Public Agenda

Please reply to:
Contact: Greg Halliwell
Service: Committee Services
Direct line: 01784 446240
E-mail: g.halliwell@spelthorne.gov.uk
Date: 21 September 2016

Notice of meeting

Audit Committee

Date: Thursday, 29 September 2016

Time: 7.30 pm

Place: Goddard Room, Council Offices, Knowle Green, Staines-upon-Thames TW18 1XB

To the members of the Audit Committee

Councillors:

M.J. Madams (Chairman)
D. Patel (Vice-Chairman)
S.A. Dunn
T.J.M. Evans
D. Saliagopoulos
H.A. Thomson
H.R.D. Williams

Spelthorne Borough Council, Council Offices, Knowle Green

Staines-upon-Thames TW18 1XB

www.spelthorne.gov.uk customer.services@spelthorne.gov.uk Telephone 01784 451499

RESPONSIBILITIES OF THE AUDIT COMMITTEE

Purpose

To provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process

Core Functions

(a) To approve (but not direct) the internal audit's strategy, plan and performance.

(b) To review summary internal audit reports and the main issues arising, and to seek assurance that action has been taken where necessary.

(c) To consider the reports of external audit and inspection agencies.

(d) To consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti fraud and anti corruption arrangements. Seek assurances that action is being taken on risk related issues identified by auditors and inspectors.

(e) To be satisfied that the Authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and to take actions required to improve it.

(f) To ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.

(g) To review the financial statements, external auditors opinion and reports to members, and monitor management action in response to the issues raised by external audit.

AGENDA

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Minutes of the Audit Committee
7 July 2016

Present:
Councillor M.J. Madams (Chairman)
Councillor D. Patel (Vice-Chairman)

Councillors:

S.A. Dunn	H.A. Thomson
D. Saliagopoulos	H.R.D. Williams

Apologies: Councillors T.J.M. Evans

In attendance:

152/16 Minutes

The minutes of the meeting held on 19 May 2016 were approved as a correct record.

153/16 Disclosures of Interest

There were none.

154/16 Corporate Risk Management

The Internal Audit Manager reported that the Corporate Risk Register (CRR) had undergone its regular quarterly review and update by the Corporate Risk Management Group and Management Team to ensure that actions were being taken to deal with the identified risks. She explained that Cabinet receives the Corporate Risk Register on a quarterly basis to ensure that significant issues and risks affecting the authority are highlighted to the Cabinet and relevant Portfolio Holders.

The Internal Audit Manager summarised the risks affecting the Council, and mitigating actions as outlined in the report, specifically assessing delivery of Business Continuity and Emergency Planning programmes against expected outcomes, service planning, the impact of prolonged staff vacancies on service delivery, progressing options for future Leisure Centre provision, procurement and managing debt recovery.

She explained that the Council currently had 26 projects ongoing and indicated that Management Team in collaboration with the Cabinet must continue to assess the capacity of the Council to achieve and develop new projects and manage the potential revenue implications associated. Furthermore she indicated that the TaSF transformation programme required a higher level of overview to oversee the development of the programme in its entirety, but she acknowledged that the Group Head for Commissioning and Transformation provides an overseeing aspect to the programme.

The Committee noted the following main action points in relation to the CRR:

a. To highlight the need for additional support and resource help in specific work/risk areas.
b. The need to review the format of the CRR, e.g. having defined risk categories; separate out finance from health and safety, etc.
c. Dates for the next corporate inspections (Health and Safety).
d. The business case for corporate fraud prevention at the Council to be considered as a growth bid in the budget process for 2017-18.
e. More and specific information needed on age debt

The revised register was considered to be an accurate reflection of the high level risks affecting the Authority and progress on actions was documented on the register.

Resolved that:

1) The contents of the Corporate Risk Register be noted and accepted;

2) That the Corporate Risk Register be recommended to Cabinet for approval.

155/16 Internal Audit Annual Report 2015/16

The Internal Audit Manager outlined the Internal Audit Annual Report 2015/2016 which demonstrated how the authority fulfilled its statutory requirements to ‘maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices.’

The Committee queried:

a. When the next corporate inspections would take place (Health and Safety) (p. 32).
b. The need for more information on the issue of aged debt, i.e. breakdown of debt amounts relating to service areas and whether recoverable or not (p. 36).

The Committee also noted the importance of the need for clear outcomes now that Applied Resilience (AR) has been set up.

Resolved to note the Internal Audit Annual Report 2015-16.

156/16 Committee Work Programme

The Committee considered its Work Programme for the 2016-2017 Municipal year.

Resolved that the Committee Work Programme for the 2016-2017 Municipal year be approved.

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Audit Committee

29 September 2016

SPELTHORNE BOROUGH COUNCIL

Title	External Audit Report on the 2015/16 Audit and Statement of Accounts		
Purpose of the report	To note		
Report Author	Adrian Flynn		
Cabinet Member	Councillor Howard Williams	**Confidential**	No
Corporate Priority	Financial Sustainability		
Recommendations	The Audit Committee is asked to note the External Auditor's 2015/16 audit report (Appendix A).That the Chief Finance Officer sign the letter of representation attached as (Appendix C). That the Chief Finance Officer and Chairman of the Committee sign the statement of accounts. That the Audit Committee notes the draft officer responses to the recommendations made in Appendix 1 of the Auditors report.		

1. Key issues

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

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

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

1.3 The KPMG report on the 2015/16 audit is attached as Appendix A.

Financial Statements (Section Three, pages 6 to 11; and Appendix 3 page 18)

1.4 The final version of the Statement of Accounts, reflecting the minor amendments required by the external auditors, is attached as Appendix B. One audit adjustment was identified but has not been implemented as it has been agreed with KPMG that it is not material.

1.5 KPMG anticipate issuing an unqualified audit opinion by 30 September 2016. In addition they will report that the Annual Governance Statement is satisfactory and not misleading or inconsistent with other information gathered from the audit.

Value for Money (Section Four, page 12)

1.6 KPMG concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Other Matters

1.7 The report confirmed that the overall control environment was effective. Key financial systems are generally sound and the auditors made 3 recommendations, one around completeness of related parties, one around the completeness of accruals and the third one regarding the frequency and timing of reconciliations. The management responses to the recommendations are set out on pages 14 and 15.

2. Options analysis and proposal

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

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

3. Financial implications

3.1 There are none

4. Other considerations

4.1 There are none

5. Timetable for implementation

5.1 As per the responses set out to the recommendations.

Background papers: None

Appendices: KMPG Report
Audited Statement of Accounts 2015/16
Letter of Representation.

KPMG

2015/16 audit highlights memorandum and management letter

Spelthorne Borough Council

Year ended 31 March 2016

September 2016

Contents

The contacts at KPMG in connection with this report are:

Neil Hewitson
Director

KPMG LLP (UK)

Tel: +44 (0) 790 999 1009
Neil.Hewitson@kpmg.co.uk

Paul Henson
Manager

KPMG LLP (UK)

Tel: +44 (0) 7990 569 252

Paul.Henson@kpmg,co.uk

Dee Naidoo
Assistant Manager

KPMG LLP (UK)

Tel: +44 (0) 788 027 6477
Devashnee.Naidoo@kpmg.co.uk

This report is addressed to 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. Public Sector Audit Appointments 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 Public Sector Audit Appointment'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 Neil Hewitson, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the Authority; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

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Scope of this report

This report summarises the key findings arising from:

- Our audit work at Spelthorne Borough Council ('the Authority') in relation to the Authority's 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in April 2016, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during August 2016.

It also includes any additional findings in respect of our control evaluation which we have identified during our interim visit that commenced on 5 April 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- Assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- Carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages;
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the fund;
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations.

Acknowledgements

We would like to take this opportunity to thank the staff and members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages. Sections two and three of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit has identified an audit adjustment with a total value of £85k. The Authority has not adjusted the 2015/16 accounts on the basis that this matter is not material. The impact of this unadjusted difference would be to: — Increase the balance on the general fund as at 31 March 2016 by £85k; — Decrease the deficit on provision of services for the year by £85k; and — Increase the net worth of the Authority as at 31 March 2016 by £85k. We have included a full list of significant audit adjustments at Appendix two. We have raised a recommendation in relation to the matter highlighted above, which is summarised in Appendix one.
Key financial statements audit risks	We identified the following key financial statements audit risk in our 2015/16 External audit plan issued on 1 April 2016. — Valuation of Land and Buildings — Management override of controls We have worked with officers throughout the year to discuss the key risk and our detail findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas.
Accounts production and audit process	We received complete draft accounts by 27 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. The Authority has implemented one of the two recommendations in our *ISA 260 Report 2014/15* relating to the financial statements. The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. As in previous years, we will debrief with the finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2015/16 audit process. In particular we would like to thank the Deputy Chief Executive, Principal Accountant, Deputy Principal Accountant, Payroll, HR and the authority staff who were available throughout the audit visit to answer our queries.

Headlines

VFM conclusion and risk areas	We identified the following VFM risks in our External audit plan 2015/16 issued in April 2016. — Financial Resilience We worked with officers throughout the year to discuss the VFM risk and our detailed findings are reported in section 4 of this report. There are no matters of significance arising as result of our audit work in the VFM risk area. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: — Review of final accounts. — Review of Whole of Governance Accounts 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 a draft of this representation letter to the Section 151 Officer on 19 August 2016. We draw your 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 confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Proposed opinion and audit differences

We have not identified any issues in the course of the audit that are considered to be material. We identified one adjustment. Management is not adjusting for it. The impact would be:

- **Decrease the deficit on the provision of services for the year by £85k; and**
- **Increase the balance on the general fund account as at 31 March 2016 by £85k;**
- **Increase the net worth of the Authority as at 31 March 2016 by £85k.**

We anticipate issuing an unqualified audit opinion in relation to the financial statements, as contained in the Authority's Statement of Accounts by 30 September 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 29 September 2016.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see appendix two) level for this year's audit was set at £1.4 million. Audit differences below £75,000 are not considered significant.

We did not identify any material misstatements. We identified an issue with completeness of accruals which has not been adjusted by management. This error is due to expenditure being recorded in the incorrect period as the council recognises transactions on invoice date and does not correctly identify the period the goods or services relate to or when expenditure is incurred. A review of all transactions which could be affected by this issue has been completed and it was determined that it does not have a material effect on the financial statements. All unadjusted differences are set out in Appendix 2.

The net impact on the General Fund as a result of unadjusted audit differences is to increase the balance as at 31 March 2016 by £85k. In line with ISA (UK&I) 450 we request that you adjust all misstatements; however the identified misstatements will not effect our audit opinion within our auditors report, individually or in aggregate. As communicated previously with the Audit Committee, details of all adjustments greater than £75,000 are reported.

In addition, we identified presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We made comments in respect of its format and content which the Authority has agreed to amend where significant.

Annual report

We reviewed the Authority's annual report and can confirm it is consistent with the financial information contained in the audited financial statements.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16*, presented to you in April 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to Spelthorne Borough Council.

Valuation of land and buildings

— Risk

Local Authorities exercise judgement in determining the fair value of the different classes of assets held and the methods used to ensure the carrying values recorded each year reflect those fair values. In accordance with the suggested accounting policies provided by the CIPFA code of practice, the Council has recently changed its approach and for the financial year 2015/16 has adopted a 5 year rolling revaluation of Land and Buildings.

The new programme was undertaken by Kempton Carr Croft (the Council's existing valuation specialists) with around 20% of all assets being tested each year with all assets being valued at least once in every 5 year period. Given the materiality in value and the judgement involved in determining the carrying amounts of assets we considered this to be a significant audit risk for 2015/16

— Findings

We have undertaken the following work over the valuation of Land and Buildings:

- reviewed the revaluation basis and consider its appropriateness.
- reviewed management's challenge to any of the valuations and to any differences between the valuation report and the financial statements;
- assessed the basis upon which any impairments to land and buildings have been calculated and tested the associated assumptions;
- assessed the independence and objectivity of the surveyors and the terms under which they were engaged by management;
- understand the rationale for the change in valuation approach in 2015/16; and
- assessed what procedures have been undertaken by management in respect of the 80% of assets not subject to valuation and how this ensures that carrying values remain appropriate

We found the revaluation basis to be appropriate and the valuation adequately accounted for in the accounts.

Significant audit risks

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

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Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of 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. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried 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.

There are no matters arising from this work that we need to bring to your attention.

Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:

Assessment of subjective areas			
Asset/liability class	**15/16**	**Balance (£m)**	**KPMG comment**
Provisions	4	£1.9 million *(PY: £2.4 million)*	The council had opening provisions of £2.4m and has decreased its provision to £1.9m. This is a result of a decrease in the business rate appeals during the 2015/16 financial year due to a change by the Council in the methodology of calculating provisions. We have reviewed the new methodology and consider the provision disclosures to be acceptable but marginally more optimistic than in the prior year.
Debtors provisioning	2	1.4 million *(PY: £0.9 million)*	The council had opening balances of £0.9m and has increased its provision to £1.4m. This is a result of an increase in the outstanding business rates and housing benefit overpayments. We consider the provision disclosures to be acceptable but marginally more cautious than in the prior year.
Property, Plant and Equipment	3	£44.9 million *(PY: £46.8 million)*	We understand from our previous audit that a full valuation took place in 2014/15 before the adoption of a 5 year rolling valuation programme in 2015/16. 20% of land and buildings were revalued in the current year with no material movements noted. We considered the revaluation basis to be appropriate.
Pensions	3	£38.6 million *(PY: £34.7 million)*	The pension liability has been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. discounted to present values. We have reviewed the accounting entries for pensions supplied by the Surrey Fund actuary, Hymans Robertson and consider the disclosures to be appropriate.

Accounts production and audit process

We have noted an improvement in the quality of the accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented one of the two recommendations in our ISA 260 Report 2014/15.

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Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority continues to maintain a sound financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 30 June 2016. The Authority have made a small number of presentational changes to the accounts presented for audit however there have been no changes which we consider to be fundamental.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in June 2016 and discussed with the Principal Accountant, set out our working paper requirements for the audit. The quality of working papers provided was high and fully complied with standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved all audit queries in a timely manner.
Internal Audit	We have reviewed all reports issued by internal audit during the year and used their findings to aid our risk assessment; we have not placed direct reliance on their work.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented one of the two recommendations in our Report to those charged with governance (*ISA 260) 2014/15*.

Completion

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We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Spelthorne Borough Council for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Spelthorne Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix four in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud.

The Authority should confirm that the information provided to the independent property valuation specialist was complete and accurate, including the number of properties and other information required by the valuer regarding the condition and nature of these properties and the information received from the valuation specialist has been recorded within the financial statements and is complete and accurate.

The authority should also confirm that the process through which year end accruals are identified is appropriate and the balance recorded within the financial statements is materially complete and accurate.

We have provided a template to the Deputy Chief Executive for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

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.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2015/16 financial statements.

VFM Conclusion

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Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

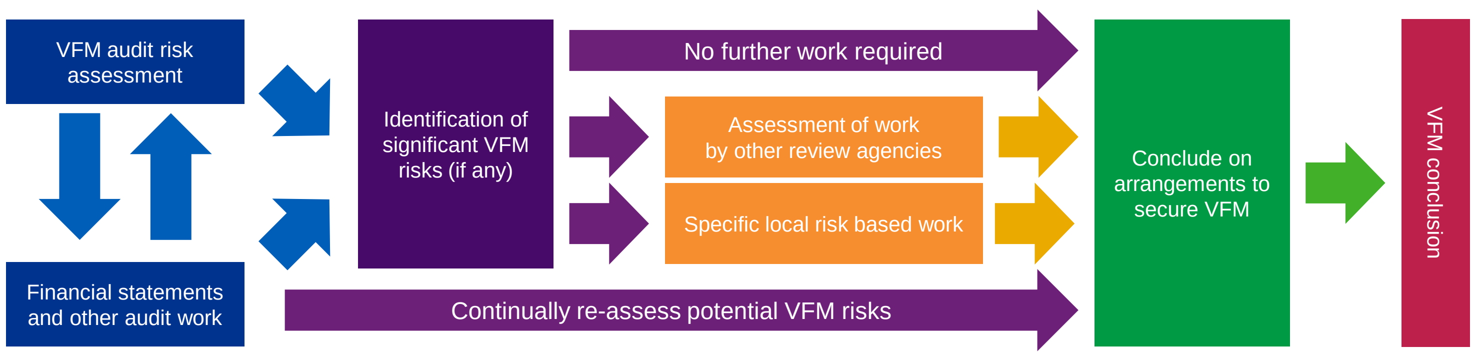
Background

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.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.



Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall criterion

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

Informed decision making	Sustainable resource deployment	Working with partners and third parties
✓ **Met**	✓ **Met**	✓ **Met**

Specific VFM Risks

We have identified a specific VFM risk and undertaken work to date in response to the risk:

- **Financial Resilience**

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to the risk area is adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

— Assessed the Authority's key business risks which are relevant to our VFM conclusion;

— Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;

— Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and

— Completed specific local risk based work

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the Authority, inspectorates and review agencies in relation to these risk areas.

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Key VFM risk	Risk description and link to VFM conclusion
Financial resilience	Local Authorities are subject to an increasingly challenged financial regime with reduced funding from Central Government whilst having to maintain a statutory and quality level of services to local residents. The Government announced in December 2015 that Spelthorne Borough Council's revenue support grant will be £1,330,000 in 2015/16 and reduced to £580,000 in 2016/17 with a transitional grant of £100,000 being paid to the Council in 2016/17and 2017/18. This is relevant to the informed decision making, sustainable resource deployment, working with partners and third parties sub-criteria of the VFM conclusion. **Assessment** We have undertaken the following work over VFM ▪ Reviewed the overall management arrangements that Spelthorne has for managing its financial position; ▪ Assessed the relevant findings from the financial statements audit work, including understanding the entity and work on key systems and controls; ▪ Reviewed reports from the audited body including internal audit, minutes of council meetings, medium term financial strategy plan, revenue and capital budgets, strategic risk registers, supporting documents and VFM profiles produced by the PSAA; ▪ Reviewed information disclosed or available to support the Annual Governance Statement and Annual Report; The council has a Medium Term Financial Strategy, ongoing monitoring of the annual budget, responsiveness to increasing costs of demand led services and changes in funding allocations and the governance arrangements of how the figures are reported through to Full Council and committees. **Specific risk based work required: Yes** As a result of our work, we have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

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

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	❸	**Completeness of related parties** During our testing of related parties, we identified that three councillors did not sign a declaration of interest. In addition it was noted that a new public service mutual company Applied Resilience that was set up in 2015/16 was not included in the related party note. The council invested £10,000 in the company at launch equating to a 10% holding. The council has subsequently amended the related party note to reflect the interest in Applied Resilience. There is a risk that related party relationships and / or transactions disclosed in the financial statements are incomplete. We recommend that guidance on related party relationships and transactions should be reiterated to employees and members prior to completion of declaration of interests.	**Accepted** We will include in an upcoming Members training course on finance, a section on the importance of related party returns. For Staff members we will re- introduce during March 2017 a closing seminar where will we address the importance of members of staff completing the related party return. We will also review the guidance and examples that are sent out with the actual return. Date: 31st March 2017

Key issues and recommendations

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	2	**Completeness of accruals** During our testing of expenditure, creditors and cash & bank we identified five invoices that were recorded in the incorrect period. The net value of these transactions on expenditure and creditors are £85k in the 2015/16 financial year. These have been recorded as an unadjusted audit difference in appendix 2 on the basis that this matter is not material. The main cause is due to the council recognising transactions on invoice date or when invoices are received and not identifying the period the goods or services relate to or when the expenditure is incurred. Budget holders were not able to identify all transactions relating to 2015/16 during the year end processes. We requested that the Authority to review all invoices raised in March 2016 and April 2016 to identify if they were posted in the correct period. Two additional invoices were identified through this process that should have been recorded in the 2015/16 financial year. We have assessed these invoices and found their values to be insignificant. The impact of this is that expenditure is being set off in the incorrect budget year. We recommend that the Council review its control in place to account for accruals at year end and assess invoices before and after year end to ensure transactions are recorded in the correct period. Budget holders should review all orders initiated before year end and ensure that good and services relate to the correct financial year. The council should also maintain a record of expected expenditure and income at year end.	**Accepted** We will review the current process for accounting for accruals at year end and introduce enhanced checks on invoices paid either side of the year end date. We will hold seminars for staff during March 2017 where will issue further guidance and training on the completion of special creditor/accrual's forms at year end. Date: 31st March 2017
3	3	**Timeliness of reconciliations** During our testing of payroll controls it was noted that reconciliations are not being prepared and reviewed in a timely manner. During our testing of cash, it was noted that reconciliations were not performed for nine months. The main cause is due to the Council not having a contingency plan in place when staff are on sick leave or unavailable. We recommend that the Council implement a robust plan to ensure that there is sufficient resilience within the finance team to cope with short term absences.	**Accepted** We will review our procedures around preparing and reviewing the reconciliations that are preformed and will look at the resilience issues within the team to cover short term absences. The problems around the testing of cash were not as a result of staff being unavailable or on sick leave. Date: 31st December 2016

Follow up of prior year recommendations

The Authority has partially implemented all of the recommendations in our *ISA 260 Report 2014/15*.

We re-iterate the importance of the outstanding recommendation and recommend that these are implemented as a matter of urgency.

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This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	2
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	1

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

Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

We are reporting all audit differences over £75k.

The cumulative impact of uncorrected audit differences is £85k.

This is below our materiality level of £1.4 million.

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We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

Only presentational improvements have been made to the draft financial statements.

Uncorrected audit differences

The following table sets out the uncorrected audit difference identified by our audit of Spelthorne Borough Council's financial statements for the year ended 31 March 2016.

	Impact £'000					
No.	**Income and expenditure statement**	**Movement in reserves statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1	Cr Expenditure £85			Dr Short term creditors £85		As noted in Appendix one, the Authority recognised transactions in the incorrect period. We requested the Authority reviewed all invoices raised in March 2016 and April 2016 to identify if they were posted in the correct period. Two additional invoices were identified through this process that should have been recorded in the 2015/16 financial year. We reviewed these invoices and found them to be insignificant. The Authority will review its treatment of such matters in future years but has not adjusted the 2015/16 accounts on the basis that this matter is not material.
	Cr £85	**-**	**-**	**Dr £85k**	**-**	**Total impact of uncorrected audit differences**

Materiality and reporting of audit differences

For 2015/16 our materiality is £1.4 million for the Authority's accounts.

We have reported all audit differences over £75k for the Authority's accounts.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

— 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.

— 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 2015/16, presented to you in April 2016.

Materiality for the Authority's accounts was set at £1.4 million which equates to around two percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the 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 £75,000 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.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 Communication of *Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Spelthorne Borough Council for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Spelthorne Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Audit Independence

Audit Fees

Our scale fee for the audit was £48,128 plus VAT in 2015/16. This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in April 2016. Our scale fee for other grants and claims was £7,102 plus VAT in 2015/16.

Non-audit services

We have not engaged in any non-audit services.

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Spelthorne Borough Council

Statement of Accounts
2015-2016

T Collier
Chief Finance Officer

Financial Statements and Annual Report

Contents

Explanatory Foreword

By the Chief Finance Officer

The financial year 2015-16 was another challenging financial year for local government with further reductions in revenue support grant. Despite the impact of the localised council tax support regime commencing in April 2014 the Council broadly maintained collection rates at the same level as for the previous year achieving 98.5% for council tax.

Whilst the national economy was recovering in 2015-16, the Council faced further funding pressures and service pressures in areas such as homelessness. Despite these it is pleasing to see that the Council outturn was within budget.

The changes the Council made to its investment strategy back in 2012-13 continued to bear fruit in 2015-16, with the diversified policy resulting in £9.5m of pooled funds (backed by equities, assets or corporate bonds) returning on average just under 5% and making a £700k capital appreciation since inception.

The Statement of Accounts is presented in accordance with the Code of Accounting Practice on Local Authority Accounting in the United Kingdom 2015-16 as required by the Accounts and Audit Regulations 2013.

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

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

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

- Movement in Reserves Statement (page 10-11)
- Comprehensive Income and Expenditure statement (page 12)
- Balance Sheet (page 13)
- Statement of Cash Flow (page 14)

The **Movement in Reserves Statement** (page 10-11) shows the movement in the year on the different reserves held by the Council analysed into "usable reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The deficit for 2015-16 on the provision of services (£2.816m) shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. The surplus/deficit figures are different from the statutory amounts required to be charged to the General Fund balance for council tax setting purposes.

The net decrease before transfers to/from earmarked reserves is £9k. This is the statutory General Fund balance before any discretionary transfers to or from earmarked reserves. The net decrease after transfers to/from earmarked reserves is £71k.

The **Comprehensive Income and Expenditure Statement** (page 12) 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 £2.369m reflects remeasurement of the net defined benefit liability relating to the Council's pension liabilities of £5.171m and available for sale fixed assets of £400k plus the revaluation of property, plant and equipment assets of £414k.

The **Balance Sheet** (page 13) shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets (£39.736m) of the Council are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves (as at 31 March 2016 totalling £14.552m) , 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 2016 totalling £25.184m). 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 14) 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 £4.409m 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 authorities 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 71-72). 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 Authorities (Surrey County Council and Surrey Police Authority) and Central Government.

This Council's levy on the Collection Fund for 2015-16 was set at £182.44 per Band D property (a 1.94% increase on the previous year) after taking account of a transfer of £562k from reserves and a transfer of £266k out of the Collection Fund following higher than expected collection rates for Council Tax during the previous year. 2015-16 saw the continued development of the localised retention of business rates scheme introduced in 2013-14, under which part of the business rates are retained by the Council and the County Council to contribute towards their revenue budgets. The changes to the business rates appeals system resulted in continued uncertainties as to the levels of provision required to be made for potential successful appeals which would then be backdated. Spelthorne made a full provision of £1.816m for 2015/16, a decrease of £0.476m from 2014/15. This provision will give greater certainty for the next few years as the scheme continues to develop. The impact of this appeals provision has contributed to a business rates deficit of £1.031m in 2015-16. On council tax there was a deficit of £0.837m, mainly due to adjustments to allocate surpluses accumulated in previous financial years.

Capital Expenditure

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

The capital programme is prepared on a 4 year rolling basis and is reviewed every year. The capital programme consists of housing investment, mainly renovation and renewal grants made to individuals and tenants of housing associations, and non-housing activities including information technology, vehicle replacement and improvements of major assets.

Total gross capital expenditure in 2015-16 was £2.175m and a breakdown of the schemes making up this spend can be found in note 32 (page 62). The following statement shows the total gross capital expenditure for the year and how it has been financed.

	£000
Total Capital Expenditure	**2,175**
Financed by:	
Capital Receipts	782
Specific Government Grants	348
Other Grants and Contributions	184
Revenue Reserves	861
Total Capital Financing	**2,175**

The programme is mainly financed from capital receipts generated from asset sales. 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 2016/17 £000	Estimate 2017/18 £000	Estimate 2018/19 £000	Estimate 2018/19 £000
Capital Programme				
Resources available:	16,740	691	691	642
Capital Receipts	16,455	406	406	357
Capital Grants/Contributions	285	285	285	285
	16,740	691	691	642

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

Pensions (see notes Pages 65 to 70)

International Accounting Standard 19 'Employee Benefits' ("IAS19") requires authorities 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 2016, showing a deficit of £34.768m for this Council, which represents a £3..806m decrease relative to 2014-15. This largely reflects:

- The deficit has decreased due to a number of factors including an increase in the current and past service costs which have been offset by changes in the financial assumptions used by the actuary.

- 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 2013, the result of which kept employer ongoing current contributions unchanged but will result in past service contributions increasing in steps of £180k in each year between 2015-16 and 2017-18. The liabilities of £34.768m show the underlying commitments that the Council has in the long run to pay retirement benefits. The liability has a substantial impact reducing the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

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

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

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

Borrowing

The Council has not had any long term borrowing for a number of years and as at 31 March 2016 had no long term borrowing. However, it is likely to undertake prudential borrowing in the future to support housing and economic regeneration projects.

Provisions

The Business Rates Retention system was introduced from 1st April 2013 under which part of the business rates collected are retained by the Council. There was an element of risk linked to the new system in respect of appeals which can be made by businesses over their rateable value. Accordingly, a provision of £2,292m was made in 2014/15 which has been reduced in 2015/16 to £1,816m to reflect the possible impact of outstanding appeals which are successful.

Revenue Expenditure

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

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

Comparison of 2015/16 Actual Revenue Expenditure to Budget

	Budget 2015-16	Actual Outturn	Variance Actual to Budget
	£000	£000	£000
Gross Expenditure	55,372	56,187	815
Gross Income	(41,061)	(42,681)	(1,620)
Net Service Expenditure	**14,311**	**13,506**	**(805)**
Interest on balances	(635)	(597)	38
Transfers (from)/ to reserves	(531)	0	531
			0
Budget Requirement	**13,145**	**12,909**	**(236)**
Financed by:			
Non-service related Grants	1,564	1,570	6
Revenue Support Grant	1,331	1,281	(50)
Non-domestic rates from national pool	3,056	2,864	(192)
Precept on Collection Fund	7,194	7,194	0

The above analysis covers revenue expenditure and income only and is not directly comparable with the segmental analysis 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 2015-16 the strategy was updated to respond to the grant cuts the Council will experience over the next few years. The Council is preparing for the certainty that from 2017-18 it will cease to receive general Revenue Support Funding from central Government.

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

- The need to maximise savings and efficiencies. Strategies to deliver this include:

    - Sharing of services with other authorities - during 2015-16 the Council continued to share several heads of service and other posts have been shared with a neighbouring borough council. The Council also began sharing its Head of Legal Services with another Surrey council. . The Council is exploring opportunities for more fundamental sharing of ICT services.

    - Maximising income from the assets the Council owns. The Council has prioritised a number of projects which over the medium term will deliver significant income.

    - Continuing to diversify the Council's investment portfolio and seek to maximise investment returns whilst balancing risk.

    - Investing in initiatives to mitigate some of the homelessness pressures on the Council's revenue budget

    - Seeking procurement savings

    - Rationalising accommodation and letting out office space. The Council is exploring options for the future provision of its office accommodation.

    - Tight vacancy control

    - Reviewing fees and charges

    - Smarter use of technology

    - Restructuring management and staffing levels

    - Seeking to encourage economic development within the Borough which ultimately may help stimulate business rates growth which will assist the Council's future funding.

The Council in setting the 2016-17 budget recognised that in order to generate significant new income streams there is a need to invest resources upfront and so made greater use of reserves in setting the 2016-17 budget than has been the case in recent years.

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

Summary

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

The Council will in future undertake prudential borrowing to support schemes which bring benefits for the Borough and deliver income streams on ongoing revenue savings A balanced budget was set for 2015-16 which incorporated £1m worth of savings. The Council has reserves but these have been used in the past to support the budget over a number of years and this approach was not sustainable in the medium term, therefore the Council has introduced a new programme entitled towards a sustainable future and these reserves will be used in a targeted way to pump prime income generation projects along with a number of other strategies which have been developed as part of the Towards a Sustainable Future programme including partnership working and sharing services with other local authorities; seeking procurement savings; rationalising accommodation and letting out surplus space to other organisations; better use of technology and looking at the way it offers services. By pursuing these strategies we are confident that we can ensure that Spelthorne Borough Council has a sustainable financial future. It should be noted that the outturn for 2015-16 meant that the Council was able to avoid drawing down on its revenue reserves.

Spelthorne has a history of prudence in the way we manage the finances, and we will continue to rigorously review 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 yes vote by the United Kingdom to leave the EU, the impact on the authority is uncertain at the present time.

The accounts were authorised for issue by Mr T Collier, Chief Finance Officer on 29 September 2016 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 Chief Financial 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 Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Council's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code of Practice') and International Reporting Standards, is required to present fairly the financial position of the Council at the accounting date and its income and expenditure for the year ended 31st March 2016.

In preparing this Statement of Accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent; and
- Complied with the Code of Practice.

The Chief Financial Officer has also:

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

Mr Terry Collier, CPFA, CA
Chief Financial Officer

Date: 29th September 2016

Councillor Mary Madams
Chair of Audit Committee

Date: 29th September 2016

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into “usable reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement (page 12). These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The net increase/ (decrease) before transfers to earmarked reserves line shows the net increase/decrease on the revenue before any discretionary transfers to or from earmarked reserves undertaken by the Council.

2015/16	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Authority Reserves £000**
Balance brought forward as at 31 March 2015	1,966	10,625	1,181	551	14,323	23,043	37,366
Movement in Reserves during the year					0		
Surplus/(deficit) on Provision of Services	(2,816)	0	0	0	(2,816)	0	(2,816)
Other Comprehensive Income and Expenditure	0	0	0	0	0	5,186	5,186
Total Comprehensive Income and Expenditure	**(2,816)**	**0**	**0**	**0**	**(2,816)**	**5,186**	**2,370**
Adjustments between accounting basis and funding basis under regulation (Note 7)	2,825	0	267	(48)	3,044	(3,044)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**9**	**0**	**267**	**(48)**	**228**	**2,142**	**2,370**
Transfer from/(to) Earmarked Reserves (Note 8)	(80)	80	0	0	0	0	0
Increase/(Decrease) on 2015/16	**(71)**	**80**	**267**	**(48)**	**228**	**2,142**	**2,370**
Balance carried forward as at 31 March 2016	**1,895**	**10,705**	**1,448**	**503**	**14,551**	**25,185**	**39,736**

Movement in Reserves Statement Prior Year Comparatives

2014/15	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Authority Reserves £000**
Balance brought forward as at 31 March 2014	2,528	12,126	942	502	16,098	18,675	34,773
Movement in Reserves during the year							
Surplus/(deficit) on Provision of Services	(5,016)	0	0	0	(5,016)	0	(5,016)
Other Comprehensive Income and Expenditure	0	0	0	0	0	7,609	7,609
Total Comprehensive Income and Expenditure	**(5,016)**	**0**	**0**	**0**	**(5,016)**	**7,609**	**2,593**
Adjustments between accounting basis and funding basis under regulation (Note 7)	2,953	0	239	49	3,241	(3,241)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**(2,063)**	**0**	**239**	**49**	**(1,775)**	**4,368**	**2,593**
Transfer from/(to) Earmarked Reserves (Note 8)	1,501	(1,501)	0	0	0	0	0
Increase/(Decrease) on 2014/15	**(562)**	**(1,501)**	**239**	**49**	**(1,775)**	**4,368**	**2,593**
Balance carried forward as at 31 March 2015	**1,966**	**10,625**	**1,181**	**551**	**14,323**	**23,043**	**37,366**

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. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement on Reserves Statement on page 10.

2014/15		2015/16		
Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
3,794	Central services to the public	5,382	1,770	3,612
2,651	Cultural related services	2,923	1,025	1,898
6,064	Environmental and regulatory service	8,468	2,709	5,759
908	Planning services	1,673	536	1,137
(71)	Highways and transportation services	1,880	2,400	(520)
1,001	Housing services	35,039	33,744	1,295
1,192	Adult social care	2,690	2,016	674
1,680	Corporate and democratic core	2,220	56	2,164
68	Non distributed costs	707	3	704
17,287	**Cost of Services**	**60,982**	**44,259**	**16,723**
294	Financing and investment income and expenditure (Note 9)	1,266	1,055	211
(12,565)	Taxation and non-specific grant income (Note 10)	14,521	28,639	(14,118)
5,016	**(Surplus)/Deficit of Provision of Services**	**76,769**	**73,953**	**2,816**
(9,281)	(Surplus)/deficit on revaluation of property, plant and equipment assets	(414)		(414)
(481)	(Surplus)/deficit on revaluation of available for sale financial assets	400		400
2,153	Remeasurement of the net defined benefit liability (assets)	(5,171)		(5,171)
(7,609)	**Other Comprehensive Income and Expenditure**	**(5,185)**	**0**	**(5,185)**
(2,593)	**Total Comprehensive Income and Expenditure**	**71,584**	**73,953**	**(2,369)**

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example, the Capital Receipts Reserve may only be used to fund capital expenditure or to repay debt.) The second category of reserves is those that the Council may not use to fund services. This category of reserves includes reserves that hold unrealised gains and losses, (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

The unaudited accounts were issued on 30th June 2016 and the audited accounts were authorised for issue on 24th September 2016.

2014/15		2015/16
46,864	Property, Plant and Equipment (Note 11)	44,960
160	Heritage Assets (Note 12)	156
215	Investment property (Note 13)	215
444	Intangible Assets (Note 14)	409
9,809	Long Term Investments (Note 15)	10,512
14,812	Long Term Receivables	14,863
72,304	**Long Term Assets**	**71,115**
3,126	Short Term Investments (Note 15)	2,005
0	Assets Held For Sale (Note 18)	1,185
56	Inventories	41
5,335	Short Term Receivables (Note 16)	7,000
7,360	Cash and Cash Equivalents (Note 17)	6,353
15,877	**Current Assets**	**16,584**
(27)	Short Term Borrowing (Note 15)	(4,025)
(9,645)	Short Term Payables (Note 19)	(7,130)
(2,414)	Provisions (Note 20)	(1,885)
(12,086)	**Current Liabilities**	**(13,040)**
(38,574)	Other Long Term Liabilities	(34,768)
(155)	Capital Grants Receipts in Advance	(155)
(38,729)	**Long Term Liabilities**	**(34,923)**
37,366	**Net Assets**	**39,736**
14,323	Usable Reserves (Note 21)	14,552
23,043	Unusable Reserves (Note 22)	25,184
37,366	**Total Reserves**	**39,736**

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.

2014/15 £000		2015/16 £000
(5,016)	Net Surplus/(Deficit) on the Provision of Services	**(2,816)**
10,064	Adjustments to net surplus/(deficit) on the Provision of Services from non-cash movements	(1,592)
0	Adjustments for items included in the net surplus/(deficit) on the Provision of Services that are investing or financing activities	0
5,048	Net cash flows from Operating Activities (Note 23)	**(4,408)**
(2,318)	Investing Activities (Note 24)	(598)
(2)	Financing Activities Note 25)	3,999
2,728	Net increase/(decrease) in cash and cash equivalents	**(1,007)**
4,632	Cash and cash equivalents as at 1 April	7,360
7,360	**Cash and cash equivalents as at 31 March**	**6,353**

Statement of Accounting Policies

1. General Principles
The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31st March 2016. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) and the Service Reporting Code of Practice 2015/16, (SeRCOP), which are both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and supported by International Financial Reporting Standards (IFRS).

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

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

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. Prior Period Adjustments and Estimates and Errors
Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior year adjustment.

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

7. Charges to Revenue for Non-current Assets
Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible Non-current Assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation and has made no minimum revenue provision as the Council has no long term outstanding debt. 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.

8. 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 trough 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 Non Distributed Costs line in the Comprehensive Income and Expenditure Account when the Council is demonstrably committed to the termination of the employment of an employee or group of employees or making an offer to encourage voluntary redundancy.

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

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

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

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

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

- The assets of the Surrey Pension Fund attributable to the Spelthorne Borough Council are included in the Balance Sheet at their fair value as follows:
    - Quoted securities - current bid price.
    - Unquoted securities - professional estimate.
    - Unitised securities - current bid price.
    - Property - market value.

- The change in the net pensions liability is analysed into the following components:
    - Service Cost comprising

    - Current service cost – the increase in liabilities as aresult 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 ExpenditureStatement as part of Non Distributed Costs.
    - Net interest on the net defined benefit (asset) ie net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the financing and Investment

Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:

- the net return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as other Comprehensive Income and Expenditure
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – 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 on 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.

Regular valuations are prepared by the professionally qualified actuary appointed by the Surrey Pension Fund. The Balance Sheet discloses the net liability in relation to retirement benefits and the assessment process used to compile the figures takes account of the most recent actuarial valuation updated to reflect current conditions. Therefore, the figures presented are based on the actuary's latest calculations. The assumptions used by the actuary are in accordance with the Code and are mutually compatible.

9. 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.

10. 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.

The Council has a number of small loans to voluntary organisations at less than market rates (soft loans).

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 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 authority 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 inouts 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).

11. 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 or contribution has been received and no conditions remain outstanding at the Balance Sheet date but it 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.

Where a capital grant or contribution has been received and the conditions remain outstanding at the Balance Sheet date, the grant or contribution is held in the Capital Grants Receipts in Advance Account.

12. 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 (eg. software licences) is capitalised when it is expected that the future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are only re-valued where the fair value of the assets held by the Council can be determined by reference to the active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Account. The useful life is deemed to be five years and any gain or loss arising on disposal or abandonment of an intangible asset is posted to the Other Operating expenditure line in the Comprehensive Income and Expenditure Account.

When expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

Amortisation of intangible assets

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

13. Inventories
Inventories are included in the Balance Sheet at the lower of cost or net realisable value. Works in progress on works rechargeable to outside bodies or persons are stated at cost price.

14. 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.

15. Leases

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

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

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

<u>The Council as Lessee</u>

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.

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, generally meaning that rentals are charged as they become payable (on an accruals basis).

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

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

16. Overheads and Support Services
The cost of overheads and support services are charged to services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015/16 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and democratic core – costs relating to the council's status as a multi-functional democratic organisation.
- Non-distributed costs – the cost of discretionary pension benefits awarded to employees retiring early and any impairment losses chargeable on assets held for sale.

These two cost categories are defined in SERCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

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

Recognition
Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential with the item will flow to the Council and the cost of the item can be reliably measured. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

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

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

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

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

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

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

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

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

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

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

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

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service lines in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

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

Depreciation is calculated on the following bases:

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

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

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

Disposals
When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is classified as an Asset Held for Sale. These assets are available for immediate sale in their present condition and where the sale is highly probable. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held For Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

Assets that the Council may sell at some point but which do not meet the criteria as set out in this policy, are classified as Surplus Assets Held for Disposal. Assets that are abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held For Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for disposals in excess of £10,000 are categorised as capital receipts which are credited to the Capital Receipts Reserve and can only be used for new capital investment. Receipts are appropriated to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

18. Heritage Assets

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

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

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

19. 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.

20. Reserves
The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement on Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

21. 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.

22. 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.

23. Principal and Agent arrangements
For the majority of transactions the Council undertakes it is acting entirely on its own behalf and completely owns any risks and rewards of the transaction. This is known as the Council acting as a Principal. However there are some situations whereby the Council is acting as an intermediary for all or part of a transaction or service, this is where the Council is acting as an Agent.

The two main instances where this occurs are in relation to Council Tax and Business Rates whereby the Council is collecting Council tax and Business Rates income on behalf of itself and preceptors (Surrey County Council and Surrey Police in relation to Council Tax and the Department for Communities and Local Government (DCLG) and Surrey County Council in relation to Business Rates).

The implications for this is that any balance sheet transactions at the year end, in relation to these Agent relationships, are split between the principal parties and, therefore, the balances contained on the Balance Sheet for a particular debt are the Council's own proportion of the debt and associated balances. The proportions of transactions that relate to the other parties to the relationship are shown as debtors or creditors due from/to these parties.

24. Fair Value Measurement

The authority 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 authority 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 authority 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 authority 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 authority'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 authority 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.

Notes to the Core Financial Statements

1. Analysis of Major Service Areas Expenditure

2014/15	Service Area	2015/16		
Net £,000		Expenditure £000	Income £000	Net £000
	CENTRAL SERVICES TO THE PUBLIC			
312	Elections and Electoral registration	539	1	538
245	General Grants	200	0	200
(40)	Local Land Charges	163	207	(44)
325	Local Tax Collection	956	366	590
275	Communications	288	7	281
357	Corporate Management Team	250	0	250
760	DS Management Team	692	36	656
521	Enviroment	599	68	531
1,039	Other	1,693	1,085	608
3,794		**5,380**	**1,770**	**3,610**
	CULTURAL RELATED SERVICES			
361	Community Safety	355	68	287
533	Leisure & Culture	1,232	451	781
1,238	Open Spaces	560	106	454
308	Property Expenses	317	0	317
202	Recreation & Sport			0
9	Other	460	0	460
2,651		**2,924**	**625**	**2,299**
	ENVIRONMENTAL & REGULATORY SERVICES			
1,565	Environmental and Public Health	1,665	673	992
(356)	Cemeteries	55	330	(275)
87	Building Control	473	371	102
1,709	Open Spaces	1,929	204	1,725
2,160	Refuse & Recycling	3,540	1,496	2,044
899	Other	807	35	772
6,064		**8,469**	**3,109**	**5,360**
	PLANNING SERVICES			
908	Planning Services	1,673	536	1,137
908		**1,673**	**536**	**1,137**
	HOUSING SERVICES			
(259)	Housing Benefits	31,652	31,865	(213)
(129)	Housing	1,106	707	399
1,389	Homelessness	2,281	1,172	1,109
0	Other			0
1,001		**35,039**	**33,744**	**1,295**
	HIGHWAYS ROADS AND TRANSPORT SERVICES			
(118)	Parking Services	1,832	2,150	(318)
47	Other	48	250	(202)
(71)		**1,880**	**2,400**	**(520)**
	ADULT SOCIAL CARE SERVICES			
285	Community Care Administration	263	0	263
443	Day Centres	772	391	381
39	Meals on Wheels	205	195	10
134	Spelthorne AccessibleTransport	255	117	138
292	Spelthorne Trouibled Families	961	1,040	(79)
(1)	Spelthorne Personal Alarm Network	233	272	(39)
1,192		**2,689**	**2,015**	**674**
	CORPORATE AND DEMOCRATIC CORE			
1,049	Corporate Management	1,648	55	1,593
238	Committee Services and Corporate Governance	160	0	160
393	Democratic Representation and Management	412	1	411
1,680		**2,220**	**56**	**2,164**
68	Non Distributed Costs and Accumulated Absences Provision	707	3	704
68		**707**	**3**	**704**
17,287	**TOTAL NET COST OF SERVICES**	**60,981**	**44,258**	**16,723**

2. Accounting Standards Issued but not yet adopted

The International Accounting Standards Board (IASB) has issued a number of revised accounting standards that have not yet been adopted by either the Code or the Council, but will apply to the Council from the 1 April 2016. These are outlined below:

- Amendments to IAS19 Employee benefits
- Annual improvements to IFRSs (2010-2012 Cycle)
- Amendment to IFRS11 Joint Arrangements
- Amendment to IAS16 Property, Plant and Equipment and IAS38 Intangible Assets

• Annual improvements to IFRSs (2012-2014 Cycle)
• Amendment to IAS1 Presentation of Financial Statements
• Changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis
• Changes to the format of the Pension Fund Account and the Net Assets Statement.

3. Critical Judgement in Applying Accounting Policies
In applying the accounting policies set out on pages 15 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 Adjustment
There were no prior period adjustments accounted for in 2015/16 (2014/15: There were no prior period adjustments made).

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

The items in the Council's Balance Sheet at 31 March 2016 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 2016, the Council had a balance of sundry Receivables for £7.0m and has made a provision of £1.4m for impairment of doubtful	If collection rates were to deteriorate, a doubling of the amount of the

	debts. However, in the current economic climate it is not certain that such an allowance would be sufficient.	impairment of doubtful debts would require an additional £1.4m to be set aside as an allowance.
Business Rates Appeals	A provision of £1,816k has been included in the accounts to reflect the Council's share (40%) of the estimated impact of business rate payers successfully appealing the rateable value assigned to their properties. This is based on the number of appeals outstanding as at 31st March 2016 and the historical success rate of all appeals since 2010.	The Council will be required to reimburse all rate payers who are successful with their appeals, and this will also impact upon business rates receivable in future years.

6. Material Items of Income and Expense

The major item of expenditure included in the Comprehensive Income and Expenditure Account is Housing Benefits which was £31.0m in 2015/16. However, this expenditure is fully recovered by the receipt of subsidy from central Government, £31.0m in 2015/16, so the net cost to the Council is minimal.

7. Adjustments between Accounting Basis and Funding Basis under Regulations

Adjustments are made to the total comprehensive income and expenditure 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 is 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 2015/16 and the prior year 2014/15:

2015/16	General Fund Balance £000	Capital Receipts £000	Capital Grant Unapplied £000	Movement in Unusable Reserves £000
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Adjustments primarily involving the Capital Adjustment Account:				
Charges for depreciation and impairment of non-current assets	2,738			(2,738)
Movement in the market value of investment properties				0
Revenue expenditure funded from capital under statute	569			(569)
Other adjustments	(6)			6
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(136)		136	0
Application of grants to capital financing transferred to the Capital Adjustment Account	(347)		(184)	531
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,049)	1,049		0
Use of the Capital Receipts Reserve to finance new capital expenditure		(782)		782
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement :				
Revenue Contribution to capital finance	(816)			816
Adjustment primarily involving the Pension Reserve:				
Reversal of items relating to retirement benefits debited/credited to the Comprehensive Income and Expenditure Statement	3,704			(3,704)
Contributions to the pension fund	(2,339)			2,339
Adjustment primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and business rates income calculated for the year in accordance with statutory requirements	507			(507)
Total Adjustments	**2,825**	**267**	**(48)**	**(3,044)**

2014/15	General Fund Balance £000	Capital Receipts £000	Capital Grant Unapplied £000	Movement in Unusable Reserves £000
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Adjustments primarily involving the Capital Adjustment Account:				
Charges for depreciation and impairment of non-current assets	2,759			(2,759)
Movement in the market value of investment properties	(37)			37
Revenue expenditure funded from capital under statute	1,549			(1,549)
Other adjustments	(4)			4
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(254)		254	0
Application of grants to capital financing transferred to the Capital Adjustment Account	(297)		(205)	502
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,144)	1,144		0
Use of the Capital Receipts Reserve to finance new capital expenditure		(905)		905
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement :				
Revenue Contribution to capital finance	(1,005)			1,005
Adjustment primarily involving the Pension Reserve:				
Reversal of items relating to retirement benefits debited/credited to the Comprehensive Income and Expenditure Statement	3,440			(3,440)
Contributions to the pension fund	(2,105)			2,105
Adjustment primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and business rates income calculated for the year in accordance with statutory requirements	51			(51)
Total Adjustments	**2,953**	**239**	**49**	**(3,241)**

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 2015/16.

Reserve Description	Balance as at 31/3/15	Transfers In 2015/16	Transfers Out 2015/16	Balance as at 31/3/16
	£000	£000	£000	£000
General Fund	**1,966**	**0**	**(71)**	**1,895**
Earmarked Reserves:				
Revenue Grants Unapplied	759	145	0	904
Capital Fund	443	0	0	443
Interest Equalisation	493	0	0	493
New Schemes Fund	1,221	0	0	1,221
Housing Initiatives	6,611	0	(817)	5,794
Business Improvement	1	0	(1)	0
Insurance	50	0	0	50
New Homes Bonus	50	0	0	50
Revenue Carry Forwards	239	0	0	239
Bridge Street	69	0	0	69
Bronzefield Maintenance	281	0	(4)	277
Youth Council	20	0	0	20
Business Rates Equalisation	389	756	0	1,145
	10,626	**901**	**(822)**	**10,705**
TOTAL	**12,592**	**901**	**(893)**	**12,600**

9. Financing and Investment Income and Expenditure

2014/15 £000		2015/16 £000
1,434	Net Interest on the net defined benefit liability	1,198
(560)	Finance Lease Income	(400)
(561)	Interest receivable and similar income	(598)
(19)	Income and expenditure in relation to investment properties and changes in their fair value	9
294	**Total**	**209**

10. Taxation and Non Specific Grant Income

2014/15 £000		2015/16 £000
6,824	Council tax income	7,194
1,533	Non domestic rates	2,864
3,656	Non-ringfenced government grants	3,576
552	Capital grants and contributions	484
12,565	**Total**	**14,118**

11. Property, Plant and Equipment

Movement on Balances in 2015/16:

2015/16	Land and Buildings £000	Surplus Assets £000	Vehicles, Plant and Equipment £000	Total Property, Plant and Equipment £000
Cost or valuation				
At 1 April 2015	45,175	0	7,293	52,468
Revaluation increases / (decreases) recognised in the Revaluation Reserve	90	0	0	90
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	3	(67)	0	(64)
Assets reclassified (to)/from Held for Sale	(1,185)	0	0	(1,185)
Additions	145	817	419	1,381
At 31 March 2016	**44,228**	**750**	**7,712**	**52,690**
Accumulated Depreciation and Impairment				
At 1 April 2015	0	0	5,604	5,604
Depreciation Charge	1,863	0	526	2,389
Depreciation written out to the Revaluation Reserve	(324)	0	0	(324)
Depreciation written out to the Surplus / Deficit on the Provision of Services	(11)	0	0	(11)
Impairment losses / (reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	72	72
At 31 March 2016	**1,528**	**0**	**6,202**	**7,730**
Net Book Value				
at 31 March 2016	**42,700**	**750**	**1,510**	**44,960**
at 31 March 2015	**45,175**	**-**	**1,689**	**46,864**

Movement on Balances in 2014/15:

2014/15	Land and Buildings £000	Vehicles, Plant and Equipment £000	Total Property, Plant and Equipment £000
Cost or valuation			
At 1 April 2014	43,487	6,696	50,183
Revaluation increases / (decreases) recognised in the Revaluation Reserve	4,561		4,561
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(2,873)		(2,873)
Additions		597	597
At 31 March 2015	**45,175**	**7,293**	**52,468**
Accumulated Depreciation and Impairment			
At 1 April 2014	5,747	4,919	10,666
Depreciation Charge	1,386	550	1,936
Depreciation written out to the Revaluation Reserve	(4,741)		(4,741)
Depreciation written out to the Surplus / Deficit on the Provision of Services	(2,392)		(2,392)
Impairment losses / (reversals) recognised in the Surplus/Deficit on the Provision of Services		135	135
At 31 March 2015	**0**	**5,604**	**5,604**
Net Book Value			
at 31 March 2015	**45,175**	**1,689**	**46,864**
at 31 March 2014	**37,740**	**1,777**	**39,517**

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 2016.

Effect of Changes in Estimates
In 2015/16, the Council made no material changes to its accounting estimates for property, plant and equipment.

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

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

Fair Value Hierarchy

Details of the Council's surplus assets and information about the fair value hierarchy as at 31 March 2016 is shown below:

Recurring Fair Value measurement using:	Fair Value as at 31st March 2016 (Level 2) £000
Land	262
Building	488
Total	**750**

Valuation Techniques used to Determine Level 2 Fair Values for Surplus Assets

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 Surplus Assets
In estimating the fair value of the Council's surplus assets, 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 surplus assets.

12. Heritage Assets

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

2014/15 £000	Heritage Assets - War Memorials	2015/16 £000
	Cost or Valuation	
208	Balance at 1 April	160
(2)	Depreciation	(3)
(46)	Revaluations	(1)
160	**Total**	**156**

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. A full list of individual material items, including war memorials, along with details of their location and valuations is set out in the table below:

Valuation 2014/15 £000	Heritage Asset	Location	Valuation 2015/16 £000
	War Memorials		
25	Shepperton War Memorial	High Street, Shepperton	25
30	Ashford War Memorial	Church Road, Ashford	29
45	Stanwell War Memorial	High Street, Stanwell	44
30	Cedar Rec War Memorial	Cedars Rec Ground, Sunbury	29
30	Staines War Memorial	Market Square, Staines	29
160	**Heritage Assets valued by Professional Valuer (see table above)**		**156**
	Civic Regalia		
14	Mayoral chains and robes	Council Offices, Knowle Green	14
	Statues and Sculptures		
80	Five Swimmers	Memorial Gardens, Staines	80
30	"Release Every Pattern" (Men & Lino)	Staines Town Centre	30
50	Steel Sculptures in Car Parks	Riverside Car Park, Staines	50
	Works of Art		
11	3 Oil Paintings	Council Offices, Knowle Green	11
185	**Heritage Assets at Insurance Values**		**185**
345	**Total - Heritage Assets (at current and insurance values)**		**341**

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:

2014/15 £000	Investment Properties	2015/16 £000
(52)	Rental Income from properties	(59)
70	Direct operating expenses arising from investment properties	68
18	**Total**	**9**

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 Council has no contractual obligations to purchase, construct or develop investment property or to repair, maintain or enhance investment property.

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

2014/15 £000	Investment Properties	2015/16 £000
	Cost or Valuation	
178	Balance at 1 April	215
37	Net Gain from Fair Value Adjustments	0
215	**Total**	**215**

Fair Value Hierarchy

Details of the Council's investment properties and information about the fair value hierarchy as at 31 March 2016 is shown below:

Recurring Fair Value measurement using:	Fair Value as at 31st March 2016 (Level 2) £000
Land	71
Building	144
Total	**215**

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 Chief Financial Officer on a regular basis regarding all valuation matters.

14. Intangible Assets

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

31 March 2015 £000		31 March 2016 £000
355	Balance at 1 April	444
267	New capital expenditure	181
(178)	less Amortisation	(216)
444	**Total**	**409**

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

Intangible Assets 5 Years

15. Financial Instruments

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

31 March 2015			31 March 2016	
Long Term £000	Current £000		Long Term £000	Current £000
		Investments		
-	2,139	Loans and receivables	315	2,005
9,809	987	Available-for-Sale assets	10,197	-
9,809	**3,126**	Total Investments	**10,512**	**2,005**
		Debtors		
-	4,846	Financial assets carried at contract amounts		6,430
-	**4,846**	Total Debtors	**-**	**6,430**
		Borrowings		
-	27	Financial liabilitites at amortised cost		4,026
-	**27**	Total Borrowings	**-**	**4,026**
		Creditors		
-	8,827	Financial liabilities carried at contract amounts		6,275
-	**8,827**	Total Creditors	**-**	**6,275**

Income, Expense, Gains and Losses

31 March 2015				31 March 2016		
Financial Assets Loans and Receivables	Financial Assets Available-for-Sale	Total		Financial Assets Loans and Receivables	Financial Assets Available-for-Sale	Total
£000	£000	£000		£000	£000	£000
132	425	557	Interest income	134	464	598
0	481	481	Increase/(Decrease) in fair value	0	(400)	(400)
132	**906**	**1,038**	**Net Gain for the year**	**134**	**64**	**198**

Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long term Receivables and Payable are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated ranges of interest rates at 31st March 2016 of 0.25% to 0.85% for loans and receivables based on new lending rates for equivalent loans at that date.
- No early repayment or impairment is recognised.
- Where an instrument will mature within the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

31 March 2015			31 March 2016	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
27	27	Financial Liabilities	26	26
0	0	Long-Term Creditors	4,000	4,000

31 March 2015			31 March 2016	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
2,139	2,139	Loans and Receivables	2,005	2,005
14,812	14,812	Long-Term Debtors	14,821	14,821

- 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 financuial 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 technique used to measure fair value	Fair Value as at 31st March 2016 £000
Available for Sale:			
Pooled Investment Funds	Level 1	Unadjusted quoted prices in active markets for identical shares	10,197

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

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 etc.

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 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 and 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 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 Chief Finance Officer although where these investments are fixed term deposits, no effective action can be taken until the deposits mature.
- The Council will not solely rely on the service provided by their treasury advisors but it will also make use of other sources of generally available information when considering counter-party credit risk. These may include the use of the quality financial press, market data (including credit default swaps, share price, annual reports, statements to the market etc), information on government support for banks and the credit ratings of that government support.
- The Council will only invest in approved counterparties within the UK or approved counter-parties from countries with a minimum sovereign rating of A- from Fitch Ratings or the equivalent Moody's or Standard and Poor's rating.

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'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 2016 that this was likely to happen.

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

31 March 2015 £000		31 March 2016 £000
965	Less than three months	1,225
30	Three to six months	26
54	Six months to one year	47
162	More than one year	188
1,211	**Total**	**1,486**

- **Liquidity Risk**

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

- **Market Risk**

Interest rate Risk

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

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

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

Although the Council currently has no long term borrowings, there are a number of strategies for managing interest rate risk. The policy is to aim to keep a maximum of 50% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into setting the annual budget and which is used to update the budget regularly during the year. This allows for any adverse changes to be accommodated. According to this assessment strategy, at 31st March 2016, if interest rates had been 1% higher with all other variables held constant, the financial effect would be that an additional £197k interest would have been received.

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.
The Council has no long term borrowing and short term borrowing is only used for cash flow management and therefore there was no significant impact on interest payable.

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 2016, are set out below. The Majority of the investments were purchased during the financial year 2012/13 with one purchased in 2014/15 and a couple of further amendments during 2015/16. The date of purchase is in brackets after the name of the fund:

Pooled Investment Fund Held at 31/3/16	Purchase Cost £000	Market value at 31/3/16 £000
Charteris Elite Income Fund (11/5/12)	800	720
Schroders UK Corporate Bond Fund (11/5/12)	1,500	1,576
M&G Optimal Income Sterling (13/4/15)	1,691	1,654
M&G Global Dividend Fund (27/6/12)	1,000	1,240
Schroders Income Maximiser Fund (6/7/12)	1,000	1,085
Schroders Income Maximiser Fund (24/7/15)	1,000	882
CCLA Property Fund (31/3/13)	1,500	1,935
CCLA Property Fund (30/4/14)	1,000	1,105
Total Pooled Fund Investments	**9,491**	**10,197**

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

16. Receivables

31 March 2015 £000		31 March 2016 £000
1,005	Central Government bodies	2,553
5,194	Other entities and individuals	5,783
80	Other Local Authorities	61
(944)	less Provision for Bad Debts	(1,397)
5,335	**Total**	**7,000**

17. Cash and Cash Equivalents

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

2014/15 £000		2015/16 £000
2	Cash held by the Council	5
658	Bank Current Accounts	(103)
6,700	Short term deposits with banks & building societies	6,451
7,360	**Total Cash and Cash Equivalents**	**6,353**

18. Assets Held For Sale

The table below summarises the properties that are currently classified as held for sale. These properties are likely to be sold within the next year.

31 March 2015 £000		31 March 2016 £000
	Asset newly classified as Held for Sale:	
-	Property, Plant & Equipment	1,185
-	**Total**	**1,185**

19. Payables

31 March 2015 £000		31 March 2016 £000
1,261	Central Government bodies	565
3,463	Other Local Authorities	2,421
4,921	Other entities and individuals	4,144
9,645	**Total**	**7,130**

20. Provisions

Business Rates Appeals - Following the introduction of the Business Rates Retention system from 1st April 2014 the Council has taken on 40% of the liability relating to Business Rates Appeals. Business Rate payers have the right to appeal against the rateable value that has been assigned to their premises by the Central Government Valuation Office Agency (VOA). The VOA then assesses the case and if the appeal is reasonable reviews the rateable value. This provision allows for the Council's potential liability in relation to refunds that could be made following successful appeals. The total provision raised at 31st March 2016 is £4,539k (included in the Collection Fund) and the Council's share of this liability is £1,816k (included in the Council's Accounts). This has been calculated based on appeals outstanding at the 31st March adjusted for historical trends and success rates.

31 March 2015 £000		31 March 2016 £000
-	Property Search Refunds	-
122	Municipal Mutual Insurance	69
2,292	Business Rates Appeals	1,816
2,414	**Total**	**1,885**

21. Usable Reserves

In addition to the statutory General Fund Account, the Council hold various other revenue reserve funds which are earmarked for general purposes and other specific uses. The purpose of each of these reserves is set out below, including the balance on the reserve as at 31st March 2016:

Balance 31/3/15 £000	Reserve Description	Purpose of Reserve	Balance 31/3/16 £000
1,966	General Fund	The Council's statutory revenue account	1,895
443	Capital Fund	Used for financing capital expenditure and to support the General Fund.	443
493	Interest Equalisation	To neutralise the impact of changes in interest rates on the level of investment income across years.	493
1,221	New Schemes Fund	To finance the revenue effects of future capital expenditutre and specific revenue projects.	1,221
6,611	Housing Initiatives	To support low cost social housing initiatives in the public and private sector.	5,795
50	Insurance	To provide a level of self insurance cover to offset the possible impact of higher dedictables over the life of the current insurance contract.	50
50	New Homes Bonus	To help fund the transition period after New Homes Bonus grant (formerly Planning Delivery Grant) ceases to be available.	50
239	Revenue Carry Forwards	To provide a fund to enable the completion of works started but unable to be completed within a financial year.	239
69	Bridge Street	To provide a fund for additional improvement works required to the Council's car parks.	69
281	Bronzefield Maintenance	Commuted sum received from HMPS in 2012/13 for the maintenance of open spaces at Bronzefield Prison over a ten year period.	277
389	Business rate Equalisation	To neutralise the impact of the new business rates regime	1,145
758	Revenue Grants Unapplied	Grants received for revenue purposes	903
1,733	Capital Receipts and Grants	Receipts from asset sales and grants and contributions towards capital expenditure	1,951
20	Youth Council	To provide youth activities	20
14,323	**Total Usable Reserves as at 31st March**		**14,552**

For movement in the Council’s usable reserves and transfers to and from these reserves see the Movement in Reserves Statement on page 10 and also in Note 8 above.

22. Unusable Reserves

31 March 2015 £000		31 March 2016 £000
20,766	Revaluation Reserve	20,094
1,297	Available For Sale Reserve	897
26,987	Capital Adjustment Account	26,897
14,544	Deferred Capital Receipts Reserve	14,544
(38,574)	Pensions Reserve	(34,768)
(1,788)	Collection Fund Adjustment Account	(2,295)
(189)	Accumulated Absences Account	(185)
23,043	**Total Unusable Reserves**	**25,184**

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.

2014/15 £000		2015/16 £000
12,095	**Balance at 1 April**	**20,766**
12,613	Upward revaluation of assets	414
(3,332)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	0
(610)	Difference between fair value depreciation and historic cost depreciation	(1,086)
20,766	**Balance at 31 March**	**20,094**

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

2014/15 £000		2015/16 £000
816	**Balance at 1 April**	**1,297**
-	Upward revaluation of investments	
481	Upward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(400)
1,297	**Balance at 31 March**	**897**

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.

2014/15 £000		2015/16 £000
28,234	**Balance at 1 April**	**26,987**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(2,759)	Charges for depreciation and impairment of non-current assets	(2,738)
(1,549)	Revenue expenditure funded from capital under statute	(569)
611	Adjusting amounts written out of the Revaluation Reserve	1,086
24,537	Net written out amount of the cost of non-current assets consumed in the year	**24,766**
	Capital financing applied in the year:	
905	Use of the Capital Receipts Reserve to finance new capital expenditure	782
297	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	348
205	Application of grants to capital financing from the Capital Grants Unapplied Account	185
1,006	Capital expenditure charged against the General Fund balance	816
2,413		**2,131**
37	Movement in the value of Investment Properties	0
26,987	**Balance at 31 March**	**26,897**

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

2014/15 £000		2015/16 £000
14,544	**Balance at 1 April**	**14,544**
0	Transfer to the Capital Receipts Reserve upon receipt of cash	0
0	Finance Lease Debtor	0
14,544	**Balance at 31 March**	**14,544**

Pensions Reserve
The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pay any pension for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2014/15 £000		2015/16 £000
(35,086)	**Balance at 1 April**	**(38,574)**
(2,153)	Remeasurement of the net defined benefit liability (assets)	5,171
(3,440)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(3,704)
2,105	Employer's pension contributions and direct payments to pensioners payable in the year	2,339
(38,574)	**Balance at 31 March**	**(34,768)**

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.

During 2013/14 the new Business rates retention scheme was implemented, with the Council now retaining an element of the non-domestic rates income collected and a share of any appeals settled. This was responsible for the large increase experienced in 2013/14. The balance showing below reflects the Council's share of the Collection Fund balance at the end of the financial year.

2014/15 £000		2015/16 £000
(1,737)	**Balance at 1 April**	**(1,788)**
(51)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(507)
(1,788)	**Balance at 31 March**	**(2,295)**

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.

2014/15 £000		2015/16 £000
(191)	**Balance at 1 April**	**(189)**
2	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	4
(189)	**Balance at 31 March**	**(185)**

23. Statement of Cash Flows – Operating Activities

The cash flows for operating activities include the following items:

2014/15 £000		2015/16 £000
(5,016)	**Net surplus/(deficit) from Operating Activities**	**(2,816)**
	Adjusted for non cash items:	
2,760	Depreciation and Impairments	2,738
(468)	Interest and dividends received	(502)
1,335	Movement in pension liability	1,365
3,863	Movement in debtors/creditors	(4,176)
2,574	Other financing	(1,018)
5,048	**Net Cash Flows from Operating Activities**	**(4,409)**

24. Statement of Cash Flows – Investing Activities

2014/15 £000		2015/16 £000
(864)	Purchase of property, plant and equipment	(1,562)
(157,938)	Purchase of short-term and long-term investments	(134,414)
156,311	Proceeds from short-term and long-term investments	134,397
1,743	Other receipts for investing activities	(657)
(1,570)	Other payments for investing activities	1,638
(2,318)	**Net cash flows from investing activities**	**(598)**

25. Statement of Cash Flows – Financing Activities

2014/15 £000		2015/16 £000
0	Cash receipts from short and long-term borrowing	4,000
0	Other receipts from financing activites	0
0	Cash payments for the reduction of the outstanding liabilities relating to finance leases	0
(2)	Repayments of short and long-term borrowing	(1)
0	Other payments from financing activities	0
(2)	**Net cash flows from financing activities**	**3,999**

26. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the CIPFA Service Reporting Code of Practice 2015/16 (SeRCOP). However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across portfolios. These reports are prepared on a different basis from the accounting policies used in financial statements. In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisation are charged to services in the Comprehensive Income and Expenditure Statement).

- The cost of retirement benefits is based on cash flows (payment of employer's pension's contributions) rather that current service cost of accrued in the year.

- Expenditure on some support services is budgeted for centrally and not charged to Cabinet portfolios.

The income and expenditure of the Council's portfolios recorded in the budget reports for the year is as follows;

2015/16										
Cabinet portfolios Income and Expenditure	**Leader**	**Business Continuity & ICT**	**Finance**	**Waste,Enviroment and Parking**	**Housing,Health, Wellbeing, Ind Living & Leisure**	**Planning**	**Economic Development & Fixed Assets**	**Communications & Procurement**	**Community Safety & Licensing**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Fees, charges & other service income	(85)	(44)	(402)	(4,609)	(3,549)	(1,294)	(464)	(7)	(250)	(10,704)
Government grants					(31,866)					(31,866)
Total Income	(85)	(44)	(402)	(4,609)	(35,415)	(1,294)	(464)	(7)	(250)	(42,570)
Employee expenses	469	510	2,248	3,301	3,605	2,098	432	121	199	12,983
Other service expenses	64	258	945	4,790	34,522	1,226	1,395	99	213	43,512
Support service recharges	0	0	0	0	0	0	0	0	0	0
Total Expenditure	533	768	3,193	8,091	38,127	3,324	1,827	220	412	56,495
Net Expenditure	**448**	**724**	**2,791**	**3,482**	**2,712**	**2,030**	**1,363**	**213**	**162**	**13,925**

2014/15										
Cabinet portfolios Income and Expenditure	**Leader**	**Parking Services & ICT**	**Finance**	**Environment**	**Housing,Health, Wellbeing & Ind Living**	**Planning & Corp Development**	**Economic Development & Fixed Assets**	**Communications**	**Community Safety,Young People, Leisure & Culture**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Fees, charges & other service income	(42)	(2,848)	(408)	(2,519)	(3,458)	(1,046)	(658)	0	(630)	(11,609)
Government grants					(31,394)					(31,394)
Total Income	(42)	(2,848)	(408)	(2,519)	(34,852)	(1,046)	(658)	0	(630)	(43,003)
Employee expenses	434	1,185	2,476	2,765	3,214	1,826	256	160	444	12,760
Other service expenses	33	1,734	1,047	3,573	34,214	956	1,607	60	509	43,733
Support service recharges	0	0	0	0	0	0	0	0	0	0
Total Expenditure	467	2,919	3,523	6,338	37,428	2,782	1,863	220	953	56,493
Net Expenditure	**425**	**71**	**3,115**	**3,819**	**2,576**	**1,736**	**1,205**	**220**	**323**	**13,490**

Reconciliation of Cabinet portfolios Income and Expenditure to Cost of Service in the Comprehensive Income and Expenditure Statement

This reconciliation show how the figures in the analysis of portfolio income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2014/15 £000		2015/16 £000
13,490	Net expenditure in the Cabinet portfolio analysis	13,925
2,759	Depreciation and impairments	2,738
1,549	Capital Expenditure by statute	569
(557)	Capital receipts and grants received & used for financing	(484)
(7)	DCLG Refuse Project	0
1	Lottery fund and Bronzefield Expenditure	4
560	Finance lease debtor Income	400
(2)	Accumulated absences provision	(3)
(55)	Support service recharges	(50)
(620)	Expenditure between portfolio report and accounts closed	(241)
187	Revenue expenditure and grant income	(144)
(18)	Investment Properties	9
17,287	**Cost of Services in Comprehensive Income and Expenditure Statement**	**16,723**

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Cabinet portfolio income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Service included in the Comprehensive Income and Expenditure Statement.

2014/15 £000		2015/16 £000
13,490	Net Expenditure in the Cabinet Portfolio analysis	13,925
2,759	Depreciation	2,738
(2)	Accumulated absences provision	(4)
(657)	Expenditure between portfolio report and accounts closed	(241)
(557)	Capital Receipts and grants used for financing	(484)
1,549	Capital Expenditure by Statute	569
(7)	DCLG Refuse Project	0
1	Lottery and Bronzefield Expeniture	4
1,434	Net Pension Interest cost	1,198
(55)	Support service recharges	(50)
187	Revenue expenditure and grant income	(144)
(561)	Investment Interest Income	(578)
(552)	Recognised capital grants and contributions	(484)
(6,824)	Council tax	(7,194)
(1,533)	National non -domestic rates	(2,864)
(1,883)	Revenue support grant	(1,281)
(1,773)	Non service related government grants	(2,294)
5,016	**(Surplus)/Deficit of Provision of Services**	**2,816**

27. Members Allowances
The Council paid the following amounts to members of the Council during the year:

2014/15 £000		2015/16 £000
211	Allowances	258
1	Expenses	1
212	**Total**	**259**

28. Senior Officers' Remuneration
The remuneration paid to the Council's senior employees is as follows:

Title	Taxable Salary	Bonuses / Expenses	Compensation for loss of office	Benefits in Kind	Total (excl employers pension contributions)	Employers pension contributions	Total incl Employers pension contributions
	£	£	£	£	£	£	£
Chief Executive	114,688				114,688	19,250	133,938
Assistant Chief Executive	1,644		83,615		85,260	190	85,450
Assistant Chief Executive	82,090				82,090	13,303	95,393
Assistant Chief Executive	81,615				81,615	13,303	94,918
Head of Corporate Governance	73,912				73,912	11,888	85,800

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

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

Remuneration Band (inc Salary and Benefits)	Number 2014/15	Number 2015/16
125,000 and above		
120,000 - 124,999		
115,000 - 119,999		1
110,000 - 114,999		
105,000 - 109,999		
100,000 - 104,999		
95,000 - 99,999		
90,000 - 94,999		
85,000 - 89,999		
80,000 - 84,999		1
75,000 - 79,999		
70,000 - 74,999		
65,000 - 69,999	3	2
60,000 - 64,999	2	3
55,000 - 59,999	3	1
50,000 - 54,999	2	1
	10	9

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

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
£0-£20,000	4	1			4	1	47,882	1,386
£20,001-£40,000			1		1		26,834	
£40,001-£60,000								
£60,001-£80,000			1		1		72,475	
£80,001-£100,000			2		2		173,776	
£100,001-£150,000								
£150,001 -£200,000			2		2		349,368	
Total	**4**	**1**	**6**	**0**	**10**	**1**	**670,335**	**1,386**

The Authority terminated the contracts of one employee in 2015/16, incurring liabilities of £1386 (£670,335 in 2014/15) as set out above. This amount was payable to one officer in Independent Living.

29. 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:

2014/15 £000		2015/16 £000
64	Fees payable to KPMG with regard to external audit services carried out by the appointed auditor for the year	48
0	Fees payable to KPMG in respect of additional work	0
11	Fees payable to KPMG for the certification of grant claims and returns for the year	7
(13)	Audit Commission Rebate	0
62	**Total**	**55**

30. Grant Income

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2015/16:

2014/15 £000		2015/16 £000
	Taxation and Non Specific Grant Income	
1,533	Non Domestic Rates	2,864
1,883	Revenue Support Grant (RSG)	1,281
1,774	Other Revenue Grants	2,294
5,190	**Total**	**6,439**
	Credited to Services	
32,485	Housing Benefits	32,277
130	Non Domestic Rates	130
123	Other grants	72
32,738	**Total**	**32,479**

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the giver. The balance at the year end was £154,511 (2014/15 - £154,511) and the amounts applied during the year to finance expenditure are as follows:

2014/15 £000		2015/16 £000
	Capital Grants Receipts in Advance	
297	Specific Capital grant (SCG)	348
0	Other grants	0
0	Contributions	0
297	**Total**	**348**

31. 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 effective control 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 (eg. 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 30 above.

Members of the Council have direct control over the Council's financial and operating policies. During 2015/16 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 2015/16 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. (£32,000 in 2015/16)

32. Capital Expenditure and Financing

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:

2014/15 £000	CAPITAL FINANCING REQUIREMENT	2015/16 £000
0	**Opening Capital Financing Requirement**	**0**
	Capital investment	
597	Property, Plant and Equipment	564
0	Investment Properties	0
267	Intangible Assets	181
1,549	Revenue Expenditure Funded from Capital under Statute	1,430
2,413	**Total Capital Investment**	**2,175**
	Sources of Finance	
(905)	Capital Receipts	(782)
(502)	Government Grants and Contributions	(532)
(6)	Sums set aside from Revenue	(44)
(1,000)	Reserves	(817)
(2,413)	**Total Sources of Finance**	**(2,175)**
0	**Closing Capital Financing Requirement**	**0**

There is no net movement in the year on the Capital Financing Requirement (CFR).

The total amount of capital expenditure on the various services incurred in the year is shown in the table below for additional information, together with the resources that have been used to finance it.

2014/15	CAPITAL EXPENDITURE AND FINANCING	2015/16
£000	**Housing**	**£000**
549	Improvement Grants	569
1,000	Crooked Billet Development	817
1,549		1,386
	Leisure	
36	Parks and Recreation Grounds	147
-	Loan to SLM	44
36		191
	Community care	
182	Day Centres	1
65	Locata	-
247		1
	Environmental Services	
105	Refuse Collection & Recycling	121
44	Environmental Initiatives	20
149		141
	Other	
291	Computer Developments	292
59	Knowle Green	47
82	Community Safety	3
-	Car Park Improvements	114
432		456
2,413	**TOTAL CAPITAL EXPENDITURE**	**2,175**
	Summary of Financing	
905	Capital Receipts	782
297	Specific Government Grants	348
211	Other Grants and Contributions	184
1,000	Revenue Reserves	861
2,413	**TOTAL CAPITAL FINANCING**	**2,175**

33. Leases

Council as lessee
Operating Leases
Expenditure on operating leases in 2015/16 was £831,432 (2014/15 £794,207)

Expenditure on an arrangement within the grounds maintenance contract which has been classified as an operating lease was valued at £104,500 in 2015/16 and £110,400 in 2014/15. The disclosed payments also include payments for non – lease elements within the grounds maintenance arrangement.

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

2014/15 £000		2015/16 £000
114	Not later than one year	383
533	Later than one year and not later than five years	21
31	Later than five years	0
678	**Total**	**404**

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;

2014/15 £000		2015/16 £000
73	Not later than one year	68
51	Later than one year and not later than five years	23
142	Later and five years	165
266	**Total**	**256**

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. In 2015-16 £0 contingent rents were receivable by the Council (2014/15 £0).

Council as Lessor

Finance Leases

2014/15		2015/16
£000		£000
14,544	Finance lease debtor (net present value of minimum lease payments):	14,544
120,976	Unearned finance income	120,416
3,830	Unguaranteed residual value of property	3,830
139,350	**Gross investments in the lease**	**138,790**

Gross Investment in the Lease	Gross Investment in the Lease		Minimum Lease Payments	Minimum Lease Payments
31-Mar-15	31-Mar-16		31-Mar-15	31-Mar-16
£000	£000		£000	£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
136,550	135,990	Later than five years	132,720	132,160
139,350	**138,790**	**Total**	**135,520**	**134,960**

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.

34. Impairment Losses

Paragraph 4.7.4.2(1) of the Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in note 11 reconciling the movement over the year in the Property, Plant and Equipment and Intangible Asset balances. There were impairment losses of £72,271 in 2015/16 (£134,703 in 2014/15).

35. 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 recogniese 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.

2014/15 £000		2015/16 £000
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
	Service cost comprising:	
1,964	current service cost	2,293
42	past service cost	213
	(gain)/loss from settlements	
	Financial and Investment Income and Expenditure	
1,435	Net interest expense	1,198
3,441	Total Post-employment Benefits charged to the Surplus or Deficit on the provision of Services	**3,704**
	Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	
	Remeasurement of the net defined benefit liability comprising:	
(5,831)	Return of plan assets (excuding the amount included in the net interest expense)	1,394
	Actuarial gains and losses arising on changes in demographic assumptions	
8,951	Actuarial gains and losses arising on changes in financial assumptions	(5,060)
(967)	Other	(1,505)
5,594	Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	**(1,467)**
	Movement in Reserves Statement	
(3,440)	Reversal of net charges made to the Surplus or Defict on the Provision of Services for post-employment benefits in accordance with the code	(3,704)
	Actual amount charged against the General Fund Balance for pensions in the year:	
2,105	Employer's contributions payable to scheme	2,339

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:

2014/15 £000		2015/16 £000
107,542	Present value of the defined benefit obligation	103,230
(68,968)	Fair value of plan assets	(68,462)
38,574	Sub-total	**34,768**
-	Other movements in the liability (asset)	
38,574	**Net liability arising from defined benefit obligation**	**34,768**

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

2014/15 £000		2015/16 £000
61,767	**Opening fair value of scheme assets**	**68,967**
2,508	Interest income	2,119
	Remeasurement gain/ (loss):	
5,831	The return on plan assets, excluding the amount included in the net interest expense	(1,394)
-	Other	-
-	The effect of changes in foreign exchange rates	-
1,901	Contributions from employer	2,136
571	Contributions from employees into the scheme	540
(3,611)	Benefits paid	(3,907)
-	Other	
68,967	**Closing fair value of scheme assets**	**68,461**

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

2014/15 £000	**Funded Liabilities: Local Government Pension Scheme (LGPS)**	2015/16 £000
96,853	**Opening balance at 1 April**	**107,542**
1,964	Current service cost	2,293
3,943	Interest cost	3,317
571	Contributions from scheme participants	540
	Remeasurement (gain) and losses:	
-	Actuarial gains/losses arising from changes in demographic assumptions	-
8951	Actuarial gains/losses arising from changes in financial assumptions	(5,060)
(967)	Other	(1,505)
42	Past service cost	213
	Losses/(gains) on curtailment	
(204)	Liabilities assumed on entity combinations	(203)
(3,611)	Benefits paid	(3,907)
	Liabilities extinguished on settlements	
107,542	**Closing balance at 31 March**	**103,230**

Local Government Pension Scheme assets comprised:

2014/15 £000	Asset category	2015/16 £000
	Equity Securities:	
5,166.1	Consumer	5,499.5
3,735.1	Manufacturing	4,185.2
2,259.7	Energy and utilities	1,923.4
4,418.5	Financial institutions	4,892.9
2,426.0	Health and care	2,413.0
3,293.9	Information technology	3,707.7
-	Other	100.7
	Debt Securities:	
2,510.1	Corporate Bonds (investment grade)	2,928.7
277.2	Corporate Bonds (non-investment grade)	181.7
1,552.9	Government	
641.5	Other	91.4
	Private Equity:	
2,587.9	All	2,723.4
	Real Estate:	
4,352.3	UK Property	4,131.5
33.2	Overseas Property	536.8
	Investment Funds and Unit Trusts:	
20,088.8	Equities	17,821.2
6,446.7	Bonds	7,346.1
-	Hedge Funds	-
-	Commodities	-
-	Infrastructure	-
7,953.7	Other	8,479.8
	Derivatives:	
-	Inflation	-
(9.8)	Interest Rate	0.3
(54.3)	Foreign Exchange	(412.7)
-	Other	-
	Cash and Cash Equivalents:	
1,288.5	All	1,911.1
68,968	**Total assets**	**68,461**

Basis for Estimating Assets and Liabilities
Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that are payable in future years dependant on assumptions about mortality rates, salary levels etc.

The fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, being based on the latest full valuation of the scheme as at 31 March 2016.

The principal assumptions used by the actuary have been:

2014/15		2015/16
%	**Long-term expected rate of return on assets in the scheme:**	**%**
4.50	Equity Investments	4.50
4.50	Bonds	4.50
4.50	Property	4.50
4.50	Cash	
Years	**Mortality assumptions:**	Years
	Longevity at 65 for current pensioners:	
22.50	Men	22.50
24.60	Women	24.60
	Longevity at 65 for future pensioners:	
24.50	Men	24.50
26.90	Women	26.90
%	**Other assumptions:**	%
2.50	Rate of inflation	2.50
3.90	Rate of increase in salaries	3.60
2.60	Rate of increase in pensions	2.10
4.10	Rate of discounting scheme liabilities	3.40
25.00	Take-up of option to convert annual pension to retirement lump sum	25.00

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determind 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 accouting 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 analsysis below did not change from those used in the previous period.

Change in assumptions at 31 March 2016	Increase in Assumptions £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	3,097	
Rate of inflation (increase or decrease by 1%)		
Rate of increase in salaries (increase or decrease by 1%)	2,173	
Rate of increase in pensions (increase or decrease by 1%)	7,092	
Rate for discounting scheme liabilities (increase or decrease by 1%)		9,358

Impact on the Council's Cash Flows
The objectives of the scheme are to keep employers' contributions at as costant a rate as possible. Funding levels are monitored on an annual basis. The triennial revaluation was completed on 31st March 2016 and the results will be confirmed in Autumn 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 2015 (or service after 31st March 2016 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 £2.265m expected contributions to the scheme in 2016/17.

The weighted average duration of the defined benefit obligation for scheme members is 16.5 years, 2015/16 (16.5 years 2014/15).

36. 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.

37. 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.

38. Events after the Balance Sheet Date.

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

Collection Fund

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities 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 authorities and the Government of council tax and non-domestic rates.

Total 2014/15 £000		Business Rates 2015/16 £000	Council Tax 2015/16 £000	Total 2015/16 £000
	INCOME			
60,786	Council Tax Receivable		63,177	63,177
42,580	Business Rates Receivable	42,174		42,174
51	Transitional Protection Payments Receivable	(12)		(12)
103,417		42,162	63,177	105,339
	Contribution towards previous year's Deficit			
1,310	Central Government	791		791
1,048	Spelthorne Borough Council	632	0	632
262	Surrey County Council	158	0	158
0	Surrey Police		0	0
2,620		1,581	0	1,581
	EXPENDITURE			
	Precepts, Demands and Shares			
21,131	Central Government	22,523		22,523
23,446	Spelthorne Borough Council	18,018	6,927	24,945
47,940	Surrey County Council	4,505	46,313	50,818
7,738	Surrey Police		8,198	8,198
100,255		45,046	61,438	106,484
	Contribution towards previous year's Surplus			
0	Central Government	0		0
188	Spelthorne Borough Council	0	266	266
1,300	Surrey County Council	0	1,780	1,780
230	Surrey Police		315	315
1,718		0	2,361	2,361
	Charges to the Collection Fund			
204	Less: write offs of uncollectable amounts	48	95	143
138	Less: Increase / (Decrease) in Bad Debt Provision	742	120	862
3,113	Less: Increase / (Decrease) in Provision for Appeals	(1,192)		(1,192)
130	Less: Cost of Collection	130	0	130
0	Less: Disregarded Amounts	0		0
3,585		(272)	215	(57)
479	**Surplus / (Deficit) arising during the year**	(1,031)	(837)	(1,868)

Total 2014/15 £000		Business Rates 2015/16 £000	Council Tax 2015/16 £000	Total 2015/16 £000
	Movement on the Collection Fund			
	Precepts, Demands and Shares			
(3,314)	Surplus / (Deficit) brought forward 1st April	(5,112)	2,277	(2,835)
479	Movement on the fund balance for the year	(1,031)	(837)	(1,868)
(2,835)	Surplus / (Deficit) carried forward 31st March	(6,143)	1,440	(4,703)

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.

Valuation Band	Number of Chargeable Dwellings	Ratio	Equivalent Band D dwellings
A	305	6/9	206
B	1,041	7/9	810
C	6,160	8/9	5,476
D	11,925	1	11,925
E	8,838	11/9	10,802
F	4,145	13/9	5,988
G	1,926	15/9	3,210
H	95	18/9	191
Total	**34,435**		**38,608**
Number of Band D Equivalents in lieu			40
Less: Allowance for losses on collection and appeals			-676
Council Tax Base			**37,971**

Non-Domestic Rates

The Business Rates retention scheme commenced in April 2013, which sees the Council share non-domestic rate income with Central Government and Surrey County Council. 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 2016 was £102,813,483 and the national non-domestic rate mulitplier for 2015/16 was 0.493.

ANNUAL GOVERNANCE STATEMENT

Scope of responsibility

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

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

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

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled. It also identifies activities through which the Council accounts to, engages with and leads the community. It enables the authority 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 authority'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 2016 and up to the date of approval of the statement of accounts.

The Governance Framework

The key elements of the systems and processes that comprise the authority'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. **http://www.spelthorne.gov.uk/corporateplan**). The Corporate Plan and priorities feed into the Service Plans which set out the financial and performance objectives of each service for the year. Following the election of a new Council in May 2015 work is underway to prepare a new Corporate Plan to be published in July 2016
- The Council has a comprehensive system for the completion of service plans and performance reviews.
- A Performance Management Board has been set up which meets quarterly to review key performance management feedback. At least one Cabinet Member and the Chief Executive sit on the Board
- Other significant plans and policies are contained within the Policy Framework and are regularly reviewed to ensure that they remain relevant and effective.

<u>Reviewing our vision and its implications for our governance arrangements</u>

- The Council regularly reviews the authority's vision and its implications for the authority's governance arrangements. Progress towards the achievement of the corporate priority objectives will be monitored by the Performance Management Board through the performance management system and reported to Cabinet.

- The Council engages with the public and translates the community's priorities into a Community Plan in conjunction with our partners. The objectives of Spelthorne Together are reviewed annually at its annual conference each September. The Council is currently discussing with its partners the way forward for the Spelthorne Together partnership.

<u>Established clear channels of communication with all sections of our community and other stakeholders, ensuring accountability and encouraging open consultation</u>

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

- The Council undertakes when appropriate consultation exercises and uses a wide variety of other methods to obtain feedback from the community. Recent examples include consultation on council tax support and the leisure facilities needs analysis.

- The Council is developing its use of social media to provide additional opportunities to communicate with its residents. In 2013-14 it launched an "Engage" app for smartphones to provide an additional means of communication with its residents which was improved and relaunched during 2015-16.For the 2017-18 Budget process the Council will be exploring a targeted budget consultation exercise

<u>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</u>

- 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 Council. Major decisions which affect significant proportions of the community are published in advance in the Cabinet's Forward Plan, and will always (unless there are exceptional circumstances) be discussed in a meeting open to the public. All decisions must be in line with the Council's overall policies and budget. Any decisions the Cabinet wishes to take outside the budget or policy framework must be referred to Council as a whole to decide.

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

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

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 Localism Act. The protocols include:

- Member Code of Conduct Committee
- A performance management system
- Regular performance appraisals for staff linked to corporate and service objectives
- An Anti Fraud, Bribery and Corruption policy
- Member/officer protocols

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 Council handles complaints effectively, the corporate complaints process is being reviewed in 2016-17 following a management restructuring.

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 application of the contract standing orders has been provided to officers.

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 the full Council if he considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered. No reports have been necessary in recent years.

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

- The Council has performance management and data quality arrangements in place for measuring the quality of services for users, and for ensuring they are delivered in accordance with the authority'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 2015/16 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
- Managing risk in key financial service areas.
- During 2015-16 Spelthorne participated along with Surrey County Council and a number of Surrey districts and boroughs in a counter fraud project funded by the Department for Local Government and Communities (Spelthorne received £60,000). Spelthorne focused on business rates avoidance and housing tenancy fraud. Spelthorne identified savings of approximately £400,000 of which roughly three quarters related to business rates.

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.

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 the Council has refreshed its approach to performance management and has created a Performance Management Working Group The Chief Finance Officer is currently the authority's risk champion. 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 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.

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

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

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

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

The ethical conduct of members and officers of this Council

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

Review of effectiveness

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

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

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

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

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

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

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

- The authority
- The Cabinet

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

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

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

Significant governance issues

Informed by the work of the Internal Audit Manager our opinion is that the Council's internal control environment is adequate and effective. This is based on the work undertaken by Audit services during 2015/16 which is summarised in the Annual Audit report.

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

During 2015-16 audit reviews made recommendations in the following areas:

Letting of contracts by Asset Management- improving arrangements for review of contract with partner authority

ICT – production of a new strategy recommended- draft strategy now produced

Corporate Health and safety – highlighting impact of resources constraints on ability to have comprehensive risk inspections, potentially increasing the risk of serious injury or even fatality, subsequent insurance claims and reputational damage. Whilst these risks have been accepted by Management Team, this should be subject to periodical review.

Staines market – improving controls around recording and monitoring of income

Creditors – improvements to reconciliation process and recommendation that authorisation limits will be reviewed once restructure completed.

Debtors – corporate management to review monitoring arrangements for high value debts, targets to be set for reducing aged debts, improvements to be made to monitoring bed and breakfast debts

The Corporate Risk Register has identified a few areas requiring improvement actions, these include:

Risk of service failure, particularly around staff recruitment and retention. Corporate management commissioning advice and recommendations on how to address

ICT Strategy and resources – new strategy produced and resources will be considered as part of 2017-18 Budget process

Housing pressures- a number of measures designed to mitigate are being implemented.

Debt recovery – additional training provided and monitoring being improved. The Corporate Debt group continue to encourage the strengthening of recovery processes.

Information Governance – dedicated resource now approved to progress action plan to ensure information assets are identified and effectively managed. Information Governance Group meet periodically.

Safeguarding – weak feedback process relating to children's referrals and unclear responsibility for dealing with safeguarding issues where cross border referrals. These concerns have been escalated.

I.Harvey	R.Tambini
....	....
Cllr Ian Harvey	Roberto Tambini
Leader of the Council	Chief Executive

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

We have audited the financial statements of Spelthorne Borough Council for the year ended 31 March 2016 on pages 10 to 72. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
This report is made solely to the members of the Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. 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.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended; and

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Matters on which we are required to report by exception

The Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the annual governance statement set out on pages 73 to 81 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the explanatory foreword for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under section 11 of the Audit Commission Act 1998; or
- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

We have nothing to report in respect of these matters.

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

Authority's responsibilities

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

Auditor's responsibilities

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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.

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, Spelthorne Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Certificate

We certify that we have completed the audit of the financial statements of Spelthorne Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for Local Government Bodies issued by the Audit Commission.

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

xxth September 2016

GLOSSARY OF TERMS

ACCOUNTING POLICIES

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

ACCRUALS

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

ACTUARIAL GAINS AND LOSSES

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

BEST VALUE

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

BUDGET

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

CAPITAL EXPENDITURE

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

CAPITAL ADJUSTMENT ACCOUNT

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

CAPITAL RECEIPTS

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

COLLECTION FUND

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

COMMUNITY ASSETS

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

CONSISTENCY

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

CONTINGENCY

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

CONTINGENT LIABILITIES

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

CORPORATE AND DEMOCRATIC CORE

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. 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 authorities on its residents.

CURRENT ASSET

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

CURRENT LIABILITY

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

CURRENT SERVICE COST (PENSIONS)

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

CURTAILMENT

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

(a) termination of employee's services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business; and

(b) termination of, or amendment to, the terms of a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

DEFINED BENEFIT SCHEME

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

DEPRECIATION

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

DISCRETIONARY BENEFITS

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the Council's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 2006.

DOUBTFUL DEBT

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

EXPECTED RATE OF RETURN ON PENSION ASSETS

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

EXPERIENCE GAINS/LOSSES

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

FINANCE LEASE

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

FINANCIAL REPORTING STANDARD (FRS)

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

FIXED ASSETS

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

GENERAL FUND

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

GOING CONCERN

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

GOVERNMENT GRANTS

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

HERITAGE ASSETS

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

IMPAIRMENT

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

INFRASTRUCTURE ASSETS

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Accounting practices recommended by the major accounting bodies and applied internationally.

INVESTMENTS

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

INVESTMENT PROPERTIES

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

LIQUID RESOURCES

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

LONG-TERM ASSET

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

LONG-TERM BORROWING

A loan repayable in more than one year from the Balance Sheet date.

LONG-TERM CONTRACTS

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

LONG-TERM RECEIVABLE

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

NATIONAL NON-DOMESTIC RATE (NNDR)

Business rate levied on companies and other businesses etc.

NET ASSETS

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

NET BOOK VALUE

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

NET CURRENT LIABILITIES

The amount by which current liabilities exceed current assets.

NET CURRENT REPLACEMENT COST

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

NET EXPENDITURE

Total expenditure for a service less directly related income.

NET REALISABLE VALUE

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

NET WORTH

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

NON-DISTRIBUTED COSTS

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

NON-OPERATIONAL ASSETS

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

OPERATING LEASES

A lease other than a finance lease.

OPERATIONAL ASSETS

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

PAST SERVICE COST

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

PAYABLE

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

POST BALANCE SHEET EVENTS

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

PROJECTED UNIT METHOD

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

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

PROVISIONS

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

RECEIVABLE

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

REDUCING BALANCE DEPRECIATION

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

RELATED PARTIES

Two or more parties are related parties when at any time during the financial period:
(i) one party has direct or indirect control of the other party; or
(ii) the parties are subject to common control from the same source; or

(iii) one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
(iv) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

RELATED PARTY TRANSACTION

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

REMUNERATION

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

RESIDUAL VALUE

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

RETIREMENT BENEFITS

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

REVALUATION RESERVE

Unrealised gains and losses on revaluation of fixed assets.

REVENUE EXPENDITURE/INCOME

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

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

Revenue expenditure funded from capital under statute represent spending which may properly be capitalised, but where no tangible fixed asset is created e.g. improvement grants and social housing grants.

REVENUE SUPPORT GRANT

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

SCHEME LIABILITIES

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

SERVICE REPORTING ACCOUNTING CODE OF PRACTICE (SeRCOP)

The code of practice containing a standard definition of services and total cost so that spending comparisons can be consistent between local authorities.

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 C

SPELTHORNE
BOROUGH COUNCIL

Neil Hewitson
KPMG LLP
15 Canada Square
London
E14 5GL

21 September 2016

Dear Sir

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 2016, 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 as at 31 March 2016 and of the Authority'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 2015/16.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes.

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 as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;

   ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

   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.

Spelthorne Borough Council, Council Offices, Knowle Green,
Staines-upon-Thames, TW18 1XB
www.spelthorne.gov.uk customer.services@spelthorne.gov.uk Telephone: 01784 451499

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.

Information provided

4.

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 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:

    i) 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.

    ii) 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 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 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.

8. 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.

9. 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.

10. The Authority has disclosed to you the identity of the Authority'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*.

11. The Authority confirms that:

    a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority'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 to continue as a going concern.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

    The Authority further confirms that:

    a) all significant retirement benefits, including any arrangements that are:
        - statutory, contractual or implicit in the employer's actions;
        - arise in the UK and the Republic of Ireland or overseas;
        - funded or unfunded; and
        - approved or unapproved,

       have been identified and properly accounted for; and

    b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

13. The Authority confirms that:

    a) The information provided to the independent property valuation specialist was complete and accurate, including the number of properties and other information required by the valuer regarding the condition and nature of these properties. The information received from the valuation specialist has been recorded within the financial statements and is complete and accurate

    b) The process through which year end accruals are identified is appropriate and the balance recorded within the financial statements is materially complete and accurate.

This letter was tabled and agreed at the meeting of the Audit Committee on 29 September 2016.

Yours faithfully,

Terry Collier
Deputy Chief Executive

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.

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 2015/16.

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 penson 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).

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.

Audit Committee

29 September 2016

Title	Corporate Risk Management		
Purpose of the report	To note		
Report Author	Internal Audit Manager, Punita Talwar		
Cabinet Member	Councillor Howard Williams	**Confidential**	No
Corporate Priority	Financial Sustainability		
Recommendations	**That the Committee notes the report.**		

1. Key issues

1.1 The Corporate Risk Register ensures key risks are identified, managed and monitored. Management Team has reviewed the Corporate Risk Register (**Appendix 1**).

1.2 Significant issues to report are:

(a) **Business Continuity and Emergency Planning** – Service-Level plans are in progress and a corporate business continuity exercise is scheduled in September. The Group Head for Commissioning and Transformation meets regularly with Applied Resilience to consider satisfactory delivery of programmes, and monitoring processes have been tightened recently to assess actual performance against specific targets and expected outcomes.

(b) **Failure in Service Delivery**- There continues to be prolonged staff vacancies in a number of areas despite incentives offered, in particular Housing, Environmental Health, Building Control and Planning. This effects the ability to deliver a good quality Service as well as having a consequential negative effect on other Services. Management Team have commissioned a report on areas under specific pressure and recommendations as to options, with results being reported to MAT in September.

(c) **New Appointments -** Human Resources will be arranging staff development and training plans for the newly appointed Group Heads and Deputy Group Heads. Bespoke training is due to be commissioned as well as promotion of existing Management Development Programmes.

(d) **Code of Corporate Governance** – Review of this code is outstanding. This is important to promote high standards of conduct and behaviour.

(e) **Housing** – There are continued pressures on the Housing Service as a result of many factors, e.g. London Boroughs increased use of Spelthorne properties, limitations of the Local Housing Allowance, and A2D rents unaffordable, insufficient affordable properties being built and the Benefit Cap. A model for the strategic way forward in delivering the Housing function has been drafted and is to be formally agreed. (Awaiting update)

(f) **Procurement - Leisure Centre Contract** – Procurement - Leisure Centre Contract – As the current Leisure Centre contract ceases in 2021, options for Leisure Centre provision from 2021 need to be reviewed. Work has been undertaken on a high level concept for refurbishment or relocation of the Leisure Centre using Willmott Dixon. Due to the senior management restructure a new Project Manager has now been appointed to take this forward and a discussion paper will be going to Cabinet Briefing in October to get a steer from Cabinet on how they want to take the project forward.

(g) **Partnership Governance** – A recent Internal Audit review identified actions are required to revitalise the necessary governance arrangements and associated controls. In particular the policy requires updating and significant partnerships should be recorded centrally.

2. Options analysis and proposal

Either:

i. To note and accept the contents of the Corporate Risk Register. The revised register is considered to be an accurate reflection of the high level risks affecting the Authority, as well as the progress made on actions previously proposed, based on our assessment of risk and controls in operation. (**Preferred option)**

Or:

ii. To recommend amendments to the Corporate Risk Register for consideration by the Corporate Risk Management Group.

3. Financial implications

3.1 Resources required (staff time) to implement actions proposed in the Corporate Risk Register should be contained within existing budgets as far as possible. There may however be some areas where additional resource /time/management support is required in order to implement risk mitigating actions.

4. Other considerations

4.1 The Corporate Risk Register covers a wide range of risks and associated consequences including failure to deliver corporate objectives, failure in service delivery, financial losses, poor value for money, health and safety incidents, legal challenges and reputational damage. The two most significant risks identified as part of this review include 1.2 (b) failure in service delivery due to prolonged staff vacancies; 1.2 (f) unsatisfactory delivery of outcomes for the post 2021 Leisure Centre contract .Management Team may therefore need to assess if these areas require further resource/time and support.

5. Timetable for implementation

5.1 The Corporate Risk Register shows officers responsible for progressing actions, together with timescales for implementation. The register is reviewed and updated three times a year by Audit Services.

Background papers: There are none.

Appendices: Appendix 1 – Corporate Risk Register

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SPELTHORNE BOROUGH COUNCIL - CORPORATE RISK REGISTER
2015/16 QUARTER 1

APPENDIX 1

CORPORATE RISK REGISTER

This register summarises the Councils most significant risk. It sets out controls in place and identifies any further action needed to mitigate risks.
Actions are assigned to appropriate officers with target dates for implementation.

Reviewed September 2016

Level of risk: Likelihood vs. Impact on a scale of 1 (lowest) to 4 (highest)

RAG	RISK / CONSEQUENCES	LEVEL OF RISK	CONTROLS	OUTSTANDING ACTIONS	RISK OWNERSHIP	ACTION DATE	PROGRESS / COMMENTS
	1. Health and Safety failing resulting in death or serious injury to staff /public and legal action against the Council	4	Policies and SHE (Safety Health and Environment) system .The Health and Safety, Insurance and Risk Administrator manages the SHE Database, overseen by the Health and Safety, Insurance and Risk Manager. Managers have a legal requirement to conduct regular risk assessments. Induction training.	*1. Annual checklist and instructions for Managers being prepared.*	MAT/ All Group Heads HSIRM*	31 October 2016 *R Completed/Ongoing Monitoring	Annual reminders have recently been introduced to encourage all employees to complete/update health and safety risk assessments (DSE, Homeworking, and Service). The SHE system is being used to ensure that automatic reminders are set for completion and renewal of risk assessments. The Health and Safety Policy for Spelthorne Borough Council has been updated and circulated to Group Heads and Managers.
	2. Uncertainty surrounding the financial /economic/other consequences of contaminated land. Legal action against the Council.	4	Legal duty to inspect land and prioritise action. Documented records of all site investigations and assessments held. A separate risk assessment is held which is reviewed regularly. Reports periodically issued to Management Team and Cabinet.	*2.The Contaminated Land Strategy to be finalised and approved by Cabinet.*	DCX (LO)/SEHM*	30 November 2016 *R Requires Monitoring	Contaminated land risk assessment next due for review in November 2016. Spelthorne participated in the recent Inquest. Assisted the Coroner by providing a comprehensive study on the historic land use of the area in question and by commissioning independent experts in the field of contaminated land.
	3. Disaster- major in borough, e.g. flooding, resulting in significant strain on council services (eg homelessness).	4	Corporate Emergency Plan updated January 2016. Multi- agency flood plan completed December 2015. Function being delivered via the Mutual Applied Resilience Service. Membership of Local Resilience Forum (LRF). Regular testing of Emergency Assistance Centre plan. Borough Emergency Centre Plans.Suggested improvements to the Business Emergency Centre (BEC) partially implemented due to plans to vacate Knowle Green. Incident management training and exercising.The two DCX's have attended Multi-Agency Gold Command Courses. Emergency Response requirements remain the responsibility of the authority.Contract agreement in place with Applied Resilience, with increased resilience and support for Emergency Planning.	*3. Monitoring the agreement with Applied Resilience should incorporate specific targets and expected outcomes in order to measure actual performance. Monitoring needs to be meaningful and clearly evidenced.*	CX (RT)/ GH C & T*	30 September 2016 (R*). Requires Monitoring	Whilst the Group Head for Commissioning and Transformation meets regularly with Applied Resilience, there is scope to improve the ways in which the agreement is monitored for Emergency Planning. Monthly meeting with notes undertaken and work produced now given to Group Head.

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SPELTHORNE BOROUGH COUNCIL - CORPORATE RISK REGISTER
2015/16 QUARTER 1

RAG	RISK / CONSEQUENCES	LEVEL OF RISK	CONTROLS	OUTSTANDING ACTIONS	RISK OWNERSHIP	ACTION DATE	PROGRESS / COMMENTS
	4. Failure to manage corporate and service performance / failure to meet Council objectives and targets (Performance Management)	3	The Corporate Plan sets out targets for the authority which should be monitored by Members and Management Team. Service performance should be monitored by Management Team. Individual performance is monitored through the appraisal process. Flagship project performance is reported to Management Team and Members. Performance Management Working Group has been established to improve monitoring arrangements. Updates have been provided to Cabinet and the Audit Committee.	*Corporate Plan and priorities have been revised. The impact on ongoing projects, resources and Service Planning will need to be assessed.*	MAT / DCX LO	Ongoing Monitoring	Revised Corporate Plan approved and publicised.
	5. Failure to align service objectives to corporate aims and priorities / Failure to deliver services effectively due to poor service planning	3	The Corporate Planning process should set out a clear vision for the authority and specific targets. Some services have statutory responsibilities. Individual Service Plans should be derived from the Council's Corporate Plan and statutory/other responsibilities. Plans incorporate resources, risks, workforce, significant projects and performance indicators.	*Service Plans are currently being prepared for 2016/17, taking into account the new Corporate Plan and priorities. They will be made available on Spelnet, enabling other services to assess the likely impact.*	Group Heads/ MAT	31 October 2016 *R Requires Monitoring	Service Plans for 2016/17 being prepared.
	6. Failure of projects due to poor project management arrangements. Lack of resource and expertise to deliver and coordinate	3	1. Project management arrangements are in place including process for project initiation, consideration of resources available to deliver, identification of project risks and progress reporting processes. Corporate Project Register. Collation of corporate project register by Service	*1i. Many larger projects are asset related . Procurement and Contract Management function being established providing central resource and expertise .*	MAT /GH C & T*	Ongoing Monitoring	Revised structure promotes greater links between Planning, Asset Management and Economic Development under the lead of the Group Head for Regeneration and Growth.
				1ii Management team to consider limited capacity and revenue implications prior to approving additional / new projects. *1iii. The Projects Assurance Officer to promote the importance of following correct procurement processes in delivering projects.*	MAT	Ongoing monitoring	Approx. 35 projects are currently being tracked through the Project Office and the TaSF programme. Resourcing of projects is an ongoing challenge. The Project Assurance Officer will be focussing on procurement in the projects process during the coming months. **12.9.16 - Awaiting update from Deputy GH C W**

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			2. Staines upon Thames - The Group Head for Regeneration and Growth oversees Staines upon Thames regeneration with support from consultants. 5 work streams have been fully defined and documented.	*2. A number of procedural stages are being progressed associated with the sale of the Bridge Street site.*	GH R & G *	31st October 2016 *R Requires monitoring	Planning application for Bridge Street considered at 9th March Planning Committee and approved. Bellway have confirmed they have a satisfactory planning permission for the purposes of the sale agreement. Other conditional elements in the agreement being concluded. The money from the sale of the Bridge Street site should be forthcoming end October 2016.
			3. Towards a Sustainable Future - The Head of Customer Services mapped out a programme for this challenging initiative. This identifies roles, responsibilities, key deadlines, financial implications and risks. There are three work streams/mini programmes falling under the overall TaSF programme. Mapping of the individual projects under the three work streams. MAT have assigned resources to the main areas of the TaSF programme, and projects are underway. The TaSF Programme Support Officer coordinates all three main work streams under the TaSF programme, reporting to the Group Head for Commissioning and Transformation who currently oversees the direction of the programme. The Programme Brief has been approved by Cabinet and Overview and Scrutiny Committee. Review completed of document retention and electronic data management systems (see section 7).	*3. High level overview of the three work streams has been identified to ensure cohesion and coordination.*	MAT	31 August 2016 * R Requires monitoring	A continued decrease in the the number of TaSF projects with a green RAG rating has been reported through dashboards mainly due to external factors causing delays. Close monitoring of TaSF projects and timeframes is ongoing to manage risks and overall impact of the delays on the programme as a whole. TaSF structural review now completed with the Group Head appointments from April 2016 and Deputies from July 2016. **12.9.16 - Awaiting update from Deputy GH CW**
	7. Security / data breaches, resulting in system failure, Information Commissioner fines and reputational damage.	3	Back up and continuity arrangements managed by ICT and tested by Service Heads. ICT security policies. Personal Commitment statement required from staff. ICT security group assess ongoing risks. ICT Disaster Recovery test conducted in March 2015 and due again by the end of 2016. Information Governance Group. Head of Corporate Governance is the Senior Information Risk Owner (SIRO). Removal of the Microsoft Outlook 'Auto-Complete' feature recommended.	*7i. Information Governance Group to pursue action plan to ensure information assets are identified and managed.* *7ii. Recruitment for an Information Governance Officer is underway to provide ongoing guidance and ensure compliance with statutory obligations.*	Head of CG */GH C & T *	31 October 2016 R* Requires Monitoring	The Information Governance Group now meet quarterly to discuss the necessary steps to be taken to address outstanding actions and are making some progress as follows: MAT and Cabinet built into 16-17 budget growth for an Information Governance Officer resource, and it is anticipated that this vacancy will be filled shortly. To set up functionality within Egress which can prevent emails being sent to incorrect recipients or 3rd parties. Clear desk policy to be discussed with all Group Heads. **12.9.16 - Awaiting update from the Head of CG.**

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	7. See above.			*The Council's project team is currently considering the document retention policy and alternative electronic document management systems which will help to strengthen information security.*	GH C & T*/ MAT	31 August 2016 R* Requires Monitoring	The authority has decided on its approach to document management and implemented the first phase. The Idox document management system has been implemented for Environmental Health, Planning and Building Control with training delivered. Analysis work underway to identify requirements to expand Civica Contact Manager additional modules to accommodate other service areas (HR, Housing,Leisure). For internal Documents the plan is to upgrade and rebrand Sharepoint. Target date for completion of remaining EDMS systems is July 2017. **12.9.16 - Awaiting update from GH C & T / Deputy GH CW**
Page 140	8. Failure to meet the minimum security requirements of the Government Code of Connection resulting in termination of connection to any other government sites/data; uncertainty over direction of ICT within the authority.	3	A review group assesses compliance with the Government Code of Connection (COCO). Firewall installed, laptops encrypted, memory sticks banned until they are 'white-listed' as known devices on the network, and universal serial bus (USB) ports locked down. Dual factor authentication on all laptops. All Baseline Personnel Security Standard checks completed. Annual health check and security penetration test completed.CoCo re-accreditation achieved in January 2016. The Cabinet Office has increased security requirements due to the implementation of the Public Service Network (PSN). Successful certification of Public Service Network (PSN) compliance gained on 16 January 2016 which is valid until 15 January 2017. Mimecast e-mail filtering software installed June 2016 to help reduce infected and problematic e-mails entering the Council's network.	*8. Production, approval and implementation of an ICT Strategy consistent with the core objectives of the Council, ensuring effective and efficient use of resources and service delivery.*	Head of ICT *	31 October 2016 R * Requires monitoring	The Head of ICT has prepared a formal strategy, to be passed to MAT for consideration and approval.

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	9. Lack of business continuity planning to cover loss of building, equipment, ICT or staff - leading to loss or disruption to services	3	Business Continuity (BC) Policy .The BC Forum oversees progress of BC planning. Business Impact Assessments identify priority services, resources required for their continuation and time frame. Emergency protocols for loss of building access/loss of power/loss of ICT are being developed. Emergency messaging system for staff. Improvements made to telephony resilience. Contract agreement in place with Applied Resilience from September 2015 , with increased resilience and support for Business Continuity Planning (full time officer assigned). Updated staff contacts list.	*9i. Monitoring the agreement with Applied Resilience should incorporate specific targets and expected outcomes in order to measure actual performance. Monitoring needs to be meaningful and clearly evidenced.* *9ii. Corporate Business Continuity Operational Plan is being updated.* *9iii. Updates to Service-Level plans are in progress .*	GH C & T*	30 September 2016 (R*). Requires Monitoring	Business Continuity Policy updated. Business impact analysis now completed for all areas. Service-Level Plans (SLP) are in progress as is the Corporate Business Continuity Operational Plan (including plans to relocate to the Depot). A corporate table top exercise is scheduled for 13th September. Monitoring being evidenced with plans produced. Plan to be fully updated after exercise so can pick up on issues.
Page 141	10. Failure in service delivery due to over reliance on individuals	3	Group Heads/MAT are responsible for ensuring business continuity, including loss of key staff. Critical procedures should be documented and staff appropriately trained. Group Heads should review as part of the service planning process. Resilience may be provided from other local authorities or other organisations. Wellbeing and Resilience Training provided in 2015.	*10i. MAT have reviewed structures as part of the budget saving exercise, and consideration is being given to resilience and succession planning arrangements.* *10ii. Human Resources to arrange staff development and training plans for the Group Heads and Deputy Group Heads. 10iii. Human Resources to commission bespoke training as well as utilise existing management development courses on offer.*	Group Heads/ MAT/HRM	31 October 2016 (R*). Requires Monitoring	Human Resources are aware of concerns relating to succession planning. Human Resources are reviewing development needs for recently appointed Group Heads and Deputies. As two of the Deputy Group Head appointments have not yet been made there may be additional, or different requirements in those areas.

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	11. Failure in service delivery due to reduced capacity and increasing demands from the community; prolonged staff vacancies due to inability to recruit; posts advertised as temporary may be adversely impacting on the Council's ability to recruit. Increased risk of delay, errors or stress.	3	Short term reductions in capacity are accommodated by prioritisation and reallocating work amongst staff. Longer term impacts and changes to demand may be more difficult to address. Service review may be required to help match resources to the level of work. Resources need to be diverted to implementing new systems or introduce new ways of working. If resources cannot be enhanced, services will have to prioritise work to resources available.Staff have access to counselling via Occupational Health. Posts advertised with Surrey Jobs which also feeds into a wider network of job sites. Specialist websites and publications are also used as necessary to advertise posts. Human Resources have highlighted posts where recruitment has been challenging. Recruitment and Retention Policies requested from other authorities. Annual report by Human Resources issued to Management Team summarising staff recruitment and turnover.	*11i. Members and Management Team will need to keep resourcing levels under review, particularly the impact of new projects and any statutory obligations on service/project delivery.* *11ii. Human Resources to monitor the effectiveness of proposed changes to recruitment and selection methods, in collaboration with Services.* *11iii. The former Head of Human Resources has been commissioned to carry out specific research on recruitment and retention practices elsewhere and produce a report for Spelthorne to consider, with a view to sharing best practice.*	Group Heads/ MAT/HRM	31 October 2016 * R Requires monitoring	Ongoing recruitment problems in a number of areas despite incentives offered (recruitment and retention payments), for example, Housing, Environmental Health, Building Control and Planning . This ultimately impairs Service delivery as well as having a consequential negative effect on other Services . MAT have commissioned a report on areas under specific pressure and recommendations as to options,due for presentation to MAT on 20th September. Once details of the national apprenticeship scheme are finalised Human Resources will feedback to Group Heads and MAT on the exact requirements. Elements of the commissioned work will also feed into traineeships and 'growing our own talent'. Currently, managers are expected to consider if a post can be converted into an apprenticeship. At least one Group Head is looking at apprenticeships within their service area for succession planning.
	12. Low morale as a result of increasing service demand, lack of staff & finance, organisational restructure. Increased turnover, high staff stress levels, risk of losing expertise and impact on services.	3	Employment arrangements in place include recruitment and selection, pay and rewards, training and development. Change Management process, communications, performance management systems, appraisals, one to one's, team meetings, performance clinics, staff meetings. Stress audit conducted in Housing. The Human Resources Manager advises MAT as appropriate. Planned TaSF Senior management restructure taken place in 2016.	*12i. Management Team to keep under review, particularly in light of 'Towards a Sustainable Future'.*	MAT	Completed/Ongoing monitoring	MAT maintaining under review . There is an ongoing risk of low morale and increased turnover during current times of organisational change which MAT acknowledge. The recruitment process to the new Group Head and Deputy Group Head positions has been completed.

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	13. Failure to comply with the Council's corporate governance requirements and standards resulting in poor value for money, Costly legal challenges and reputational damage.	3	Corporate Plan setting out clear purpose, vision and outcomes. Constitution setting out clearly defined roles/rules for Members/Officers. Code of Corporate Governance and Codes of Conduct to promote high standards of conduct and behaviour. Informed and transparent decision making processes open to scrutiny. Member and staff training programmes.Accountability through published accounts and community engagement . Induction programme delivered for new councillors during 2015 including briefing on roles and responsibilities, financial position, delivering services and current key issues.	*The Council's Code of Corporate Governance is due for review.*	MAT	31 October 2016 R* Outstanding Action	The review of the code of Corporate Governance is currently outstanding.
	14i. Procurement - Weak governance arrangements and lack of transparency in procurement decisions. Contractual disputes and claims through poor specifications. Weak contract management resulting in Contractors/partners failing to deliver expected outcomes. Reputational damage and costly challenge by other companies. Financial loss/poor vfm as a result of poor contract management. Reliance on Legal for support on tendering processes/appointment of Contractors.	3	Contract Standing Orders set out tendering requirements. Officer Code of Conduct sets out requirement for declaration of interests. Contract guidelines with compliance checklist. Legal team provide support on contract management and major procurements. Officers reported to Overview and Scrutiny Committee in January 2016 on the performance of significant contracts. Contract management training held in 2012 and 2013. Specification writing training taken place. Procurement training In October 2014. Development of the e-procurement system continues and further contracts continue to be sourced with this solution which offers significant time savings and efficiencies for staff in Legal. Procurement Board meet regularly.	*1i. Procurement Board monitoring implications of the new UK Public Contract Regulations 2015 and implementation of the Local Government Transparency Code requirements. Guidance Notes to be issued in due course.* *1ii. Procurement and Contract Management function to be established, under the lead of Group Head for Commissioning and Transformation.* *1iii. MAT will monitor the appointment of consultants and contractors tor the Council's projects including Town Centre, Knowle Green and other initiatives to ensure full compliance with governance requirements.*	MAT DCX (TC)/ PS/Group Head C & T*	31 August 2016 *R Requires Monitoring	1i. The Principal Solicitor has produced guidance notes on the public sector and EU procurement regulations changes, (not circulated) and has advised most staff dealing with procurement of the new regulations.The Principal Solicitor is currently preparing workflow documents to help officers navigate contract standing orders and the procurement process and aims to finalise by March 2017. 1iii. MAT are monitoring. Knowle Green Estates set up.

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	14ii. Major Contracts - Lack of forward planning in preparation for the expiry of existing Leisure Centre arrangements in 2021, resulting in delays in Service provision.		Leisure centre Contract ends 2021. A paper entitled "Leisure Centre Needs Analysis" was submitted to MAT in July 2014. This recommended the need for a feasibility study to refine options going forward. A lead time of seven years was quoted. Member involvement in considering alternative options.	*2. Regarding post 2021 Leisure Centre provision, urgent action to be taken to set up a dedicated project team and redefine project objectives, roles, responsibilities and timetables. Project progress to be monitored against plan to ensure timely progress.*	Joint Group Heads CW *	31 August 2016 *O Requires Monitoring	This project was previously led by the Joint Head of Asset Management who was working with Willmott Dixon to look at options for refurbishment or relocation of the current Leisure Centre, including possible costs and funding options. High level concept plans have been produced and Willmott Dixon are currently amending these to take into account the initial feedback we have provided. In view of the Council's senior management reorganisation the manager for this project will now be the Deputy Group Head for Community Wellbeing. A high level discussion document will be presented to Cabinet Briefing in October 2016 in order to seek the Cabinet's view on a range of matters, which will guide the future direction of the project. A new project team will be formed to take this forward once the outcome of these discussions are known.
	15. Pressures on Housing Service as a result of economic climate and welfare reforms including changes in government policy to restrict housing benefit. Introduction of Universal Credit may lead to staff retention issues. Loss of Housing Benefit subsidy and uncertainty over recovery of outstanding debt. London Boroughs increased use of Spelthorne properties. Local Housing Allowance limited. A2D rents unaffordable. Insufficient affordable properties being built. Benefit Cap may effect up to 250 families.	3	Group Heads/ MAT/Members are aware of risks. Working groups established to deal with changes. The authority faces some challenges in managing the loss of £500k per annum in subsidy (recovery of Housing Benefit overpayments) and the roll out of Universal Credit is now projected for 2021. Therefore the loss of subsidy will be spread over a longer period of time as completion of Universal Credit roll out slips. Accountancy have factored into outline budget projections . There is currently £2.5m of outstanding Housing Benefit overpayment debt in the Council's accounts. This is being recovered, albeit repayments are often small due to Housing Benefit regulations. Cabinet has received updates on Welfare Reforms. This includes a suggested approach to the use of discretionary housing payments. Strategic Housing Group. Officers and A2D have been working with families affected by the benefit cap. Housing Company being set up. Close working with private landlords. New Landlord Guarantee scheme.	*15.1 i. The Corporate Debt Group to discuss legal support for recovery of Housing Benefit overpayments, bearing in mind the need for the authority to secure value for money.* *15.1.i. The Housing Benefits Manager to provide information supporting overpayment statistics issued to the Corporate Debt Group.* *15.1.ii. A model for the strategic way forward in delivering the Housing function has been drafted and is to be discussed/agreed.*	MAT / Joint Group Heads CW *	30 November 2016 * R Requires Monitoring	There is a continual increase (although has eased off slightly in the last few months) of households in bed and breakfast (with the added issue of overspend on the bed and breakfast budget) and the lack of resources to discharge duty. A number of options are now being pursued and MAT and the Leader are supportive of this approach. Cabinet support to be requested . Projects commenced to ensure strategies are followed. A model for the strategic way forward has been drafted. The debt recovery training for relevant staff has been completed. The Department for Work and Pensions (DWP) have advised further on the number of cases that may be affected by the new benefit cap rules and the prediction is 215 claims (up to 500 was originally anticipated). Universal Credit full roll out is now projected for 2021 although this may still change. **12.9.16 - Awaiting update from Joint Group Heads CW .**

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	16. Poor partnership governance arrangements	3	MAT set strategic direction for Partnerships. Partnership governance policy out of date (August 2009) . Insurance arrangements in place.	*16i. A responsible officer to review, update and re-issue the Partnership Governance policy. 16ii. A list of significant Partnerships entererd into should be identified and recorded centrally. 16iii. Completion of questionnaires to make an assessment of Partnership governance arrangements. 16iv. Members of Overview and Scrutiny Committee to scrutinise Partnership activity if required.*	MAT	30 November 2016 *O Actions Outstanding	Recent Internal Audit review (August 2016) identified limited attention has been given to Partnership Governance since 2011 and therefore some actions are required to revitalise the necessary governance arrangements and associated controls.
Page 145	17. Uncertainty over economic growth and supplier failure, impacting on: • Delivery of contracts and services • Business Rate income. SBC now bears a significant share of any losses on collection.	3	Financial Services monitor the financial media in relation to larger companies and critical commercial partners. Recovery and inspection of business properties is being strengthened to maximise collection/minimise losses for the Council. DCLG Fraud funding for dealing with Business Rate avoidance and evasion cases during 2015/16. Spelthorne are a member of the Surrey Business Rates pool for 2015-16 enabling enhanced monitoring and data sharing with the other four participating councils. Business Rates Subgroup formed with agreed terms of reference focusing on Group Training, specialist advice, cross boundary prosecutions and legal advice.	*17i. Impact of new Business Rate arrangements on Council finances is under ongoing review. 17ii. Business Rates project being pursued.*	DCX (TC)/Group Head - F & CR *	30 November 2016 * R Requires monitoring	A service level project has been initiated to focus on 3 areas of business rates: Increase tax base Reduce Business Rate avoidance Increase admin grant Group Head for Finance and Customer Relations is due to issue a MAT report in September requesting a Business Rates Avoidance Officer post in order to maximise the tax base and target potential areas of avoidance. To date £151,400 rateable value growth has been identified by Analyse Local software to assist in growing the tax base.

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			Economic Development Strategy is reviewed every three years. Communication of the vision, proposed actions and measures of success is taking place. Regular reporting to the Cabinet Member with responsibility for Economic Development to advise on progress with action plans and delivery of the strategy.LGA funded adviser produced 3 reports on Key Account Management, Inward Investment and Visitor Numbers, with a number of recommendations having resourcing implications. This was considered as part of the budget process and a growth bid to the value of £100.9k has been approved.	*17iii. Economic development is a Council priority and growth will impact on business rate income - this is under ongoing review. 17.iv. The 3 year economic assessment & strategy is currently being updated, due for Cabinet submission/approval by February 2017.*	DCX (TC) * CS & EDO*	31 October 2016* Requires monitoring	The 3 year economic assessment & strategy is currently being refreshed and will be available to seek Cabinet approval in February 2017. A Business Improvement District is under development for Staines-upon-Thames, the result will be known on 26 November 2016 . Welcome packs for new businesses as well as property agents have been developed and circulated. A CRM is being developed to track Spelthorne's top 20 businesses with regards to key account management. Approval has now been received from SCC with regards to 4 improvement projects at shopping parades, with SCC funding £100k and SBC match funding, totalling £200k. An advisor was appointed in November 2015 to support inward investment and Key Account Management. The contract runs until 30th September 2016 when it will be reviewed.
	18. Failure to comply with employment legislation or statutory duty leading to possible compensation (unlimited), damage to reputation, Legal costs and significant officer time.	3	Human Resources (HR) identify changes in employment legislation, provide guidance and training to ensure compliance. Equality and Diversity working group and training provided to all staff.		MAT/ Group Heads/ HR Manager *	Ongoing monitoring	Professional HR support will continue to be available.

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Page 147	19. Failure to comply with statutory duty / adhere to Safeguarding Policy leading to death or injury to child or vulnerable adult, legal action and reputational damage. Failure by County to address Spelthorne referrals relating to vulnerable children/adults.	3	Council has statutory responsibility for safeguarding children and Adults.Safeguarding policies and procedures. Staff and Member training. All referrals to Surrey County Council should be reported to a nominated Spelthorne Officer. Regular meetings held with Surrey County Council and consultation with the Surrey Safeguarding Children's Board (SSCB). Annual Section 11 audit. The Children's Safeguarding and Adults at Risk Strategies were approved by Cabinet in October 2013. The Children's policy is currently being updated . Independent Living Managers have reviewed any changes required to Adults at Risk policies and processes.	*19i. The Leisure Services Manager to review changes required to the Children's safeguarding policy, particularly with regards to child sexual exploitation. 19ii. Further liaison with Surrey County Council is necessary in order to strengthen the feedback process relating to children's referrals . 19iii. To seek clarification over responsibility for dealing with safeguarding issues for cross border referrals (where families located out of Surrey).19iv. Staff training needs to be assessed and revised policies/processes publicised in due course.*	DCX (TC)/LSM/ILM/ Joint Group Heads - CW *	31 October 2016 * R Requires monitoring	Actions are being addressed: 19i. A draft Surrey Wide District and Borough Policy for Safeguarding Children and Adults is nearing completion and Spelthorne will be adopting this policy. It makes reference to child sexual exploitation. 19ii. Implemented - Surrey County are continuing to trial a new way of working in their call centre, which should ensure that even if young people don't meet the threshold for referral, they will receive `early help' intervention. 19iii. Implemented- Instructed to escalate any cross border referrals/ issues in the future to the senior safeguarding managers. 19iv.A standard policy for Safeguarding adults and children is still being developed for use by all Boroughs and Districts. A County wide Chief Officers Group is leading on this. Dcx, Terry Collier is the Spelthorne representative.Spelthorne will adopt this policy on completion. The Surreywide Safeguarding template now agreed and is being implemented with local adaptions by SBC. The Leisure Services Manager is liaising with Human Resources to ensure an accurate list is held of staff requiring training and DBS checks. A new online safeguarding training module is being launched for Districts and Boroughs.

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	20. Service delivery and planning difficulties due to reduction in Revenue Support Grant and therefore reduction in spending	3	Long term strategic/financial planning. Corporate Plan / priorities reviewed. Member engagement 'Towards a Sustainable Future' programme identified potential savings and additional sources of income.	*Towards a sustainable future programme to be delivered*	MAT	30 November 2016 * R Requires monitoring	TaSF programme to be progressed, including Knowle Green relocation and Income Generation (use of Assets). Structural Review completed.
				Identify alternative service delivery models and prepare business cases. Assess the impact on in-house Services.	Group Heads	30 November 2016 *R Requires monitoring	Some business cases for alternative service delivery models have been submitted, whilst others (Environmental Health) are on hold for legitimate reasons.
	21. Reduction in service delivery and possible loss of internal control as a result of savings required to balance budget	3	Management is responsible for maintaining key services and internal controls regardless of resource levels. Any savings offered will be accompanied with summary of any associated risks.		Group Heads/ MAT	Ongoing monitoring	

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	22. Poor return on long term investments /investments insecure in current climate	3	Treasury Management Strategy approved annually by Members. Aim to select counter parties of the highest credit quality; credit ratings monitored closely. Council's investments managed internally in consultation with Arlingclose.Quarterly meetings and conference calls held with Arlingclose. Deputy Chief Executive, Terry Collier and Portfolio Holder, Councillor Williams are involved in key decisions. Use a range of credit ratings and criteria recommended by Arlingclose. Regular monitoring ,reporting of investment portfolio and returns achieved.		DCX (TC) *	Ongoing monitoring	As per the outturn Treasury management report average rate of return achieved on core pooled investments of £9.5m was a healthy 4.89% and capital growth as at end of the financial year was £0.7m. The team continues to explore options for diversifying the portfolio.
	23. Failure to collect/recover income due, resulting in losses to the authority.	3	Corporate Debt Officer Group meet periodically. Corporate Recovery Policy. Recovery policies also exist for specific areas such as Council Tax, NNDR, Sundry Debts etc. Debt collection statistics produced and analysed. Budget Monitoring identifies any shortfall in income. Accountancy report to Management Team and Members on significant variances and comparisons with previous year. The Corporate Debt Group, chaired by the Deputy Chief Executive (Terry Collier) continue to meet monthly and a wider representation from Services is being encouraged. The Deputy Chief Executive in his capacity as Section 151 Officer is taking the lead in coordinating outstanding actions with the Corporate Debt Group such as strengthening recovery procedures for sundry debts to reflect Spelthorne's recovery policy wherever possible and practical, with less intervention from Services; perusal of older debts by the Recovery team and monitoring by Management. Arrears figures at the Corporate Debt Group are reviewed, together with discussions about cost effectiveness of pursuing different types of debts.	*23i. Recovery arrangements for significant debts/other income streams and amounts outstanding continue to be periodically monitored through the Corporate Debt group.* *23ii. Management Team (MAT) should co-ordinate action to tackle aged debt that is unlikely to be recovered. Going forward, targets should be set for keeping aged debt to a minimum.* *23iii The DCX, Terry Collier, as S151 Officer, to receive and review a monthly status report on 'at risk' debts i.e. higher value aged debts over 6 months old in order to confirm that suitable recovery action has been taken, and where exhausted, ensuring write- off action is pursued.*	MAT/ DCX, TC/GH F&CR/ Group Heads	31 Aug 2016 * R Requires Monitoring	Corporate Debt Group have encouraged strengthening of processes. Bed and Breakfast debts are now being monitored more robustly. Debt recovery training for relevant staff has been completed.The recent internal audit review of Sundry Debts highlighted that the level of aged debt is too high and Managers have not always taken necessary write-off action. Report has gone to Management Team who are reinforcing need for improvement actions. See also risk category 15 above regarding recovery of Housing Benefit Overpayments. Snapshot breakdown of debt across all categories to be provided to Members of the Audit Committee as requested at the last meeting of 7th July 2016. Monthly monitoring of aged debts undertaken.

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2015/16 QUARTER 1

RAG	RISK / CONSEQUENCES	LEVEL OF RISK	CONTROLS	OUTSTANDING ACTIONS	RISK OWNERSHIP	ACTION DATE	PROGRESS / COMMENTS
Page 150	24. Increased risk of fraud / theft due to economic climate resulting in financial losses and damage to reputation of authority. Housing tenancy fraud reduces availability of social housing.	3	Corporate Policies including Confidential Reporting Code (Whistle blowing), Anti-fraud, Bribery and Corruption Strategy, Proceeds of Crime and Anti-Money Laundering, Code of Conduct including rules relating to gifts and hospitality, and declaration of interest. Staff are reminded about governance policies during appraisal process. Refresher fraud and anti-bribery awareness training for staff and Members is due. Various policies and procedures such as Financial Regulations and Contract Standing Orders, management checks, segregation of duties, reconciliation processes for financial systems and IT Security measures. Spelthorne received £60k of the DCLG fraud fund (up to June 2016), used to assist in the detection and prevention of non benefit fraud, focusing on housing, (homeless and housing applications, tenancy fraud), business rates (evasion and avoidance),and miscellaneous frauds. Audit Services coordinated progress in terms of payback and submission of quarterly fraud returns to Surrey CC. An internal fraud referral process/system has been implemented within Housing .	*24i. Prepare business case for a Corporate Fraud resource/function.* *24ii. To arrange Fraud and anti-bribery and corruption training for all staff and Members (following 24ii)*	Group Heads/ MAT/IAM	30 November 2016 *R Requires monitoring	As at 30th June 2016 the cumulative payback//return in tackling non-benefit fraud for the specified 18 month period equates to £675k (relates to SBC and its Partners) . This is well in excess of the original £60K DCLG fraud funding allocated to Spelthorne. The total cumulative financial return achieved across Surrey over the 18 months amounts to £5m and Surrey Treasurers are supportive of continued counter fraud work. 24i. The Internal Audit Manager has prepared a business case for a Corporate Fraud resource, due to go to MAT on 4th October. Relevant Group Heads are being consulted . Audit Services and Investigating Officers continue to attend specialist Fraud groups with Surrey Partners which are very useful forums for sharing skills, knowledge and approaches to tackling fraud/ business rate avoidance/evasion cases. Internal Fraud Overview meetings also held to disseminate high level issues.

Appendix 1

SPELTHORNE BOROUGH COUNCIL - CORPORATE RISK REGISTER
2015/16 QUARTER 1

RAG	RISK / CONSEQUENCES	LEVEL OF RISK	CONTROLS	OUTSTANDING ACTIONS	RISK OWNERSHIP	ACTION DATE	PROGRESS / COMMENTS

Appendix 1

SPELTHORNE BOROUGH COUNCIL - CORPORATE RISK REGISTER
2015/16 QUARTER 1

RAG	RISK / CONSEQUENCES	LEVEL OF RISK	CONTROLS	OUTSTANDING ACTIONS	RISK OWNERSHIP	ACTION DATE	PROGRESS / COMMENTS

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***KEY TO RAG RATING**

Actions outstanding

Partially actioned

Completed/Ongoing monitoring

***KEY TO TARGET DATES**

* O = Original target date for assigned action

* R = Revised target date for assigned action

***KEY TO OFFICERS**

MAT - Management Team
GH F &CR - Group Head - Finance and Customer Relations, Linda Norman
Head of CG – Head of Corporate Governance, Michael Graham
Head of ICT – Helen Dunn
DCX (TC) – Terry Collier
HSIRM - Health and Safety, Insurance and Risk Manager – Stuart Mann
GH C & T - Group Head - Commissioning and Transformation, Sandy Muirhead
GH R & G - Group Head - Regeneration abd Growth, Heather Morgan
HRM – Human Resources Manager, Debbie O'Sullivan
CM- Contract Managers
Joint Group Heads of CW – Joint Group Heads for Community Wellbeing, Deborah Ashman and Karen Sinclair

SPELTHORNE BOROUGH COUNCIL - CORPORATE RISK REGISTER
2015/16 QUARTER 1

RAG	RISK / CONSEQUENCES	LEVEL OF RISK	CONTROLS	OUTSTANDING ACTIONS	RISK OWNERSHIP	ACTION DATE	PROGRESS / COMMENTS

GH - NS - Group Head - Neighbourhood Services- Jackie Taylor
DCX (LO) – Lee O'Neil
SEHM - Senior Environmental Health Manager, Tracey Wilmott-French
PS - Principal Solicitor, Victoria Statham

LSM - Leisure Services Manager, Lisa Stonehouse
RRO – Risk and Resilience Officer, Nick Moon
CS & EDO – Community Safety and Economic Development Officer, Keith McGroary
IAM - Internal Audit Manager, Punita Talwar

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Audit Committee

29 September 2016

Title	Internal Audit interim Report		
Purpose of the report	To note		
Report Author	Internal Audit Manager, Punita Talwar		
Cabinet Member	Councillor Howard Williams	**Confidential**	No
Corporate Priority	Financial Sustainability		
Recommendations	**That the Committee notes the report.**		

1. Key issues

1.1 Attached at Appendix 1 is a summary of Internal Audit work undertaken in the period April – August 2016.

1.2 Internal Audit is "*an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes*." In addition to the reviews carried out, Internal Audit assists the organisation in achieving its objectives through other aspects of its work at Spelthorne:

(a) Advice provided to services and corporate groups on various risk and control issues

(b) Management of counter fraud initiatives

(c) Supporting corporate governance arrangements

(d) Corporate Risk Management – see separate risk report. Audit provides advice to Management Team, Corporate Risk Management Group (CRMG) and co-ordinates the Council's Corporate Risk Register.

2. Options analysis and proposal

2.1 There are no options

3. Financial implications

3.1 Not applicable

4. Other considerations

4.1 Implementation of audit recommendations will assist in the reduction of risks faced by the authority.

5. Timetable for implementation

5.1 Not applicable

Background papers:
None

Appendix 1: Summary of Internal Audit work April –August 2016

SPELTHORNE
BOROUGH COUNCIL

Appendix 1 - Summary of Internal Audit work April – August 2016

Audit Review	**Assurance Level***	**Comments / Agreed areas for improvement**
ICT –Incident management process	Some Improvement Needed	Incident Management is defined as the capability to effectively manage unexpected disruptive events, with the objective of minimizing impact or restoring normal operations, within defined limits. In general, controls were sufficient and operating effectively, albeit there is scope for: - Users to be made aware of their responsibilities and procedures to follow when reporting an incident. - Regular messages circulated to staff and network users requesting prompt reporting of any security weaknesses or incidents, without any fear of recrimination.
Emergency Planning and Business Continuity	Some Improvement Needed	Monitoring the agreement with Applied Resilience for the delivery of Emergency Planning and Business Continuity Planning should incorporate specific targets and expected outcomes in order to measure actual performance. Monitoring exercises need to be meaningful and clearly evidenced.
Housing Benefits	Some Improvement Needed	Internal Audit identified three areas for improvement relating to: - Debt management (overpayments) - Reporting of rising overpayments - Management review of daily reconciliations between Council Tax Support and Council Tax. The Corporate Debt Group shall be discussing legal support for recovery of Housing Benefit overpayments and the Housing Benefits Manager will provide relevant information supporting overpayment statistics issued.

Payroll	Effective	The scope of the audit encompassed compliance testing in the following key control areas: • Monthly Payroll reconciliation to the General Ledger • Reconciliations of the Payroll system to Human Resources records • Circulation and management review of establishment lists • HR review of variance (exception) payments • Approval and processing of Starters and Leavers Controls in place to manage the risks associated with the Payroll function were generally satisfactory and operating effectively.
Cash Collection and Banking	Some Improvement Needed	- Clear procedure notes on completing bank reconciliations under the new bank account arrangements should be devised. - Support could be obtained from the banking provider to facilitate the reconciliation process and resolve any unreconciled differences. - Comprehensive procedure notes should be compiled for cash and bank related functions to ensure continuity of the service, particularly in light of the impending retirement of the Senior Revenues Officer.
Leisure Centre Contract	Some Improvement Needed	- To obtain a suitable set of accounts to enable a formal analysis of whether the profit sharing clause needs to be activated (if relevant profits have exceeded the threshold). - Regarding post 2021 Leisure Centre provision, urgent action to be taken to set up a dedicated project team and redefine project objectives, roles, responsibilities and timetables. Project progress to be monitored against plan to ensure timely progress.
Community Infrastructure Levy (CIL - Planning)	Some Improvement Needed	There is a sound system and effective controls in place to ensure that the Council's policy on CIL is adhered to and the prescribed statutory requirements are complied with. Scope for improvement was however identified in terms of: - Timeliness of issuing income demand notices to developers (once the commencement notice has been received, targets should be introduced for issuing demand notice to developers to ensure income is received promptly) - Income reconciliation (regular exercises should form part of budget monitoring)
Partnership	Major	Limited attention has been given to Partnership Governance since 2011 and therefore some

Governance	Improvement Needed	actions are required to revitalise the necessary governance arrangements and associated controls: - A responsible officer to review, update and re-issue the Partnership Governance policy. - A list of significant Partnerships entered into (strategic, commercial and work- related) should be identified and recorded centrally. - Governance status questionnaires such as those issued in 2009 should be sent to relevant Managers responsible for any identified strategic partnerships so that governance arrangements can be assessed. - Members of Overview and Scrutiny Committee to scrutinise Partnership activity if required. - Arrangements made to ensure that partnerships are supported by suitable contact documentation (where appropriate) - Where charges are raised to Partner organisations in respect of proportions of salary, there should be a supporting calculation on file for reference purposes. - Staff charges should be reviewed to consider whether the application of VAT is appropriate.
Housing	Some Improvement Needed	- Reduction in processing times for homelessness applications to be targeted - A delegation of authorities document should be produced within Housing Options, so as to formalise who can authorise each of the various decisions that are taken as part of routine operations - Provision of a banding changes report would enable clearer visibility of all banding changes and would facilitate management checks. - The officer responsible for managing former debt should be supplied with a copy of the monthly Sales Ledger Aged Analysis Report to supplement current recovery efforts. Occasional spot-checks should also be carried out by the Housing Options Manager - Management review is necessary to gain assurance that all reported housing related frauds are being captured on the spreadsheet. - Evidence collected following visits to suspect fraud applicants should be scanned promptly. There may also be scope for streamlining records relating to fraud.
Audit assignments at other		- The Senior Auditor carried out an ICT Audit review at Waverley Borough Councils relating to SharePoint. This has enabled sharing of best practice and approaches with Spelthorne.

Councils		
Work In Progress		
Parking	Identify and assess key risks relating to the Parking function. Test check income and expenditure.	
Audit Follow Up	A number of audit recommendations have been followed up and progress recorded.	

Audit Investigations

- Special Investigation carried out relating to appointment of Contractor.

Other work

Corporate Risk Management	Internal Audit continues to co-ordinate the Corporate Risk Register and reports three times a year to Audit Committee and Cabinet (see separate report).
Counter Fraud	• Spelthorne received £60k of the DCLG fraud fund in January 2015 which has been used to assist in the detection and prevention of non-benefit fraud, focusing on housing, (homeless and housing applications, tenancy fraud) business rates (evasion and avoidance),and Corporate/miscellaneous frauds e.g. investigating student exemptions for Council Tax. • As this funding initiative was intended to cover a period of 18 months until June 2016, the Internal Audit Manager collated quarterly fraud returns for submission to Surrey County Council. Significant payback/financial returns have been achieved from this grant funding. As at 30 June 2016 the cumulative return for Spelthorne was **£675k** (shared across SBC, SCC and Surrey Police). • A business case has been prepared by the Internal Audit Manager for Corporate Fraud Resource • External groups are attended with Surrey Partners including the Surrey Counter Fraud Board (SCFB), Housing and Business Rates sub-groups. This enables the sharing of best practice and approaches in tackling housing fraud/business rate avoidance and evasion. • The Internal Audit Manager chairs the internal Counter Fraud working group and disseminates any best practice

	• All audit reviews consider fraud risks and a number of specific audit tests have been undertaken to identify potential fraud. However, it remains the responsibility of management to ensure they have systems in place to prevent and detect fraud. • Internal Audit circulates details of frauds identified nationally to make staff aware of risks.
Advice to management	• MAT reports – advice given on governance, risk and control issues • Data Migration • ICT Security (logical access control) • Project management • Procurement of assets • Parking • Disabled Facilities Grants process • Data Protection • Document Retention • Policies and procedures • Mayor's Charity Fund • Attendance, advice and support to a number of internal working groups
Miscellaneous	• MAT and Audit Committee • Liaison with Portfolio Holder • Service Planning and Performance Management (Service and personal targets, 1-1's, review of work allocations and backfilling, monitoring progress in delivering Internal Audit Plan) • Preparation of audit programmes and management review of Audits carried out • Team Management • Budget Monitoring/raising orders and invoices • Commissioning internal audit resource from Surrey County Council and exploration of service resilience opportunities • Spelthorne Senior Auditor commissioned to carry out ICT Audits at Waverley BC and Woking BC - planning meetings/preparation of contracts/ associated management • Attending new IT system demonstrations • DSE (Health and Safety) assessments • Training (CPD/Qualification)/Seminars/Workshops

	• General Administration/filing • Liaison with external audit/submission of requested information • Corporate management including Management team meetings • Support to the Council's governance arrangements eg contribution to Annual Governance Statement • Support with election duties • Annual Leave/Sickness Absence

***ASSURANCE KEY**
Effective - Controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Some Improvement Needed - A few specific control weaknesses were noted; generally, however, controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Major Improvement Needed - Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
Unsatisfactory - Controls evaluated are not adequate, appropriate or effective to provide reasonable assurance that risks are being managed and objectives should be met.

Audit Committee

29 September 2016

Title	Effectiveness of the system of Internal Audit		
Purpose of the report	To note		
Report Author	Internal Audit Manager – Punita Talwar		
Cabinet Member	Councillor Howard Williams	**Confidential**	No
Corporate Priority	Financial Sustainability		
Recommendations	**There are no recommendations.**		

1. Key issues

1.1 ‘Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes’. (The Global Institute of Internal Auditors)

1.2 Changes are proposed to the International Standards for the Professional Practice of Internal Auditing, due to be announced on 1st October, to take effect from January 2017. The following proposed changes relate to assessments of Internal Audit:

‘External assessments enhance a complete quality assurance and improvement program and may be accomplished through a full external assessment, or a self-assessment with independent external validation’.

‘An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organization to which the internal activity belongs. The chief audit executive should encourage board participation in the quality assurance and improvement program to reduce perceived or potential conflicts of interest’.

1.3 The Accounts and Audit Regulations (Amendment) (England) Regulations state that “the relevant body shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit”.

1.4 This review takes into consideration:

(a) **Statutory requirements for Internal Audit**

(b) **Compliance with the Public Sector Internal Audit Standards**

(c) **External Audit assessment**

(d) **Internal Audit output / outcomes – 2015/16**

(e) **Improvement plan – 2016/17**

1.5 Statutory requirements

1.5.1 Aims and objectives for Internal Audit are set out in the Service Plan, which are largely focussed on fulfilling statutory requirements and compliance with professional standards. The Audit Plan sets out proposed work in each financial year and is approved annually by the Audit Committee in March. Actual work undertaken during 2015/16 was reported to Audit Committee in September 2015 and July 2016.

1.6 Compliance with Public Sector Internal Audit Standards

1.6.1 The Public Sector Internal Audit Standards define the way in which the Internal Audit service should undertake its functions and also set out its independent organisational status.

1.6.2 All Internal Audit staff have signed up to a Code of Ethics based on the Public Sector Internal Audit Standards.

1.6.3 The revised Internal Audit Manual ensures all practices are aligned to the Public Sector Internal Audit Standards.

1.7 External audit assessment

1.7.1 External audit assess the work of Internal Audit annually, although they are no longer allowed to use Internal Audit work to inform their own opinions. No issues of concern were raised by external audit in 2015/16.

1.8 Internal Audit output / outcomes – 2015/16

1.8.1 Internal Audit provides management and Members with assurance that the Council's key risks are being properly managed, and provides advice on enhancing control where necessary.

1.8.2 The Internal Audit Manager provided an opinion on the Councils internal control environment, which fed into the Annual Governance Statement for 2015/16. The Annual Audit report presented to the July 2016 meeting of the Audit Committee sets out audit work undertaken during 2015/16.

1.8.3 There is regular coordination and updating of the Council's Corporate Risk Register, reporting three times a year to members of Audit Committee and Cabinet. The Audit Committee monitors significant issues raised in the Corporate Risk Register and Managers have been asked to provide updates to the Committee on a number of outstanding actions.

1.8.4 In addition to fulfilling its statutory functions, Internal Audit:

1.8.5 Supported management in a number of investigations during the year.

1.8.6 Provided advice to managers/internal working groups aimed at improving risk management and adding value.

1.8.7 The Internal Audit Manager collated quarterly corporate fraud returns for submission to Surrey County Council and met regularly with Housing and Investigating Officers to develop and monitor the documented fraud referral process as well as discuss specific challenges. Significant payback/returns have been achieved from the DCLG grant funding (reported separately).

1.8.8 The partnership with Surrey County Council Internal Audit has provided additional resilience for the team with its source of experienced auditors. In addition, Surrey County Council Auditors have on occasion provided specialist expertise, adding value to such an arrangement.

1.8.9 ICT Audit expertise has been provided to other local authorities, including Surrey, Elmbridge and Woking. Positive feedback has been received from Managers at these client sites with regards delivery of these ICT audit reviews. The Senior Auditor has also applied knowledge and experience acquired from work undertaken at other sites to Spelthorne. For example, having completed an Incident Management process review at Surrey County Council, it was considered timely to carry out such a review at Spelthorne, promoting a more efficient way of working.

1.8.10 During 2015/16 Internal Audit have encouraged Managers to provide assurance (via formal sign off) that controls in their functions/services are operating effectively. For a number of functions Audit have populated a simplified risk and control assurance template in collaboration with auditees and are continuing to pursue this exercise for all areas.

1.8.11 Internal Audit's performance is managed through the Council's performance management framework. Performance reviews are carried out annually, whilst service and personal targets are monitored periodically. Staff appraisals take place and there are regular opportunities for informal discussions at 1-1's.

1.9 <u>Improvement Plan 2016/17</u>

1.9.1 Following the organisational restructure, Internal Audit are liaising closely with Group Heads and Managers to discuss any emerging corporate risks and review significant issues arising. Audit time/resource can then be directed to where it is most needed.

1.9.2 The team consists of the Internal Audit Manager (0.6 FTE), Senior Auditor (FT) and some bought in time from Surrey County Council Internal Audit. It is anticipated that the partnership with Surrey will continue to provide additional resilience for the team and staff development opportunities.

1.9.3 The ICT audit day rate chargeable to clients has been increased with effect from April 2016. Opportunities to sell ICT Audit expertise to other organisations (private sector as well as other local authorities/non-profit) is being explored, with a view to generating further income for the authority.

1.9.4 Internal Audit will continue to work with managers to reduce the risk of fraud and encourage relevant processes to be embedded. The Internal Audit Manager has prepared a business case for a corporate fraud resource, with a view to generating further financial savings and benefits for the authority.

2 Options analysis and proposal

2.1 N/A

3 Financial implications

3.1 Resources required (staff time) to implement improvement plan actions should be contained within existing budgets as far as possible.

3.2 See separate business case report on Corporate Fraud Resource (growth bid requested and anticipated that this resource would be self-funding providing sufficient returns are generated).

4. Other considerations

4.1 N/A

5. Timetable for implementation

5.1 Improvement Plan actions to be delivered by 31 march 2017.

Background papers: There are none.

Appendices: There are none.

Audit Committee

29 September 2016

Title	ANNUAL GOVERNANCE STATEMENT 2015-16		
Purpose of the report	To make a decision		
Report Author	Chief Finance Officer		
Cabinet Member	Councillor Howard Williams	**Confidential**	No
Corporate Priority	Financial Sustainability		
Recommendations	**The Audit Committee is asked to approve the draft Annual Governance Statement at Appendix 1 and endorse the improvement actions identified in the Statement.**		

1. Key issues

1.1 The need to review arrangements for corporate governance and internal control and to produce the Annual Governance Statement (AGS), attached as Appendix 1, is given statutory backing by the Accounts and Audit Regulations 2006. The CIPFA/SOLACE governance framework ‘Delivering Good Governance in Local Government’ brings together an underlying set of legislative requirements, governance principles and management processes. Crucially, it states that good governance relates to the whole organisation.

1.2 CIPFA has assigned proper practice status to the governance framework. It outlines six core principles of governance focusing on the systems and processes for the direction and control of the organisation and its activities through which it accounts to, engages with and (where applicable) leads the community. The degree to which the authority follows these principles should be declared in its Annual Governance Statement. It is this statement that has the legal backing of Regulation 4 of the Accounts and Audit Regulations. The Annual Governance Statement (AGS) sets out the framework within which internal control is managed and reviewed and the main components of the system, including the arrangements for internal audit. The AGS also identifies any areas of significant weakness in internal controls, and areas for improvement, and the actions taken to remedy these.

1.3 The Annual Governance Statement relates to the system of governance arrangements and internal control as it applied during the financial year in this case, the 2015/16 financial year.

1.4 The Audit Commission’s Code of Audit Practice states that the AGS and underlying process will form a key piece of evidence for auditors’ work on the authority's arrangements to secure economy, efficiency and effectiveness. In summary, the AGS will form an increasingly important part of the external auditors' work and subsequent opinion on the control arrangements of the Council.

- Reviewing the effectiveness of Internal Control
- The scope of internal control spans the whole range of local authority activities and includes those controls designed to ensure that:
- Council policies are put into practice.
- There is compliance with law and regulation.
- Agreed procedures are followed.
- Financial statements and other published information are reliable and accurate.
- There is the efficient and effective use of management and resources in the delivery of high quality services.

1.5 The CIPFA statement recommends that the Council should satisfy itself that it has obtained relevant and reliable evidence to support the Statement and sets out an assurance gathering process framework. This framework comprises the following stages:

- Establish principal statutory obligations and organisational objectives
- Identify key risks to their achievement
- Identify and evaluate key controls to manage principal risks
- Obtain assurances on the effectiveness of key controls
- Evaluate and identify gaps in controls and assurances
- Produce an action plan to address gaps and ensure continuous improvement in internal controls
- Produce the Annual Governance Statement
- Report to Committee

1.6 The sources of assurance include:

- Published documents (e.g. Constitution)
- Corporate management team and managers throughout the organisation assigned with the ownership of risks and delivery of services
- The Monitoring Officer
- The Responsible Financial Officer
- Internal Audit

- External Audit
- Review agencies and inspectorates
- Review of Corporate Risk Register by Management Team; Corporate Risk Management Group; Audit Committee and Cabinet

1.7 In undertaking the review and completing the Annual Governance Review all of the above sources of assurance have been taken into consideration.

1.8 An important source of assurance is provided by the work of Internal Audit and several of the control issues identified in part 3 of the Statement relate to items identified in the Audit Services' Reports for 2015/16 which have been considered by the Audit Committee, particularly with respect to issues identified in the Corporate Risk Register.

1.9 It is important the actions identified with regard to the control issues are taken forward.

2. Options analysis and proposal

2.1 It is proposed that the Audit Committee approve the Annual Governance Statement for inclusion within the Statement of Accounts for 2014/15.

3. Financial implications

3.1 There are none.

4. Other considerations

4.1 The Accounts and Audit Regulations require the Statement of Accounts to include a signed off Annual Governance Statement, failure to do so could result in qualification of the accounts Timetable for implementation

5. Timetable for implementation

5.1 Not applicable.

Background papers:

Appendices: Appendix 1: Annual Governance Statement

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ANNUAL GOVERNANCE STATEMENT 2015-16

Scope of responsibility

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

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

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

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled. It also identifies activities through which the Council accounts to, engages with and leads the community. It enables the authority 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 authority'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 2016 and up to the date of approval of the statement of accounts.

The Governance Framework

The key elements of the systems and processes that comprise the authority'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. **http://www.spelthorne.gov.uk/corporateplan**). The Corporate Plan and priorities feed into the Service Plans which set out the financial and performance objectives of each service for the year. Following the election of a new Council in May 2015 work is underway to prepare a new Corporate Plan to be published in July 2016
- The Council has a comprehensive system for the completion of service plans and performance reviews.
- A Performance Management Board has been set up which meets quarterly to review key performance management feedback. At least one Cabinet Member and the Chief Executive sit on the Board
- Other significant plans and policies are contained within the Policy Framework and are regularly reviewed to ensure that they remain relevant and effective.

Reviewing our vision and its implications for our governance arrangements

- The Council regularly reviews the authority's vision and its implications for the authority's governance arrangements. Progress towards the achievement of the corporate priority objectives will be monitored by the Performance Management Board through the performance management system and reported to Cabinet.

- The Council engages with the public and translates the community's priorities into a Community Plan in conjunction with our partners. The objectives of Spelthorne Together are reviewed annually at its annual conference each September. The Council is currently discussing with its partners the way forward for the Spelthorne Together partnership.

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

- The Council undertakes when appropriate consultation exercises and uses a wide variety of other methods to obtain feedback from the community. Recent examples include consultation on council tax support and the leisure facilities needs analysis.

- The Council is developing its use of social media to provide additional opportunities to communicate with its residents. In 2013-14 it launched an "Engage" app for smartphones to provide an additional means of communication with its residents which was improved and relaunched during 2015-16.For the 2017-18 Budget process the Council will be exploring a targeted budget consultation exercise

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 Council. Major decisions which affect significant proportions of the community are published in advance in the Cabinet's Forward Plan, and will always (unless there are exceptional circumstances) be discussed in a meeting open to the public. All decisions must be in line with the Council's overall policies and budget. Any decisions the Cabinet wishes to take outside the budget or policy framework must be referred to Council as a whole to decide.

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

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

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

The standards of conduct and personal behaviour expected of members and officers of Spelthorne Borough Council, its partners and the community are defined and communicated through codes of conduct and protocols. The Members Code of Conduct was revised in 2012 reflecting the Localism Act. The protocols include:

- Member Code of Conduct Committee
- A performance management system
- Regular performance appraisals for staff linked to corporate and service objectives
- An Anti Fraud, Bribery and Corruption policy
- Member/officer protocols

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

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

- The Council handles complaints effectively, the corporate complaints process is being reviewed in 2016-17 following a management restructuring.

<u>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</u>

- 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 application of the contract standing orders has been provided to officers.

<u>Compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful</u>

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

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

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

<u>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</u>

- 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 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 2015/16 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
- Managing risk in key financial service areas.
- During 2015-16 Spelthorne participated along with Surrey County Council and a number of Surrey districts and boroughs in a counter fraud project funded by the Department for Local Government and Communities (Spelthorne received £60,000). Spelthorne focused on business rates avoidance and housing tenancy fraud. Spelthorne identified savings of approximately £400,000 of which roughly three quarters related to business rates.

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.

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 the Council has refreshed its approach to performance management and has created a Performance Management Working Group The Chief Finance Officer is currently the authority's risk champion. 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 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.

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

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

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

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

The ethical conduct of members and officers of this Council

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

Review of effectiveness

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

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

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

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

- Establish principal statutory obligations and organisational objectives
- Identify principal risks to achievement of objectives
- Identify and evaluate key controls to manage principal risks

- Obtain assurances on effectiveness of key controls
- Evaluate assurances and identify gaps in control/assurances
- Action plan to address weaknesses and ensure continuous improvement of the system of Corporate Governance
- Produce the Annual Governance Statement
- Report to Audit Committee

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

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

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

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

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

Significant governance issues

Informed by the work of the Internal Audit Manager our opinion is that the Council's internal control environment is adequate and effective. This is based on the work undertaken by Audit services during 2015/16 which is summarised in the Annual Audit report.

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

During 2015-16 audit reviews made recommendations in the following areas:

Letting of contracts by Asset Management- improving arrangements for review of contract with partner authority

ICT – production of a new strategy recommended- draft strategy now produced

Corporate Health and safety – highlighting impact of resources constraints on ability to have comprehensive risk inspections, potentially increasing the risk of serious injury or even fatality, subsequent insurance claims and reputational damage. Whilst these risks have been accepted by Management Team, this should be subject to periodical review.

Staines market – improving controls around recording and monitoring of income

Creditors – improvements to reconciliation process and recommendation that authorisation limits will be reviewed once restructure completed.

Debtors – corporate management to review monitoring arrangements for high value debts, targets to be set for reducing aged debts, improvements to be made to monitoring bed and breakfast debts

The Corporate Risk Register has identified a few areas requiring improvement actions, these include:

Risk of service failure, particularly around staff recruitment and retention. Corporate management commissioning advice and recommendations on how to address

ICT Strategy and resources – new strategy produced and resources will be considered as part of 2017-18 Budget process

Housing pressures- a number of measures designed to mitigate are being implemented.

Debt recovery – additional training provided and monitoring being improved. The Corporate Debt group continue to encourage the strengthening of recovery processes.

Information Governance – dedicated resource now approved to progress action plan to ensure information assets are identified and effectively managed. Information Governance Group meet periodically.

Safeguarding – weak feedback process relating to children's referrals and unclear responsibility for dealing with safeguarding issues where cross border referrals. These concerns have been escalated.

Cllr Ian Harvey	Roberto Tambini
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Cllr Ian Harvey	Roberto Tambini
Leader of the Council	Chief Executive

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WORK PROGRAMME 2016 – 2017

AUDIT COMMITTEE – 29 September 2016

Resolution Required

1. Work Programme

1.1 This report covers the Work Programme for the current municipal year 2016/17.

1.2 The Committee's terms of reference are set out at the front of the agenda.

2. Current Work Programme

2.1 This is the second meeting of the Committee scheduled for the municipal year 2016-17.

2.2 Meetings of this Committee have been scheduled in the Council's Diary for 2016/17 on the following dates:-

- **7 July 2016**
- **29 September 2016**

2.3 Details of the Work Programme for the current and future meetings are as follows:

July 2016		
Corporate Risk Management	Audit Manager	Review
Corporate Risk Register	Head of Service - as appropriate	Updates on target dates missed
Audit Services Annual Report	Internal Audit Manager	Report
Committee's Work programme for 2016/2017	Internal Audit Manager / Chief Finance Officer/Audit Committee	Report

September 2016		
Corporate Risk Management	Internal Audit Manager	Review
Corporate Risk Register	Head of Service - as appropriate	Updates on target dates missed
Annual Governance Statement	Chief Finance Officer	Approval
External Audit Plan	External Audit	Report
External Audit report on Audit and Statement of Accounts	Internal Audit Manager	Report
Report on The Effectiveness of the System of Internal Audit	Internal Audit Manager	Report
External Audit Annual Audit Letter	External Audit	Report
Internal Audit Interim Report	Internal Audit Manager	Report

Committee's Work programme for 2016-2017	Internal Audit Manager / Chief Finance Officer/Audit Committee	Report

2.4 Any topics identified during consideration of the business at this meeting, will need to be included in the above Work Programme.

2.5 Other issues Members wish to raise for consideration at the next or any future meeting and agreed by the Committee, may be included in the Work Programme.

2.6 External audit may have one or two reports that arise from time to time which are not possible to predict in advance but will be incorporated into the Work Programme or appear on the agenda as appropriate.

2.7 Managers may be required to attend the Committee, similarly to that resolved in Minute No. 227/06, to explain why they have not implemented the recommendations of the Head of Audit Services. It is not possible to predict these circumstances but they will be dealt with as and when they arise either by incorporating into the Work Programme or appearing on the agenda as appropriate.

3. Resolution

The Committee is asked to consider and approve the Work Programme as submitted and/or amended at the meeting.

Contact: Punita Talwar, Internal Audit Manager (01784) 446454.

Report Author: Greg Halliwell, Principal Committee Manager (01784) 446267