attention from the testing completed to date.</p>
<p>Fraud risk from management override of controls</p>	<p>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.</p> <p>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.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	<p>There are no matters arising from this work that we need to bring to your attention.</p>

Section Two

Financial statements audit

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 (other than NDR)	3	3	£0.15 (PY: £0.15)	There are no individually material provisions that do not relate to NDR, and we have not identified any indicators that a provision has been omitted in error.
NDR provisions	3	4	£0.9 (PY: £1.5)	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 disclosures relating to the provisions are appropriate. The provision has been adjusted to remove an amount for the NHS appeal, following the NHS Trusts having withdrawn their application to the Appeals Court in 2021.
Accruals de minimis level	3	3	-	We have completed our testing in this area, and have no matters to bring to your attention.

Assessment of subjective areas				
Asset / liability class	Current year	Prior year	Balance (£m)	KPMG comment
Property, plant and equipment	4	4	£55.8 (PY: £44.9)	<p>A full valuation took place in 2014/15 before the adoption of a five 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 have assessed that the valuation exercise is generally in line with the instructions.</p> <p>The disclosures relating to PPE are proportionate.</p>
Debtors provisioning	2	2	£3.7 (PY: £3.1)	<p>The provision has increased since the prior year however has fallen as a percentage of trade receivables. Overall we consider management's approach to be appropriate and based on a reasonable policy.</p>
Pension liability	3	3	£44.8 (PY: £44.1)	<p>The Authority continues to use Hymans Robertson to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation.</p> <p>We have reviewed the actual assumptions adopted by the actuary and consider that they fall within our expected ranges.</p>
Investment properties	3	3	£635.7 (PY: £392.1)	<p>We have engaged a valuation specialist to review the valuation reports related to the investment properties purchased by the Authority. The Authority has engaged professional valuers to value the investment properties. This includes the property held by the subsidiary, Knowle Green Estates Ltd.</p> <p>Our assessment of the assumptions in relation to the valuation is complete and we consider that the judgements that underpin it to be balanced.</p>

Section Two

Financial statements audit

Group audit

We required the completion of disclosures related to the subsidiary company in line with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom and this included the provision of more detailed balances related to the subsidiary company.

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.

Section Two

Financial statements audit

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 have now substantially completed our work. We are in the process of completing our final review procedures and final consultations needed. Once these have been completed, we expect to be in a position to issue our audit certificate.

Whole of Government Accounts (WGA)

Due to the passage of time, the audit of the WGA consolidation pack was not required to be completed.

Other grants and claims work

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

- Housing benefits: work was completed in December 2018 in line with the statutory deadline.

Audit fees

Our planned fee for the audit £48,128 excluding VAT (as reported in our plan approved in June 2018). We will report our final fee position upon completion of the audit. Our prior year was also set at £48,128, excluding VAT. Our overruns in respect of the prior year fee totalled £192,850, excluding VAT. In addition, £10,944 relating to external legal advice sought to support our audit opinion was re-imbursed by the Authority.

Our work on the certification of Housing Benefits (BEN01) has been completed. The fee charged was in line with the planned scale fee of £7,102 excluding VAT (£7,102 excluding VAT in 2016/17).

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

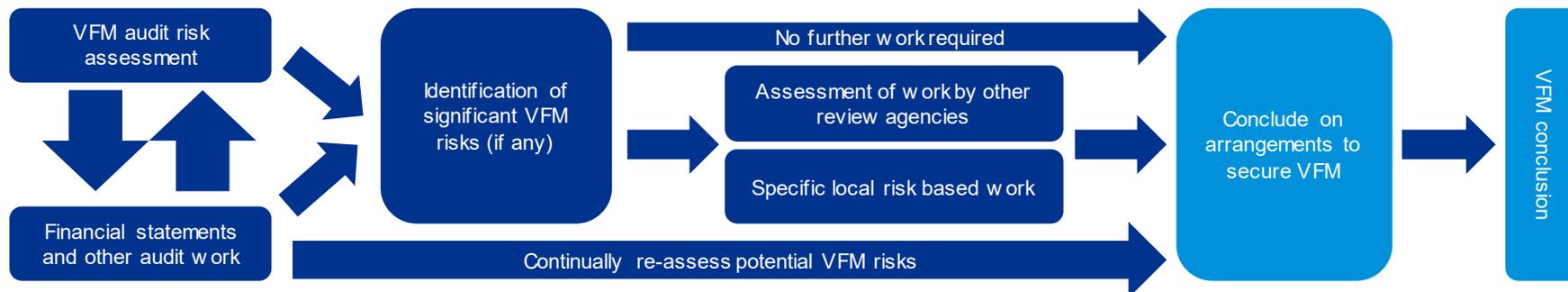
Section Three

Value for money

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk as summarised below:



We identified two significant VFM risks which are reported overleaf. Based upon our findings we will be issuing a non-standard, qualified 'adverse' conclusion on the arrangements that the Authority has for securing value for money.

Significant risk based VFM audit work

Below we set out the detailed findings of our significant risk based VFM work. This work was completed to address the residual risks remaining after our assessment of the higher level controls in place to address the VFM risks identified in our planning and financial statements audit work.

Significant VFM risk	Why this risk is significant	Our audit response and findings
Delivery of budgets	<ul style="list-style-type: none"> — Informed decision making; — Sustainable resource deployment; and — Working with partners and third parties. 	<p>The Authority initially identified a budget gap of £1.5 million in 2017/18 which was subsequently balanced through income generation schemes such as the purchase of investment assets to generate rental revenue and operational savings. The current forecast shows that the Authority will deliver an underspend of approximately £0.58 million but is anticipating that further savings will need to be identified in order to meet the approved balanced budget over the term of the Medium Term Financial Plan.</p> <p>The Authority's budget for 2018/19 has been approved by Council, and a balanced draft budget has been set without the use of reserves, although the Medium Term Financial Plan recognises a need for £3.3 million savings cumulatively by 2021/22. The approved budget includes individual proposals to support the delivery of the overall savings requirement. Further savings will be required over the period to 2021/22 to principally address future reductions to local authority funding alongside service cost and demand pressures. As such the need for savings or increased revenue will continue to have a significant impact on the Authority's financial resilience.</p> <p>We reviewed controls the Authority has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors.</p> <p>Our work in relation to this risk is complete. Whilst we have no issues to report relating specifically to this risk, it does need to be read in conjunction with the overall adverse conclusion and the concerns noted therein relating to long term finance risks.</p>

Significant VFM risk	Why this risk is significant	Our audit response and findings
<p>Investment property decision making</p>	<ul style="list-style-type: none"> — Informed decision making; and — Sustainable resource deployment. 	<p>Over the past two years, starting with the purchase of the BP Campus in 2016/17, the Authority has purchased a number of commercial properties with the objective of diversifying income in the face of reducing grant funding. The aim of the investment purchases is to generate annual revenue surplus to support the provision of services to residents. The Authority has to date focused investment in or around the borough. Purchases of commercial properties have been funded via borrowing.</p> <p>It is critical that the decisions around the decisions to purchase the commercial properties, including the risk assessment, exposure limits, borrowing strategy, and sensitivity analysis (in terms of individual purchases and the commercial property portfolio as a whole) are quantified and discussed at appropriate levels within the Authority prior to decisions being made and in line with statutory and constitutional powers.</p> <p>We set out our concerns regarding the decision-making in relation to the BP Campus purchase in our adverse opinion on the Authority's value for money arrangements in our report on the accounts for 2016/17. During the course of 2017/18, the Authority borrowed over £225 million from the PWLB to fund the purchase of three additional properties located outside of the Borough as commercial property investments (3 Roundwood Avenue, Stockley Park; World Business Centre 4, Heathrow; and Hammersmith Grove).</p> <p>Our 2016/17 audit found significant weaknesses in the Authority's arrangements to ensure value for money. In particular, we found:</p> <ul style="list-style-type: none"> • Poor audit trail in relation to the decision-making process; and • A lack of clarity around the potential financial impact for the Authority if BP were not to renew the lease after 20 years (the length of the lease), in circumstances where the costs of the loan need to be met for 50 years. <p>Our review for the processes in place for the 2017/18 commercial property acquisitions found these weakness to remain. The audit trail remained poor and long-term loans (profiled over a 50-year period) were used to purchase the properties, which significantly exceeded the lease terms with tenants.</p> <p>We also consider that, at the time the three acquisitions in 2017/18 were made, the Authority continued to have inadequate governance arrangements in place, exposing the Authority to a potentially high level of financial risk.</p> <p>Based on the information we reviewed, we could not establish that the Authority had appropriate strategy, processes, and governance prior to investing in commercial real estate. Gaps that we have identified include:</p> <ul style="list-style-type: none"> • a lack of a defined investment strategy at the time of making the acquisitions; • a lack of diversification in the investments; • significant inconsistencies between the time horizon in the financial model (20 years), the debt term (50 years) and the leases (<20 years). More than £468 million of loans are structured for repayment between 21 and 50 years as at 31 March 2018;

Value for money

Significant VFM risk	Why this risk is significant	Our audit response and findings
Investment property decision making (continued)	<ul style="list-style-type: none"> — Informed decision making; and — Sustainable resource deployment. 	<ul style="list-style-type: none"> • no long-term strategy underpinning the acquisitions so that risks such as diversification, liquidity, correlation and systematic risk are managed across the whole investment portfolio; • at the time the acquisitions were made, there was a lack of in-house expertise and investment authorisation processes to invest in commercial real estate; and • the Authority's structure used to deliver/hold the commercial properties involves borrowing the funds directly onto its balance sheet and use the proceeds to purchase properties. As such, the Authority is exposing itself to debt repayment risk, irrespective of the underlying assets' performance. <p>We have issued a Report in the Public Interest as a result of our findings, and further details of these issues are set out in this report.</p> <p>Having considered these weaknesses, we have concluded that in our view the Authority did not have proper arrangements in place for achieving value for money.</p>

Recommendations raised and followed up

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

Priority rating for recommendations			
1	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.	2	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.
3	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	1	<p>Bank Reconciliation</p> <p>Bank reconciliations were not completed on a consistent basis from July 2017. Although the year end bank reconciliation was completed we did identify some issues:</p> <ul style="list-style-type: none"> There is no system in place for the preparation of the bank reconciliation on a periodic basis - the year end bank reconciliation had a number of adjustments which could have been avoided if reconciliations were prepared on a monthly basis throughout the year; The bank reconciliation is not completed on an individual bank account basis – the bank reconciliation at year end was completed for all four bank accounts in aggregate, resulting in differences arising on each bank account which could not be fully reconciled; The year end bank reconciliation had an unexplained difference of £12,653. <p>Given the bank reconciliation is a core control, we recommend that a formal process is put in place for the completion of the bank reconciliation on a monthly basis. This should include back up procedures for when key members of staff are out of the office, for example, on annual leave or sick leave. We also recommend that the reconciliation is reviewed by the Chief Accountant each month, and evidence of the review retained. We recommend that bank accounts are reconciled on an individual basis, and not in aggregate.</p>	<p>Accepted</p> <p>Management response</p> <p>This issue has been progressed during the year and some additional resource was brought in to help with the backlog. Moving forward, this has been built into the team's work plan and a new post has been created which will help ease the burden on the team and progress this issue</p> <p>Due date: 31 October 2018</p> <p>Responsible officer: Deputy Chief Accountant</p>

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
2	1	<p>Accounting for the subsidiary</p> <p>At the start of our audit, financial statements were not yet prepared for the subsidiary. In addition to this, the Authority had not disclosed the transactions relating to the subsidiary in line with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.</p> <p>We recommend that in future accounting periods, the Authority prepares financial statements for Knowle Green Estates Ltd concurrently with the financial statements for the Authority. We also recommend that the Authority review the CIPFA Code of Practice to ensure that all relevant disclosures have been made relating to the subsidiary.</p>	<p>Accepted</p> <p>Management response:</p> <p>Approach for 17/18 was miscommunicated, once clarity was reached the process was undertaken as requested. This suggested approach will be incorporated into the plan for the 18/19 closedown process.</p> <p>Due date: 31 March 2019</p> <p>Responsible officer: Chief Accountant</p>
3	2	<p>Payroll Reconciliation</p> <p>Our audit noted that the payroll reconciliation had not been adequately prepared and reviewed throughout the year. It is critical that the Authority has strong controls in this area.</p> <p>We recommend that a formal process is put in place in order to ensure that the payroll reconciliation is completed and reviewed each month. This should include back up procedures for when the member of staff with responsibility for completing the reconciliation is on annual leave or sick leave. We recommend that the reconciliation is reviewed by the Chief Accountant each month with evidence of the review retained.</p>	<p>Accepted</p> <p>Management response:</p> <p>Controls will be put in place to ensure that this reconciliation is reviewed monthly.</p> <p>Due date: 31 October 2018</p> <p>Responsible officer: Deputy Chief Accountant</p>

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
Value for Money – Purchase of Investment Properties			
4	1	<p>Legal Advice</p> <p>The Authority should obtain legal advice on its powers to enter into specific transactions where those transactions are unusual or high value.</p>	<p>Accepted</p> <p>Management response:</p> <p>Agreed. The Authority will always obtain legal advice as to its powers to enter into specific transactions where those transactions are unusual or high value or the regulatory regime relating to that type of transaction has changed recently.</p> <p>Due date: Authority consider already implemented</p> <p>Responsible officer: Deputy Chief Executive</p>
5	1	<p>Legal Advice</p> <p>Officer reports should clearly identify the legal powers relied on in relation to decisions or transactions and ensure that decision makers are aware of the relevant legal test to lawfully exercise those powers.</p>	<p>Accepted</p> <p>Management response:</p> <p>Agreed. All reports to decision making committees or Authority include a section titled “Legal considerations” which clearly set out the legal basis for the recommendations proposed and highlight any legal risks.</p> <p>Due date: Authority consider already implemented</p> <p>Responsible officer: Deputy Chief Executive</p>
6	1	<p>Exercise of the Authority’s Powers – the Prudential Code</p> <p>The Council should ensure that it has regard to all relevant statutory guidance, including specific aspects of that guidance that apply to particular decisions or transactions, and specifically record its reasons for departing from such guidance if it decides to do so.</p>	<p>Accepted</p> <p>Management response:</p> <p>Agreed. The Council has always had regard to all relevant statutory guidance seeking relevant expert advice and will continue to do so. It will in future more clearly record reasons for departure. Note moving forward the Council’s Capital Programme and Capital Strategy is focused on ensuring that all capital spend is consistent with the revised terms of the Public Works Loans Board and the CIPFA Prudential and Treasury Management Codes.</p> <p>Due date: Authority consider already implemented</p> <p>Responsible officer: Deputy Chief Executive</p>

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
Value for Money – Purchase of Investment Properties			
7	1	<p>Financial Issues</p> <p>The Authority should develop its investment property portfolio modelling to bring these in line with the expected practice of an institutional investor. This should include robust stress testing and sensitivity analysis which incorporates scenarios that cover the highest level of risk for expenditure, revenue, tenant behaviour and external socio-economic factors. Consideration should also be given to the diversification of the portfolio and whether this should be addressed over medium to long term.</p>	<p>Accepted</p> <p>Management response:</p> <p>Agreed. Since the commencement of the Pandemic, the Authority has been refreshing and reviewing on a weekly basis scenario modelling on a worst case and expected case basis to assess the adequacy of its sinking funds reserves. It is notable the PIR report omits to make any reference to the Authority's use of Sinking Funds reserves as its key mitigation measure against the risk of not being able to cover financing payments at any point in the future.</p> <p>The Authority is already committed to undertaking a review of its Sinking Fund Strategy covering the next 50 years bringing independent consultants to review assumptions about future income levels, rental activity and to make recommendations around levels of sinking funds contribution to reserves to ensure that we continue to have a sufficient level of reserves to cover any dips in income and to cover all financing and management costs.</p> <p>Due date: Authority consider already implemented</p> <p>Responsible officer: Deputy Chief Executive</p>
8	1	<p>Governance Issues</p> <p>The Authority should develop an action plan as part of the management of its investment portfolio which addresses each of the weaknesses identified in our report in the public interest. This should be linked to a portfolio risk register, which monitors each of the KPIs, tenant performance and risk to the debt repayment strategy for each investment property asset.</p>	<p>Accepted</p> <p>Management response:</p> <p>Agreed. Investment Strategy – the Authority approved a set of Strategic Investment Parameters in December 2017. The Authority during the period (up to 2018) when it was evaluating investment asset opportunities had a set of criteria focused on: best in class assets; located within the Heathrow functional economic area; located in close proximity to either the airport or public transport infrastructure; and undertaking due diligence on the financial strength of existing tenancies.</p> <p>The Authority's Governance arrangements have evolved since 2017-18, in part because in 2021-22 the Authority moved from a Cabinet governance system to a Committee system.</p> <p>Due date: Authority consider already implemented</p> <p>Responsible officer: Deputy Chief Executive</p>

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):
7	1	6

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
1	1	<p>Financial statements production</p> <p>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.</p> <p>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.</p> <p>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 draw down 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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>Action by: Chief Finance Officer / Chief Accountant</p> <p>Due date: 23 December 2017</p>	<p>In progress</p> <p>The quality of the first draft of the accounts received by KPMG was much improved compared to the prior year.</p> <p>We did, however, identify that key elements of the accounts (the disclosures relating to subsidiaries) were not completed to an appropriate standard, and have raised a recommendation relating to this.</p> <p>The Finance Team were responsive to queries from KPMG.</p>

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
2	1	<p>Resilience of Authority Finance Team</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>The Chief Accountant will be reviewing succession planning and looking to ensure that there is greater resilience in the accountancy team.</p> <p>Action by: Chief Finance Officer / Chief Accountant</p> <p>Due date: 23 December 2017</p>	<p>In progress</p> <p>Whilst the Finance Team has been relatively stable since September 2017, in order to produce a good draft of the financial statements the Authority has been reliant on a contractor. This is not sustainable in the longer term. In addition to this, we noted some key control failures in year (relating to the completion of bank and payroll reconciliations) which had occurred due to staff sickness. There is therefore more work for the Authority to do to develop the resilience of the finance team.</p>

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
3	1	<p>Journal approvals and segregation of duties</p> <p>During our testing of journals we identified issues relating to the way some transactions were processed and evidenced during the financial year 2016/17.</p> <p>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.</p> <p>We recommend that for all journal entries, the Authority ensures:</p> <ul style="list-style-type: none"> • 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. 	<p>Chief Accountant will provide a quarterly review to Chief Finance Officer to confirm compliance. Action by Chief Accountant.</p> <p>Action by: Chief Finance Officer / Chief Accountant</p> <p>Due date: Now implemented</p>	<p>Implemented</p> <p>Management have confirmed that all journals over £20k are signed and a quarterly review is undertaken.</p>

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
4	2	<p>Valuation of land and buildings</p> <p>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.</p> <p>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.</p> <p>We recommend that the Finance implement our action plan ahead of the next valuation exercise.</p>	<p>Agreed.</p> <p>Action by: Chief Accountant</p> <p>Due date: 1 February 2018</p>	<p>In progress</p> <p>We have completed our work in this area, but consider that this recommendation needs to be considered alongside item 6 on the following page - particularly with reference to the detail supporting the consideration that the value of assets between formal valuations remains appropriate.</p>
5	2	<p>Fixed asset registers</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>Action by: Chief Accountant</p> <p>Due date: 31 March 2018</p>	<p>Outstanding</p> <p>A detailed fixed asset register was not available for IT equipment.</p>

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
6	2	<p>Valuation Frequency and Timing (relates to 2015/16)</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>This is particularly important where the Authority elects to continue to obtain valuations dated 1 April.</p>	<p>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.</p> <p>Action by: Principal Accountant and Head of Asset Management</p> <p>Deadline: 30 June 2016</p> <p>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.</p> <p>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.</p> <p>Specific consideration should be given to management reporting to councillors in 2016/17.</p> <p>Action by: Principal Accountant and Head of Asset Management</p> <p>Revised deadline: 30 June 2017</p> <p>Action agreed outstanding.</p> <p>Action by: Chief Accountant in partnership with Commercial Property Manager</p> <p>Revised deadline: 1 March 2018</p>	<p>In progress</p> <p>This has been discussed with our municipal valuers (Kempton Carr Croft) and will be in place for 18/19.</p>

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
7	3	<p>Timeliness of reconciliations (relates to 2015/16)</p> <p>During our testing of payroll controls it was noted that reconciliations are not being prepared and reviewed in a timely manner.</p> <p>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.</p> <p>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.</p>	<p>We will review our procedures around preparing and reviewing the reconciliations that are performed and will look at the resilience issues within the team to cover short term absences.</p> <p>The problems around the testing of cash were not as a result of staff being unavailable or on sick leave.</p> <p>Date: 31st December 2016</p> <p>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.</p> <p>We have therefore re-raised this recommendation to Management.</p> <p>Management Response: Action agreed outstanding. Sickness absences have impacted.</p> <p>Action by: Deputy Chief Accountant</p> <p>Revised deadline: 30 November 2017</p>	<p>Superseded</p> <p>We noted during our audit work that payroll reconciliations are still not being prepared and reviewed in a timely manner.</p> <p>Similar issues were found with the bank reconciliation.</p> <p>We have therefore raised a high priority recommendation to management as part of our work in 2017/18.</p>

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 2017/18, presented to you in June 2018.

Materiality for the Authority's accounts was set at £1 million which equates to around 1.45% 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 £0.65 million 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 £50K are shown below.

Unadjusted audit differences (£'000s)				
No.	Detail	CIES Dr/(cr)	SOFP Dr/(cr)	Comments
1	Short term payables		(221)	There were some cut-off errors because some costs relating to 2017/18 were incorrectly recorded in 2018/19.
	Other expenses	221		
	Total	221	(221)	

Unadjusted presentational adjustments	
#	Basis of audit difference
1	The Adjustments and Transfers between Funds disclosures for the EFA do not agree with the detailed notes. The impact is c. £160k.

Audit differences

Adjusted audit differences

To assist the Audit Committee in fulfilling its governance responsibilities we present a summary of adjusted audit differences (including disclosures) identified during the course of our audit. As our work is ongoing, we have not yet agreed a full list of adjustments with the Authority. We will provide an updated report upon concluding our work.

Adjusted audit differences (£'000s)				
No.	Detail	CIES Dr/(cr)	SOPF Dr/(cr)	Comments
1	Surplus on revaluation of PPE Property, plant and equipment Adjustments between funding and accounting basis Revaluation reserve	(732) 732	 732 (732)	The revaluation gain was incorrectly netted with an audit adjustment relating to the 2016-17 PPE revaluation.
2	Government grants credited to services Non-ringfenced government grant income	(325) 325		The flexible homelessness support grant is incorrectly shown as a non-ringfenced grant.
3	Cash and cash equivalents Short term investments		500 (500)	The draft accounts showed short term investments but none were shown in the trial balance.
4	Short term payables Short term receivables		1,503 (1,503)	Collection fund debtor/creditors were incorrectly shown as gross meaning a payable and receivable for the Council with itself was incorrectly shown, instead of the Council's position after preceptors.
5	Short term payables Investment property income	 8,723	(8,723)	The portion of the rent free top-up from the Hammersmith Grove vendor was not recognised as a receipt in advance.
6	NNDR appeals provision Business rates income	 (1,200)	1,200	The NHS withdrew its appeal for charitable relief on business rates nationally in 2021. Therefore, the provision for such an appeal has now been removed. This adjustment reduces the provision balance by £3m in the collection fund; whereas SBC's 40% share is shown to the left.
	Total	7,523	(7,523)	

Audit differences

Presentational adjustments

We identified presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). Whilst the majority of these adjustments were not significant, we identified a number of adjustments of a more significant nature and details of these are provided in the following table. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Presentational adjustments	
#	Basis of audit difference
1	The revaluation figure in the capital adjustment account is incorrectly netted with a disposal.
2	The operating lease disclosure is misstated as 1-5 years is overstated by £31m and 5+ years is under-stated by £31m. There is no impact on the total.
3	There was a decrease in the finance lease liability of £560k to account for a lease payment. This was correctly accounted but not shown in the disclosure.
4	There were various classification errors in the Financial Instruments disclosure.
5	The statement on accounting policies not yet adopted refers to IAS 17 and not IAS 7.
6	Group accounts were not prepared. Completion of disclosures related to the subsidiary company in line with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom. This includes the provision of more detailed balances related to the subsidiary.
7	The classification of debtors and creditors in the notes were incorrect (i.e. not correctly split between central government, other councils, and others).
8	The current year EFA figures exclude the impact to earmarked reserves (correctly) but this was not reflected in the prior period comparatives.

Audit independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF SPELTHORNE BOROUGH COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: general procedures to safeguard independence and objectivity; breaches of applicable ethical standards; independence and objectivity considerations relating to the provision of non-audit services; and independence and objectivity considerations relating to other matters.

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 partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. 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 are satisfied that our general procedures support our independence and objectivity.

Audit independence

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	48,128	48,128
Overruns	TBC	203,794
Total audit services	48,128	251,922
Allowable non-audit services	-	-
Audit related assurance services	-	-
Mandatory assurance services	7,102	7,102
Total Non Audit Services	7,102	7,102

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0.15:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Appendix 4

Audit independence

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the table below:

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each the return. This work is required by the PSAA. As such we do not consider it to create any independence threats.	Fixed Fee	7,102	7,102
<i>Certification of the housing benefit subsidy return as required by PSAA</i>	The fee is set by PSAA.			

Contingent fees

We have not agreed any contingent fees with the Authority.

Appendix 4

Audit independence

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

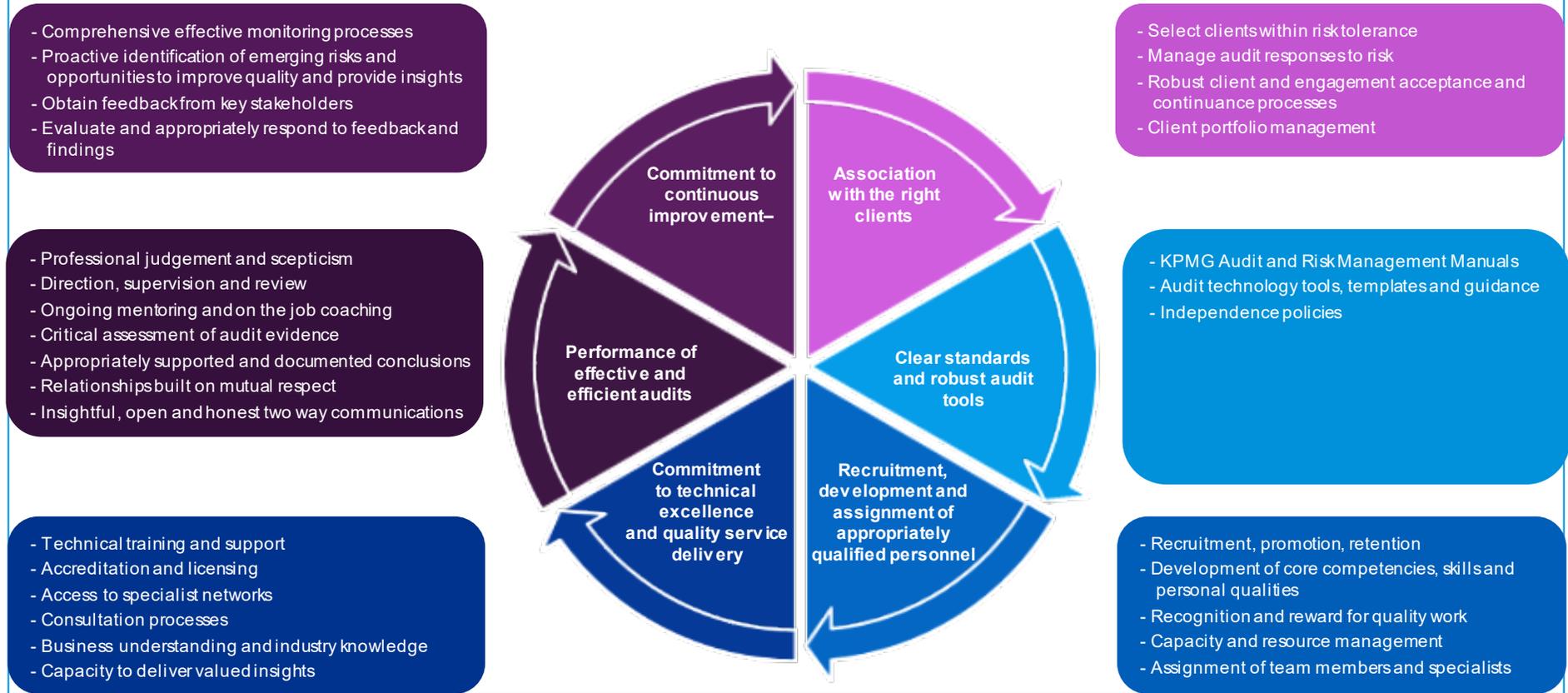
This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

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

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APPENDIX B

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPELTHORNE BOROUGH COUNCIL REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Spelthorne Borough Council ('the Authority') for the year ended 31 March 2018 which comprise the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Balance Sheets, the Authority and Group Movement in Reserves Statements, the Authority and Group Cash Flow Statements, the Collection Fund, the related notes, and the Statement of Accounting Policies note.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority and the Group as at 31 March 2018 and of the Authority's and the Group'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 Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Authority in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information published with the financial statements

The Chief Finance Officer is responsible for the other information published with the financial statements, including the Narrative Statement and the Annual Governance Statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information. In our opinion the other information published with the financial statements for the financial year is consistent with the financial statements.

Chief Finance Officer's responsibilities

As explained more fully in the statement set out on page 13, the Chief Finance Officer is responsible for the preparation of the Authority's financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. They are also responsible for: such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Authority's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting on the assumption that the functions of the Authority and the Group will continue in operational existence for the foreseeable future.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

REPORT ON OTHER LEGAL AND REGULATORY MATTERS

Report on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Adverse conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, we are not 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 ended 31 March 2018.

Basis for adverse conclusion

During the course of 2017/18, the Authority borrowed over £225 million from the PWLB to fund the purchase of three properties located outside of the Borough as commercial property investments. The purpose of these purchases was to generate income for the Authority, on the basis that the rental income received from these properties would exceed the costs (including the costs of borrowing).

Our review of the processes in place for these acquisitions found that the audit trail was poor and long-term loans were used to purchase the properties, which significant exceeded the lease terms with tenants.

We also found that, at the time of the three acquisitions, the Authority had inadequate governance arrangements in place, exposing the Authority to a potentially high level of financial risk.

Based on the information we reviewed, we could not establish that the Authority had appropriate strategy, processes, and governance arrangements in place prior to investing in commercial real estate. Gaps that we have identified include:

- a lack of a defined investment strategy at the time of making the acquisitions.
- a lack of diversification in the investments;
- significant inconsistencies between the time horizon in the financial model (20 years), the debt term (50 years) and the leases (<20 years). More than £468 million of the Authority's loans are structured for repayment between 21 and 50 years as at 31 March 2018; and
- no long-term strategy underpinning the acquisitions so that risks such as diversification, liquidity, correlation and systematic risk are managed across the whole investment portfolio;
- at the time the acquisitions were made, there was a lack of in-house expertise and investment authorisation processes to invest in commercial real estate;

There are also number of financial issues that the Authority needs to address to help ensure it remains financially sustainable. The financial models that were developed by the Authority were simplistic in nature and did not follow industry best practice. Whilst we consider that the Authority was earning sufficient rental income to meet its loan obligations in the short term, we are concerned that this may not be the case in the medium to longer term.

Having considered these matters we have concluded that the Authority did not have proper arrangements in place to take properly informed decisions and deploy its resources to achieve planned and sustainable outcomes for taxpayers and local people in the year ended 31 March 2018.

Respective responsibilities in respect of our review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether Spelthorne Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider

under the Code of Audit Practice in satisfying ourselves whether Spelthorne Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Statutory reporting matters

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

- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014;
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Report in the Public interest

The Code of Audit Practice also requires us to report to you if any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit.

On 30 November 2022, we issued a report in the public interest under Section 24 and Schedule 7 of the Local Audit and Accountability Act 2014 to the Authority. The report raised significant concerns identified in our role as independent auditor to the Authority regarding the Authority's programme of investment in commercial properties and the implications of those transactions for its overall finances. In particular, these concerns arose from the purchase of three commercial properties during the financial year 2017/18.

THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, 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 Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

CERTIFICATE OF COMPLETION OF THE AUDIT

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 and Accountability Act 2014 and the Code of Audit Practice.

Joanne Lees
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London E14 SGL

[Date]

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Spelthorne Borough Council

Final draft Statement of Accounts 2017/18

T Collier
Chief Finance Officer

Financial Statements and Annual Report

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Narrative Statement

By the Chief Finance Officer

Spelthorne Borough Council is a borough council located in the north west corner of the administrative county of Surrey and it is the only Surrey borough council located north of the River Thames which runs along its boundary. The Borough covers 19.75 square miles 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. In recent years there has been a high level of small business start up activity in the Borough.

The total population of Spelthorne according to the 2017 mid year estimate is 99,120, which is a 3.7% increase since the last Census in 2011. There are 39,512 households with the average household size being 2.4 people.

Our population continues to age with 17.4% of residents being over 65 years of age, and with that proportion expected to increase in the coming years.

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 4,500 business including large employers like BP, Wood Group Kenny and Shepperton Studios. A major economic influence on the Borough is Heathrow with the airport directly and indirectly being the largest source of employment within the Borough. The Borough will be significantly impacted if Heathrow expands with a third runway and the Council is actively engaging with the airport expansion consultation process.

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 administration and implemented by the Corporate Management Team.

Political Structure in the 2017/18 Municipal Year

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

Conservative Party 31
Ashford & Staines Residents Group (ASRG) 3
Liberal Democrat Party 3
Labour Party 1
Independents 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 2017/18 has been undertaken by either:

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

The Leader of the Council was Cllr Ian Harvey, with the Deputy Leader Cllr Tony Harman, from May 2016 until May 2020 to be followed by Cllr John Boughflower until June 2021. The current Leader of the Council is Councillor Lawrence Nichols, and the Deputy Leader, appointed at the same time in June 2021, is Councillor Joanne Sexton.

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 Executive
- 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 Heads and senior managers

- 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 Group Head Customer Relations

The financial year 2017-18 was another challenging financial year for local government with further reductions in government funding. For the second year running the Council received no Revenue Support Grant (RSG). The Council broadly maintained collection rates at the same level as for the previous year achieving 98.5% for Council Tax and 98.7% for Business Rates. In these circumstances the Council did well to deliver a net underspend against budget as summarised in page 9 of this narrative statement and to strengthen the balance sheet by adding to reserves.

Acquisitions strategy

During 2017-18 the Council continued its drive to generate alternative long term sustainable income streams to offset the impact of disappearing central government grant support, in order to ensure that it can continue to provide services to its residents at the levels they deserve. As part of this approach the Council has, following on from the acquisition within the Borough of the BP Campus at Sunbury in 2016-17, acquired more investment assets in 2017-18, these include the World Business Centre 4 office building at Heathrow and Hammersmith Grove 12 offices in Hammersmith. As a result of these acquisitions the Council is now receiving a rental income stream as set out in the table overleaf, which after debt financing and setting aside prudent provisions for future refurbishment of the assets, provides additional funding to support the provision of services to residents.

Note 13 sets out the disclosure requirement for Investment Properties. As this does not include items relating to debt management and associated contributions to reserves, the following table provides that analysis.

2017/18 Actual £'000		2018/19 Forecast £'000
(21,415)	Rental income from properties	(39,402)
56	Operating expenses	1,787
4,517	Minimum revenue provision (MRP)	7,299
10,089	Interest on borrowing	18,824
2,700	Set-aside & sinking fund contributions	4,696
<u>(4,053)</u>	Net income	<u>(6,796)</u>

Given that the Council now has a substantial commercial property portfolio on its balance sheet, the Council has invested in ensuring it has the right resources and expertise to manage effectively its portfolio. The Council has also reviewed and updated its decision making and governance arrangements for evaluating opportunities. For all acquisitions very extensive due diligence is undertaken, for example to evaluate the financial health of potential tenants. This is referred to in the Annual Governance Statement (page 71).

During 2017-18 the Council faced a number of additional statutory pressures for example implementing the Homelessness Reduction Act which took effect in April 2018 and ensuring it meets the requirements of the General Data Protection Regulations which took effect on 25 May 2018.

The Council's diversified treasury management portfolio continued to produce good resulting in £18.952m of pooled funds (backed by equities, assets or corporate bonds) returning on average just over 4.97% and making approximately £1.4m 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 2017-18 as required by the Accounts and Audit Regulations 2015.

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 Statement of Accounts.

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

- Movement in Reserves Statement (page 14)
- Comprehensive Income and Expenditure Statement (page 15)
- Balance Sheet (page 16)
- Statement of Cash Flows (page 17)
- Expenditure Funding Analysis (page 31)

The **Movement in Reserves Statement** (page 14) 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 increase for 2017-18 shown on the movement in year on Total Comprehensive Income and Expenditure of £11.708m (Prior Year (PY) deficit of £27.347m) 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 transfer to cash backed usable reserves is £7.749m (PY a transfer of usable reserves of £3.383m).

The **Comprehensive Income and Expenditure Statement** (page 15) 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 surplus on the Total Other Comprehensive Income and Expenditure Statement of £4.856m reflects a deficit on the provision of services of £11.708m and a £6.852m surplus on other items which is brought about by the re-measurement of the net defined pension benefit and revaluations of land and buildings. Full details are shown on the Comprehensive Income and Expenditure Statement.

The **Balance Sheet** (page 16) shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets £1.652m (PY £6.508m) 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 (i.e. cash backed) reserves (as at 31 March 2018 totalling £19.018m), 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 2018 totalling £17.366m) - note these are non cash accounting reserves and have a negative value (PY £4.661m). 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 17) 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 £23.528m (£20.534m in 2016-17) 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 68-69). 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 and Crime Commissioner) and Central Government.

This Council's levy on the Collection Fund for 2017-18 was set at £192.44 per Band D property (a 2.6% increase on the previous year) and a transfer of £0.167m, out of the Collection Fund following higher than expected collection rates for Council Tax during the previous year. 2017-18 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 £2.2m for 2017/18, an decrease of £1.7m from 2016/17. The overall business rates loss was £4.439m in 2017-18. Looking ahead in 2018-19 the Council is participating with all the districts and boroughs in Surrey along with Surrey County Council in a pilot for retaining 100% of growth in business rates income above the baseline set by Government within Surrey. The additional retained income across Surrey is estimated to potentially be £28m and this will be shared between the County Council and the districts and boroughs, with Spelthorne's share estimated to be an estimated additional £1.4m of which approximately £1m will be ring-fenced for investment in initiatives to support economic growth, an example being setting up an incubator to support the growth of small businesses in Staines-upon-Thames. The increased provision for appeals will give greater certainty for the first year of the pilot. On council tax there was a deficit of £0.894m, mainly due to adjustments to allocate surpluses accumulated in previous financial years.

In May 2016, the Council set up a 100% owned subsidiary Knowle Green Estates Ltd which will be the Council's delivery vehicle for additional housing within the Borough. The Council is looking to increase the supply of a range of housing tenures including temporary accommodation, affordable housing and private sector rental in order to ease housing pressures within the Borough and help the Borough meet its future Local Plan housing targets. In order to give readers of the Accounts an overall picture of the extended services and economic activity that is under the control of the local authority we have made a set of Group Account disclosures in the notes (pages 66-68) setting out on a Group basis the four core Statements (ie Movement in Reserves, Income and Expenditure Statement, Balance Sheet and Cashflow Statement).

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, including projects to increase housing supply within the borough and 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.

Total gross capital expenditure in 2017-18 was £273.36m and a breakdown of the schemes making up this spend can be found in note 30 (page 58). The majority of this related to further property acquisitions within the Borough and in close proximity to the Borough both as commercial investments (£258m) designed to generate long term sustainable income streams and sites (£11.6m) to enable the Council to commence undertaking housing development to

start delivering a mix of housing tenures to meet the housing needs of the Borough and assist the Council in meeting its Local Plan housing numbers. The acquisitions were financed by borrowing from the Government's Public Works Loan Board (PWLB) at fixed low rates of interest. The housing developments will be transferred to the Council's 100% owned Housing Delivery company Knowle Green Estates Ltd to manage. The following statement shows the total gross capital expenditure for the year and how it has been financed.

2016/17 £'000	Total Capital Expenditure	2017/18 £'000
422,414	Total Capital Expenditure	273,360
	Financed by:	
(2,718)	Capital Receipts	(1,250)
(624)	Grants and Contributions	(1,021)
(5,808)	Revenue Resources	(838)
(413,264)	Borrowing	(270,251)
<u>(422,414)</u>	Total Capital Financing	<u>(273,360)</u>

The Programme in the past was mainly financed from capital receipts generated from asset sales (primarily the share of Right to Buy receipts on dwellings which used to be the Council's housing before the Large Scale Voluntary Transfer in 1995), however as highlighted above the acquisition of commercial income generating assets was financed by borrowing from the Public Works Loan Board (PWLB) in the form of low fixed rate loans. 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	Estimate	Estimate	Estimate
	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Capital Programme	409,000	78,000	52,000	39,000
Resources				
Capital Grants/Contributions & Capital Receipts	(1,000)	(1,000)	(1,000)	0
Revenue Contributions (including Reserves)	(17,000)	(11,000)	(12,000)	(10,000)
Borrowing	(391,000)	(66,000)	(39,000)	(29,000)
	<u>(409,000)</u>	<u>(78,000)</u>	<u>(52,000)</u>	<u>(39,000)</u>

Capital receipts also generate investment income but the Council is looking to hold its assets for the long term so in the near term capital spending which generates ongoing income streams will continue to be financed from borrowing on a prudential basis. In future years commencing from 2018-19 the Council will looking to make increasing contributions from revenue towards capital to assist in funding the capital programme. To strengthen these reserves potential asset sales are kept under review.

In May 2016, the Council set up a 100% owned subsidiary Knowle Green Estates Ltd which will be the Council's delivery vehicle for additional housing within the Borough. The Council is looking to increase the supply of a range of housing tenures including temporary accommodation, affordable housing and private sector rental in order to ease housing pressures within the Borough and help the Borough meet its future Local Plan housing targets.

Pensions (see notes Pages 60 to 65)

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 2018, showing a deficit of £44.860m for this Council, which represents a £0.731m increase relative to 2016-17.

- 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 £1.340 million, which is more than the £0.609m 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 which resulted in past service contributions increasing in steps of £180k in each year between 2015-16 and 2017-18. The liabilities of £44.860m 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 Council's share of the deficit on the Surrey Pension Fund continued to reduce the Council's net asset position. Spelthorne's Balance Sheet shows a Pensions liability of £44.860 million). There has been minimal change in the accounting valuation of the fund compared 31 March 2017. The current actuarial valuation, based on forecast yields rather than corporate bond yields as required by the accounting standards, shows that the fund is very close to being fully funded at 31 March 2018.

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.

Borrowing

During the year the Council entered into external long term borrowing of £246.5m to finance asset purchases with a balance of long term total debt outstanding of £650.6m as at 31 March 2018 on the balance sheet. The balance is offset by the value of the assets acquired on the balance sheet. This resulted in a financing charge of interest and principal repayments of £14.6m being charged in the accounts all of which was more than covered by additional income generated by the assets acquired.

Provisions

The 50% 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 £1.5m was made in 2017/18 to reflect the possible impact of outstanding appeals being 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.

Comparison of Revenue Budget to Revenue Outturn	Revenue Budget 2017/18 £'000	Revenue Outturn 2017/18 £'000	Variance Outturn to Budget £'000
Gross Expenditure	59,695	57,268	(2,427)
Gross Income	(59,976)	(63,086)	(3,110)
	(281)	(5,818)	(5,537)
Interest on balances	(900)	(1,027)	(127)
Transfers (from)/to Earmarked Reserves	700	7,540	6,840
Interest on repayments	8,307	10,089	1,782
Debt repayment	4,482	4,517	35
	12,308	15,301	2,993
Financed by:			
Non-ringfenced grants and contributions	(1,627)	(2,670)	(1,043)
Net receipts from Business Rates	(3,009)	(5,024)	(2,015)
Council Tax (Demand on Collection Fund & Surplus)	(7,655)	(7,656)	(1)
(Surplus)/deficit for the year	17	(49)	(66)

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.

The previous 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 2017-18 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 prospect that potentially from 2018-19 it will not only no longer receive Revenue Support Grant funding but will have start making payments to the Government, of approximately £750,000 per annum, effectively negative grant allocations.

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 2017-18 the Council continued to share one head of service with a neighbouring borough council
 - 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, including increasing supply of range of housing tenures within the Borough
- Seeking procurement savings - a new procurement officer post was filled in September 2017
- Rationalising accommodation and letting out office space. The Council is in 2018/19 reconfiguring its office accommodation to reduce the amount of space it occupies
- Tight vacancy control
- Reviewing fees and charges, balancing impact on local residents and the local economy with the need to increase income
- Smarter use of technology
- Seeking to encourage economic development within the Borough which will 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.

Post Balance Sheet Events

Since the Balance Sheet date of the Statement of Accounts of 31/3/18 both the external environment and the financial position of the Council has changed in a number of significant ways.

In June 2016 the outcome of the EU referendum was the decision of the UK to leave the EU and following lengthy negotiations and a transition period the UK left the EU on 31st January 2020. The Council has been monitoring the position to evaluate potential impacts. It has added Brexit to its Corporate Risk Register.

In the period since 31 March 2018 the Council acquired in August 2018 a portfolio of three further office assets in Reading, Uxbridge and Slough in order to generate additional investment income to help offset the revenue impacts of its housing delivery programme. These were the last investment assets the Council has acquired.

In February 2020 the Council purchased the long lease on the Elmsleigh Centre in Staines-upon-Thames in order to enable it to drive the diversification of the site in order to sustain the prosperity of the town centre. The Council is moving forward proposals for additional residential and exploring moving the Library into the centre.

Since 2018 the Council has shifted its focus towards delivering a range of housing (particularly affordable housing, temporary and emergency accommodation) across the borough along with an ambitious regeneration programme. During 2017/18 it acquired Benwell House within the Borough an office site for conversion into private rental and affordable rental accommodation, and phase 1 of the schem was completed in May 2021 and is fully tenanted. During 2021 the Council has completed a 31 unit single person facility and a 20 temporary accommodation unit for families. In December 2021 the Council is completing the conversion of one wing of the Council's offices into 25 affordable rental units.

The current multi-year Capital Programme is approximately £323m and includes provision for a £40million new Spelthorne Leisure Centre.

Total external debt as a result of these acquisitions, and also as a result of financing the housing delivery programme rose for the Council £1,131.6m as at 31 March 2021. The annual gross passing rent for investment property was £51.8m. The sinking funds reserves balances are anticipated to rise to approximately £32m by March 2022.

Total annual net (after financing, management costs, and set asides into sinking fund reserves) investment income is now approximately £10m per annum. The Council has over the period above considerably expanded its internal asset management resources and expertise and also uses external agents to assist in managing its portfolio. The Council has adopted a portfolio management approach reviewing its portfolio performance on a regular basis. At present date 92% of the portfolio is let and the unlet proportion is currently covered by rent free guarantees, The Council received additional legal advice to assist it in interpreting the revised Investment Guidance issued by the Ministry of Housing Communities and Local Government. The Council also has regard to the new terms of the Public Works Loan Board.

During the period since March 2018, the UK and the world has been hit by the COVID-19 pandemic. Whilst the Council's investment assets have held up extremely well, with to date 99.3% of the investment asset rental invoiced for 2020-21 collected, the pandemic has had a significant impact on the Council's broader finances with car parking income in particularly still down by more than £600k per annum. This combined with rising inflationary pressures will make the 2022-23 Budget process more challenging.

In May 2021 the Council moved from a Leader and Cabinet governance model to a Committee governance model.

The Capital Strategy was approved at the February 2019 meeting of full Council.

Subsequent to 31/3/2018 the NHS nationally lost an appeal for business rates exemption of foundation hospital trusts. At the time the 2017-18 accounts were prepared the outcome of the appeal was pending, so originally the Council made a provision for appeals relating to the local hospital totalling £3m. Following discussions with the external auditors the Council has now retrospectively reversed the £3m provision for appeals as at 31/3/2018, and this is reflected in the Collection Fund Account and the Statement of Accounts.

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. There have been knock on effects from the financial pressures Surrey County Council is facing with funding reductions from Surrey County Council impacting on the Borough Council.

The additional ongoing revenue income from the enlarged commercial property portfolio enabled the Council to set a balanced budget for 2018-19. The Council has reserves but these have been used in the past to support the budget over a number of years. Significant sums are being put into earmarked reserves to ensure there are sufficient funds to manage future liabilities relating to the Council's property portfolio. The Council continues to be focused on delivering efficiencies and growing its commercial income. By pursuing these strategies we are confident that we can ensure that Spelthorne Borough Council has a sustainable financial future and will continue to be able to provide the range of services its residents deserve.

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, and the potential impacts for the Council are being kept under review.

Updated accounts were authorised by Mr T Collier, Chief Finance Officer on 19 March 2019 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 / Chief Finance Officer.
- 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 Finance 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 Chief Finance Officer 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 2018.

Mr Terry Collier, CPFA, CA
Chief Finance Officer

Date: 28th March 2019

Councillor Mary Madams
Chair of Audit Committee

Date: 28th March 2019

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 2016/17 figures are shown for comparison.

2017/18	General Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Total Unusable Reserves £'000	Total Reserves £'000
Balance brought forward 1 April	(11,053)	0	(116)	(11,169)	4,661	(6,508)
Movements in-year				0		0
Total Comprehensive Income & Expenditure	11,708			11,708	(6,852)	4,856
Adjustments between accounting & funding basis under regulations	(19,457)	0	(100)	(19,557)	19,557	0
(Increase)/decrease in-year	(7,749)	0	(100)	(7,849)	12,705	4,856
Balance carried forward 31 March	(18,802)	0	(216)	(19,018)	17,366	(1,652)

2016/17	General Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Total Unusable Reserves £'000	Total Reserves £'000
Balance brought forward 1 April	(12,601)	(1,448)	(503)	(14,552)	(25,184)	(39,736)
Movements in-year						
Total Comprehensive Income & Expenditure	27,347			27,347	5,881	33,228
Adjustments between accounting & funding basis under regulations	(25,799)	1,448	387	(23,964)	23,964	0
(Increase)/decrease in-year	1,548	1,448	387	3,383	29,845	33,228
Balance carried forward 31 March	(11,053)	0	(116)	(11,169)	4,661	(6,508)

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 14).

2016/17							2017/18		
Expenditure	Income	Net			Expenditure	Income	Net		
£'000	£'000	£'000		Notes	£'000	£'000	£'000		
859	(77)	782	Leader		1,448	(279)	1,169		
675	(67)	608	Deputy Leader		786	0	786		
2,138	(44)	2,094	Corporate Management		2,206	(1,124)	1,082		
35,006	(33,448)	1,558	Housing		33,979	(32,685)	1,294		
3,751	(503)	3,248	Finance		2,688	(15)	2,673		
Amounts included in Finance Portfolio			Customer Service, Estates & Transport		3,018	(404)	2,614		
11,106	(10,634)	472	Planning & Economic Development		8,052	(1,147)	6,905		
10,320	(4,591)	5,729	Environment & Compliance		10,285	(4,047)	6,238		
4,027	(2,645)	1,382	Community & Wellbeing		4,241	(2,297)	1,944		
67,882	(52,009)	15,873	Cost of Services	1	66,703	(41,998)	24,705		
3,460	(757)	2,703	Other Operating Expenditure		70	(1,250)	(1,180)		
33,163	(9,760)	23,403	Financing & Investment Income & Expenditure	9	25,890	(22,442)	3,448		
0	(14,632)	(14,632)	Taxation & Non-specific Grant Income	10	0	(15,265)	(15,265)		
104,505	(77,158)	27,347	(Surplus)/Deficit on the Provision of Services		92,663	(80,955)	11,708		
		(1,601)	(Surplus)/Deficit on the revaluation of Property, Plant & Equipment				(5,678)		
		(1,071)	(Surplus)/Deficit on the revaluation of Available-for-Sale Assets				317		
		8,553	Remeasurement of the Net Defined Benefit Liability				(1,491)		
			Short Term Capital Grant Receipts in advance						
		5,881	Other Comprehensive Income & Expenditure				(6,852)		
		33,228	Total Comprehensive Income & Expenditure				4,856		

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'.

42,825 £'000	Balance Sheet	Notes	43,190 £'000
45,614	Property, Plant & Equipment	11	57,827
154	Heritage Assets	12	147
392,145	Investment Properties	13	635,745
455	Intangible Assets	14	638
21,599	Long Term Investments	15	20,951
14,752	Long Term Receivables		14,700
<u>474,719</u>	Long Term Assets		<u>730,008</u>
0	Short Term Investments	15	0
58	Inventories		52
5,448	Short Term Receivables	16	11,644
7,545	Cash & Cash Equivalents	17	5,475
<u>13,051</u>	Current Assets		<u>17,171</u>
(7,752)	Short Term Borrowing	15	(13,965)
(21,585)	Short Term Payables	19	(35,063)
(1,703)	Short Term Provisions	20	(1,039)
<u>(31,040)</u>	Current Liabilities		<u>(50,067)</u>
(44,129)	Other Long Term Liabilities		(44,860)
(405,764)	Long Term Borrowing	15	(650,600)
(329)	Long Term Capital Grant Receipts in Advance		0
<u>(450,222)</u>	Long Term Liabilities		<u>(695,460)</u>
<u>6,508</u>	Net Assets		<u>1,652</u>
(11,169)	Usable Reserves		(19,018)
4,661	Unusable Reserves	21	17,366
<u>(6,508)</u>	Total Reserves		<u>(1,652)</u>

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.

2016/17 £'000	Statement of Cash Flows	Notes	2017/18 £'000
27,347	Net (Surplus)/Deficit on the Provision of Services		11,708
(48,638)	Adjustments to net (surplus)/deficit on the provision of services for non-cash movements	22	(37,403)
757	Adjustments for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	22	2,167
(20,534)	Net cash flows from Operating Activities		(23,528)
428,832	Investing Activities	23	269,905
(409,491)	Financing Activities	24	(244,307)
(1,193)	Net increase or decrease in Cash & Cash Equivalents		2,070
6,352	Cash & Cash Equivalents at the beginning of the reporting period		7,545
1,193	Net increase or decrease in Cash & Cash Equivalents		(2,070)
7,545	Cash & Cash Equivalents at the end of the reporting period		5,475

Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31st March 2018. 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 2017/18 (the Code), and are 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 non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible 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. As at the end of 2017/18, the Council has £650.6m outstanding debt. However, no minimum revenue provision is required until the first full financial year (2017/18) 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.
- 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.

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 dependent on the use of specific assets.

The Council as Lessee

Finance Leases

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 Statement 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 receivable 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.

Operating Leases

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. In this context, significance arises when the carrying value of an individual asset is more than 10% of all assets and an individual component of that asset is greater than 25% of the asset.

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 non-current 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 Property and Development Unit 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 policies 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. When subsequent expenditure 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.

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&ES 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 relating to arrears, impairment allowances for doubtful debts, NDR appeals and overpayments and prepayments.

22. Interests in Companies and Other Entities

The Council has a material interest in the wholly-owned company Knowle Green Estates Limited. For 2017/18, the activities of this company are not significant and, therefore, no group accounts are required. The Council's accounts record transactions at cost.

23. Overheads

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

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 purposes 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.

2016/17				2017/18		
Net Expenditure chargeable to the General Fund	Adjustments between the Funding and Analysis Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure chargeable to the General Fund	Adjustments between the Funding and Analysis Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£'000	£'000	£'000		£'000	£'000	£'000
782	0	782	Leader	1,105	64	1,169
607	1	608	Deputy Leader	563	223	786
1,863	231	2,094	Corporate Management	745	337	1,082
1,601	(43)	1,558	Housing	1,498	(204)	1,294
3,342	(94)	3,248	Finance	2,576	97	2,673
Amounts included in Finance Portfolio			Customer Service, Estates & Transport	1,745	869	2,614
(7,248)	7,720	472	Planning and Economic Development	(19,103)	26,008	6,905
4,757	972	5,729	Environment and Compliance	4,981	1,257	6,238
153	1,229	1,382	Community and Wellbeing	72	1,872	1,944
<u>5,857</u>	<u>10,016</u>	<u>15,873</u>	Cost of Services	<u>(5,818)</u>	<u>30,523</u>	<u>24,705</u>
<u>(4,912)</u>	<u>16,386</u>	<u>11,474</u>	Other compatible income/expenditure	<u>(6,288)</u>	<u>(6,709)</u>	<u>(12,997)</u>
<u>945</u>	<u>26,402</u>	<u>27,347</u>	Net position	<u>(12,106)</u>	<u>23,814</u>	<u>11,708</u>
(1,896)			Opening balance for General Fund	(951)		
945			Net position above	(12,106)		
			Minimum Revenue Provision	4,517		
			Transfer to Reserves	7,540		
<u>(951)</u>			Closing balance for General Fund	<u>(1,000)</u>		

Adjustments between Funding and Accounting Basis 2017/18:

Adjustments from General Reserves to arrive at the Comprehensive Income and Expenditure Statement amounts	2017/18			Total
	Adjustments for Capital Purposes (Note i)	Net change for Pensions Adjustments (Note ii)	Other differences (Note iii)	
	£'000	£'000	£'000	
Leader	0	63	1	64
Deputy Leader	209	13	1	223
Corporate Management	234	99	4	337
Housing	0	119	(323)	(204)
Finance	0	94	3	97
Customer Service, Estates & Transport	809	59	2	869
Planning and Economic Development	4,501	144	21,363	26,008
Environment and Compliance	874	371	12	1,257
Community and Wellbeing	1,724	143	4	1,872
Cost of Services	8,350	1,106	21,067	30,523
Other income and expenditure	11,332	1,116	(19,157)	(6,709)
	<u>19,682</u>	<u>2,222</u>	<u>1,910</u>	<u>23,814</u>

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, employee benefits and investment property income.

Adjustments between Funding and Accounting Basis 2016/17:

Adjustments from General Reserves to arrive at the Comprehensive Income and Expenditure Statement amounts	2016/17			Total
	Adjustments for Capital Purposes (Note i)	Net change for Pensions Adjustments (Note ii)	Other differences (Note iii)	
	£'000	£'000	£'000	
Leader	0	0	0	0
Deputy Leader	0	0	1	1
Corporate Management	288	0	(57)	231
Housing	0	0	(43)	(43)
Finance and Customer Service	1	0	(95)	(94)
Planning and Economic Development	1,122	0	6,598	7,720
Environment and Compliance	972	0	0	972
Community and Wellbeing	1,164	0	65	1,229
Cost of Services	<u>3,547</u>	<u>0</u>	<u>6,469</u>	<u>10,016</u>
Other income and expenditure	29,031	808	(13,453)	16,386
	<u>32,578</u>	<u>808</u>	<u>(6,984)</u>	<u>26,402</u>

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

	2016/17	2017/18
	£'000	£'000
Expenditure		
Employees benefits expenses	12,312	15,271
Other services expenses	41,282	43,113
Support service recharges	(57)	2,381
Depreciation, amortisation and impairment	38,353	21,808
Interest payments	4,135	10,089
Total Expenditure	<u>96,025</u>	<u>92,662</u>
Income		
Fees, charges and other service income	(56,183)	(34,199)
Interest and investment income	(1,332)	(31,165)
Income from Council Tax and Business Rates	(7,804)	(10,801)
Government grants and contributions	(3,359)	(4,789)
Total Income	<u>(68,678)</u>	<u>(80,954)</u>
(Surplus) or Deficit on the Provision of Services	<u>27,347</u>	<u>11,708</u>

2. Accounting Standards Issued but not yet adopted

The Council is required to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. In doing so, the Council is required to provide known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the Council's financial statements. This requirement applies to accounting standards that come into effect for the financial year commencing on or before 1 January 2018 for 2018/19,

For this disclosure, the standards introduced by the 2018/19 Code include:

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*
- Amendments to IAS12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*
- Amendments to IAS 7 *Statement of Cash Flows*

These will be incorporated into the Statement of Accounts for 2018/19. At this stage, it is not anticipated that there will be any material effect on the Council's finances.

3. Critical Judgement in Applying Accounting Policies

In applying the accounting policies set out on pages 17 to 29, 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 Adjustments

There were no prior period adjustments accounted for in 2017/18.

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 2018 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 2018, the Council had a balance of Short Term Receivables of £13.7m and has made a provision of £2.1m 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 £2.1m to be set aside as an allowance.
Business Rates Appeals	A provision of £2.089m 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 31 st March 2018 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 £30.2m in 2017/18 (£31.2m 2016/17). However, this expenditure is fully recovered by the receipt of subsidy from central Government, £30.2m in 2017/18 (£31.2m 2016/17), so the net cost to the Council is minimal. In addition, a net £30.138m 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 2017/18 and the prior year 2016/17:

2017/18	General Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
<i>Adjustments primarily involving the Capital Adjustment Account</i>						
<i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</i>						
Charges for depreciation	(2,458)			(2,458)	2,458	0
Changes in the valuation of Property, Plant and Equipment	(4,465)			(4,465)	4,465	0
Movement in the fair value of Investment Properties	(14,629)			(14,629)	14,629	0
Amortisation of Intangible Assets	(187)			(187)	187	0
Capital grants and contributions applied	1,021			1,021	(1,021)	0
Revenue Expenditure Funded from Capital under Statute	(1,241)			(1,241)	1,241	0
Amounts of non-current assets written off on disposal, derecognition or sale as part of the gain/loss on the disposal to the Comprehensive Income and Expenditure Statement	(70)			(70)	70	0
<i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</i>						
Statutory provision for the financing of capital investment	838			838	(838)	0
Capital Expenditure charged against General Reserves	4,517			4,517	(4,517)	0
<i>Adjustments primarily involving the Capital Grants Unapplied Account</i>						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	100		(100)	0	0	0
<i>Adjustments primarily involving the Capital Receipts Reserve</i>						
Transfer of Cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,250	(1,250)		0	0	0
Use of Capital Receipts Reserve to finance new capital expenditure		1,250		1,250	(1,250)	0
<i>Adjustments primarily involving the Pension Reserve</i>						
Reversal of items relating to Retirement Benefits debited or credited to the Comprehensive Income and Expenditure Statement	(5,016)			(5,016)	5,016	0
Employer's pensions contribution and direct payments to pensioners payable in the year	2,794			2,794	(2,794)	0
<i>Adjustments primarily involving the Collection Fund Adjustment Account</i>						
Amount by which Council Tax/Business Rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	(1,878)			(1,878)	1,878	0
<i>Adjustments primarily involving the Accumulated Absences Account</i>						
Amounts by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	(33)			(33)	33	0
Total Adjustments	(19,457)	0	(100)	(19,557)	19,557	0

2016/17	General Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Total Unusable Reserves £'000
<i>Adjustments primarily involving the Capital Adjustment Account</i>					
<i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</i>					
Charges for depreciation	(2,392)			(2,392)	2,392
Changes in the valuation of Property, Plant and Equipment	(432)			(432)	432
Movement in the fair value of Investment Properties	(25,570)			(25,570)	25,570
Amortisation of Intangible Assets	(192)			(192)	192
Capital grants and contributions applied	386			386	(386)
Revenue Expenditure Funded from Capital under Statute	(550)			(550)	550
Amounts of non-current assets written off on disposal, derecognition or sale as part of the gain/loss on the disposal to the Comprehensive Income and Expenditure Statement	(3,436)			(3,436)	3,436
<i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</i>					
Capital Expenditure charged against General Reserves	2,821			2,821	(2,821)
<i>Adjustments primarily involving the Capital Grants Unapplied Account</i>					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	238		(238)	0	0
Reallocated to between Reserves		(387)	387	0	0
Application of capital grants and contributions to capital financing transferred to the Capital Adjustment Account			238	238	(238)
<i>Adjustments primarily involving the Capital Receipts Reserve</i>					
Transfer of Cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	883	(883)		0	0
Use of Capital Receipts Reserve to finance new capital expenditure		2,718		2,718	(2,718)
<i>Adjustments primarily involving the Pension Reserve</i>					
Reversal of items relating to Retirement Benefits debited or credited to the Comprehensive Income and Expenditure Statement	(3,277)			(3,277)	3,277
Employer's pensions contribution and direct payments to pensioners payable in the year	2,469			2,469	(2,469)
<i>Adjustments primarily involving the Collection Fund Adjustment Account</i>					
Amount by which Council Tax/Business Rates income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	3,258			3,258	(3,258)
<i>Adjustments primarily involving the Accumulated Absences Account</i>					
Amounts by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	(5)			(5)	5
Total Adjustments	(25,799)	1,448	387	(23,964)	23,964

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 2017/18.

Earmarked Reserves	31 Mar 17	Transfers in	Transfers out	31 Mar 18
	£'000	£'000	£'000	£'000
Revenue Grants Unapplied	(801)	(1,193)	158	(1,836)
Capital Fund	(443)	(1,000)	0	(1,443)
Interest Equalisation	(493)	0	0	(493)
New Schemes Fund	(1,221)	0	0	(1,221)
Housing Initiatives	(2,973)	0	838	(2,135)
Building Control Reserve	0	(65)	0	(65)
Insurance	(50)	0	0	(50)
New Homes Bonus	(50)	0	0	(50)
Revenue Carry Forwards	(239)	(472)	0	(711)
Bridge Street	(69)	0	36	(33)
BronzeField Maintenance	(273)	0	1	(272)
Youth Council	(20)	0	0	(20)
Business Rates Equalisation	(1,145)	(3,053)	0	(4,198)
BP Main Site Reserves	(1,867)	(823)	0	(2,690)
BP SWC Reserves	(340)	(165)	0	(505)
Elmbrook House Reserves	(118)	(55)	0	(173)
12 Hammersmith Grove	0	(1,307)	0	(1,307)
Stockley Park	0	(350)	0	(350)
Local Environmental Assessment Reserve	0	(250)	0	(250)
Total Earmarked Reserves	(10,102)	(8,733)	1,033	(17,802)

9. Financing and Investment Income and Expenditure

2016/17			2017/18			
Expenditure	Income	Net		Expenditure	Income	Net
£'000	£'000	£'000	Notes	£'000	£'000	£'000
0	(932)	(932)	Interest receivable	0	(1,027)	(1,027)
4,089	0	4,089	Interest payable	10,089	0	10,089
1,175	0	1,175	Net interest on net defined benefit liability	1,116	0	1,116
27,899	(8,828)	19,071	Income and expenditure in relation to investment properties and changes in their fair value	14,685	(21,415)	(6,730)
33,163	(9,760)	23,403	Financing and Investment Income and Expenditure	25,890	(22,442)	3,448

10. Taxation and Non Specific Grant Income

2016/17			2017/18		
Income	Net		Income	Net	
£'000	£'000		£'000	£'000	
(7,320)	(7,320)	Council Tax	(7,552)	(7,552)	
(3,742)	(3,742)	Business Rates	(3,249)	(3,249)	
(2,946)	(2,946)	Non-ringfenced government grants	(3,343)	(3,343)	
(624)	(624)	Capital grants and contributions	(1,121)	(1,121)	
<u>(14,632)</u>	<u>(14,632)</u>	Taxation and Non-Specific Grant Income	<u>(15,265)</u>	<u>(15,265)</u>	

11. Property, Plant and Equipment Movement on Balances in 2017/18:

Property, Plant & Equipment	Land & Buildings	Vehicles, Plant & Equipment	Total Property, Plant & Equipment
	£'000	£'000	£'000
Cost or valuation			
At 1 April 2017	45,934	7,871	53,805
Revaluation increases/(Decreases) recognised in the Revaluation Reserve	5,220		5,220
Revaluation increases/(Decreases) recognised in the (Surplus)/Deficit on the Provision of Services	(4,295)		(4,295)
Derecognition	(69)		(69)
Additions	12,468	1,052	13,520
Other movements in cost or valuation		(170)	(170)
At 31 March 2018	<u>59,258</u>	<u>8,753</u>	<u>68,011</u>
Accumulated depreciation and impairment			
At 1 April 2017	(1,937)	(6,254)	(8,191)
Depreciation charge	(2,002)	(470)	(2,472)
Depreciation written out to the Revaluation Reserve	462		462
Depreciation written out to the (Surplus)/Deficit on the Provision of Services	17		17
At 31 March 2018	<u>(3,460)</u>	<u>(6,724)</u>	<u>(10,184)</u>
Net book value at 31 March 2018	55,798	2,029	57,827
Net book value at 31 March 2017	43,997	1,617	45,614

Movement on Balances in 2016/17:

Property, Plant & Equipment	Land & Buildings £'000	Surplus Assets £'000	Vehicles, Plant & Equipment £'000	Total Property, Plant & Equipment £'000
Cost or valuation				
At 1 April 2016	44,228	750	7,261	52,239
Revaluation increases/(decreases) recognised in the Revaluation Reserve	204	0	0	204
Revaluation increases/(decreases) recognised in the (Surplus)/Deficit on the Provision of Services	(488)	0	0	(488)
Assets reclassified from 'Held for sale'	1,935	(750)	(450)	735
Written back to CI&ES		0		0
Derecognition	(25)			(25)
Additions	80	0	1,060	1,140
Other movements in cost or valuation		0	0	0
At 31 March 2017	45,934	0	7,871	53,805
Accumulated depreciation and impairment				
At 1 April 2016	(1,528)	0	(5,751)	(7,279)
Depreciation charge	(1,863)	0	(503)	(2,366)
Depreciation written out to the Revaluation Reserve	1,398	0	0	1,398
Depreciation written out to the (Surplus)/Deficit on the Provision of Services	56	0	0	56
At 31 March 2017	(1,937)	0	(6,254)	(8,191)
Net book value at 31 March 2017	43,997	0	1,617	45,614
Net book value at 31 March 2016	42,700	750	1,510	44,960

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 2018.

Effect of Changes in Estimates

In 2017/18, 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 basis 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:

2016/17 £'000	Heritage Assets	Notes	2017/18 £'000
156	Balance at 1st April		154
(2)	Depreciation		(3)
0	Revaluation increases/(decreases) recognised in the Revaluation Reserve		(6)
0	Depreciation written out to the Revaluation Reserve		2
<u>154</u>	Balance at 31st March		<u>147</u>

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:

2016/17 £'000		2017/18 £'000
(8,828)	Rental income from properties	(21,415)
3	Operating expenses	56
25,570	Changes in valuations	14,629
<u>16,745</u>	Balance at 31st March	<u>(6,730)</u>

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:

2016/17 £'000	Investment Properties	Notes	2017/18 £'000
215	Balance at 1st April		392,145
417,500	Additions	30	258,229
(25,570)	Change in fair value		(14,629)
<u>392,145</u>	Balance at 31st March		<u>635,745</u>

Fair Value Hierarchy

Details of the Council's investment properties and information about the fair value hierarchy as at 31 March 2018 is shown below:

(level 2) 31 Mar 17 £'000	Fair value measurement	(level 2) 31 Mar 18 £'000
192,521	Land	201,961
199,624	Buildings	433,784
<u>392,145</u>	Balance at 31st March	<u>635,745</u>

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.

2016/17 £'000	Intangible Assets	Notes	2017/18 £'000
409	Balance at 1st April		455
238	New capital expenditure	30	370
(192)	Amortisation		(187)
<u>455</u>	Balance at 31st March		<u>638</u>

15. Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet:

31 Mar 17			31 Mar 18	
Long term	Short term	Carrying values	Long term	Short term
£'000	£'000		£'000	£'000
		Investments		
2,331	0	Loans and receivables	2,156	0
19,268	0	Available-for-sale assets	18,952	0
0	7,337	Cash and cash equivalents	0	5,475
		Receivables		
0	6,169	Financial assets carried at contract amounts	0	6,169
		Borrowing		
(405,764)	(7,525)	Financial liabilities carried at amortised cost	(650,601)	(13,965)
		Payables		
0	(1,260)	Financial liabilities carried at contract amounts	0	(1,260)

Income, Expense, Gains and Losses

2016/17	Income, expense, gains and losses	2017/18
£'000		£'000
4,091	Interest payable	10,089
(945)	Interest receivable	(1,015)

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:

- 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 Mar 17			31 Mar 18	
Long term	Short term	Fair values	Long term	Short term
£'000	£'000		£'000	£'000
		Investments		
2,858	0	Loans and receivables	2,411	0
19,268	0	Available-for-sale assets	18,941	0
0	7,337	Cash and Cash Equivalents	0	5,475
		Receivables		
0	5,534	Financial assets carried at contract amounts	0	6,169
		Borrowing		
(409,077)	(7,525)	Financial liabilities carried at amortised cost	(652,454)	(13,965)
		Payables		
0	(19,728)	Financial liabilities carried at contract amounts	0	(1,260)

- 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 2018 £'000
Available for sale: Pooled Investment Funds	Level 1	Unadjusted quoted prices in active markets for identical shares	£18,952

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 December 2017).

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 counterparties 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 2018 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 criteria for customers but the following table shows an analysis of balances that are due past their payment date.

2016/17 £'000	Credit for customers	2017/18 £'000
971	Less than three months	2,085
61	Three to six months	392
820	Six months to one year	141
189	More than six months	594
<u>2,041</u>	Total	<u>3,212</u>

In addition, the Council made a provision for impairment of debt of £555K for the year 2017/18 (£596K 2016/17).

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.

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.

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 2018, are set out below. The date of purchase is shown after the name of the fund:

Pooled Investment Fund held	Date of purchase	Purchase cost £'000	Market value at 31 Mar 18 £'000
Threadneedle Investment Services	8 Sep 16	2,000	1,964
Schroders Income Maximiser Fund	26 Aug 16	1,000	1,025
Investec Diversified Income	25 Aug 16	3,000	2,908
M&G Extra Income Fund Sterling	15 Aug 16	2,000	1,947
Schroders Income Maximiser Fund	24 Jul 15	1,000	965
M&G Optimal Income Sterling	13 Apr 15	1,691	1,761
CCLA Property Fund	30 Apr 14	1,000	1,140
CCLA Property Fund	31 Mar 13	1,500	1,996
Schroders Income Maximiser Fund	6 Jul 12	1,000	1,187
M&G Global Dividend Fund	27 Jun 12	1,000	1,574
Charteris Elite Income Fund	11 May 12	800	783
Schroders UK Corporate Bond Fund	11 May 12	1,500	1,703
		<u>17,491</u>	<u>18,952</u>

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

2016/17 £'000	Short Term Receivables	2017/18 £'000
765	Central Government bodies	8,141
0	Other local authorities	745
6,601	Other entities and individuals	4,890
(1,918)	less provision for bad debts	(2,132)
<u>5,448</u>	Balance at 31st March	<u>11,644</u>

17. Cash and Cash Equivalents

The balance of cash and cash equivalents is made up as follows:

2016/17 £'000	Cash & Cash Equivalents	Notes	2017/18 £'000
5	Cash held	23	5
333	Bank Current Accounts		2,770
7,207	Cash Equivalents		2,700
<u>7,545</u>	Balance at 31st March		<u>5,475</u>

18. Assets Held For Sale

There are currently no properties classified as held for sale.

19. Payables

2016/17 £'000	Short Term Payables	Notes	2017/18 £'000
(73)	Central Government bodies		(706)
(2,768)	Other local authorities		(8,021)
(18,744)	Other entities and individuals		(26,336)
<u>(21,585)</u>	Balance at 31st March		<u>(35,063)</u>

20. Provisions

Business Rates Appeals

Following the introduction of the Business Rates Retention system from 1st April 2013 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 2018 is £5.178m (£3.882m 2016/17) (included in the Collection Fund) and the Council's share of this liability is £2.089m (£1.552m 2016/17) (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.

2016/17 £'000	Short Term Provisions	Notes	2017/18 £'000
(150)	Municipal Mutual Insurance	23	(150)
(1,553)	Business Rates Appeals		(889)
<u>(1,703)</u>	Balance at 31st March		<u>(1,039)</u>

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.

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.

21. Unusable Reserves

2016/17 £'000	Unusable Reserves	Notes	2017/18 £'000
42,825			43,190
(20,666)	Revaluation Reserve		(25,054)
(1,968)	Available for Sale Reserve		(1,652)
(1,517)	Capital Adjustment Account		12,617
(14,544)	Deferred Capital Receipts Reserve		(14,544)
44,129	Pension Reserve		44,860
(963)	Collection Fund Adjustment Account		915
190	Accumulated Absences Account		224
<u>4,661</u>	Balance at 31st March		<u>17,366</u>

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.

2016/17 £'000	Revaluation Reserve	<i>Notes</i>	2017/18 £'000
(20,094)	Balance at 1st April		(20,666)
(203)	Changes in valuations		(5,214)
(1,398)	Depreciation written down on revaluation		(464)
1,029	Difference between fair value depreciation and historic cost depreciation		1,290
<u>(20,666)</u>	Balance at 31st March		<u>(25,054)</u>

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.

2016/17 £'000	Available for Sale Financial Instruments Reserve	2017/18 £'000
(897)	Balance at 1st April	(1,968)
(1,071)	Upward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	316
<u>(1,968)</u>	Balance at 31st March	<u>(1,652)</u>

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.

2016/17 £'000	Capital Adjustment Account	2017/18 £'000
(26,897)	Balance at 1st April	(1,517)
	<i>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</i>	
2,392	Charges for depreciation	2,458
192	Charges for amortisation	187
432	Changes in the valuation of Property, Plant and Equipment	4,465
25,570	Changes in the valuation of Investment Properties	14,629
550	Revenue Expenditure Funded from Capital under Statute	1,241
3,436	Amounts of non-current assets written off on disposal, derecognition or sale as part of the Gain or Loss on disposal to the Comprehensive Income and Expenditure Statement	70
(1,029)	Adjusting amounts written off to the Revaluation Reserve	(1,290)
<u>31,543</u>	<i>Total amount of items reversed</i>	<u>21,760</u>
	<i>Capital financing applied in the year</i>	
(2,718)	Use of Capital Receipts Reserve to finance new capital expenditure	(1,250)
(624)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(1,021)
(2,821)	Capital expenditure charged against the General Fund Balance	(838)
0	Minimum revenue provision	(4,517)
<u>(6,163)</u>	<i>Total amount of capital financing</i>	<u>(7,626)</u>
<u>(1,517)</u>	Balance at 31st March	<u>12,617</u>

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

2016/17 £'000	Deferred Capital Receipts Reserve	<i>Notes</i>	2017/18 £'000
(14,544)	Balance at 1st April		(14,544)
<u>(14,544)</u>	Balance at 31st March		<u>(14,544)</u>

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.

2016/17 £'000	Pension Reserve	2017/18 £'000
34,768	Balance at 1st April	44,129
8,553	Remeasurement of net defined benefits liabilities/(assets)	(1,491)
3,277	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	5,016
(2,469)	Employer's pension contributions and direct payments to pensioners payable in the year	(2,794)
<u>44,129</u>	Balance at 31st March	<u>44,860</u>

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.

2016/17 £'000	Collection Fund Adjustment Account	Notes	2017/18 £'000
2,295	Balance at 1st April		(963)
(3,258)	Amount by which Council Tax/Business Rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	23	1,878
<u>(963)</u>	Balance at 31st March	17	<u>915</u>

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.

2016/17 £'000	Accumulated Absence	2017/18 £'000
185	Balance at 1st April	190
5	Amounts by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	34
<u>190</u>	Balance at 31st March	<u>224</u>

22. Statement of Cash Flows – Operating Activities

The cash flows for operating activities include the following items:

2016/17 £'000	Interest paid or received	2017/18 £'000
(948)	Interest received	(1,064)
4,091	Interest paid	8,940

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

2016/17 £'000	Non-cash movements	2017/18 £'000
(2,366)	Depreciation	(2,458)
(432)	Impairment and downward valuations	(4,465)
(2)	Heritage Assets	(1)
(193)	Amortisation	(187)
182	Increase/(decrease) in provisions	664
0	Increase/(decrease) in impairments for bad debts	(214)
(808)	Movement in pension liability	(2,222)
17	Increase/(decrease) in Inventories	(6)
(25,570)	Changes in the valuation of Investment Properties	(14,629)
(14,455)	Increase/(decrease) in Payables	(20,225)
(1,552)	Increase/(decrease) in Receivables	6,410
0	Recognising Cash received in prior years	0
(3,461)	Carrying amount of Non-current assets and Non-current assets held for sale, sold or de-recognised	(70)
2	Other non-cash items charged to the Net (Surplus)/Deficit on the Provision of Services	0
(48,638)		(37,403)

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

2016/17 £'000	Items that are investing or financing activities	2017/18 £'000
757	Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	2,167
757		2,167

23. Statement of Cash Flows – Investing Activities

2016/17 £'000	Investing Activities	2017/18 £'000
421,864	Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	272,072
295,660	Purchase of Long-term and Short-term Investments	0
(757)	Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(1,250)
(287,649)	Proceeds from Long-term and Short-term Investments	0
(286)	Other receipts for Investing Activities	(917)
428,832		269,905

24. Statement of Cash Flows – Financing Activities

2016/17 £'000	Financing Activities	2017/18 £'000
(570,264)	Cash receipts from long-term and short-term borrowing	(476,837)
(172)	Other receipts for financing activities	(52)
160,945	Repayments of long-term and short-term borrowing	226,937
0	Other payments for financing activities	5,645
<u>(409,491)</u>		<u>(244,307)</u>

25. Members Allowances

The Council paid £330K to members of the Council during the year.

26. Senior Officers' Remuneration

The Council paid to its senior officers £423,904 (including pensions contributions) during the year:

2017/18

Senior Employees			2017/18
Title	Pay, fees and allowances £	Pension contributions £	Total £
Chief Executive (note A)	61,456	10,308	71,764
Chief Executive (note A)	57,872	9,271	67,143
Deputy Chief Executive & Chief Financial Officer	85,876	14,093	99,969
Deputy Chief Executive	85,749	14,093	99,842
Head of Corporate Governance	73,701	11,485	85,187

Note A: following the departure of the previous incumbent, a new Chief Executive was appointed in September 2017

2016/17

Senior Employees			2016/17
Title	Pay, fees and allowances £	Pension contributions £	Total £
Chief Executive	115,421	19,310	134,731
Deputy Chief Executive & Chief Financial Officer	82,958	13,491	96,449
Deputy Chief Executive	82,957	13,491	96,448
Head of Corporate Governance	75,615	12,007	87,622

Taxable pay is a net figure reflecting additional voluntary contributions, the figures do not therefore in all cases reflect underlying salaries.

The Council's other employees receiving more than the £50,000 remuneration for the year (excluding pension contributions) were paid the following amounts:

2016/17	Remuneration banding		2017/18
<i>no</i>	£	£	<i>no</i>
0	75,000	79,999	1
1	70,000	74,999	2
2	65,000	69,999	2
3	60,000	64,999	3
1	55,000	59,999	1
4	50,000	54,999	5
<u>11</u>			<u>14</u>

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 packages per cost band (including special paymtns)		Number of compulsory redundancies		Number of other departures agreed		Number of exit packages by cost band		Total cost of exit packages in each band	
£	£	2016/17 <i>no</i>	2017/18 <i>no</i>	2016/17 <i>no</i>	2017/18 <i>no</i>	2016/17 <i>no</i>	2017/18 <i>no</i>	2016/17 £	2017/18 £
80,001	100,000			1		1		99,652	
40,001	60,000			2		2		91,829	
20,001	40,000			1		1	1	12,762	38,166
		<u>0</u>	<u>0</u>	<u>4</u>	<u>0</u>	<u>4</u>	<u>1</u>	<u>204,243</u>	<u>38,166</u>

The Council terminated the contract of one employee in 2017/18 incurring liabilities of £38,166 (£204,243 in 2016/17) 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:

2016/17 £'000	External Audit Costs	2017/18 £'000
48	Fees payable to KPMG with regard to external audit services carried out by the appointed auditor for the year	48
8	Fees payable to KPMG for the certification of grant claims and returns for the year	8
<u>56</u>	Total for the year	<u>56</u>

28. Grant Income

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2017/18:

2016/17 £'000	Grant income	2017/18 £'000
	<i>Credited to Services</i>	
(130)	Grants and contributions	(378)
(32,352)	Benefit Subsidy	(31,221)
(32,482)	Total Credited to Services	(31,599)
	<i>Taxation and Non-specific grant income</i>	
(2,946)	Non-ringfenced grants and contributions	(3,343)
(624)	Capital grants and contributions	(1,121)

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 28 above.

Members of the Council have direct control over the Council's financial and operating policies. During 2017/18 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 2017/18 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
- 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:

2016/17 £'000	Capital Expenditure and Financing	Notes	2017/18 £'000
0	Opening Capital Financing Requirement		413,264
	<i>Capital Investment</i>		
1,140	Property, Plant and Equipment	11	13,520
417,500	Investment Properties	13	258,229
238	Intangible Assets	14	370
3,536	Revenue Expenditure funded from Capital under Statute		1,241
<u>422,414</u>	<i>Total Capital Investment</i>		<u>273,360</u>
	<i>Sources of Finance</i>		
(2,718)	Capital Receipts		(1,250)
(625)	Capital Grants and contributions		(1,021)
(5,807)	Revenue contributions		(838)
	Repayment of debt		(4,517)
<u>(9,150)</u>	<i>Total Sources of Finance</i>		<u>(7,626)</u>
<u>413,264</u>	Closing Capital Financing Requirement		<u>678,998</u>

31. Leases

Council as lessee

Operating Leases

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

31 Mar 17 £'000	Council as Lessee	31 Mar 18 £'000
147	Not later than one year	762
87	Later than one year and not later than five years	2,076
<u>234</u>	Balance at 31st March	<u>2,838</u>

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;

31 Mar 17 £'000	Council as Lessor	31 Mar 18 £'000
18,048	Not later than one year	31,665
72,192	Later than one year and not later than five years	125,945
243,350	Later than five years	338,745
<u>333,590</u>	Balance at 31st March	<u>496,355</u>

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.

Finance Leases

In 2006, the Council granted a lease of 250 years in respect of the Elmsleigh Centre where the Council receives a share of net income.

31 Mar 17 £'000	Finance leases	31 Mar 18 £'000
14,544	Finance lease debtor (net present value of minimum lease payments)	14,544
119,856	Unearned finance income	119,296
3,830	Unguaranteed residual value of property	3,830
<u>138,230</u>	Balance at 31st March	<u>137,670</u>

Gross investment in the lease 31 Mar 17 £'000	Gross investment in the lease 31 Mar 18 £'000		Minimum lease payments 31 Mar 17 £'000	Minimum lease payments 31 Mar 18 £'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
135,430	134,870	Later than five years	131,600	131,040
<u>138,230</u>	<u>137,670</u>	Balance at 31st March	<u>134,400</u>	<u>133,840</u>

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.

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.

2016/17 £'000	IAS19 CI&ES & MiRS	2017/18 £'000
	Comprehensive Income & Expenditure Statement	
	Cost of Services:	
2,102	Current service cost	3,892
0	Past service cost	8
	Financing & Investment Income & Expenditure:	
1,175	Net interest expense	1,116
3,277	Total post-employment benefits charged to the (Surplus)/Deficit on the provision of services	5,016
	Other Comprehensive Income & Expenditure	
(8,019)	Return of plan assets	601
18,399	Actuarial gains & losses arising on changes in assumptions	(2,044)
(1,505)	Changes in demographic assumptions	(48)
(322)	Other remeasurement of defined liability	
11,830	Total post-employment benefits charged to CI&ES	3,525
	Movement in Reserves Statement	
(3,277)	Reversal of new charges made to the (Surplus)/Deficit on the Provision of Services for post-employment benefits in accordance with the code Actual amount charged against the General Fund Balance for pensions in-year	(5,016)
2,469	Employer's contribution to the scheme	2,794

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:

31 Mar 17 £'000	Net liability	31 Mar 18 £'000
77,497	Fair value of plan assets	78,106
(121,626)	Present value of the defined benefit obligation	(122,966)
(44,129)	Net liability arising from defined benefit obligation	(44,860)

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

2016/17 £'000	Scheme assets	2017/18 £'000
68,462	Opening fair value of scheme assets	77,497
2,304	Interest income	1,927
	Remeasurement gain/loss:	
8,019	Return on plan assets, excluding the amount included in net interest expense	(601)
2,270	Contribution from employer	2,601
564	Contribution from employees into the scheme	618
(4,122)	Benefits paid	(3,936)
77,497	Closing fair value of scheme assets	78,106

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

2016/17 £'000	Scheme liabilities	2017/18 £'000
(103,230)	Opening value of scheme liabilities	(121,626)
(2,102)	Current service cost	(3,892)
0	Past Service cost	(8)
(3,479)	Interest cost	(3,043)
4,122	Benefits paid	3,936
(564)	Contributions from scheme participants	(618)
(18,399)	Actuarial gains & losses arising on changes in assumptions	2,044
199	Liabilities assumed on entity combinations	193
1,505	Changes in demographic assumptions	48
322	Other changes in liabilities	
(121,626)	Closing value of scheme liabilities	(122,966)

Local Government Pension Scheme assets comprised:

31 Mar 17 £'000	Asset category	31 Mar 18 £'000
	Equity securities	
6,287	Consumer	6,337
5,699	Manufacturing	5,744
3,124	Energy and utilities	3,149
5,482	Financial institutions	5,525
2,071	Health and care	2,087
4,365	Information technology	4,399
158	Other	159
	Debt securities	
2,690	Corporate bonds (investment grade)	2,711
170	Corporate bonds (non-investment grade)	171
158	Government	159
355	Other	358
	Private equity	
3,253	All	3,278
	Real estate	
4,406	UK property	4,441
29	Overseas property	29
	Investment Funds and Unit Trusts	
21,490	Equities	21,659
8,471	Bonds	8,538
0	Other	0
	Derivatives	
(2)	Interest rate	(2)
110	Foreign exchange	111
	Cash & cash equivalents	
9,181	All	9,253
77,497	Total assets	78,106

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.

Hymans Robertson LLP is the appointed actuary for the Surrey Superannuation Fund which the Council is a member of. For estimating liabilities, the actuary has selected iBOXX Sterling Non-Gilt Index, one of the five main sterling corporate indices, to determine the discount rate to place a value on the fund's liabilities.

The principal assumptions used by the actuary have been:

2016/17	Principal assumptions	2017/18
%		%
	Long-term expected rate of return on assets in the scheme	
4.5	Equity investments	4.5
4.5	Bonds	4.5
4.5	Property	4.5
	Cash	
years	Mortality assumptions	years
	Longevity at 65 for current pensioners	
22.5	- Men	22.5
24.6	- Women	24.6
	Longevity at 65 for future pensioners	
24.1	- Men	24.1
26.4	- Women	26.4
%	Other assumptions	%
2.4	Rate of inflation (Consumer Price Index)	2.5
2.7	Rate of increase in salaries	2.7
2.4	Rate of increase in pensions	2.4
2.5	Rate of discounting scheme liabilities	2.6
25.0	Rate of discounting scheme liabilities	25.0
0.0	Take-up of option to convert annual pension to retirement lump sum	0.0

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.

	%	Increase in assumption £'000	Decrease in assumption £'000
Rate of increases in salaries	0.5	1,221	
Rate of increases in pensions	0.5	9,268	
Decrease in rate for discounting scheme liabilities	0.5		10,609

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 last triennial revaluation was valued as at 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 £2.517m expected contributions to the scheme in 2018/19.

The weighted average duration of the defined benefit obligation for scheme members is 15.7 years for 2017/18 (15.7 years 2016/17).

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.

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.

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

For the financial year to 31 March 2018, the company's major asset, the property Harper House, was valued at £2,720,000 after depreciation. Accounts are being finalised, and amounts quoted below are provisional outturn figures.

Income

Income of £282,000 for the year was received by the Company from the Council.

Expenditure

Expenditure of £422,000 was incurred during the year, including £37,000 for work relating to the Company carried out by Council staff.

37. Post Balance Sheet Events

As explained in the narrative, there has been a number of significant changes since the balance sheet date of 31st March 2018. As these have been set out in great detail, it would be unnecessarily repetitive to repeat here. Therefore, the reader is advised to refer back to the narrative for a full disclosure of these events.

Group Accounts

Introduction

For a variety of legal, regulatory and other reasons, a local authority chooses (or is required) to conduct their activities not through a single legal entity but through two or more legal entities which fall under its ultimate control. For this reason the financial statements of the local authority do not necessarily, in themselves, present a full picture of its economic activities or financial position. Because of this, The Code of Practice requires a local authority to prepare group accounts if it has a control over one or more other legal entities. The aim of the group accounts is to give an overall picture of the extended services and economic activity that is under the control of the local authority.

Spelthorne Borough Council (the reporting authority) has one subsidiary company:
Knowle Green Estates Limited (KGE)

The Council owns 100% of the shares in KGE which was formed in May 2016. The purpose of the company is to hold investments in residential property around the borough.

Basis of consolidation

The Group Movement in Reserves Statement, the Group Comprehensive Income & Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement have been prepared by consolidating the accounts of the Council and its subsidiary on a line by line basis. The accounts of the subsidiary have been prepared using similar accounting policies and practices to that of the Council. However, some accounting policies and practices do differ in some respects from the Council's due to legislative requirements. The accounts of the subsidiary have been prepared in accordance with the provisions of Section 1A "Small Entities" of Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Companies Act 2006. UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). Any material differences are highlighted within the accounts themselves.

The financial statements of the subsidiary have been prepared under the historical cost convention modified by revaluation of non-current assets.

Accounting policies

There are no material differences between the accounting policies that have been adopted by the subsidiary and those adopted by the Council as set out from page 17. Where there are differences the impact of applying a consistent policy would not lead to a material change in the group accounts.

Group Balance Sheet

31/03/2017 £'000	Balance Sheet	31/03/2018 £'000
48,654	Property, Plant & Equipment	59,699
154	Heritage Assets	147
392,145	Investment Properties	635,745
455	Intangible Assets	638
21,599	Long Term Investments	20,951
14,752	Long Term Receivables	14,700
<u>477,759</u>	Long Term Assets	<u>731,880</u>
58	Inventories	52
5,511	Short Term Receivables	11,714
7,567	Cash & Cash Equivalents	5,539
<u>13,136</u>	Current Assets	<u>17,305</u>
(7,752)	Short Term Borrowing	(13,965)
(21,659)	Short Term Payables	(35,156)
(1,703)	Short Term Provisions	(1,039)
<u>(31,114)</u>	Current Liabilities	<u>(50,160)</u>
(44,129)	Other Long Term Liabilities	(44,860)
(405,764)	Long Term Borrowing	(650,600)
(329)	Long Term Capital Grant Receipts in advance	0
<u>(450,222)</u>	Long Term Liabilities	<u>(695,460)</u>
<u>9,559</u>	Net Assets	<u>3,565</u>
(11,194)	Usable Reserves	(19,059)
1,635	Unusable Reserves	15,494
<u>(9,559)</u>	Total Reserves	<u>(3,565)</u>

Group Cash Flow Statement

2016/17 £'000	Statement of Group Cash Flows	2017/18 £'000
27,322	Net (Surplus)/Deficit on the Provision of Services	11,678
(48,635)	Adjustments to net (surplus)/deficit on the provision of services for non-cash movements	(37,415)
757	Adjustments for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	2,167
<u>(20,556)</u>	Net cash flows from Operating Activities	<u>(23,570)</u>
428,832	Investing Activities	269,905
(409,491)	Financing Activities	(244,307)
<u>(1,215)</u>	Net increase or decrease in Cash & Cash Equivalents	<u>2,028</u>
6,352	Cash & Cash Equivalents at the beginning of the reporting period	7,567
1,215	Net increase or decrease in Cash & Cash Equivalents	(2,028)
<u>7,567</u>	Cash & Cash Equivalents at the end of the reporting period	<u>5,539</u>

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	Collection Fund	Business rates	Council tax	Total
2016/17		2017/18	2017/18	2017/18
£'000		£'000	£'000	£'000
	Income			
(65,744)	Council tax receivable		(68,849)	(68,849)
(44,876)	Business rates receivable	(45,476)		(45,476)
0	Transitional protection	(617)		(617)
	Contribution received based on Deficit			
(3,525)	Spelthorne Borough Council			0
(881)	Surrey County Council			
0	Surrey Police & Crime Commissioner			
(4,406)	Central Government			
	Demand, precepts and shares			
25,396	Spelthorne Borough Council	19,511	7,487	26,998
53,140	Surrey County Council	4,877	51,809	56,686
8,435	Surrey Police & Crime Commissioner		8,737	8,737
22,768	Central Government	24,388		24,388
	Contribution paid based on Surplus			
148	Spelthorne Borough Council	904	167	1,071
990	Surrey County Council	226	1,133	1,359
175	Surrey Police & Crime Commissioner		197	197
0	Central Government	1,129		1,129
	Charges to the Collection Fund			
234	Write-offs			
587	Increase/(decrease in Bad Debt Provision	303	213	516
(657)	Increase/(decrease) in Provision for Appeals	(935)		(935)
129	Cost of Collection	129		129
<u>(8,087)</u>	(Surplus)/Deficit arising during the year	<u>4,439</u>	<u>894</u>	<u>5,333</u>
	Movement on the Collection Fund			
4,703	(Surplus)/Deficit brought forward	(2,023)	(1,360)	(3,383)
(8,087)	(Surplus)/Deficit arising during the year	4,439	894	5,333
<u>(3,384)</u>	(Surplus)/Deficit carried forward	<u>2,416</u>	<u>(466)</u>	<u>1,950</u>

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 2018 was:

Valuation band	Number of dwellings on Valuation List	Number of chargeable dwellings	Ratio to band D	Band D equivalents
A-		3	5/9	2
A	440	315	6/9	210
B	1,621	1,052	7/9	818
C	8,776	6,460	8/9	5,742
D	14,490	12,202	9/9	12,202
E	9,962	8,930	11/9	10,914
F	4,560	4,204	13/9	6,072
G	2,102	1,985	15/9	3,308
H	109	96	18/9	192
Total	42,060	35,247		39,460
	Number of band D equivalents in lieu			41
	Allowance for losses on collection and appeals			1.50% (592)
	Council Taxbase for 2017/18			38,909

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 2018 was £117,179,354 and the national non-domestic rate multiplier for 2017/18 was £0.479 and £0.466 for small business.

ANNUAL GOVERNANCE STATEMENT 2017-18

1. INTRODUCTION

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 *Delivering Good Governance in Local Government Framework 2016*. 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 6(1) of the Accounts and Audit Regulations 2015 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.

2. THE KEY ELEMENTS OF GOVERNANCE

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

Identifying and communicating our vision and outcomes for citizens and service users

- 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 Service plans for all areas have been completed for 18/19.
- Other significant plans and policies are contained within the Policy Framework and are regularly reviewed to ensure that they remain relevant and effective. The Council's Local

Plan preparation is actively underway with a broad ranging consultation process being undertaken.

The expansion of Heathrow Airport if the third runway is approved will have a major impact on the Borough. The Council is actively and robustly responding to the consultation process and seeking to protect the interests of its residents.

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.

Established 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,

- 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.
- The Council has completed the early stages of the Local Plan preparation process and is undertaking extensive local consultation in 2018-19 through a wide range of channels.
- The Council continues to develop its use of social media to provide additional opportunities to engage with its residents.

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 i.e. 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. The Local Code was reviewed in March 2018 at the Overview and Scrutiny Committee.

Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

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 2011. 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

Whistle-blowing and receiving and investigating complaints from the public

- 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 Confidential Reporting Code is reviewed annually and an awareness raising poster was updated in March 2018, placed on staff noticeboards.
- The Council handles complaints effectively, the corporate complaints process was reviewed and revised in 2017-18

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. A Procurement Officer is now in place and an updated Procurement Strategy produced.

Compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

- 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 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 2017/18 included:

- The setting of the Outline Budget framework and the detailed annual Budget
- 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
- Following the acquisition of the BP Campus site in 2016-17 the Council made further investment asset acquisitions during 2017-18. In recognition of the need to ensure appropriate governance and processes were underpinning a growing and significant property portfolio, the Council reviewed processes and made the following improvements:
 - Applied some of the rental returns to fund an enlarged property and development unit with staff with significant commercial property and development experience
 - Procured the S&P reporting system to enable access to ongoing financial credit rating data on tenants and potential tenants
 - Undertaken presentations for both councillors and residents associations explaining the Council's due diligence process and approach to mitigating risk with respect to property acquisitions
 - Published a Strategic Parameters document on investment acquisitions
 - Set up an officer Development and Investment Group – to monitor progress on developments and strategic acquisitions
 - Set up an Investment Property and Development working group consisting of senior officers and senior councillors to provide overall strategic direction to the property portfolio
 - Both of the above group provide initial evaluation of opportunities prior to Cabinet formally approving investment opportunities
 - Reviewed systems in place to record, recover and monitor significant rental income
- Managing risk in key financial service areas.
The Council continues to participate in a cross Surrey initiative to detect and prevent fraud.

Sustainability

- The Council recognises the importance of good governance in supporting the delivery of broader sustainability objectives; During 2017-18 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"
- The Council has an objective and professional relationship with External Audit and statutory inspectors as evidenced in the Annual Audit Letter
- A review of the effectiveness of internal audit is undertaken annually and considered by the Audit Committee. An external quality assessment of internal audit is also being arranged during 2018-19.

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

- 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 Authorities*

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 authority's objectives. Following on from the LGA Peer Review in 2014 the Council 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 2017-18 the Council continued to improve 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

- There is budget provision for training of both officers and councillors. The Council on an annual basis informed by the annual appraisal and review of key challenges facing the Council prioritises how to allocate its corporate training budget provision.
- For significant new statutory requirements or service requirements appropriate training is identified and provided for staff. An example in 2017-18 is the training on Homelessness Reduction Act provided for Housing Options and other relevant staff

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 authorities, 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, and continues to operate, in accordance with the 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 seven CIPFA/SOLACE core principles underpinning the Code of Corporate Governance framework issued by CIPFA/SOLACE. The seven principles are:

Principle A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

Principle B - Ensuring openness and comprehensive stakeholder engagement.

Principle C - Defining outcomes in terms of sustainable economic, social, and environmental benefits.

Principle D - Determining the interventions necessary to optimise the achievement of the intended outcomes.

Principle E - Developing the Authorities' capacity, including the capability of its leadership and the individuals within it.

Principle F - Managing risks and performance through robust internal control and strong public financial management.

Principle G - Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

This review was conducted for the March 2018 Overview and Scrutiny Committee.

Details of the review can be found on the [Council's website](#).

3. OPINION

This is an [evidence based] opinion on the level of assurance of the Council's governance arrangements and their effectiveness to be fit for purpose.

The Council uses a number of ways to review and assess the effectiveness of its governance arrangements. These are set out below and include assurance from Internal and External Audit. One of the key assurance statements the Council receives is the annual report and opinion of the Internal Audit Manager. Informed by the work of the Internal Audit Manager, the overall opinion is that the Council's internal control environment is generally adequate. However, some improvements need to be highlighted as set out in the table below. This opinion on the Council's control environment is based on the work undertaken by Audit services during 2017/18 which is summarised in the Annual Audit report. During 2017/18 the Internal Audit Manager reported on 22 planned audit areas of which 1 (4%) was deemed effective and 12 were assessed as requiring some improvement including 5 key financial systems reviewed. including all key financial systems reviewed. Of the remaining 9 areas reviewed, a total of 7 areas were identified as high risk or requiring major improvement, two of which related to core financial systems. *The key themes and issues arising from these high risk areas are highlighted in the table below.* (Audit status reports have been issued for 2 out of the 9 areas for which no assurance opinion is provided although control improvements are highlighted as necessary).

Issue identified for 17/18	Planned Action
<p>Whilst the Council allocated dedicated resource towards ensuring that the Council was ready for implementation of the new General Data Protection Regulations taking effect in May 2018, there are some important lessons around planning more effectively for significant legislation, including resource planning and application of corporate project processes. An Information Governance Officer was appointed in 2017 and represents the subject matter expert in leading progress. Additional resource was put into the Corporate Project Team to assist with the project. However, the Authority could be much closer to being fully compliant with this significant legislation than it is. It is, therefore, vital that efforts to implement new regulations are increased immediately and the necessary resources to enable this to happen are made available.</p>	<p>The Council has a fit for purpose and proportionate project governance framework, however this requires consistency in its application and delivery.</p> <p>Application of project governance arrangements are required to contribute to the likely success of projects whilst reducing potential risks of delays and overspend. Effective governance should incorporate the necessary structures and processes to support key decisions and approvals, promote the need for robust project plans, monitor progress of the project against pre-determined plans and milestones, and include regular effective reporting to the appropriate monitoring board/committee</p>
<p>Due to resourcing pressures in Accountancy and other departments some reconciliation processes were not maintained as up to date during 2017-18 as should have been</p>	<p>Effective reconciliation exercises between key financial systems represent a fundamental financial control and need to be carried out regularly to enable prompt identification and investigation of discrepancies, errors and potential fraud. Adequate staff contingency arrangements need to be built into the process. This has been acknowledged by the Accountancy team with additional resource now in place to support such tasks</p>
<p>As System Administrators also have operational and processing roles within the associated service area, this lack of segregation of duties (between operations and administration) increases associated risks of fraud or error. This is a longstanding issue and will be considered further as part of the review of the ICT function</p>	<p>The role of system administrators and where they should sit is to be reviewed as part of a "root and branch" review in early 2018-19 of ICT arrangements</p>
<p>A recurring theme across some service areas is resourcing (constraints) often combined with weak resilience arrangements. These are often highlighted as reasons for controls and governance processes being compromised.</p>	<p>Additional growth to provide additional resources in HR, Accountancy, Legal and Property was built into the 2018-19 and recruitment processes are underway.</p> <p>Resilience will be one of the issues considered as part of the root and branch service reviews being undertaken in 2018/19</p>

The Council's external auditor, KPMG, provides assurance on the accuracy of the year-end Statement of Accounts and the overall adequacy of arrangements for securing and improving value for money.

Self-assessment and review of key performance indicators Staff from the Council's Finance Team have undertaken a review to confirm that the arrangements described above have been in place throughout the year. Management Assurance Statements, signed by senior officers, have also been obtained to provide confirmation that Codes of Conduct, Financial Regulations, and other corporate governance processes, have been operating as intended throughout the year so far as they are aware. The Council uses a number of key outcome indicators to assess the quality of governance arrangements. Performance in 2017/18 is set below:

Issues Identified	Performance in 2017/18
Formal reports by s151 or Monitoring Officer	None issued
Outcomes from Standards Committee or Monitoring Officer investigations	No breaches of Member or Officer Codes of Conduct have occurred
Proven frauds carried out by councillors or members of staff	None identified in 2017/18
Objections received from local electors	None in 2017/18
Local Government Ombudsman referrals	0 cases upheld out of 4 complaints
Major improvement opinions from Internal Audit reports	There were 7 audits with major improvement opinions in 2017/18 and key issues and/or common themes arising have been noted in the 'Issues identified for 2017/18' section

4 SIGNIFICANT GOVERNANCE ISSUES

- As stated above the most significant governance challenge for the Council in 2017-18 was reviewing and refreshing governance arrangements to ensure appropriate in the context of the Council accumulating an investment portfolio of almost £700m. As stated in the report above, In recognition of the need to ensure appropriate governance and processes were underpinning a growing and significant property portfolio, the Council reviewed processes and made the following improvements:
 - Applied some of the rental returns to fund an enlarged property and development unit with staff with significant commercial property and development experience
 - Procured the S&P reporting system to enable access to ongoing financial credit rating data on tenants and potential tenants
 - Undertaken presentations for both councillors and residents associations explaining the Council's due diligence process and approach to mitigating risk with respect to property acquisitions
 - Published a Strategic Parameters document on investment acquisitions
 - Set up an officer Development and Investment Group – to monitor progress on developments and strategic acquisitions
 - Set up an Investment Property and Development working group consisting of senior officers and senior councillors to provide overall strategic direction to the property portfolio
 - Both of the above groups provide initial evaluation of opportunities prior to Cabinet formally approving investment opportunities
 - Reviewed systems in place to record, recover and monitor significant rental income

Cllr Ian Harvey

.....
Cllr Ian Harvey
Leader of the Council

Audit Committee 23rd March 2023 – updated March 2023

Daniel Mouawad

.....
Daniel Mouawad
Chief Executive

AUDITORS REPORT TO FOLLOW (PAGE 1)

AUDITORS REPORT TO FOLLOW (PAGE 2)

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.

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.

CIPFA

The 'Chartered Institute of Public Finance and Accountancy' is the professional body for people in public finance. CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

CODE

The '*Code of Practice on Local Authority Accounting in the United Kingdom*' (the Code) is based on International Financial Reporting Standards (IFRSs) and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board. It constitutes a 'proper accounting practice' under the terms of Section 21(2) of the Local Government Act 2003.

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 a legal 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.

LASAAC

The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) is an independent committee that develops and promotes proper accounting practice for local government in Scotland.

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 discretionary 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.

APPENDIX D

(Letterhead of SBC)

Joanne Lees
Director
KPMG LLP
15 Canada Square
London
E14 5GL

[Date]

Dear Jo

This representation letter is provided in connection with your audit of the financial statements of Spelthorne Borough Council (“the Authority”), for the year ended 31 March 2018, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority and the Group as at 31 March 2018 and of the Authority’s and the Group’s expenditure and income for the year then ended; and
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

These financial statements comprise the Authority and Group Movement in Reserves Statements, the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Balance Sheets, the Authority and Group Cash Flow Statements, and the Collection Fund and the related notes (including the Statement of Expenditure and Funding Analysis).

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
 - i. give a true and fair view of the financial position of the Authority and the Group as at 31 March 2018 and of the Authority’s and the Group’s expenditure and income for the year then ended; and
 - ii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

5. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority and the Group from whom you determined it necessary to obtain audit evidence.
 6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
 7. The Authority confirms the following:
 - The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 - Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.
 8. The Authority has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the Authority and the Group and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and
 - b) allegations of fraud, or suspected fraud, affecting the Authority's and Group's financial statements communicated by employees, former employees, analysts, regulators or others.
- In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
9. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
 10. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
 11. The Authority has disclosed to you the identity of the Authority's and the Group's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

12. The Authority confirms that:

- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's and the Group's ability to continue as a going concern as required to provide a true and fair view.
- b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority and the Group to continue as a going concern.

Specific representations

13. The Authority confirms that the value of land and buildings which were not subject to revaluation in the year-ended 31 March 2018 would not materially differ had the Authority obtained a valuation for those assets as at 31 March 2018.

14. The Authority confirms that, insofar as the assets were subject to valuation in the year-ended 31 March 2018, the valuation of land and buildings and the valuation of investment properties is appropriate; having used qualified surveyors to obtain those valuations and selected assumptions within those valuations which are balanced in nature, and that there have been no events post year end which indicate that the valuation as at 31 March 2018 is not appropriate.

15. The Authority confirms that the disclosures and financial information relating to Knowle Green Estates Ltd as consolidated into the Group accounts are, in all material respects, complete and accurate.

This letter was tabled and agreed at the meeting of the Audit Committee on 23 March 2023.

Yours faithfully,

Chair of the Audit Committee

Chief Finance Officer

Appendix to the Authority Representation Letter of Spelthorne Borough Council: Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information and the Expenditure and Funding Analysis.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and

- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to “management” should be read as “management and, where appropriate, those charged with governance”.

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the “reporting entity”).

- a) A person or a close member of that person’s family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi. The entity is controlled, or jointly controlled by a person identified in (a).
 - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

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Hybrid Working at Spelthorne Borough Council

Hybrid working is an important element of our:-

- Strategy for adapting to and thriving in the new working environment following the Covid-19 pandemic.
- Commitment to supporting a positive work-life balance for our employees.
- Maximising available desk space.

As an employer Spelthorne benefits from hybrid working by building a more productive, healthy, and stable workforce. A hybrid workplace model mixes in-office and remote work to offer flexibility and support to employees but all in line with business need.

The greatest advantages of hybrid work to date are:

- improved work-life balance/staff well-being.
- more efficient use of time.
- control over work hours and work location. Hybrid working provides the flexibility for employees to work in ways that are most effective for them e.g. allows preferences for early morning or later in the day if role permits so maximising productivity
- burnout mitigation.
- higher productivity and engagement at work.
- improves recruitment and retention of staff. Spelthorne has examples of where we have retained skilled staff due to flexibility of working from home.
- ability to recruit from a wider pool of staff geographically. Without offering hybrid working we would struggle to recruit and retain office/professional staff.
- reduced sickness.
- reduced carbon emissions and cost of travel.
- ability to better match jobs to skills so more attractive to candidates if flexible working. Externally provided with an example of an organisation where the Chief Executive decided to allow only one day at home for a particular role that could work remotely leading to potentially skilled candidates withdrawing from the application process for the advertised position.

When Spelthorne formally rolled out hybrid working after the pandemic it was recognised that there are challenges to hybrid working but many of these can easily be overcome by effective management: -

- a) having the right tools to be effective at work – we delivered suitable equipment including office chairs to homeworkers at the beginning of the pandemic and these still enable staff to work successfully from home.
- b) feeling less connected to the organization's culture, - most staff are expected to come in two days a week, if fulltime, and during those days most teams organise a team meeting to ensure relationships are maintained and collaboration is ongoing. We also hold monthly all staff meetings to update staff on general issues and hold monthly manager's briefings to discuss any issues.
- c) On site we have meeting rooms and space with full remote capable facilities including cameras for small staff meetings to take place and ensure full team interactions.
- d) Spelthorne has in place a continuous performance management system whereby managers set team member's targets and hold a formal meeting every 3 months on progress against targets and regular monthly meetings to cover all work and personal issues to ensure staff are happy and productive. Measurement of performance is focused on outputs and outcomes which vary from service to service. Outputs can be based on phone call statistics and work trays emptied, number of cases dealt with per month, key performance indicators achieved within a service, or defined outcomes on key activities identified within targets. Also, if appropriate we can track activity electronically.
- e) Reducing our desk space in 2019 reduced our office space by 43% and as staff numbers have increased in key areas supporting the business e.g housing, there would be insufficient space to accommodate all staff at one time. Reducing the office space saved energy and costs terms of space heating and lighting plus provides a better working environment for staff when in the office.

The Office of National Statistics (ONS) in 2022 showed that more than three-quarters (78%) of those who worked from home in some capacity said that being able to work from home gave them an improved work life balance in February 2022. Half reported it was quicker to complete work (52%) and that they had fewer distractions (53%). Almost half also reported improved well-being (47%).

For businesses from the ONS study the most common reason for using or planning to use homeworking as part of a permanent business model (among

businesses who reported this) was improved staff well-being (60%), followed by reduced overheads (43%) and increased productivity (41%)

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